Guidance Note on the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard
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1. Introduction

The AA1000 Assurance Standard was launched in 2003 as the world’s first sustainability assurance standard. It was developed to ensure the credibility and quality of sustainability performance and reporting and was the result of an extensive, two-year, worldwide consultation involving hundreds of organisations from the professions, the investment community, non-governmental organisations (NGOs), labour and business.

This AA1000 Assurance Standard Guidance Note applies to the principles of materiality, completeness and responsiveness. It draws on the growing body of practice and experience and as such is part of the evolution of the standard. It is intended to provide detailed guidance on the implementation and use of the AA1000 Assurance Standard and to support consistent and comparable application.

This Guidance Note was developed through an international multi-stakeholder consultation process. The evolving nature of learning in the standards field means that the process of providing guidance is ongoing. By continually engaging with AA1000 Assurance Standard users and stakeholders, AccountAbility is able to reflect learning in the form of additional guidance and revisions to the standard itself. AccountAbility invites you to share your AA1000 Assurance Standard experiences with us so that we can continue to improve the AA1000 Series.
During the consultation process, many people indicated that examples would enhance understanding of the Guidance Note. However, a difference of opinion existed as to whether examples should be included in the Guidance Note or a separate document. In the end, it was decided that examples would be provided in a separate document.

The AA1000 Assurance Standard requires a commitment to inclusivity by the reporting organisation. Inclusivity means recognizing the right of stakeholders to be heard and the obligation of organisations to respond. The AA1000 Stakeholder Engagement Standard (AA1000SES) establishes the requirements for effective, quality stakeholder engagement. The application of the three principles discussed in this Guidance Note is essential to achieving this commitment to inclusivity.

The principles provide the basis for understanding an organisation’s sustainability performance. Sustainability performance refers to an organisation’s total performance, which might include its policies, decisions, and actions that create social, environmental and economic outcomes.

The AA1000 Assurance Standard published in 2003 provides definitions for the three principles. These definitions are repeated below. The Guidance Note provides additional information to enhance understanding and to add clarity. However, it is not only the principles taken individually that require further clarity. The relationship between the principles must also be more clearly stated and understood.
The principles are not applied in isolation. They are interdependent. Their application is iterative. You do not ‘complete’ the application of completeness before you can address materiality; and you need to determine materiality before you address responsiveness. The guidance on the principles therefore looks in more detail at how they relate to each other.

The Guidance Note is intended for use by Assurance Providers as well as by organisations and their stakeholders who will have to understand it in order to prepare for assurance.

The AA1000 Assurance Standard is designed to be an assurance standard for sustainability reports as well as for the data, systems, processes, organisational conduct and competencies that underlie performance. The AA1000 Assurance Standard and its supporting guidance therefore aim to be applicable within the context of other relevant performance, systems, process and reporting standards, guidelines and frameworks, including the GRI G3 reporting framework and the IAASB ISAE 3000 standard.

The AA1000 Assurance Standard advocates an open scope. This means applying the principles within the context of stakeholder engagement to an organisation’s issues and concerns. This includes issues that the organisation can influence as well as those over which it has management control. It encompasses both direct and indirect impacts. An Assurance Provider should analyse the way in which the organisation has established boundaries for the identification of issues and concerns. Assurance Providers should consider organisational, physical and time boundaries. Assurance Providers can refer to the GRI guidance on boundary definition.
Where the scope of an assurance engagement is limited, the AA1000 Assurance Standard requires that any limitations in scope are clearly stated in the assurance statement.

The scope of an assurance engagement may be different from the scope of a report. This should be made clear in any assurance statement attached to a specific report.
2. Purpose

The AA1000 Assurance Standard is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organisations’ data, processes, systems, organisational conduct and competencies for sustainability performance and reporting. AA1000 Assurance Standard Guidance Notes are intended to provide detailed guidance on the implementation and use of the AA1000 Assurance Standard.

3. Scope

This Guidance Note provides guidance on the principles of materiality, completeness and responsiveness. It applies to the use of the AA1000 Assurance Standard.
4. Definitions

4.1 Definitions in the AA1000 Assurance Standard: 2003

4.1.1 Materiality
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.

4.1.2 Completeness
Requires that the Assurance Provider evaluate the extent to which the Reporting Organisation can identify and understand material aspects of its Sustainability Performance.

4.1.3 Responsiveness
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.

4.2 Re-Evaluating Materiality, Completeness and Responsiveness
The purpose of this Guidance Note is not to redefine the three principles. At the same time, it has been recognised that the definitions of the three
principles provided in the AA1000 Assurance Standard and reiterated in section 4.1 above lack clarity. In order to address this lack of clarity, this section provides information that is intended to enhance understanding of the three principles.

4.2.1 Materiality

The reference in the definition to “information about sustainability performance” that will inform “judgements, decisions and actions” is interpreted as:

◆ determining what issues, concerns and impacts are relevant and important to sustainability performance;

◆ determining why, how and at what point they are relevant and important to sustainability performance; and

◆ determining who they are relevant and important for.

4.2.2 Completeness

The reference in the definition to “identify and understand material aspects” is interpreted as:

◆ ensuring that the identification of material aspects, and their relation to the stakeholders for whom they are material, is fair and balanced; and
ensuring that the understanding and communication of the material aspects and the organisation’s performance in response to them is fair and balanced.

4.2.3 Responsiveness

The reference in the definition to “responded to stakeholder concerns, policies and relevant standards and adequately communicated these responses” is interpreted as:

- responding to the relevant and important issues, concerns and impacts (material aspects); and
- communicating these responses to stakeholders without material misstatement.

4.3 Interrelationship of the Principles

All principles are based on a foundation of inclusivity. Inclusivity is the starting point for determining material aspects. Responsiveness depends on the determination of material aspects. Completeness ensures that the determination of material aspects, and their relation to the stakeholders for whom they are material, is fair and balanced; and that the response to material aspects, as well as to stakeholders, is also fair and balanced. The figure below represents graphically the relationship between the principles.
4.4 Professional Judgement

Professional judgement must be exercised when evaluating the application of the principles. Professional judgement is the application of relevant knowledge and experience to a specific issue. It requires scepticism, a trained familiarity with the issue, a disciplined, analytical approach, and a firm ethical commitment. Professional judgement will need to consider the maturity (emerging or well understood) and significance of issues.
5. Guidance on materiality

5.1 The Concept of Materiality

The concept of materiality comes from financial auditing and reporting. Financial materiality for reporting is defined as: ‘Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.’\textsuperscript{2} In practice, financial impact thresholds are established that define the ‘magnitudes’ that are deemed material.

The European Federation of Accountants (FEE) guidance on materiality during audit engagements indicates that it is important to consider materiality when determining evidence gathering requirements; and that when considering materiality the practitioner should understand what factors will influence the decisions of intended users. The relative importance of qualitative and quantitative factors in determining materiality is a matter of professional judgement.

The AA1000 Assurance Standard builds on this and requires that an Assurance Provider assess an organisation’s determination of materiality in relation to a range of criteria and not just in relation to financial thresholds. As in the case of financial auditing and reporting, an issue, concern or impact is material if it could influence the decisions, actions and behaviour of stakeholders or the organisation itself.
The AA1000 Assurance Standard, by recognising stakeholders as users and by requiring that stakeholders participate in the determination of materiality makes it clear that they are an important source of evidence and that their views count in the determination of materiality.

An Assurance Provider should evaluate an organisation’s determination of the issues, concerns and impacts material to the organisation and its stakeholders, and whether there are any material misrepresentations or omissions in its reporting.

A material misrepresentation or omission is when information is not disclosed or, if disclosed, is in some way distorted such that it could influence the decisions, actions and behaviour of stakeholders or the organisation itself.

### 5.2 Relevance and Importance

An organisation, with its stakeholders, should determine what is material to whom, why and at what point. In other words, to determine materiality it should analyse the relevance of these issues and concerns to the organisation and its stakeholders, and their importance in relation to the organisation’s ability to create and maintain public and private value.

Relevance means “what matters” and “importance” means “how much does it matter.”

Relevance is determined by analysing an issue or concern in relation to sustainability drivers and key relationships with stakeholders.
Importance is determined by analysing the severity of impact (nature, extent and scale) in relation to whether it has occurred, is occurring or is likely to occur.

Establishing criteria for analysing the relevance and importance of issues and thereby determining their materiality can be linked to current risk practices. The effective use of risk management practices requires the consideration of both positive and negative issues, and should identify and evaluate opportunities as well as risks.

When determining relevance and importance, the organization should clearly define the scope of its enquiries. The AA1000 Assurance Standard advocates an open scope. An organisation should consider not only those issues over which it has management control but also those issues that it can influence.

Scope should take into consideration physical, organizational and time boundaries.

The Assurance Provider should also clearly state the boundaries of enquiry in the assurance statement.

### 5.3 Determining What Is Material

The organisation is responsible for determining what it treats as material. In making this determination, it must understand and respond to what is material to its stakeholders. While stakeholders participate in and influence
the organisation’s determination of what it will treat as material, they do not, unless explicitly assigned, have responsibility for final decision and sign off.

This then becomes a governance issue for the organisation. It should be made clear where the final responsibility lies. The determination should be made in a robust and transparent manner and governance should reflect this.

5.4 Process For Determining Materiality

The determination of materiality should be systematic and defensible. An Assurance Provider should analyse the process used to determine materiality, as well as its systematic application.

The process should include an evaluation of relevance and importance. The process for determining relevance should clearly identify and justify the criteria used. The criteria should provide a complete understanding of relevance. The process for determining importance should clearly establish and justify the basis for determining the past, present or likely future occurrence and the severity of impact.

The process should make it clear how stakeholders have been involved.

AccountAbility has developed the 5-part materiality test. This is explained in detail in *Redefining Materiality*. While this process intends to provide a benchmark for analysing relevance, it is not a requirement.

The process identifies and tests issues in relation to:
1. direct financial impacts,

2. policy-related performance,

3. organisational peer-based norms,

4. stakeholder behaviour and concerns, and

5. societal norms.

5.5 Evaluating Adherence to the Principle

Assurance Providers will benefit from a common set of criteria in their assessment of adherence to the principle of materiality.

The following criteria provide a benchmark for evaluating adherence to the principle. An Assurance Provider will need to establish what is required to determine that these criteria are met and what evidence is necessary. Different levels of assurance may require different levels of evidence.

1. Is there a process in place to determine what is material?

2. Does the process include an evaluation of relevance?

3. Does the process include an evaluation of importance?

4. Does the process fairly represent the views and importance of stakeholders?
5. Are the criteria for evaluation clear and understandable?

6. Is there a process for resolving conflicts or dilemmas between different expectations regarding materiality?

7. Have the processes been systematically applied?

8. Is the determination of materiality consistent with stakeholder views?

9. In your professional judgement, are there any material omissions or misrepresentations?
6. Guidance on completeness

6.1 Fairness and Balance

An organisation’s understanding of its performance should be fair and balanced. Fairness should consider factors such as the importance, relevance, reliability, comparability, and understandability of information. Reported information should be sufficiently detailed for stakeholders using the report to make decisions with a high degree of confidence.

Balance requires that there is a reasonable and balanced picture of the reporting organisation’s sustainability performance and the reported performance is not distorted by overemphasis that camouflages an omission. All information that is material to users, both favourable and unfavourable, for assessing the reporting organisation’s economic, environmental, and social performance should appear in a manner consistent with the declared scope. The balance of communications can be affected by the prioritisation and presentation of information.

6.2 Determining the Extent of Completeness

An Assurance Provider should analyse the way in which the organisation has established boundaries for:

- the identification of the organisation’s issues and concerns,
- the scope of the assurance engagement, and
- the scope of the report.
6.3 Completeness and Communications

There is a growing trend towards reporting on specific issues and to specific stakeholders or users, and to providing assurance appropriate to those users. An Assurance Provider may therefore be asked to provide assurance where there is no single report but rather a range of communications. In such a case assurance should consider individual communications in relation to their intended users and within the context of the underlying data, systems, processes, organisational conduct and competencies that the individual communications draw on. The same tests for fairness and balance should be used.

Any assurance statement attached to a specific report or communication should clearly acknowledge the difference in scope between an assurance engagement and the scope of the report or communication, and make it clear what the assurance statement refers to.

6.4 Evaluating Adherence to the Principle

Assurance Providers will benefit from a common set of criteria in their assessment of adherence to the principle of completeness.

The following criteria provide a benchmark for evaluating adherence to the principle. An Assurance Provider will need to establish what is required to determine that these criteria are met and what evidence is necessary. Different levels of assurance may require different levels of evidence.
1. Is there a process in place to determine boundaries (e.g. of the organisation, of the assurance engagement, of the report)?

2. Is there a process in place to address the range of issues and concerns raised by stakeholders?

3. Does the organisation have a process for deciding what is fair and balanced for any specific report?

4. Have the above processes (1-3) been systematically applied?

5. Do stakeholders agree that reporting is fair and balanced?

6. Are specific reports and communications fair and balanced?
7. Guidance on responsiveness

7.1 Prioritising Response

An organisation should have a process in place to respond to material issues, that is, to develop and implement policies, strategies and plans consistent with stakeholder interests. Since the response must compete for available resources, the response to material issues needs to be prioritised. This prioritisation needs to be consistent with these other strategies and plans, as well as with stakeholder interests.

A systematic process for determining the relevance and importance of material issues will provide the basis for decisions about priority. See 5.2 above.

7.2 Resources for Response

Resources are adequate when they allow the organisation to achieve within the stated time frame its stated commitments and to communicate its response in a way that is consistent with stakeholder interests.

7.3 Timeliness of Response

The usefulness of a response is closely tied to its timeliness. A timely response enables both the organisation and its stakeholders to make informed decisions. A response that is not timely will result in changes to decisions.
7.4 Communicating the Response

Responsiveness should be considered in relation to the intended users and within the context of the overall response to material issues and concerns. Whether an organisation chooses to publish a single report or a range of communications, it should be able to demonstrate that it is meeting the needs of its users for information that they can understand and that they require to make informed decisions.

7.5 Participation in and Access to Response

An Assurance Provider should evaluate the access of stakeholders

- to the process for developing responses (policies, strategies, plans), and
- to information about responses.

An organisation’s processes and mechanisms for providing access should reflect the different needs and capacities of its stakeholders and should not require unreasonable effort. Information should be clear and understandable.

7.6 Evaluating Adherence to the Principle

Assurance Providers will benefit from a common set of criteria in their assessment of adherence to the principle of responsiveness.
The following criteria provide a benchmark for evaluating adherence to the principle. An Assurance Provider will need to establish what is required to determine that these criteria are met and what evidence is necessary. Different levels of assurance may require different levels of evidence.

1. Does the organisation have in place a process to decide what issues to respond to?

2. Does the organisation have a process in place to integrate its responses into its management, governance and change processes?

3. Have the above processes been systematically applied?

4. Does the organisation allocate adequate resources to enable the implementation of commitments?

5. Is the information on the organisation’s response available and accessible to stakeholders?

6. Is communication of the response consistent with stakeholder views?

7. Does the organisation have processes in place to prevent material misstatements when communicating its response to stakeholders?

8. Does the organisation identify any shortfalls and implement corrective action in relation to its responsiveness?
Annex A. AccountAbility Technical Committee

The mandate of AccountAbility’s Technical Committee is to oversee the development of the AA1000 Series. Its membership includes:

Paul Monaghan  
Co-Chair  
The Co-operative Bank

Jennifer Iansen-Rogers  
Co-Chair  
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Roger Adams  
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Eileen Kohl Kaufmann  
Social Accountability International

Dave Lucas  
Eskom

Johan Piet  
TranspaRAbility

Chris Tuppen  
British Telecom

Endnotes

1 Relevant knowledge, experience and training have been defined in the competency framework for the Certified Sustainability Assurance Practitioner program: http://www.accountability.org.uk/training/

2 IAASB Framework for the Preparation and Presentation of Financial Statements, paragraph 30.

Related AccountAbility Publications


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