The state of sustainability assurance 2013

New research from Net Balance shows that a growing number of Australian listed companies are setting high standards of transparency and accountability, providing their stakeholders with robust, assured information about their sustainability performance. This encouraging trend, however, is tempered by the large number of companies that still face a steep learning curve in understanding and communicating their social and environmental impacts.

It is taken for granted that a company’s financial performance is not published until it has been through a rigorous auditing process. Reporting on sustainability performance has been growing steadily in response to demand from stakeholders ranging from investors to customers and employees, yet little of the sustainability data reported by Australian listed companies goes through a similar process of assurance, and could therefore be regarded simply as assertion rather than as verified fact.

The ASX 100 has experienced more than the broader ASX 200

When Net Balance released its first State of Assurance report in 2012, it found that 30 of the ASX 100 companies were issuing assured sustainability data. In 2013, 37 of the ASX 100 companies were issuing assured sustainability data, an increase of 33 per cent.

For the ASX 200 the increase is ten per cent (going from 39 to 43 companies). Deeper analysis, however, reveals significant gaps in current reporting practice.

Looking at the ASX 200, 75 per cent of companies are responding to stakeholders’ interest in sustainability performance by offering some level of reporting. This is encouraging – though it still leaves a disappointing 25 per cent of companies that are disclosing no information at all on sustainability. Of the 150 companies providing some form of sustainability reporting, the most common format is a short section within the annual report.

The most widely accepted framework for reporting sustainability information is the Global Reporting Initiative (GRI). Sixty-five ASX 200 companies are using this framework, based on listings on the GRI website. As the GRI G4 is adopted, with its emphasis on reporting the sustainability impacts that matter, we can expect to see this number continue to rise.

Changing trends in what is being assured

An emerging trend is the increase in human rights disclosures being assured, particularly in relation to supply chain risks. When compared with our previous State of Assurance report in 2012, the number of companies receiving assurance of human rights data has increased from nine per cent of the ASX 100 to 33 per cent of the ASX 200 in the most recent reporting period. However, the assurance over product responsibility disclosures halved from 52 per cent of the ASX 100 in 2011 to 26 per cent of the ASX 200 in 2013. All 43 ASX 200 companies receiving external assurance included environment data.

The role of assurance providers in driving change

As reporting frameworks evolve, leading reporters are now moving towards more strategic and focussed sustainability reports. Readers are now experiencing a shift from ‘death by data’ to reporting on meaningful impacts and outcomes. This is reflected by a trend of assurance recommendations moving from improvements to data capture and reporting systems, to recommendations around transparency, transitioning to more streamlined and concise reports, and clear communication of outcomes.

A transparent reporting process starts with an assessment of the issues that have the potential to impact a company and are of interest to its stakeholders. Some companies are coming to terms with the need to report on areas that may be sensitive – such as human rights – but this often proves a positive experience that contributes to effective management of that area.

Trends in assurance standards 2011-2013

The new G4 guidelines by GRI reinforce this message, encouraging organisations to move away from the traditional view of a sustainability report being a data-heavy exercise into a more strategic undertaking.

Communication of outcomes relates to moving beyond pure data to telling stakeholders a meaningful story. For example, a report might state that a company donates $1 million to community organisations. In addition to this information, and organisation might disclose the outcomes resulting from the investment, such as the number of people receiving education assistance, or the number of nights a homeless person was housed. This requires buy-in and measurement frameworks from both the reporting organisation and the beneficiary, but can lead to better accountability and transparency, as well as making for more engaging reading!

The use of assurance standards is also changing

The fact that these recommendations exist in a public statement is a result of the use of AA1000 assurance standard. The standard is principles-based and wholly focussed on sustainability reporting. Engagement with senior management is integral to this process, making the AA1000 a powerful means of engaging the leaders of an organisation with their material sustainability issues. Relatively few organisations are taking advantage of this benefit of the assurance process. Of the 43 companies receiving sustainability assurance, the majority (72 per cent) used the ASAE3000 – a standard for the provision of assurance on non-financial matters, which includes sustainability reporting.

Ten per cent used the AA1000 standard on its own, and 10 per cent used the two standards in conjunction, taking advantage of both the rigorous data analysis provided by the ASAE3000 and the qualitative depth offered by the AA1000. The most common level of assurance provided was ‘moderate’ or ‘limited’ rather than a ‘high’ or ‘reasonable’ level.

Net Balance remains the leading provider of assurance – to their own management of that area.

Net Balance Foundation

www.netbalance.com/sustainability-assurance

1. AA1000 Assurance Standard 2006, Issued by AccountAbility
2. ASAE 3000 Assurance Engagements to Other than Audits or Reviews of Historical Financial Information, Issued by the Auditing and Assurance Standards Board
3. AA1000 Assurance – to Other than Audits or Reviews of Historical Financial Information, Issued by the Auditing and Assurance Standards Board
4. 3% of the sample (1 company) received verification which does not employ the use of a standard.
5. EY, PriceWaterhouseCoopers, Deloitte and KPMG.