



November 1999

AA1000 has been developed to improve the accountability and overall performance of organisations by increasing quality in social and ethical accounting, auditing and reporting.

The Institute has facilitated the development of **AA1000** through work with hundreds of individuals and organisations worldwide from business, government, and civil society.

Recent years have witnessed increased pressures on organisations to demonstrate social and ethical performance and accountability. Organisations have innovated in their responses to their stakeholders' aspirations, including the adoption of various approaches to social and ethical - and more recently sustainability - accounting, auditing and reporting. Such practices are rapidly deepening and extending to other parts of the business community and other organisations.

There has been a growing concern over the difficulty of assessing and ensuring the quality of these practices. Civil society organisations, the media and opinion leaders are challenging their inclusivity, completeness and meaning. Adopting organisations are increasingly questioning their usefulness in strengthening their ability to measure, manage and improve performance and to effectively demonstrate this performance. Concerns are also emerging as to the competencies and objectivity of those offering services in this area.

These concerns have led to a growing number of standards and guidelines. Specialised frameworks such as GRI and SA8000 have helped to create 'islands of clarity' in key areas. **AA1000** is a contribution to the further clarification of what constitutes good practice in accountability and performance management. It has been designed as a 'foundation standard' and offers a common currency of principles and processes that underpin and therefore provide reassurance about specialised standards. **AA1000** is also designed to function as a stand-alone quality system and process. The suite of applications that make up the **AA1000 Framework** provides the basis for professional training and for the specialised application of the core standard.

We are proud to present the progress achieved to date, and we look forward to your contribution to its further development. Please do contribute to its further evolution through dialogue and use. Comments are welcome at '[feedback@accountability.org.uk](mailto:feedback@accountability.org.uk)'.

Yours sincerely,

Simon Zadek,  
Chair, Institute of Social and Ethical AccountAbility



# 1 Executive summary

## 1.1 AccountAbility 1000 - The foundation standard

### Introduction

AccountAbility 1000 (AA1000) is an **accountability** standard, focused on securing the quality of **social and ethical** accounting, auditing and reporting. It is a **foundation** standard, and as such can be used in two ways:

- a) As a common currency to underpin the quality of specialised accountability standards, existing and emergent
- b) As a stand-alone system and process for managing and communicating social and ethical accountability and performance

AA1000 comprises **principles** (the characteristics of a quality process) and a set of **process standards**. The process standards cover the following stages:

- a) Planning
- b) Accounting
- c) Auditing and reporting
- d) Embedding
- e) Stakeholder engagement

The principles and process standards are underpinned by the principle of accountability to stakeholders.

### Accountability and performance

The AA1000 process standards link the definition and embedding of an organisation's values to the development of performance targets and to the assessment and communication of organisational performance. By this process, focused around the organisation's engagement with stakeholders, AA1000 ties social and ethical issues into the organisation's strategic management and operations.

### Accountability standards and guidelines

Recent years have witnessed a proliferation of standards and guidelines to support and measure accountability and performance. These include process standards and substantive performance standards, standards focused on a single-issue or encompassing a variety of issues, and mandatory and voluntary standards.

The processes and issues covered by these standards include stakeholder dialogue and social and ethical reporting, organisational culture, fair trade and ethical trade, working conditions, human resource management and training, environmental and animal protection, community development and human rights.

Some of the more notable examples are the:

Australian Criminal Code Act, Caux Round Table Principles for Business, CERES Principles, EMAS, Ethical Trading Initiative, Forest Stewardship Council, Global Reporting Initiative, Global Sullivan Principles, Humane Cosmetics Standard, ICFTU Basic Code of Labour Practice, Investors in People, ICC Business Charter for Sustainable Development, ISO 14001, OHSAS18001, PERI Reporting Guidelines, Social Accountability 8000 (SA8000), South African Government Employment Equity Act, Sunshine Corporate Reporting, and the US Government Federal Sentencing Guidelines.



AA1000 aims *to support organisational learning and overall performance - social and ethical, environmental and economic - and hence organisations' contribution towards a path of sustainable development.*

It seeks to achieve its aim through *improving the quality of social and ethical accounting, auditing and reporting.*

#### **What is social and ethical?**

The terms ethical and social have a number of theoretical and practical traditions in organisational accountability. For some, ethical (or ethics) refers to an organisation's systems and the behaviour of individuals within the organisation, whereas social refers to the impacts of the organisation's behaviour on its stakeholders, both internal and external. For others, ethical embraces both the systems and individual behaviour within an organisation, and the impacts of the systems and behaviour - on stakeholders, on the environment, on the economy, etc.

AA1000 recognises these different traditions. It combines the terms **social and ethical** to refer to the systems and individual behaviour within an organisation and to the **direct and indirect** impact of an organisation's activities on stakeholders.

**Social and ethical issues** (relating to systems, behaviour and impacts) are defined by an organisation's values and aims, through the influence of the interests and expectations of its stakeholders, and by societal norms and expectations.

#### **Building performance not compliance**

The Institute recognises and advocates the need for experimentation and innovation in embedding the management of (and accountability for) social and ethical issues in organisations' strategies and operations. It furthermore recognises that any useful standard at this stage must stimulate innovation above an agreed quality floor, rather than encouraging the development of a more rigid compliance-oriented culture.

Therefore in the first instance, the Institute has taken the decision not to position AA1000 as a certifiable standard. Rather, its design is intended to encourage innovation around key quality principles, which at this stage it considers a more effective approach in taking forward individual adopting organisations and the field as a whole.

AA1000 does, however, incorporate an auditing standard through which organisations will provide assurance to stakeholders as to the quality of their social and ethical accounting, auditing and reporting. This assurance is one basis of effective engagement between organisations and stakeholders, and hence supports organisations' strategic management and operations.

#### **Stakeholders: leadership and engagement**

An organisation's stakeholders are those groups who affect and/or are affected by the organisation and its activities.

These may include, but are not limited to: owners, trustees, employees and trade unions, customers, members, business partners, suppliers, competitors, government and regulators, the electorate, non-governmental-organisations (NGOs) / not-for-profit organisations, pressure groups and influencers, and local and international communities.

There is growing recognition by organisations that some stakeholders possess significant influence over them:

- a) More information is publicly available on the activity of organisations and the impact of these activities on employees, shareholders, society, the environment and the economy
- b) Stakeholders demand higher standards of behaviour from organisations
- c) The legitimacy of these demands is more widely recognised by government, regulators and civil society

At the same time, organisations recognise the conflicts of interest they have with stakeholders, and the lack of consensus between and within stakeholder groups.

This is a dilemma that AA1000 seeks to address. It does not provide a prescriptive framework for the resolution of conflicts, but it does provide a process for organisations to begin to address them through engaging with stakeholders to find common ground and build trust.

This process of engagement with stakeholders is at the heart of AA1000. Engagement is not about organisations abdicating responsibilities for their activities, but rather **using leadership to build relationships with stakeholders**, and hence improving their overall performance.



# 1 *Executive summary*

## **1.2 AccountAbility 1000 - Applications of the foundation standard**

### *Introduction*

AA1000 is focused on improving the overall performance of adopting organisations.

It therefore supports improvements in financial performance and the long-term value of the organisation to shareholders and other owners. It does this by supporting improvements in other dimensions of performance, particularly social and ethical but also indirectly environmental and economic performance.

### *Improving performance*

There are a variety of dimensions in which AA1000 can be used to improve organisational accountability and performance. The following is not a complete list, but illustrates the possible applications of AA1000 to the benefit of an organisation and its stakeholders:

**Measurement** - The AA1000 standard outlines a process by which key performance indicators are identified by an organisation through engagement with its stakeholders. The organisation and its stakeholders are brought together to work towards a **common understanding of what matters** about performance.

**Quality management** - By measuring, communicating and obtaining feedback on its social and ethical performance an organisation will be better placed to understand and **respond to the needs and aspirations of its stakeholders**, and to manage these alongside (and as part of) its objectives and targets.

**Recruitment and retention of employees** - By clarifying its values and reporting on its performance, an organisation can **improve the recruitment** of high quality employees. The **loyalty of existing employees** will also be supported by evidence of commitment to building a better organisation and by the development of programmes to improve training and others aspects of employee welfare. The corollary of this improved loyalty to the organisation should be increased productivity.

**External stakeholder engagement** - AA1000 can play a key role in building an organisation's relationships with its external stakeholders. Consumers, suppliers and wider society are able to see how an organisation's behaviour matches their aspirations, and are better positioned to articulate their opinions. An organisation, in turn, will have more sensitive and accurate information on which to base decisions, and a **climate of increased trust** in which to implement them.



**Partnership** - AA1000 can support the *deepening of value-based relations* along an organisation's supply chain and in other partnership processes. Its adoption represents a commitment by an organisation to working together with partners to achieve genuine and standardised good practice in relationships.

**Risk management** - AA1000 can be integral to a framework for internal control to enable an organisation to identify, evaluate and better *manage the risks* arising from its impacts on and relationships with its stakeholders. These may include risks to reputation and brand, and from customer and employee liability suits.

**Investors** - AA1000 can play a critical role in satisfying the increasingly complex demands for information from investors. For most investors, clear and verifiable information about social and ethical performance and stakeholder perceptions and expectations provides a valuable reference point for *assessing the quality of management and the market positioning of an organisation*. In addition, the significant growth of 'ethical funds' is generating information requirements that AA1000 can assist a company in providing in a cost-effective manner.

**Governance** - AA1000 can play a key role in supporting an organisation's governance. The standard feeds into the organisation's control process by which it ensures the *alignment of its values and strategy with its behaviour and the outcomes of its activities*.

**Government and regulatory relations** - The adoption of AA1000 can play a part in encouraging governments to *acknowledge the self-regulating processes that organisations are following* to improve accountability and performance. As a reflection of practical and useful best practice, AA1000 may also help to ensure that any future regulation in the field is viable and meaningful.

**Training** - AA1000 facilitates the *training and the identification of qualified and experienced service providers*. Trained social and ethical accountants and auditors will help an organisation, from inside or outside, to improve its accountability and performance.

### **AA1000 and its users**

**Adopting organisations** can use AA1000 directly in developing their practices, or can use it as a basis for assessing other available specialised standards.

**Stakeholders**, including civil society organisations and direct stakeholders (internal and external to the organisation), can use AA1000 to assess and hence to comment on the quality of an adopter's approach to social and ethical accounting, auditing and reporting.

**Service providers** can use AA1000 as a recognised benchmark against which to develop and provide services, and as a means of acquiring competencies and communicating this to potential clients.

**Standards developers** can use AA1000 as a reference point for their specialised standard, and for communicating the underlying qualities of their standard.



# 1 Executive summary

## *Using AA1000*

AA1000 is designed to ***encompass the needs and requirements of adopters from all types of organisation***. These include:

- a) ***Large and small*** organisations
- b) ***Single site*** organisations, and ***multi-site, multi-national*** organisations
- c) ***Public, private and non-profit*** organisations

The nature of the organisation adopting AA1000 affects its approach to the application of the standards. For example, a single-site organisation may apply the AA1000 standards by:

- a) Developing a single social and ethical accounting, auditing and reporting framework
- b) Distributing a single audited report on all aspects of the organisation's operations to its (predominantly local) stakeholders

In contrast, a large multi-site, multi-national organisation may apply the AA1000 standards by:

- a) Driving down responsibility for the measurement and improvement of social and ethical performance to site-level

- b) Reporting in summary form at group-level the overall activities and performance of the organisation, incorporating the indicators reported in the organisation's strategic management system
- c) Reporting at site-level the aspects of the organisation's social and ethical performance relevant to local stakeholders
- d) Using a mixture of auditing methodologies to reflect the assurance required by stakeholders at group-level and at site-level

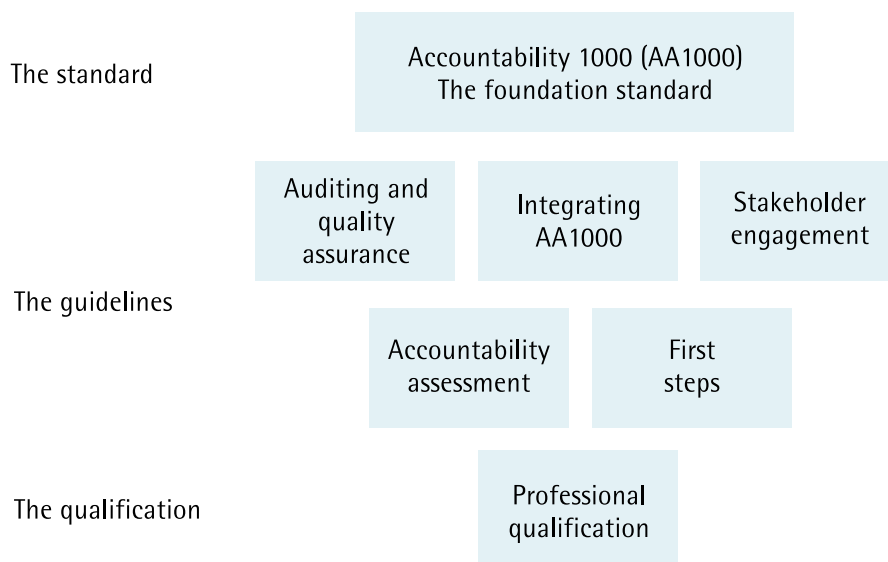
As practice develops, guidelines will be required to support the interpretation and implementation of AA1000 that recognise the diverse requirements of different organisation types, in different sectors and regions.



### 1.3 The AccountAbility 1000 framework

AA1000 is supported by a set of **guidelines** and a **professional qualification** as illustrated in figure 1, and described in sections 3 to 8. The guidelines and professional qualification do not form part of the AA1000 standard, but provide guidance to different user groups in the application and understanding of AA1000. Together, the standard, the guidelines and the professional qualification are referred to as the **AA1000 Framework**.

Figure 1: The AA1000 Framework





## 2 AccountAbility 1000 (AA1000)

### 2.1 Introduction

#### *Social and ethical accounting, auditing and reporting*

AA1000 is an accountability standard, focused on securing the quality of social and ethical accounting, auditing and reporting. It comprises principles and a set of process standards.

The **AA1000 process can support an organisation's strategic management and operations**, by assisting it to:

- a) Align its systems and activities with its values
- b) Learn about the impacts of its systems and activities, including stakeholder perceptions of these impacts
- c) Serve as a part of a framework for internal control to enable the organisation to identify, evaluate and better manage the risks arising from its impacts on and relationships with its stakeholders
- d) Meet the legitimate interest of stakeholders in information about the social and ethical impact of the organisation's activities and its decision-making processes
- e) Build competitive advantage through the projection of a defined stance on social and ethical issues

#### *Accountability*

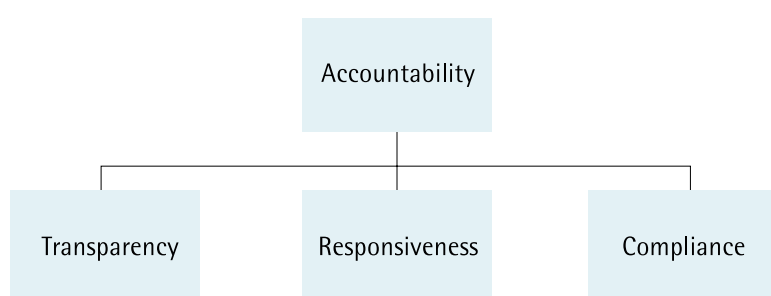
To **account** for something is to explain or justify the acts, omissions, risks and dependencies for which one is responsible to people with a legitimate interest.

To discharge its **accountability**, an organisation will account for its acts, omissions, risks and dependencies. However, in addition to this accounting requirement of transparency, accountability also entails a broader obligation of responsiveness and compliance (see points a) to c) and figure 2):

- a) **Transparency** concerns the duty to account to those with a legitimate interest - the stakeholders in the organisation
- b) **Responsiveness** concerns the responsibility of the organisation for its acts and omissions, including the processes of decision-making and the results of these decisions. Responsiveness entails a responsibility to develop the organisation's processes and targets to support the continuous improvement of the organisation's performance
- c) **Compliance** concerns the duty to comply with agreed standards regarding both organisational policies and practices, and the reporting of policies and performance



Figure 2: The definition of accountability



### *Users and their information needs*

The users of social and ethical accounts and reports (written and verbal communications) include the adopting organisation and its stakeholders.

Its stakeholders are ***those groups who affect and/or are affected by the organisation and its activities.*** These may include, but are not limited to: owners, trustees, employees and trade unions, customers, members, business partners, suppliers, competitors, government and regulators, the electorate, non-governmental-organisations (NGOs)/not-for-profit organisations, pressure groups and influencers, and local and international communities.

The ***information needs and performance expectations of stakeholders are reflected in a wide variety of issues.*** These may include, but are not limited to: the organisation's values and governance, its regulations and controls, its operations, the impact of its products, services and investments, its impact on other species and the environment, human rights issues, labour and working conditions issues, and supply chain issues.

The ***aspirations of stakeholders*** in their interplay with the organisation ***cannot be fully anticipated prior to the accounting, auditing and reporting process.*** One of the key aims of the process is to discover and respond to these aspirations through engagement with the stakeholders.



## 2 AccountAbility 1000 (AA1000)

### 2.2 Principles

The AA1000 principles identify characteristics of a quality process. These principles can be used in designing and managing an organisation's social and ethical accounting, auditing and reporting process, and may also be used in assessing the quality of its process.

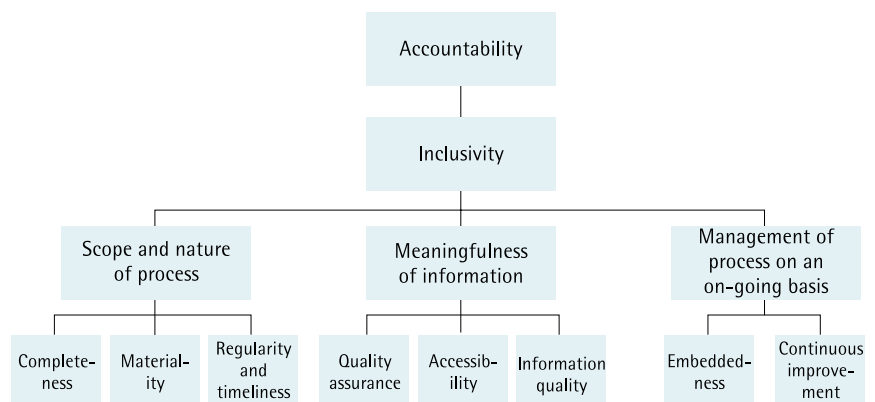
The hierarchy of the AA1000 principles is as follows (and as illustrated in figure 3):

- a) A quality process of social and ethical accounting, auditing and reporting is governed by the principle of accountability
- b) Organisational accountability is directly addressed by the inclusivity of the social and ethical accounting, auditing and reporting process. Inclusivity concerns the

reflection at all stages of the process of the aspirations and needs of all stakeholder groups. Stakeholder views are obtained through an engagement process that allows them to be accurately and fully expressed without fear or restriction. Inclusivity requires the consideration of 'voiceless' stakeholders including future generations and the environment

- c) Inclusivity is supported by, and infuses the operational meaning of, the remaining AA1000 principles. These can be divided into three broad groups, relating to: the scope and nature of the organisation's process; the meaningfulness of information; and the management of the process on an ongoing basis

Figure 3: The AA1000 principles





## 2.3 Process standards

### Introduction

AA1000 is a process standard, not a substantive performance standard. That is, it specifies processes that an organisation should follow to account for its performance, and not the levels of performance the organisation should achieve.

It is a dynamic model for continuous improvement, each cycle of which has five main categories of action. The process model is broadly linear, but stages frequently operate in parallel, and earlier stages may have to be repeated. The stages are described below and illustrated in figure 4. Throughout the AA1000 process standard, *'the process'* refers to an organisation's process of social and ethical accounting, auditing and reporting.

- a) The organisation commits to the process, and defines and reviews its values and social and ethical objectives and targets (***Planning***)
- b) The scope of the process is defined, information is collated and analysed, and performance targets and improvement plans are developed (***Accounting***)
- c) A report(s) (***written or verbal communication***) on the organisation's systems and

performance is prepared, the process (including the social and ethical reporting) is externally audited, the report(s) is made accessible to stakeholders, and stakeholder feedback is obtained (***Auditing and Reporting***)

- d) To support each of these stages, structures and systems are developed to strengthen the process and to integrate it into the organisation's activities (***Embedding***)
- e) Each process stage (from a) to d)) is permeated by the organisation's engagement with its stakeholders (***Stakeholder engagement***)

During these stages, the organisation begins planning for the next cycle of the process incorporating the experience from previous cycles.

Within this broad process model, the Institute's process standards identify a set of steps that an organisation should follow to help satisfy the AA1000 quality principles. The process steps are summarised in table 1.



## 2 AccountAbility 1000 (AA1000)

Figure 4: The AA1000 Process Model



*aspire to* over time.

It is recognised that a variety of different approaches to the AA1000 processes, for example towards

### *Status of the standards*

The AA1000 process standards are set out in the AA1000 Framework together with guidance that assists in their interpretation. This guidance also identifies the relationship between the standards and the underlying social and ethical accounting, auditing and reporting principles.

The Institute recognises that organisations may adopt a stepped approach to building accountability, and will use AA1000 as a *model to*

stakeholder engagement, will address the quality requirements identified by the process standards, and that *different approaches will be more appropriate in different organisation types and geographies.*

Where there is a potential conflict between alternative process steps, an organisation should refer to the principles to resolve the conflict. Where there appears to be or there is



Table 1 - *The AA1000 Process Model*

<p>a conflict of principles, the organisation should make its decision to support a long-term goal of accountability, and disclose this in its social and ethical report(s).</p>	<p>operations, locations or issues in future cycles. It identifies the timing of the current cycle. The organisation also identifies the audit method(s), the audit scope, and the auditor(s) to provide a high level of quality assurance to all its stakeholders.</p>	<p>The organisation prepares a social and ethical report (written or verbal communication) or reports relating to the process undertaken in a specified period. The report(s) clearly and without bias explains the process and demonstrates how the organisation's performance relates to its values, objectives and targets. It includes information about its performance measured against its key social and ethical performance targets. The organisation provides comparative information for previous period(s) to help stakeholders understand the current performance in the context of prior period trends and in the context of external benchmarks, if available.</p>
<p><b>Planning</b></p>	<p><b>P6 Identify indicators</b></p>	<p><b>P10 Audit report(s)</b></p>
<p><i>(P)rocess1 Establish commitment and governance procedures</i></p>	<p>The organisation identifies social and ethical indicators through engagement with its stakeholders. The indicators reflect the organisation's performance in relation to: its values and objectives; the values and aspirations of its stakeholders, as determined through a process of consultation with each group of them; and wider societal norms and expectations.</p>	<p>The organisation arranges and supports the external audit of the process, including the social and ethical report(s). Support is provided to the auditor throughout the planning and accounting processes as appropriate.</p>
<p>The organisation commits itself to the process of social and ethical accounting, auditing and reporting, and to the role of stakeholders within this process. It defines governance procedures to ensure the inclusion of stakeholders in the process.</p>	<p><b>P7 Collect information</b></p> <p>The organisation collects information about its performance in respect of the identified indicators. The organisation engages with stakeholders in the design of the collection methods, which allow stakeholders to accurately and fully express their aspirations and needs.</p>	<p><b>P11 Communicate report(s) and obtain feedback</b></p> <p>The organisation communicates information on the process and the social and ethical performance of the organisation to all stakeholder groups. This includes making accessible to all stakeholder groups the social and ethical report(s) together with the independent audit opinion(s). The organisation actively seeks feedback from its stakeholder groups in order to further develop its process.</p>
<p><b>P2 Identify stakeholders</b></p>	<p><b>P8 Analyse information, set targets and develop improvement plan</b></p>	<p><b>P12 Establish and embed systems</b></p>
<p>The organisation identifies its stakeholders and characterises its relationship with each group of them.</p>	<p>From the information collected, the organisation:</p>	<p>The organisation establishes systems to support the process, and the on-going achievement of its objectives and targets in line with its values.</p>
<p><b>P3 Define/review values</b></p>	<p>a) Evaluates its performance against values, objectives and targets previously set</p>	
<p>The organisation defines or reviews its current mission and values.</p>	<p>b) Uses this evaluation and engagement with stakeholders to develop or revise objectives and targets for the future, with a focus on improving performance</p>	
<p><b>Accounting</b></p>	<p><b>Auditing and reporting</b></p>	
<p><b>P4 Identify issues</b></p>	<p><b>P9 Prepare report(s)</b></p>	
<p>The organisation identifies issues through engagement with its stakeholders regarding its activities and social and ethical performance.</p>		
<p><b>P5 Determine process scope</b></p>		
<p>The organisation determines, based on engagement with its stakeholders, the scope of the current process in terms of the stakeholders, geographical locations, operating units and issues to be included, and identifies how it plans to account for the excluded stakeholders,</p>		



## 3 Auditing and quality assurance

### 3.1 Introduction

*Social and ethical auditing has been embraced in a variety of forms* by organisations that have produced social and ethical reports. These have included auditing processes based on financial auditing practices (reporting a 'true & fair' view), but also innovative methods of providing quality assurance.

A number of terms have been used to describe these processes, including *verification, certification, assurance and auditing*. In the AA1000 framework, 'auditing' refers to all assessment processes where the social and ethical accounting, auditing and reporting process and social and ethical report(s) are examined by an independent body in order to provide assurance to the organisation and stakeholders as to the quality of the process and report(s).

*The AA1000 foundation standard covers both internal audit* (AA1000 process standard 12) *and external audit* (AA1000 process standard 10) *processes*. Both types of process are key to an organisation discharging its accountability.

The internal audit provides assurance to the organisation as to the quality of the social and ethical accounting, auditing and reporting process and the organisation's social and ethical performance. It also provides support to the process of external audit.

The external audit process and report *provide assurance to the organisation and its stakeholders* as to the quality of the social and ethical accounting, auditing and reporting process and build credibility in the reporting of the organisation's social and ethical performance. This *credibility is one basis of effective engagement* with the organisation's stakeholders, and of a common understanding of the organisation's performance.

The AA1000 Framework's audit guidelines support the practice of the social and ethical audit on two levels:

- a) The guidelines outline principles for the conduct of the social and ethical auditor
- b) The guidelines describe a framework for the social and ethical audit process, from agreeing the terms of engagement through to reporting. This framework does not form part of the AA1000 process standard, and should be understood as guidance to support social and ethical auditors in the conduct of the audit



### 3.2 Development of the guidelines

The Institute recognises that the practice of social and ethical auditing is in its infancy. **A number of key process issues remain** which are not addressed (or answered definitively) by the AA1000 foundation standard, but **for which standardisation may prove useful** in building the credibility of reporting.

The Institute will work with other organisations in developing the audit guidelines into an audit standard. The issues to be considered will include:

- a) The scope of the audit process
- b) The role (and relationships) of single and multiple auditors
- c) The content, format and language of the audit report and audit opinion, including the concept of 'going concern' and qualified audit opinions
- d) The levels of assurance conveyed by audit reports
- e) The links between AA1000 and IFAC ISAs
- f) The quality control of auditors' work

The principles are detailed further in the (currently unpublished) ISEA paper: The Code of Conduct for Members of the ISEA. Further details on the requirements for professional competence are detailed in the professional qualification (see section 8).

The auditing and quality assurance guidelines define the following principles for the social and ethical auditor:

- a) Integrity
- b) Objectivity and independence
- c) Professional competence
- d) Professional behaviour  
**- Rigour, Judgement, Significance and Clear Communication**
- e) Confidentiality
- f) Due care to stakeholders

### 3.3 Principles for the social and ethical auditor

The principles governing a social and ethical audit apply to the behaviour of all social and ethical auditors, internal and external, irrespective of which audit method(s) is used as part of a specific process.



## 4 Integrating AA1000

### 4.1 Introduction

AA1000 is an accountability standard, focused on securing quality in social and ethical accounting, auditing and reporting.

It is a foundation standard, and as such can be used in two ways: as a common currency to underpin the quality of specialised accountability standards, existing and emergent; and as a stand-alone system and process for managing and communicating social and ethical accountability and performance.

The integrating guidelines illustrate the relationship between AA1000 and other standards according to the two ways in which AA1000 can be understood and used. The guidelines can also illustrate links with other management tools (such as balanced scorecards and business excellence models) and with practice as it emerges in different regions (e.g. the social balance in southern Europe) and organisations.

The guidelines are designed to help all four main AA1000 user groups:

a) **Adopters** of other standards and performance measurement tools can use the integrating guidelines to understand how their existing practices fit in with the AA1000 model of accountability. The guidelines also identify how adopters of AA1000 as a stand-

alone system can use other standards and tools for support

- b) By providing an explanation of key standards and management tools, the guidelines provide **stakeholders** with an understanding of organisations' declarations of policy or of compliance with regard to these standards
- c) **Service providers** can use the guidelines to understand and position the role of different standards and management tools, and to understand how these may support AA1000 as a stand-alone system
- d) The integrating guidelines provide **standards developers** with a simplified positioning of their standards within an overall framework of social and ethical accounting, auditing and reporting

The guidelines have three main sections. They:

- a) Introduce a selection of accountability standards and management tools
- b) Examine key standards and management tools against different dimensions of AA1000, including processes and stakeholder issues
- c) Identify how standards and management tools may be used to support AA1000 where organisations use AA1000 as their stand-alone system to build accountability



## 4.2 Development of the guidelines

The Institute will continue to work with other organisations in the development of specialised accountability standards. The integrating guidelines will incorporate these and other standards as they are developed to maintain AA1000's role as a common currency underpinning quality.

The guidelines will also be developed with the publication of a database of standards set against the AA1000 *principles, process standards and key issues of concern to stakeholders.*

## 4.3 The integrating guidelines

### Introduction

The standards and management tools analysed in the guidelines cover a mixture of processes and issues, and include mandatory and voluntary standards. The processes and issues covered include stakeholder dialogue and social and ethical reporting, organisational culture, fair trade and ethical trade, working conditions, human resource management and training, environmental and animal protection, community development and human rights.

This overview illustrates the dimensions of the integrating guidelines through introducing three accountability standards (see below and figure 5). The guidelines are illustrative not absolute:

- a) The *shading* in figure 5 indicates the process focus and stakeholder focus of the standards. It *does not imply that all aspects of an AA1000 process or all issues of concern to stakeholders are covered* by one or more standard. Similarly, the *absence of shading does not imply that* (one or more of) *the standards make no comment on an aspect, rather that it is not its main focus*
- b) To fully identify the issues of interest to different stakeholders is a complex process requiring engagement with the stakeholders

### Summary of standards

The Global Reporting Initiative's (GRI) *Sustainability Reporting Guidelines* have been developed through multi-stakeholder dialogue. The GRI guidelines are closely aligned to AA1000, but focus on a specific piece of the process - reporting. GRI aims to cover a full range of social and ethical issues, as well as environmental and economic issues, although these are currently at different stages of development.

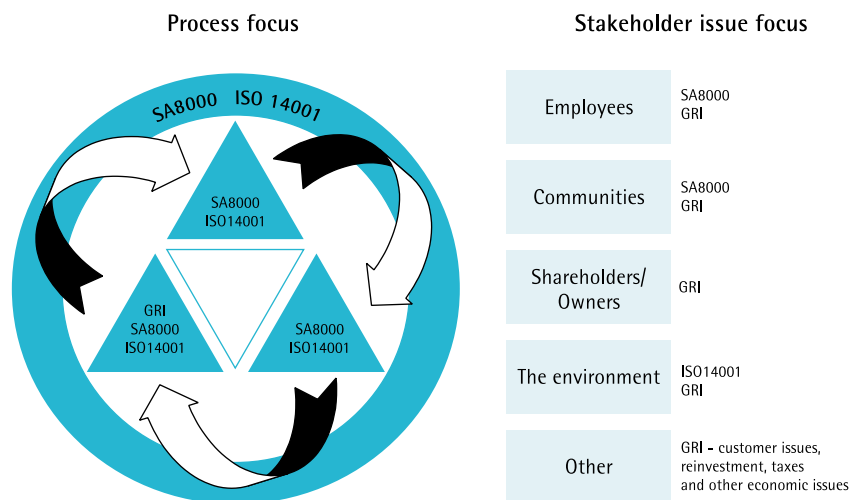


## 4 Integrating AA1000

The Council on Economic Priorities Accreditation Agency's (CEPAA) **Social Accountability 8000** (SA 8000) is a standard focused on workplace conditions in supply chains. SA 8000 has close links with much of the AA1000 process, including: the definition of policy, the monitoring of activities and results, the verification of conformance, the communication of procedures, and the development of management systems. SA8000 was developed (and is subject to continuous improvement) through consensus-based stakeholder dialogue, and it includes a process of stakeholder governance. But it does not include stakeholder engagement as a core part of the accounting process.

The **International Standard Organisation's** (ISO) standards focus on the development and certification of management systems. They incorporate processes of Policy, Planning, Implementation & Operation, Checking & Corrective Action, Management Review with an overall focus on continuous improvement. Communication is a key element of ISO standards, but there is little emphasis on dialogue with stakeholders. One part of the ISO series, ISO14001, addresses many of the AA1000 processes, but with a specific focus on environmental issues.

Figure 5: Accountability standards and the AA1000 process model



(See figure 4 for full illustration of the AA1000 process model)



## 5 Stakeholder engagement

### 5.1 Introduction

Engagement with stakeholders is at the heart of AA1000. Engagement is not about organisations abdicating responsibilities for their activities, but rather using leadership to build relationships with stakeholders, and hence improving accountability and performance.

But how can organisations and stakeholders ensure quality in the consultation and dialogue that takes place between them? The guidelines begin to answer this question by outlining good practice in engagement. This overview summarises the aims of stakeholder engagement.

The guidelines have three elements. They:

- a) Define the aims of stakeholder engagement in the context of AA1000
- b) Describe a number of methods of stakeholder engagement
- c) Describe techniques and provide advice to support the good practice of the methods defined above

use them as the basis for the development of specialised engagement guidelines to address particular situations. These may include, for example, guidelines for:

- a) Engagement on different issues, e.g. environmental and social issues
- b) Engagement in different countries and cultures, and with different genders and races
- c) Engagement in crisis situations
- d) Engagement with internal and external stakeholders
- e) Engagement by different organisation types, e.g. large and small, public, private and non-profit, and in different sectors of operation
- f) Audit of engagement processes

### 5.2 Development of the guidelines

The stakeholder engagement guidelines are designed for all main user groups of AA1000. Adopting organisations, stakeholders and service providers can use them to understand the aims of engagement, and to examine the methods and techniques that may be used to support these aims. Standards developers can also



## 5 Stakeholder engagement

### 5.3 Aims of stakeholder engagement

As part of the AA1000 process, stakeholder engagement is focused on improving the accountability and performance of the organisation.

The AA1000 definition of accountability is an accountability of organisations to their stakeholders.

***The nature of this accountability is defined by the organisation's engagement with its stakeholders.***

Stakeholder engagement can also be at the heart of a virtuous circle of performance improvement.

Meaningful engagement can:

- a) ***Anticipate and manage*** conflicts
- b) Improve ***decision-making***
- c) Build ***consensus*** amongst diverse views
- d) Create stakeholder ***identification*** with the outcomes of the organisation's activities
- e) Build ***trust*** in the organisation

These five factors are key to improving financial performance through, for example, improved recruitment and retention of employees or the increased sophistication of management systems. They are also key to building the organisation's performance on other measures in a manner that satisfies the aspirations of the organisation's stakeholders. If the engagement improves stakeholder satisfaction, this will play a role in supporting the long-term financial performance of the organisation.

But what does it mean to have meaningful engagement? At a high level, it requires that the organisation is accountable (transparent, responsive and compliant), and that its leadership make decisions based on an accurate and full understanding of stakeholder aspirations and needs. To achieve this, engagement needs to:



# STAKEHOLDER ENGAGEMENT

- a) Allow stakeholders to assist in the identification of other stakeholders
- b) Ensure that stakeholders trust the social and ethical accountant (internal or external) that is collecting and processing the findings of the engagement
- c) Be a dialogue, not a one-way information feed
- d) Be between parties with sufficient preparation and briefing to have well-informed opinions and decisions
- e) Involve stakeholders in defining the terms of the engagement. The terms will include, but are not limited to the issues covered, the methods and techniques of engagement used, the questions asked, the means of analysing responses to questions and the stakeholder feedback process
- f) Allow stakeholders to voice their views without restriction and without fear of penalty or discipline. However, stakeholders must be aware that if their opinions are taken seriously and acted upon, this will have consequences upon them and other stakeholder groups
- g) Include a public disclosure and feedback process that offers other stakeholders information that is valuable in assessing the engagement and allows them to comment upon it



## 6 *Accountability assessment*

### *6.1 Introduction*

AA1000 has been developed to improve organisational accountability and performance by increasing quality in social and ethical accounting, auditing and reporting. It will only achieve this if adopting organisations' communications and contacts with stakeholders are:

- a) ***Understood*** by stakeholders
- b) ***Meaningful*** to stakeholders

Stakeholders will assess organisations' performance across a range of formal and informal communications. Social and ethical reporting (including written and verbal communications) will therefore only cover part of an organisation's relationship with its stakeholders, and it will only be part of the way in which an organisation communicates with them.

At the same time, innovation in social and ethical reporting presents stakeholders with a confusing range of methods, formats and media of report presentation. The accountability assessment guidelines are designed to assist stakeholders in assessing formal reports, and hence to draw meaning from them.



## 6.2 Development of the guidelines

The accountability assessment guidelines are based on the AA1000 principles and process standards. As such, they do not provide a definitive guide to the format or contents of social and ethical reports, and do not define social and ethical performance indicators or targets for organisations. In addition, they do not provide a method of calculating an accountability score for a report.

## 6.3 The assessment guidelines

However, the guidelines do assist stakeholders in making a qualitative assessment of *the inclusion of information in a report and its meaning*. They help stakeholders to:

- a) Understand an organisation's positioning of their relationship with the stakeholder
- b) Understand the accountability of a reporting organisation
- c) Compare social and ethical reporting across individual organisations and between sectors, regions and types of organisation

The guidelines will be developed to incorporate experience in the assessment of performance, in particular as the use of different reporting media develop and as organisations' reporting cycles become more flexible. This will include the experience from the ISEA/ACCA Social Reporting Awards (SRA).



# 7 First steps

## 7.1 Introduction

Organisations have adopted a **variety of approaches to social and ethical accounting, auditing and reporting**. Each approach has a different balance in terms of the issues on which it is focused, and the processes by which the organisation measures, communicates and develops its values, processes, objectives and targets.

The alternative methods (and the extent to which they have been pursued) reflect a **number of dimensions of organisations' identities**. Among the more important dimensions include:

- a) The nature of the organisation
- b) The driver of the organisation's adoption of social and ethical accounting, auditing and reporting
- c) The legal requirements and societal norms of the regions within which the organisation operates
- d) The level of development of existing environmental accounting and reporting systems
- e) The existence of other programmes (mandatory or voluntary) regarding the management of social and ethical issues, (e.g. Best Value in the UK public sector)
- f) Key stakeholders in the organisation, and their demands
- g) Cost pressures
- h) Uncertainty about costs and benefits of the process

The AA1000 foundation standard recognises that organisations may adopt a stepped approach to building accountability, and will use AA1000 as a model to aspire to over time.

Within the context of the AA1000 standards, the first step guidelines:

- a) Briefly discuss how different approaches to social and ethical accounting, auditing and reporting can be understood in terms of a model of development towards accountability
- b) Suggest a set of first steps (and considerations at each step) towards starting a social and ethical accounting, auditing and reporting process



## 7.2 Development of the guidelines

The first step guidelines will be developed to incorporate experience from those organisations addressing social and ethical accounting, auditing and reporting for the first time, in particular those addressing it through the perspective of AA1000.

## 7.3 First steps

An organisation considering a process of social and ethical accounting, auditing and reporting may address the following steps (see figure 6):

- a) Formalise reasons for (and against) beginning the process ('Defining Aims')
- b) Understand its capability to achieve aims ('Defining Capacity')

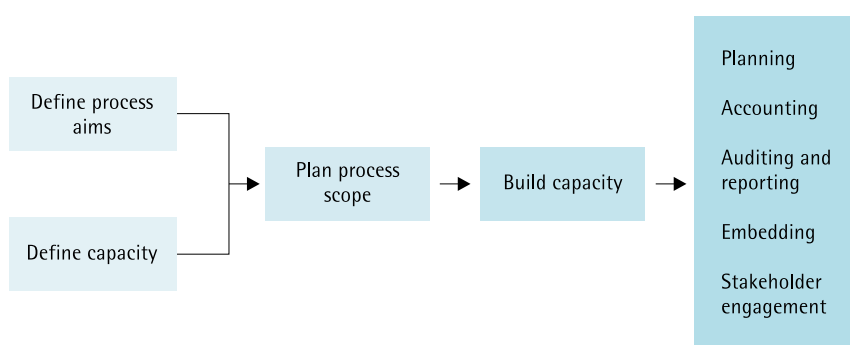
If it chooses to proceed the organisation may:

- c) Outline the nature of the process to be adopted, including the processes to be followed and issues covered ('Outlining Scope')

- d) Build resources to match the aims of the project ('Building Capacity')

This final stage of **building capacity is central to the success of the process.**

Figure 6: First steps



These stages begin to cover some aspects of the 'Planning' and 'Embedding' stages of the AA1000 process. Some organisations have used these first steps as a scoping exercise in which the aims of the project, etc, are clarified before investing significant resources in a full process. Others, however, have incorporated these first steps within a full accounting, auditing and reporting process.



## 8 Professional qualification

### 8.1 Introduction

The creation of a body of professionally trained and qualified social and ethical accountants and auditors is central to the development of organisational accountability: to translate organisations' interest in accountability issues into **quality processes** of social and ethical accounting, auditing and reporting; and to build the credibility of social and ethical auditing by **enhancing the legitimacy of auditors**.

The AA1000 framework addresses this need with a **professional qualification linked to a training and professional development programme**: The 'competence and qualification requirements for social and ethical accountants and auditors.'

The qualified social and ethical accountants and auditors will be trained in AA1000 and other accountability standards (social and ethical, environmental and financial) as well as social and ethical management issues more generally. The professional qualification programme will not train **qualified auditors to certify organisations as AA1000 compliant**. Qualified auditors will, however, be competent to assess the quality of accounting, auditing and reporting processes with reference to AA1000 and other social and ethical accountability standards.

The competence and qualification requirements are **designed both for service providers** (providing consultancy and auditing services) **and the staff of those adopting organisations that practice social and ethical accounting, auditing and reporting**.

The qualification of social and ethical accountants and auditors does not exclude the role of non-qualified persons in promoting the accountability of organisations. The **new profession** that the Institute is building will include social and ethical accountants and auditors, but also those working in a variety of fields committed to the values of social and ethical accountability.

The professional qualification comprises:

- a) The competencies and knowledge areas required of social and ethical accountants and auditors
- b) The professional training content necessary to support candidates in meeting these requirements, and to maintain and develop their ability to perform professionally
- c) The type and level of experience necessary for sound professional performance in these areas



## **8.2 Development of the professional qualification**

The Institute recognises the need to develop the professional qualification guidelines into a qualification standard. This development will draw on emerging best practice in accounting, auditing and reporting and experience from the Institute's training programme for social and ethical accountants and auditors.

The development of the programme will consider, inter alia, the:

- a) Requirements for training, continuing professional development, and practical experience
- b) Exemptions through work experience and prior training

- c) An understanding of governance and leadership issues - including the role of stakeholders
- d) An understanding of audit and quality assurance issues - including the purpose of auditing, alternative audit methodologies for providing quality assurance to the organisation and stakeholders, and the application of knowledge from other modules
- e) How to do it - including practical guidance and training in the processes of social and ethical accounting, auditing and reporting

The qualification guidelines identify the aims for each module and the elements of content that should be included in the training and examination. The modules, and a suggested sequence for them, are illustrated in figure 7 overleaf.

## **8.3 The training content**

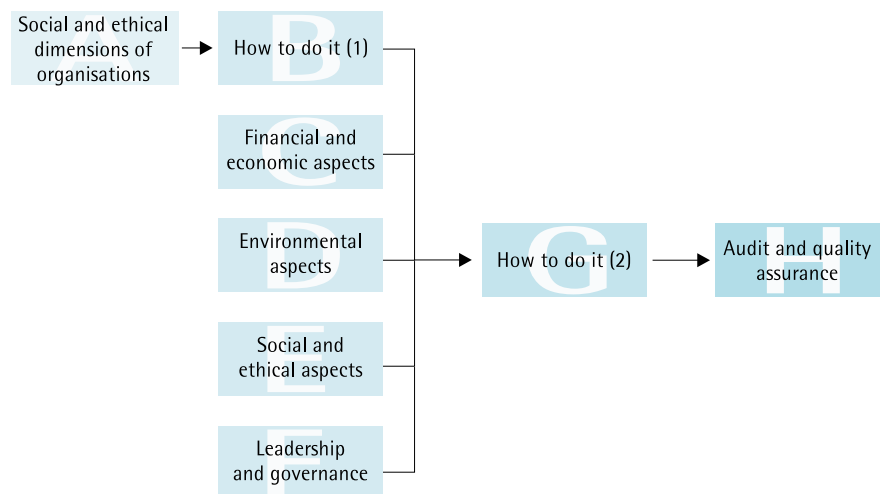
The training requirements comprise eight modules covering five main areas:

- a) An understanding of the social and ethical dimensions of organisations - including the concepts of individual and organisational accountability, of sustainable development and of stakeholders; and an understanding of issues relating to diversity and equal opportunity
- b) An understanding of financial, environmental, and social and ethical aspects of organisations - including key issues, legislation, management systems, and standards and guidelines



## 8 Professional qualification

Figure 7: Professional Qualification – Suggested Sequence of Training



Further information on AA1000 can be obtained from the Institute of Social and Ethical AccountAbility.

Comments are welcome at [feedback@accountability.org.uk](mailto:feedback@accountability.org.uk)