Accountability, Completeness, Credibility and the Audit Expectations Gap

Carol A. Adams*
Deakin University, Australia

Richard Evans*
eths etc..., U K

This article deals with two concerns in achieving greater accountability in social reports: the lack of completeness of reporting, and the lack of credibility of reports. The article focuses, in particular, on the role of social audits in improving the completeness and credibility of reporting, thereby reducing the audit expectations gap. We suggest that this gap arises due to an over-emphasis on the validity of performance data at the expense of addressing completeness and credibility, both of which, we argue, require stakeholder involvement. The article reviews recent guidelines aimed at ensuring that companies produce reports that are complete in all material respects including those produced by the Global Reporting Initiative and the Fédération des Experts Comptables Européens, focusing particularly on AccountAbility’s AA1000 Standard and AA1000S Assurance Standard. Finally, the article considers the development of a practical approach to social audit following principles increasingly being incorporated into developing assurance guidelines aimed at reducing the audit expectations gap.

* The authors are grateful to comments received from Paul Monaghan of The Co-operative Bank. Both authors are former Directors and Council Members of AccountAbility. The views expressed here are those of the authors.

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Professor Carol Adams is Professor of Accounting and Head of School of Accounting, Economics and Finance at Deakin University, Australia. She is a former Director and Council Member of the Institute of Social and Ethical AccountAbility. Her research on aspects of social and ethical accountability has been published in international academic journals, books and professional and industry journals.

Richard Evans has worked in industry, the Intermediate Technology Group and Traidcraft, the leading UK fair trade company. In 1992 he developed the social accounting methodology used by Traidcraft. He helped found the Institute of Social and Ethical AccountAbility of which he is a former Director and Council Member. His consultancy, ethics etc . . . , advises on social and sustainability accounting systems and audits reports.

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Professor of Accounting, Head of School of Accounting, Economics and Finance, Deakin University, Melbourne 3125, Victoria, Australia
cadams@deakin.edu.au
www.deakin.edu.au/fac_buslaw/sch_aef

Director, ethics etc . . . , 40 Balmoral Terrace, South Gosforth, Newcastle upon Tyne, NE3 1YH, UK
ethics.etc@btinternet.com
The key criteria used by judging panels in the ACCA sustainability reporting awards, which are run in a number of countries and regions around the world, are **completeness** and **credibility**.\(^1\) For these purposes, completeness is concerned with both the extent of an organisation’s operations covered in the report (i.e. its scope) and the extent to which significant impacts are presented in a report. Two aspects of credibility are identified: internal and external. Third-party statements are an important element of external credibility. Internal credibility is concerned with the quality of policies, organisational structures, internal management systems, risk management, compliance record and internal audit systems.\(^2\) Since all of these elements should be the subject of external assurance, the external assurance process is of fundamental importance to the credibility of reports.

The lack of completeness of current reporting has been highlighted in the significant body of research examining the extent of disclosure. This is particularly evident from Adams’s (forthcoming) study of the reporting–performance portrayal gap. The paper compares the way in which an unnamed company portrays its performance in its own reports with the way in which its performance is portrayed by the press, NGOs and other sources external to the company. The company’s reports omit to cover some of the company’s negative social and environmental impacts that are widely covered in the press. The company’s coverage of pollution incidents, in the two years studied, 1993 and 1999, is largely limited to the reporting of a fine, while the press focuses on the damage to human health and animal and plant life. The company’s view of the impact of some of its processes differs from the scientific literature that Adams consulted. As the author notes, this level of incompleteness would not be tolerated in financial reporting.

One of the key elements to ensuring credibility of financial and sustainability reports alike is external verification. While some companies argue that assurance statements of sustainability reports are of limited use and do not add value (see Adams 1999), others, such as The Co-operative Bank in the UK, argue that ‘the absence of robust assurance process undermines the whole objective of social reporting, which is to build trust with partners’ (Monaghan 2001: 65).

The reality is that, currently, very few published reports are audited. The European Commission argues that:

> Verification by independent third parties of the information published in social responsibility reports is also needed to avoid criticism that the reports are public relations schemes without substance. Indeed such services are already beginning to be offered by a variety of companies, which would seek to perform them following agreed standards. The involvement of stakeholders, including trade-unions and NGOs, could improve the quality of verification (Commission of the European Communities 2001: 18).

Assurance in itself is not enough to avoid criticisms regarding the credibility of reporting. Indeed, one of the key criticisms of current assurance practices of social, ethical and sustainability reports concerns the huge audit expectations gap (see Kamp-Roelands 1999). Gonella and Woo (2000) of KPMG’s Sustainability Advisory Services stress the importance of building trust and credibility with stakeholders, arguing that the level of assurance required by a stakeholder falls as trust between the organisation and that stakeholder grows. They note that:

> Very few current verification statements of social and environmental reports look at risk management processes used. Indeed, few look at process issues at all and some only look at numerical data and ignore commentary and written statements. This is despite

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\(^1\) See the ACCA website at www.acca.co.uk/sustainability/awards/asra.

\(^2\) Ibid.
the fact that this type of information makes up a large part of sustainability reporting (2000: 13).

and

Many current external assurance approaches get bogged down with checking the reliability of indicators that are not necessarily used by management in decision-making (2000: 14).

The AccountAbility AA1000 Assurance Standard (AccountAbility 2003), in a section entitled ‘Closing the Credibility Gap’, notes that many assurance standards focus on the accuracy of quantitative data and the robustness of accounting systems with little analysis of materiality to stakeholders and the broader context.

Both Gonella and Woo (2000) and Lewellyn (2000) argue that, in the case of assurance provision for social and environmental reports, multidisciplinary teams and the use of specialists are necessary to add credibility and reduce the audit expectations gap. Lewellyn (2000) also notes the need for eliminating conflicts of interest and the credentials, reputation, personal and professional ethics of the assurance provider. Swift and Dando (2002) suggest that the social audit expectations gap arises due to a lack of technical competencies, the timeliness and relevance of auditor communication, lack of assurance-provider independence and a lack of commitment to the public interest. We would argue that there are other substantial factors contributing to the expectations gap in social audit which are particularly apparent when comparing the work of financial and social auditors:

► Unlike the financial audit, the social audit is not a legal requirement.
► Adherence to relevant accounting principles must be specifically confirmed in the financial audit report, while the social auditor has no one single set of widely agreed standards on which to report (see Lewellyn 2000).
► Unlike the financial audit report, there are no guidelines specifying what type of audit opinion should be issued in what circumstances, presenting difficulties in conveying the appropriate level of assurance (see Kamp-Roelands 1999).
► While the financial audit report is prepared primarily for shareholders, the social audit report is prepared for a broad range of stakeholders with different and often competing interests.
► The range of stakeholders and their competing interests makes determination of the audit scope and decisions as to what constitutes appropriate audit methods and evidence more complicated (see Lewellyn 2000).
► Much of the data included in social reports is qualitative, requiring special skills to interpret (see O’Dwyer 2001; Swift and Dando 2002).

Many of the concerns highlighted in this discussion, as contributing to the audit expectations gap, impact on the completeness and credibility of reporting as described in the ACCA sustainability reporting awards criteria. In this article we therefore focus on completeness and credibility as key impediments to corporate accountability for ethical, social and environmental impacts.

Scope of ethical, social and environmental reports

Ethical, social and environmental reporting by companies is a relatively new phenomenon (see, for example, Adams 2002). Methodologies and standards are still evolving.
The AA1000 Framework (AccountAbility 1999) has been in the public domain for about four years and it is about three years since the publication of the original GRI Guidelines (GRI 2000). Yet many reports still do not include all the stakeholders, activities and operations for which companies are legally responsible, or for which they are held morally responsible by their stakeholders, or all the issues relating to their impact and performance.

AA1000 (AccountAbility 1999) is clear about the scope of accountability reporting and who determines what the scope or subject matter should be. This is illustrated in the section covering Process Standards. Principle 5 (P5) states that:

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 any excluded stakeholders, operations, locations or issues in future cycles (1999: 20).

And in P5.2:

The organisation is accountable to all its stakeholder groups, and for its activities in all its geographic locations and operating units (1999: 20).

Further, P5.3 and P5.4 require that, if information that has been excluded in the accounting cycle is likely to have a material impact on the understanding of the organisation’s overall activities, this must be documented and communicated in the organisation’s report. P5.5 states:

In order to provide a complete and inclusive account it is necessary to account for all issues that are likely to have a material impact on the organisation’s stakeholders (1999: 21).

There is some ambiguity in the AA1000 process standards P10.15 (1999: 31) about the permissibility of considering the completeness of a report within a limited scope (e.g. only one region of the organisation’s operations) or a full scope (i.e. all the organisation’s values, issues, stakeholders, geographical locations and operations). In our view, both the reporting organisation and the assurance provider have a responsibility to inform readers of the scope of the report.

The GRI Sustainability Reporting Guidelines (GRI 2002) also make it clear that, to be useful and effective in promoting sustainability, companies should report on the full scope of their activities, issues raised by stakeholders and:

go beyond the information requested [in the guidelines] . . . as needed, to present a balanced and reasonable picture of their economic, environmental, and social performance (2002: 16).

The GRI recognises that reporters may approach full-scope reporting in an incremental fashion, but is emphatic about the need for disclosure and transparency at all stages of an organisation’s reporting development. In order to claim that their report is ‘in accordance’ with the GRI guidelines, reporters must satisfy five conditions, which include consistency with the GRI reporting principles; disclosure of specified information on vision and strategy, organisational profile, report scope, governance and management systems; and report on each specified core indicator or provide an explanation for its omission. Statements by reporters that they have used the GRI Guidelines or the AA1000 Framework Standard will otherwise raise expectations in readers that the reports cover the full scope of their operations and impacts that may not be true.
AA1000 and reporting principles

The AccountAbility 1000 (AA1000) Exposure Draft (AccountAbility 1999) focuses on the development of a process of reporting to ensure completeness and the governance structures that should be in place, rather than on the specification of issues on which companies should report. This is in recognition of the fact that each company and each industry has issues specific to it, which are of concern to stakeholders. Perhaps more importantly, it acknowledges the need to involve external stakeholders in the reporting process to ensure completeness. Not to do so is likely to result in the omission of material impacts which, while relevant to particular stakeholder groups, are either not an issue of concern for company management and owners, or an issue on which they would rather not report performance.

AA1000 aims to encourage organisations to behave more responsibly towards society, the environment and future generations by improving accountability to their existing stakeholders. It does this by providing methods, tools and quality frameworks, which companies use to monitor and report to their stakeholders on their performance.

AccountAbility aims to go beyond establishing standards for merely reporting performance. Its broader intention is to help companies and their associated stakeholders deliver greater social, economic and environmental responsibility in the conduct of the business. A vital aspect of this delivery is that different stakeholders are informed about the impacts the business makes on all the other stakeholders. It is also essential that reports explain how managers are attempting to address different stakeholders’ legitimate rights and expectations in the context of their fiduciary responsibility of making the business work. This is embodied in the principle of inclusivity.

The GRI Sustainability Reporting Guidelines (2002: 24) refer to the principle of ‘inclusiveness’:

The reporting organisation should systematically engage its stakeholders to help focus and continually enhance the quality of its reports.

The principles of inclusiveness and transparency are described as the starting point of the reporting process. And the importance of transparency towards ensuring credibility is acknowledged.

While printed reports impose limitations on the quantity and detail of information that can be reported, they can nevertheless still provide a comprehensive and balanced overview of the organisation’s performance in a given period. This is the essence of the principle of completeness. The criteria of inclusivity and completeness are the most important aspects of accountability reporting. We cannot be sure that a report is complete with respect to key stakeholder concerns unless there is inclusivity (i.e. key stakeholders are involved in the reporting process). It follows, therefore, that the assurance that a report is complete and that processes are inclusive is the most important task of any assurance provider.

Assurance: who is it for?

There is much debate about whether social, ethical and sustainability accounts and reports should be audited, and about the quality and usefulness of audit or assurance statements published in the reports we have seen to date. Assurance statements should address the questions: ‘Does this report give an account of the company and its performance that readers can rely on?’ ‘Is the report complete, accurate, honest and balanced in its portrayal of the organisation?’
Audit or assurance should not be seen as a quality refinement for only the most advanced reporters. Neither should it be reduced to no more than an independent review of a company’s systems for accountability, risk management and governance. Audit or assurance is concerned with the way an organisation’s performance has been reported. It ensures the balanced, complete and accurate portrayal of all outcomes that may affect stakeholders in those areas that the stakeholders themselves believe to be critical. Stakeholders should be able to rely on the information in audited reports in making their decisions about investments, products and services, employment, where to live and other issues that may affect them directly. Managers should have an understanding of the wider impact of their decisions and policies.

AA1000 sets out in broad terms the criteria for assurance and many of the tools the assurance provider will use (AccountAbility 1999). The AA1000S assurance statement consultation draft sets out guiding principles for the conduct of audits of sustainability reports (AccountAbility 2002). AccountAbility’s intention is to develop a detailed assurance standard.

Key criticisms of current assurance practices of social, ethical and sustainability reports concern the huge audit expectations gap (see Kamp-Roelands 1999) and its managerialist perspective (Owen et al. 2000). Owen et al. suggest that ‘it could be argued that this managerial perspective has increasingly become the core value of contemporary social audit; that is, the potential for social audit to strengthen and enhance an organisation’s strategic management procedures’ (2000: 85). Yet, in conflict, the almost unanimous viewpoint of Owen et al.’s interviewees was ‘That accountability to stakeholders (rather than stakeholder management) should be one of the core principles of social audit’ (2000: 87).

Key initiatives in the auditing of social, ethical and sustainability reports have come from AccountAbility, the Global Reporting Initiative (GRI) and the Fédération des Experts Comptables Européens (FEE).

The AccountAbility Framework, AA1000 (AccountAbility 1999), gives a clear rationale for providing assurance of accountability processes and published social, ethical and sustainability reports. It states that audit processes:

are key to an organisation discharging its accountability... and... 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 [and sustainability] performance (AccountAbility 1999: 37; emphasis added).


AccountAbility’s ‘AA1000 Assurance Standard’ (AccountAbility 2003) refers to an organisation’s Accountability Commitment to identify and understand its performance and impact, respond to the needs and aspirations of stakeholders and provide an account to stakeholders of impacts, actions and decisions.

The Global Reporting Initiative’s Sustainability Reporting Guidelines (GRI 2002) also stress the need for independent assurance to add to the credibility of sustainability reports:

A range of factors influences the perceptions and expectations of users about the credibility of an organisation’s sustainability report... Consultation with stakeholders is the best way to ascertain stakeholder perceptions and expectations about building credibility...
In order to address stakeholders’ concerns about the credibility of reports... the GRI recommends that reports include a statement of:

• the reporting organisation’s policies and internal practices to enhance the credibility and quality of its sustainability report; and

• the reporting organisation’s policy and current practice with regard to providing independent assurance about the full report.

GRI recognises that providing independent assurance about sustainability reports is, like reporting itself, at an early stage of development... GRI encourages the independent assurance of sustainability reports and the development of standards and guidelines for the assurance process to be followed by assurance providers (GRI 2002: 17-18; emphasis added).

The Fédération des Experts Comptables Européens (FEE), the body representing the accounting professions in Europe, have recently published a FEE discussion paper, ‘Providing Assurance on Sustainability Reports’ (FEE 2002b). In a chapter on the potential benefits, and limitations, of assurance, FEE states:

Assurance plays an increasingly important part in many societies where companies are expected to be accountable, to perform responsibly and to report on their performance. Companies voluntarily commission assurance engagements on their reports because they perceive that benefits arise, both externally and internally... The assurance provider issues a report that enables users to place more credibility on the information reported by the company. Each user of the report may benefit through being able to take decisions based on the information in the sustainability report with less uncertainty about that information (FEE 2002b: 16; emphasis added).

All these initiatives recognise that there remains a pressing need for more substantial guidance and definitive quality standards for providing assurance for such reports. We will now consider current reporting and assurance principles and practices and the extent to which they might reduce the audit expectations gap.

Scope of the audit

AA1000 states that ‘the organisation (i.e. the reporting company) selects the audit method, the audit scope and the auditor(s)’ (P5.8).

Yet, in other places, AA1000 places considerable emphasis on the independence of the assurance provider. This ambiguity has been addressed in the AA1000S Assurance Standard Guiding Principles Consultation Document (AccountAbility 2002) in its definition of the Completeness Assurance Principle:

The Completeness Assurance Principle requires that the Assurance Provider evaluate the extent to which the reporting organisation has included in its report material information on all of its activities, performance and impacts (AccountAbility 2002: 17; emphasis added).

In the AA1000 Assurance Standard (AccountAbility 2003), the definition became:

The AA1000 Completeness Principle requires that the Assurance Provider evaluate the extent to which the Reporting Organisation can identify and understand material aspects... of its Sustainability Performance (AccountAbility 2003: 17; emphasis added).

The emphasis has moved away from evaluating whether the company has included all material information, to evaluating whether it can identify and understand material aspects of performance. But it is clear from both definitions that the company defines the scope of its report and discloses that scope, while the assurance provider must disclose the scope of the audit. The scope of the work done by a big-four firm on an
unnamed company’s 1999 report was limited to one part of the reporting process. A paragraph introducing the ‘verifier’s statement’ says:

Every year [name of company] asks the verifiers to review and comment on a different aspect of its ... management and reporting system. This year [name of company] requested the verifiers to consider the ‘Letter of Assurance’ process by which our businesses report compliance with the ... policies and standards ... to the [name of company] Board.

The scope of the audit appears to have been the company’s decision and, contrary to P5 of AA1000, there is no mention of consultation with stakeholders in determining the scope. The portrayal gap found in this company’s reporting points to the inappropriateness of this state of affairs particularly with respect to large MNCS. It would seem appropriate for the auditor to be involved in determining the scope of the audit if he or she is going to be able to tell stakeholders whether the report has adequately covered all activities and impacts that are material to key stakeholders.

**Completeness**

‘Completeness’ is commonly understood in auditing to describe the extent to which all relevant and material information has been included in an account of the organisation’s performance. In social accounting this needs to be underwritten by an additional assurance that all stakeholders have been effectively included in the accountability process (the inclusivity principle). This provides a safeguard against information which stakeholders consider material being omitted from the report because it may not be considered material by management.

The GRI Sustainability Reporting Guidelines (2002) group the principles of ‘completeness’, ‘relevance’ and ‘sustainability context’ as informing decisions about what information to report, completeness being concerned with reporting boundaries, scope and time frame: ‘The information contained within the report must meet the test of completeness in terms of the reporting boundaries (i.e. entities included), the scope (i.e. aspects or issues reported), and the time frame’ (GRI 2002; emphasis added).

One of the key principles of the AA1000 accountability process is that stakeholders are involved in defining performance criteria and therefore what is material for reporting purposes. The assurance provider needs to agree with the reporter about which entity is giving the account, and he or she needs to be satisfied that the boundaries assumed by the reporter are legitimate.

The information required to satisfy the assurance provider that reporting is a complete account of the organisation’s behaviour would be different, for example, where the reporting company bought raw materials from a supplier which was another company in the same group or business entity, as opposed to where the reporting company bought from independent suppliers. In the former case, the supplier and its downstream impacts on society and the environment would necessarily be included in a ‘complete’ report. In the latter case, the reporter may have specific value statements relating to procurement, or may adhere to codes of practice for supply chain management and therefore need to include not only its impacts on these suppliers but also any social or environmental impacts that result from the suppliers’ activities. On the other hand, the reporter may limit the scope of its reporting to its impact on suppliers: for example, terms of trade, punctuality of payments and so on, claiming that it would be unreasonable to hold it responsible for the activities of suppliers that are beyond the reach of its direct management control. Assurance providers will need to consider whether such limitations of scope are justified. They will not be justified where the reporter evidently
fails to choose a more responsible supplier, where such a choice exists. Reporters and assurance providers need also to consider whether some activities may be unsustainable because of impacts in the supply chain, and that the choice and accountability lies clearly with the company making the purchases.

Great care needs to be exercised in drafting reporting and assurance standards to discourage reporting companies and their assurance providers from the conclusion that techniques and criteria that are good for ‘complete’ social accounts can be adapted to be valid for partial social accounts. Completeness is not achieved by, for example, social accounting processes involving only some stakeholders and omitting others; accounts of some, but not all, activities; or selected, but not all, operating sites managed by the reporting entity. The touchstone of legitimacy in reporting and assurance provision has to be that the reporting company gives a complete and truthful account of those actions for which it is held responsible by its stakeholders. For ‘social accounts’ that fall short of this standard, standard-setters may need to find some terminology that recognises the need for some companies to adopt a progressive evolutionary approach to social accountability. The solution may lie in specifying that a statement by the reporting company detailing the limited scope of the report must preface ‘partial social accounts’, which includes a ‘roadmap’ for progress towards complete reporting. This is the solution that has been adopted by Shell International among others. The GRI Guidelines (GRI 2002) include an annex, providing guidance on incremental application of the guidelines. However, assurance providers must also be prepared to acknowledge deliberate ‘under-reporting’, or incomplete reporting, aimed at deceiving stakeholders in order to protect the managers and provide an adverse audit report.

The role of the assurance provider

Financial auditing was introduced into company law to prevent managers cheating the owners out of their profit and equity share. It is the assurance providers of social, ethical and sustainability accounts who must act on behalf of current stakeholders to ensure that they receive all the information to which they are entitled in order to protect their legitimate rights and interests as customers, employees, suppliers and local and international communities. If the information the company chooses to disclose is different from the information that the stakeholders are legally or morally entitled to receive, then the assurance provider must say so.

The assurance provider’s legitimacy to act on behalf of stakeholders can be upheld on moral, if not legal, grounds and by the logic of the way in which we define corporate accountability to stakeholders. An obvious difficulty is that assurance providers are appointed by management. An ideal situation may require them to be appointed by stakeholders. As far as we are aware, no organisations have been prepared to face the practical challenges that such an innovation in corporate governance would entail. Assurance statements that do no more than provide assurance that the information disclosed by the company is correct are failing stakeholders and therefore failing to meet the standard of accountability. Unfortunately, the lack of clarity has resulted in a number of high-profile social accounts being published with assurance providers’ reports that fail to ensure accountability in this way. The AA1000 Assurance Standard (AccountAbility 2003: 25) states that:

The Assurance Provider should aim to be independent of the Reporting Organisation and impartial with respect to the organisation’s Stakeholders. Any interests that detract from this independence and impartiality need to be transparently declared by the Assurance Provider.
Some further explanation as to circumstances that might lead to impaired independence or impartiality is given. In our view, it does not go far enough and ultimately the stakeholders themselves should be the judges of the independence and impartiality of the assurance provider.

Perhaps one of the most prominent examples of incompleteness of reporting is that of the unnamed company discussed earlier. Adams (forthcoming) is studying the reporting–performance portrayal gap. Disclosures concerning the company’s ethical, social and environmental performance for the years 1993 and 1999 were compared with information obtained on the company’s performance from other sources. With respect to the company’s 1993 reports, Adams (forthcoming: 27) found that they:

give the impression of a company trying hard, making progress, recognising a need to try harder where progress has not been made and regretting mistakes. This is tempered by a message in [the company]’s reports that environmental improvements will be balanced against financial costs and benefits . . . there is a lack of quantification of targets and outcomes . . . there is limited coverage of the background to and broader impacts of, for example, the significant job losses or the pollution incidents . . . there is no indication of the problematic relationship [the company] has with key stakeholders such as Greenpeace or Friends of the Earth or of the controversy which surrounds some of its products and processes.

And, with respect to the company’s 1999 reports, Adams (forthcoming: 36) found that:

reports for 1999 carry much more information on ethical, social and environmental issues than in 1993 . . . Particularly impressive is the extent of the data on emissions and discharges. Whilst the ENDS report (No. 303, April 2000) questions the reliability of these figures, casting doubt as to whether they relate to [the company]’s current business, [the company] regard such claims as unfair. The section on ‘sustainability’ adds weight to the concerns readers would be justified in having about the commitment of the company on reading the corporate vision. In comparison with other sources, it appears to down play the issues facing the industry and the company. The potential impacts of many of these issues and of the breaches and spills which arise do not get the attention many stakeholders clearly would like though the company does provide links to other sites, such as the United Nations Framework Convention on Climate Change.

KPMG and PricewaterhouseCoopers in their Verifier’s Report for the Shell Report, People, Planet and Profits (2001), state: ‘We have been asked to verify selected data, graphs and statements of the Royal Dutch/Shell Group of Companies reported in this year’s Shell Report’ (emphasis added). Their report does not provide an overall view of the completeness or balance of the information in the Shell Report or its materiality to the interests and concerns of Shell’s stakeholders. Shell does make a statement about the environmental impact of their principal products:

We recognise that the use of our products, particularly fuels, can contribute to both global and local air emissions and we continue to work with key stakeholders, such as vehicle manufacturers and governments to support initiatives to reduce their impact (Shell 2001: 27; emphasis added).

The statement is given little prominence, is equivocal about the effect, and makes no reference to concerns about health impacts of fuel emissions to the atmosphere and other societal concerns. The verifiers have failed to draw attention to the incompleteness and imbalance of Shell’s reporting about its products.

Novo Nordisk’s state-authorised verifier, Deloitte & Touche, in Reporting on the Triple Bottom Line (Novo Nordisk 2001), have stated explicitly: ‘The agreed-upon scope and work performed preclude us from stating an opinion as to whether all figures in the report are complete and accurate’ (2001: 66). While this at least acknowledges that assurance providers cannot attest to completeness and credibility, it does not help
stakeholders who look to the verifiers to provide some level of assurance. Novo Nordisk’s other verification statement from Simon Zadek (Novo Nordisk 2001) states that it focuses: ‘on the completeness and relevance of Novo Nordisk’s Triple Bottom Line Report’ (2001: 66), but it cannot give an opinion as to whether the report is complete and relevant in the light of the Deloitte & Touche statement, unless the scope of that verification was not restricted in the same way. This is unclear. In a statement appearing above these audit reports, Novo Nordisk say:

As an innovation, this year we have adopted a triple approach to the quality assurance of our Report. A broader overview that seeks to provide stakeholders with some assurance of the relevance and completeness of the Report and its underlying processes. A formal external verification that focuses on the accuracy of quantitative data. And a high-level assurance engagement of our environmental information system, CATCH. The scope of these statements also covers additional information in the Internet Report (2001: 66).

The Ernst & Young audit report of BP, dated 12 March 2001, provides an example of an audit much broader in scope than many. The terms of reference included, for example, reviewing: ‘a selection of external media sources for reports relating to BP’s adherence to its policies, as a check on the appropriateness of the information reported and statements made in the report’ (www.bp.com).

It is not clear from this statement to what extent this particular review of external media sources in the audit process might improve accountability. Policies themselves tend to be vague and all-encompassing and should be supported by more detailed objectives. A company may be adhering to its policies, but its reports may be incomplete as far as its impacts were concerned. A review of external media sources would seem to be an essential element of an audit process if the audit report is to give assurance as to the completeness of impacts.

The increase in reporting on the Internet, whereby companies can change their disclosures frequently, further emphasises the need to define the scope of such audits. There is concern that much of the data on the Internet is not audited. Indeed, it is often not clear which data reported on the Internet is audited and which is unaudited, and investors have been found to assess unaudited information as more credible and earnings potential higher where it is hyperlinked from firms’ audited financial statements (see Hodge 2001). If the Ernst & Young report of BP specifically includes publication on the Internet, it provides some comfort:

BP periodically updates the report to provide information on company activities and to reflect progress in performance. As and when new assertions, statements and performance data are published by BP, they are reviewed by Ernst & Young. The date appearing on the Ernst & Young statement shows the last date at which information has been reviewed and attested to by Ernst & Young in accordance with our terms of reference (www.bp.com).

The following section describes how social auditors might go about providing stakeholders with a level of assurance as to the completeness and credibility of corporate reports.

How to provide assurance on sustainability reports: an example

The assuror’s key tasks are to assess and report on the completeness and credibility of a company’s sustainability report, and the extent to which the company is responding

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3 In this context ‘sustainability’ is taken to cover the ‘triple bottom line’ of ethical, economic and ecological performance.
to its stakeholders’ concerns and interests. In describing a practical approach as to how this might be achieved, we use the audit by ethics etc. . . of The Co-operative Bank’s 2001 Partnership Report.

The assurance statement of The Co-operative Bank’s 2001 Partnership Report contains the following information:

- The identity of the assurance provider and their qualifications.
- A statement that the assurance provider does not have any relationship with the company or with its stakeholders that may compromise their ability to make objective judgements about the report and the company’s management systems. The assuror should not have been involved in designing the reporting systems or in writing any of the report.
- That the directors of the company are responsible for the report content.
- The assurance principle that the assurance provider’s primary concern is the interests of stakeholders and not those of the company’s managers.
- A description of the reporting and assurance standards used, the scope of the assurance work and the methods used to assess the company’s report and management systems.
- The assurance provider’s opinion as to whether the report fairly represents the bank’s economic, social and ecological impact on its partners and as to whether the company has behaved consistently with its stated values.
- The assurance provider’s signature and the date of their statement.

The opinion of the assurance provider involves knowledge of the organisation, understanding of the issues facing the reporter, and experience of stakeholder dialogue, accountability processes and auditing techniques. The assurance process must follow explicit principles and standards in order to avoid subjective judgements. AccountAbility, FEE and GRI have developed new guidelines on assurance (see AccountAbility 2002; FEE 2002a, 2002b; GRI 2002). All three organisations have been involved in extensive international consultations, some of which the authors have been involved in. While there is considerable work still to be done to develop detailed sustainability assurance standards, there is wide acceptance that the following principles in reporting and assurance provision are essential, and many of the necessary benchmarks for assurance quality are already clarified or under discussion:

- **Completeness.** The company should monitor and report all significant material information about its impacts on stakeholders and in the areas stakeholders consider to be important. The assurance provider will report significant gaps.
- **Scope.** The report should cover all its activities, products, services, sites and subsidiaries, or identify and explain omissions.
- **Inclusiveness.** The company should recognise the interests, concerns and information needs of all its stakeholders and include them in its accountability and reporting processes.

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4 Richard Evans was co-chair of GRI’s Verification Working Group and drafted the assurance sections for the Draft GRI 2002 Guidelines. Both authors were members of the AccountAbility AA1000S Assurance Standard Writing Group.
Responsiveness. The company and its report should demonstrate the changes in policies, decisions and actions it has made in response to stakeholders’ interests and concerns.

Reliability and evidence. The assurance provider will look for adequate evidence to support the accuracy, completeness and balance of claims, data and statements made in the company’s report.

Systems and control. The assurance provider will base any judgement about the reliability of information in the report not only on the accuracy of data but also on the effectiveness of the company’s management information systems and controls.

Understanding, comparability and objectivity. The assurance provider’s opinion about the company’s report will be affected by whether the company reports to stakeholders regularly and in a way they find useful for understanding the company’s performance. This will be helped if the company compares its performance with earlier years and with other companies in its sector. The assurance provider will also consider whether any information has been over-emphasised (usually that which reflects the company in a positive light) or under-reported (usually that which reflects the company in a negative light).

The assurance process should follow a number of sequential steps based on established standards for both financial and environmental report auditing and the emerging assurance standards for sustainability reports (AA1000; GRI 2002 Guidelines; Auditing Standards—Auditing Practices Board; ISO 19011). The steps used in the audit of The Co-operative Bank’s 2001 Partnership Report were:

1. Engagement
   This involved a preliminary discussion with bank staff working on the report to agree the scope of the assurance work (the full report and supporting management systems), a timetable and budget. These are confirmed in writing. The assuror needs to be satisfied at the outset that they will have access to all necessary information and people, and that enough time has been allowed to carry out the engagement effectively. The company agrees at the start of the engagement to publish the assurance statement and comments in full. The engagement for The Co-operative Bank’s 2001 Partnership Report was based on an estimated 25 days’ work; the total required was 30 days to accommodate some additional work on the bank’s campaigns and its compliance with the SIGMA management framework (SIGMA Project 2003).

2. Planning
   Planning involves two stages: assessment of ongoing issues and risks; and planning the assurance work.

   With respect to the assessment of ongoing issues and risks, the assuror makes an independent review of findings from earlier assurance engagements with the company, taking account of previous assurance statements, working papers and reports to directors (see point 4 below). Outstanding issues raised during the course of the previous audit and notified to directors of the bank in an auditor’s report were referenced in planning the audit of The Co-operative Bank’s 2001 Partnership Report. These included wider consultation prior to the Ethical Policy Review customer ballot; clarifying operational issues for the bank’s ethical and ecological screening processes and extending the scope of internal auditing; reporting customer complaints about bank services; and continuity of policy following changes in the management of the bank’s public campaigns.
The assuror carries out an assessment of those aspects of performance and reporting where there may be a risk of information being omitted, misrepresented or inadequately supported by evidence and effective management systems. Just as the financial auditor requires an understanding of the client's systems of internal control and data collection in order to determine what tests to undertake and their extent, the social auditor must review the indicators and targets in order to assess their importance (or materiality) in deciding which data sets will need detailed investigation and which will require more limited sample checks. More limited procedures will be appropriate where the assuror is confident from his or her previous work that the systems are robust and reliable or where other recent independent audits have been carried out.

The assuror pays particular attention in planning assurance work to the company's responses to issues and concerns stakeholders have raised through previous reports, current stakeholder engagements or directly with the assuror. On the basis of this risk assessment, the assuror will discuss with company managers arrangements and times for interviewing managers, staff and other stakeholders, and for accessing company records and information systems they consider relevant to their investigations.

3. The assurance work
This will normally involve the following activities:

- Interviewing managers and staff in order to gain an understanding of how specific policies, management information systems and controls have been designed and views on their effectiveness. Discussions will focus particularly on systems that have changed since the previous audit cycle or systems that have been identified as weak or at risk.

- Testing systems and data output on a sample basis, where appropriate.

- Reviewing accounting processes and the findings of internal audit procedures requested by the assuror.

- Interviewing managers and staff about the rationale, content and outcomes of new or repeat stakeholder engagement processes and stakeholder surveys that have taken place during the year.

- Checking the output from stakeholder surveys for compliance with the intended sample frame, bias, accuracy of processing, and misinterpretation or understatement in the reported results and commentary.

- Consulting stakeholder representatives where necessary (e.g. staff trade-union representatives) to corroborate stakeholder survey findings or their interpretation by the company.

- Testing all data in the report for source and accuracy on a full or sample basis, depending on the previously detailed risk analysis.

- Checking all commentary and all graphical presentations in the report for consistency with the underlying data and to ensure that they do not misrepresent performance.

- Carrying out independent reviews of the company's compliance with its stated values: for example, The Co-operative Bank's data relating its environmental and ethical issues campaigns by consulting independent experts and external parties involved in the campaigns.

- Documenting investigations and findings.
During the assurance work on The Co-operative Bank’s 2001 Partnership Report, advice was given to the company’s managers regarding any discrepancies and inaccuracies in the data or misrepresentations in the commentaries. Some issues raised during the assurance process resulted in corrections being made in the final version of the company’s report. In the case of The Co-operative Bank, discussions about changes to the report between the bank and assuror were resolved following further investigations of the evidence. This helps to ensure that information in the report is based on auditable evidence rather than any personal or ‘corporate’ view, or the assurance provider’s personal interests or biases. In the 2001 process, for example, there were instances where the commentary interpreting findings from the staff survey was amended following such discussions.

4. The assurance statement
The published Auditor’s Statement (and in the case of The Co-operative Bank’s Partnership Report, the additional auditor’s commentary included in the web-based version of the report) is based on the final published version of the company’s sustainability report. If there are issues arising from the assurance work that have not affected the reliability, completeness and balance of the current report, but which may do so in future, the assuror will normally advise the directors in a separate, unpublished letter. (Examples are given of the issues raised in the report to directors of The Co-operative Bank following the audit of the 2000 Partnership Report—see point 2 above.)

Table 1 gives examples of the types of issue that would lead to a qualified assurance statement and the nature of such a qualification. The implications for the audit opinion and level of assurance are more complex than in financial auditing where the audit scope is determined by law or GAAP (Generally Accepted Accounting Practices) and the impact can be more easily quantified in financial terms. The level of assurance which should be provided in each instance is unclear and requires further research and consideration by practitioners. It will depend to a large extent on which of the accountability principles are considered the most important in presenting a complete and balanced portrayal of performance.

Competence of the assurance provider
It is essential that the assurance provider is competent to undertake an assurance assignment. This involves knowledge of the principles of assurance provision and the audit process including appropriate audit evidence and sampling techniques. It also involves sufficient understanding of the business sector and the issues relating to its economic, social and ecological impacts and performance measurements. If assurance providers are to give a useful and valued service to stakeholders, as well as to the client, they must have substantial and credible experience in multi-stakeholder engagement processes and have a publicly acknowledged commitment to stakeholder accountability. They must also follow generally accepted auditing guidelines and, crucially, the criteria for qualification of the audit report must be clear.

Areas for further development
Assurance guidelines identify key guiding principles by which assurance for ethical, social and environmental reports and processes should be conducted. The aim of these guidelines is to reduce the audit expectations gap to the point where report readers know
<table>
<thead>
<tr>
<th>Has the reporter recognised the omission?</th>
<th>Assurance provider’s qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope and completeness issues</strong></td>
<td></td>
</tr>
<tr>
<td>Part of the business has not been included within the scope of the report</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>The impact of some activities, products or services has not been included in the report</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>The reporter has not included one or more categories/groups of its stakeholders in the report</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>There is no evidence that the reporter has regular, quality engagement with its stakeholders or some groups of stakeholders</td>
<td></td>
</tr>
<tr>
<td><strong>Materiality issues</strong></td>
<td></td>
</tr>
<tr>
<td>The reporter does not provide evidence that it has consulted stakeholders to identify issues, impacts and concerns relevant to their interests resulting from the reporter’s activities</td>
<td></td>
</tr>
<tr>
<td>The report omits key performance indicators material to stakeholders, including environmental impacts</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>The report omits cumulative effects over time of low-level impacts</td>
<td>Yes</td>
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<tr>
<td></td>
<td>No</td>
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<tr>
<td>Data does not relate to the time period of the report</td>
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*Table 1* ISSUES LEADING TO QUALIFICATION IN AN ASSURANCE STATEMENT (continued opposite)
<table>
<thead>
<tr>
<th>Materiality issues (cont.)</th>
<th>Has the reporter recognised the omission?</th>
<th>Assurance provider’s qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>The report omits to take account of external sources of evidence of the company’s impacts, e.g. independent expert reports, media reports, etc.</td>
<td>Yes</td>
<td>Identify evidence omitted and comment on its materiality to understanding the company’s performance</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>Identify and comment on gaps in information and control systems that are material to understanding the company’s performance</td>
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</table>

<table>
<thead>
<tr>
<th>Quality of evidence issues</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>The reporter’s management information systems are incomplete or inadequate to support statements and data in the report</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>The report omits to report on improvements or deteriorations in performance over time</td>
<td></td>
</tr>
<tr>
<td>The report fails to benchmark performance against regulatory or industry-sector standards</td>
<td></td>
</tr>
<tr>
<td>The report lacks transparency in explaining how stakeholders’ concerns have been addressed and the processes used to identify and report on key performance indicators</td>
<td></td>
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<table>
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<tr>
<th>Responsiveness issues</th>
<th></th>
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<tbody>
<tr>
<td>The report fails to state or provide evidence of how the company is responding to stakeholder concerns</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Balance and presentation issues</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Data and information are exaggerated or under-reported in a way that may distort a balanced view of the company’s performance</td>
<td></td>
</tr>
<tr>
<td>Graphics and illustrations exaggerate aspects of the company’s activity and impacts in a way that may distort a balanced view of the company’s performance</td>
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</table>

*Table 1 (continued)*
what level of assurance they can have as to the completeness of the report. Steps to ensure the completeness and credibility of reports need further consideration by assurance providers and standard-setting bodies. Further consideration must also be given to the nature of audit opinion and how it should relate to the scope of the audit and findings of the audit with respect to inclusivity of stakeholders, completeness, credibility and accuracy of data. Best practice is not yet at the point where the external assurance report can be relied on to provide assurance on all aspects of corporate ethical, social and environmental reporting, but this article sets out a process which, if followed, will reduce the audit expectations gap and enhance credibility. This process focuses on the needs of corporate stakeholders.

An external assurance process is no guarantee that reports won’t be used as a legitimating exercise. For external assurance to add value from a stakeholder perspective, reports must be conducted by appropriately qualified people who both understand the audit process and accept the ethical, social and environmental responsibilities of companies (see Kamp-Roelands 1999; Owen et al. 2000). They must be conducted using generally accepted assurance principles and guidelines. At present there are no guidelines that adequately cover all aspects of the ethical, social and environmental assurance process. There is an urgent need for their development and enforcement for companies operating globally. While this would reduce the audit expectations gap, it cannot erode it completely. For that to happen there would need to be a radical change in corporate governance systems giving stakeholders more power on issues such as appointment of auditors and determination of audit scope. This is an area worthy of examination by researchers.

References

—— (2002b) ‘Providing Assurance on Sustainability Reports’ (discussion paper; Brussels: FEE).
Kamp-Roelands, N. (1999) *Audits of Environmental Reports: Are We Witnessing the Emergence of Another Expectation Gap?* (Koninklijk Nederlands Instituut van Registeraccountants).


