AA1000 Assurance Standard

Practitioners Note

The outcome of a workshop with companies to learn from practice in the application of the AA1000 Assurance Standard

October 2003
# Table of Contents

I) Overview ................................................................. Page 3

II) Approaches to Assurance ............................................. Page 3

III) The Role of Assurance Providers .................................. Page 4
    a) Competencies ....................................................... Page 4
    b) Levels of Assurance ............................................... Page 5
    c) Involvement in the reporting process ............................. Page 6

IV) Comments on the AA1000 Assurance Standard Principles Page 7

V) Legal Dimensions of Assurance .................................... Page 8

VI) Annex - Definition of AA1000 Principles ........................ Page 10
I) Overview

A meeting was co-hosted by Novo Nordisk and AccountAbility in London on September 26th 2003, with business leaders from leading adopting companies of the AA1000 Assurance Standard. The purpose of the meeting was to share experience and to develop the first of a series of Practitioner Notes to assist in the practical development of the standard both for and by companies and assurance providers. The following Practitioner Notes provide a description and analysis of the experience of adopting companies in applying the AA1000 Assurance Standard.

II) Approaches to Assurance

Following the formal launch of the AA1000 Assurance Standard in March 2003, its implementation began in earnest for adopting companies, many of whom had already produced externally assured sustainability reports for a number of years. There was a broad agreement that the guiding principles of the standard (materiality, completeness, and responsiveness)\(^1\) and the way in which they were outlined, made it easier to both carry out the accounting process, as well as engage with assurance providers.

"The way AA1000 AS is structured makes it very easy to communicate to stakeholders what we’re doing on assurance."

"The simplification of the process that requires only three principles to focus on getting right, has been very helpful internally."

All but one of the companies\(^2\) had previously used assurance providers as part of their social and sustainability reporting processes. The companies used a variety of assurance providers from the main accountancy bodies, such as Deloitte & Touche,

\(^1\) See Annex 1 for definitions of the AA1000 Assurance Standard principles.

\(^2\) The exception being mmO2 only because the company has recently been established following a restructuring of BT Group.
PriceWaterhouseCoopers, and Ernst & Young, to smaller providers including Lloyds Register, Ashridge Centre for Business and Society, to quality assurance organisations such as Bureau Veritas.

All of the assurance providers used the standard, but implemented it to varying degrees for their assurance process. Novo Nordisk’s provider, Deloitte and Touche, used the standard alongside ISA 100 Assurance Engagements, issued by the International Auditing and Assurance Standards Board, for example.

Reasons for the engagement of any particular provider were divided between those who sought providers with expertise in other areas of assurance, most notably financial in the case of the main accountancy bodies, which often meant they had an existing relationship (in the case of BT Group, Lloyds Register were chosen because they also assure the company’s use of ISO14001), and those with a particular knowledge and expertise of the AA1000 Assurance Standard itself (e.g. Ashridge).

"We need the assurance provider to come with a brand to say they are trusted by stakeholders."

III) The Role of Assurance Providers

This raised a number of issues concerning assurance providers that related to:

(a) Competencies
(b) Levels of assurance
(c) Involvement in the reporting process

(a) Competencies

Discussion ensued about the technical, process and content competencies of assurance providers:

i. Technical competencies (e.g. checking the accuracy of data) and orientation, i.e. ways of understanding their role and where their responsibilities were; there were varied technical competencies as well as approaches to checking the accuracy of data. Some assurance providers
took a risk-based approach focusing on material aspects of performance data, whilst others checked all of the data presented. There was some disquiet amongst one or two companies at what appeared to be an inconsistency in approach by the provider, which led to problems internally.

ii. *Process competencies* in terms of identifying stakeholders, credibility of underlying systems; the competency to be involved in the process of identifying stakeholders and the necessary underlying systems to support the data collection process. For example, Bureau Veritas’ assurance of BAT’s report, takes a detailed approach by assessing the quality of stakeholder engagement in its pre-dialogue, dialogue, and post-dialogue stages.

iii. *Substantive/content competencies*, in terms of being able to determine materiality and assessing the quality of completeness and responsiveness; the substantive competencies of assurance providers to grapple with the wide range of issues that relate to a company’s business and its sustainability were brought into question. Looking at the range of businesses around the table, and their relevant sectors, (telecommunications, healthcare, tobacco, oil), knowledge of the business in sustainability terms was seen to be crucial, in particular in defining materiality.

"The issue of cost didn’t come into it. If we’d paid more it wouldn’t have made a difference to the quality of assurance. It was about competency, and the level of familiarity by the assurance provider with the complexity of issues."

As such, the standard must be sufficiently clear as to what constitutes quality of delivery and a set of protocols may assist in this.

(b) **Levels of assurance**

Almost all of the companies are looking for providers to not only check the accuracy of the data but to pass comment on the quality of the report itself. In so doing they are seeking recognition by stakeholders that not only is the data accurate but that it is the right data; i.e. it is material to their interests and concerns. However, it is the experience of the adopting companies that the mainstream accountancy bodies are reluctant to provide a statement of assurance that goes beyond an opinion on the accuracy of the data included in the report.
contrast, Bureau Veritas and Ashridge both give an opinion on the quality of the report, are directly involved in the process (e.g. observe stakeholder consultations), and the identification of appropriate performance measures (see below). There seems therefore to be a trade off where providers are more willing to comment on substantive issues at a high level of assurance, but not at a lower, more specific level.

"As it stands, AA1000 Assurance Standard does not say that the assurance provider should comment on the company’s performance. Rather it says they should comment on the company’s ability to look at those aspects of their performance that relate to sustainability."

It was felt that the financial community want a high level of detail to the assurance process but there is a fear that this reduces their role to 'data checkers’, which is wholly inadequate when assuring the more qualitative aspects of sustainability performance. Nevertheless, for companies with global operations, appropriate levels will assist in understanding the difference in say the performance of BAT Kenya, to BAT Hungary, Malaysia, or elsewhere.

Finally, the issue of the nature of the assurance statement had another dimension in terms of its tone and whether it was negatively, neutrally, or positively written. The more positive a statement the less trusted it was by stakeholders, and it seems that financial audit statements at least, are moving toward a more negative basis of opinion.

(c) Involvement in the reporting process

The involvement in the reporting process by assurance providers varied - those checking the accuracy of the data mainly came in towards the end of the process, while those taking a more evaluative approach were involved from the beginning or mid-process at the latest.

The issue of materiality and knowledge of a company's business meant that if the substantive competency of the provider was lacking, they tended not to be probing enough or were felt to be focusing on the wrong issues.

A two-track approach has been taken in a couple of cases whereby external experts advise on the nature of the reporting process, whilst the assurance provider
concentrates on the resultant report. For example, in BT’s case, Lloyds checked the data for accuracy, while their external Advisory Panel, were involved in defining materiality and ensuring completeness. The legal sign-off however, sat with Lloyds.

There was a difference in opinion as to the level of involvement by assurance providers in the stakeholder engagement process and the identification of materiality. On the one hand there was the opinion that assurance providers should be directly involved. Others felt that the company should provide information to providers on how materiality was determined and how stakeholders were involved in that determination. Then it is for the provider to decide how they go about validating the process, which may require they go to stakeholders to secure assurance.

IV) Comments on the Assurance Standard Principles

There was little challenge to the broad relevance and application of the principles of materiality, completeness and responsiveness. Challenges were mainly focused on their implementation at a detailed level.

**Materiality (P.1)**

The discussion was dominated by materiality (as the above demonstrates), with little or no mention of completeness. Whilst the five-stage test of materiality, as set out in the AccountAbility publication *Redefining Materiality*, was seen as a useful complement to the standard, it did not get over the problem of ‘death by data’. In particular the peer-based test was difficult practically; BT examined ten peer reports and none mentioned materiality. Camelot’s approach of identifying priorities was useful for peers to look at and use as a reference point for their own materiality. In addition, issues are prioritised in conjunction with the provider so stakeholder and business views are linked. Secondly, the wording of materiality tests concerning ‘legal aspects’ had practical difficulties because companies have huge legal requirements across the board.

The challenge then was summed up as being to ensure that the definition of materiality delivers value into the report and helps to address the problem of ‘death by data’.
Responsiveness (P.3)

It was felt however, that materiality would become less of an issue as the reporting of companies develops, when stakeholders become more aware of the relevant issues and more interested in the responsiveness of the company. For companies such as BAT responsiveness was key to their social reporting, and there was some frustration that they had concentrated too much on responding to the assurance provider in terms of process, as opposed to stakeholders in terms of substance.

"The reader wants to know what the data means for performance, not whether the process is assured in a technically competent way."

There was an issue with the wording of responsiveness in the standard, where it stated that the assurance provider must evaluate whether the company has ‘demonstrated that it has allocated adequate resources to enable it to implement associated commitments and policies’. How, for example do they determine this in relation to customer satisfaction? The issue was one of retrospective versus forward looking assurance and it was felt to be more practical for the provider to look back and relate customer satisfaction levels with the level of resources applied.

V) Legal Dimensions of Assurance

Although the AA1000 Assurance Standard is a voluntary process, there is no doubt, in particular in light of the Nike/Kasky case, which had to do with a legal challenge to the veracity of communication concerning company labour practices, that it has legal implications. The companies are addressing this issue in a variety of ways: involving their legal department directly in the reporting process; having corporate governance as part of sustainability reporting; or integrating into financial reports.

"Our Chair was asked at the launch of our social report, whether this increased risk. He said that it did but it helps to better manage such risk."

Several ideas came out of the consultation that will feed into the larger discussion about the AA1000 Assurance Standard in future consultations with additional stakeholders and in diverse geographic locations, as well as in future publications:
1. A clearer sense of what ‘adequate’ means in relation to an evaluation by service providers as to the application of resources to enable a company to implement associated policies and commitments;

2. Reports should clearly identify material issues and how they were determined;

3. Assurance providers should be able, but not required, to engage with stakeholders. However, they should ensure that stakeholder interests have been taken into account, and if the company cannot provide evidence then they can then engage with stakeholders to validate the data;

4. The competencies of those that determine materiality within companies, as well as those involved in the reporting process, and external panels, if used, should be demonstrated;

5. Assurance providers should have more responsibility for establishing the quality of the systems that underpin a company’s assurance;

6. Monitor the legal implications of assurance as more usage by companies increases.
VI) Annex

Definitions of AA1000 Principles:

**Materiality (P.1)**

The AA1000 *Materiality Principle* requires that the Assurance Provider states whether the Reporting Organisation has included in the Report the information about its Sustainability Performance required by its Stakeholders for them to be able to make informed judgements, decisions and actions.

**Completeness (P.2)**

The AA1000 *Completeness Principle* requires that the Assurance Provider evaluate the extent to which the Reporting Organisation can identify and understand material aspects (see P.1) of its Sustainability Performance.

**Responsiveness (P.3)**

The AA1000 *Responsiveness Principle* requires that the Assurance Provider evaluate whether the Reporting Organisation has responded to Stakeholder concerns, policies and relevant standards, and adequately communicated these responses in its Report.

For more information about the AA1000 Assurance Standard contact Jonathan Cohen at +44 (0)20 7549 0400, jonathan@accountability.org.uk, or by viewing the AccountAbility web site at www.accountability.org.uk.