

# The trick of transparency

The global financial crisis is largely a global trust crisis. Sustainability reporting and third party assurance provide the transparency for a post-GFC era, writes Richard Boele.

In the 1700s, the directors of the South Sea Company were riding a wave of success as the company's share price surged. Unfortunately, the rush to buy shares in the company, which held a trading monopoly with South America, was driven by unchecked fraudulent statements about its performance.

It was the world's first share price 'bubble' and it burst as directors sold down and word spread the company was not as sound as it appeared. Urged on by aristocratic investors, the British Parliament called in Charles Snell, since referred to in English accountancy history as the first outside auditor of a company's books.

Sustainable and responsible companies have long understood the value of positive relationships with their stakeholders. In parallel with financial accounting, many have recognised the value in producing an account of the company's sustainability performance as a way of demonstrating transparency and inviting accountability.

A growing number are also calling in independent third party sustainability auditors to challenge and test the report – providing verification or assurance – in recognition of the value for both report users and the company in critical feedback.

Arguably the first true corporate sustainability reports, after more than a decade of environment-only reports, were by The Body Shop and the US ice cream company Ben and Jerry's in 1995. The brand propositions for the two firms centred on sustainable and responsible business.

To go a step further, both had their non-financial performance accounts externally audited, in both cases by the UK-based New Economics Foundation. That team included Simon Zadek, who went on to found AccountAbility, a think-tank that conceptualised the role of stakeholder engagement and accountability in ensuring we have sustainable development.

Only 15 years later, thousands of companies globally produce sustainability reports, many of them using the Global Reporting Initiative (GRI) guidelines.



While the number seeking assurance is still relatively modest, most of the world's largest companies also have their reports assured or verified. They want to show their sustainability reports are not 'greenwash', but also to have external auditors hold them to account for their sustainability commitments. The results are increasingly valued by boards, which in many countries are seeing their governance responsibilities broaden to include environmental and social risks.

## Twin assurance streams

While the GRI has become the first port of call for those looking to produce sustainability reports, it's not as straightforward when it comes to assurance.

Today, there are two widely recognised sustainability assurance standards. One is ISAE 3000, launched in 2007 by the accountancy profession to provide assurance on non-financial historical information. The other is AccountAbility's AA1000 Assurance Standard, a principles-based standard for sustainability reporting launched in 2003 that has stakeholder engagement at its core.

Last year, CorporateRegister.com, the leading global repository of sustainability reports, reviewed the assurance statements of 90 'top' companies by market capitalisation in the five leading sustainability reporting countries (the UK, the US, Germany, Australia and Japan). Some 37 per cent referenced using the ISAE3000, with 31 per cent referencing AA1000AS.

The report also identified three leading types of assurance providers and their 2007 global market share: the big four accountants (40 per cent), certification bodies (24 per cent) and specialist consultancies (24 per cent). The picture in Australia is very different though, with 56 per cent of sustainability assurance delivered by specialist consultancies, mostly NetBalance Management and my firm, Banarra. Many of the recognised sustainability sector leaders here are assured using AA1000AS, including Fuji Xerox Australia, mecu, UniSuper and Westpac.

AA1000AS was developed by AccountAbility, whose principled-based approach has resulted in a range of non-traditional assurance innovations, such as the assessor directly engaging the company's

external stakeholders, the assessor providing commentary on progress in embedding the standard's requirements, and public reporting of the opportunities to improve management and even strategy.

A revised AA1000AS standard was released in October 2008. The most significant changes are the increased focus on stakeholder engagement, the separating of the principles of inclusivity, materiality and responsiveness from the assurance standard, and the defining of two levels of assurance – moderate and high. It requires the assessor to review the reporter's approach to stakeholder engagement.

### Why bother with assurance?

In terms of the uptake of external assurance, CorporateRegister.com reported the Australasian region in 2007 had the third highest uptake after Europe and Asia. That said, only a quarter of the sustainability reports released in Australia that year were assured or verified.

So why bother? Assurance of any kind makes reports more credible. More complete and honest reports are often the

result. Indeed we tell our clients that the biggest opportunity they have to increase trust in their reports is to be honest. Revealing the so-called dirty laundry that corporate affairs people have historically worked so hard to hide demonstrates transparency. Ironically it also means greater control for the company in putting the difficult news forward.

The process delivers greater confidence in the reliability of the data. Companies experiencing an AA1000AS process acknowledge this external value of assurance, but most importantly, also refer to it as having significant internal value.

For example, in 2007 we recommended Westpac move towards a more integrated approach to sustainability reporting across the corporate group, including New Zealand and Pacific. It responded the following year by working to harmonise and aggregate key group-wide sustainability indicators and increase the level of data collection across these jurisdictions, leading, in part, to more widespread engagement on sustainability issues in those areas of the business.

Another example is Fuji Xerox Australia (FXA) in 2008, which implemented our recommendations to improve its sustainable paper sourcing policy and strengthen an existing framework for assessing compliance. We identified that one of FXA's paper suppliers who had confirmed compliance with a relatively minor aspect of FXA's standards was actually non-compliant. We recommended an audit of the system for managing paper sourcing, which FXA has seized as an opportunity to make its systems more robust.

The GFC has made trust an even more fragile corporate commodity. The levels of accountability and transparency required in future are going to be significantly greater than those of today. Those already down the sustainability path are very strongly positioned to make the most of the upturn in the global economy. And if it doesn't come, the sustainable and responsible companies will be the ones left standing.

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