Non-Financial Reporting:
The Audit and Assurance Perspective

Presentation to: 2005 CEAA Technical Conference

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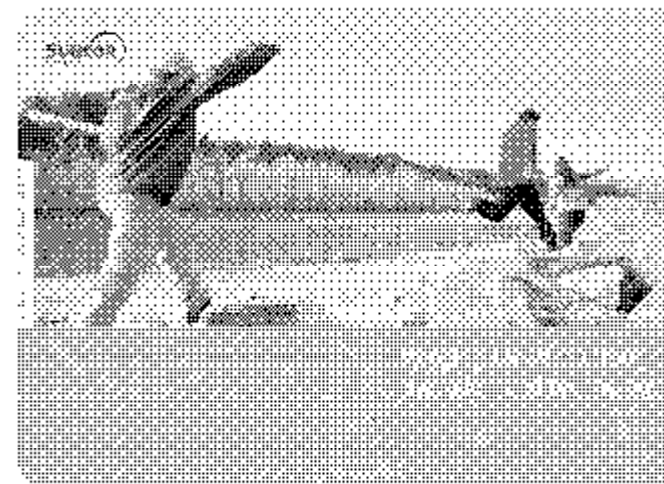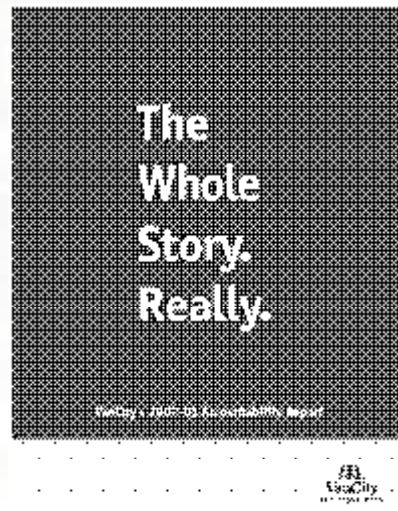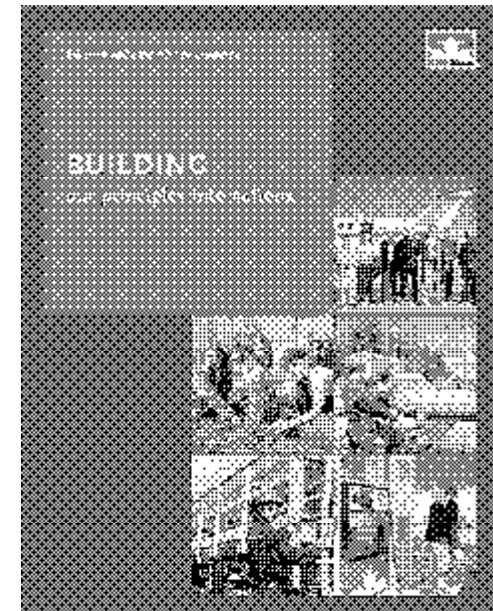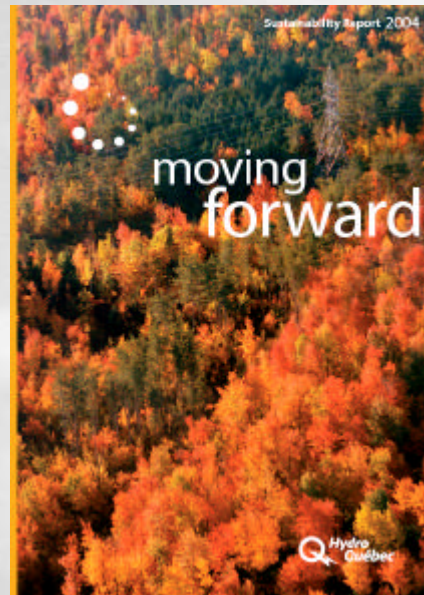**Stratos**
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Presentation Overview

- Trends

- Drivers

- Standards and Approaches

- Current Practices

- Canadian Reporters

Snapshot of Reporting Trends

Types of Reports Produced Internationally 2001 - 2003

Sustainability 14%

Corporate Responsibility 8%

Annual with substantive non-financial sections 6%

Community 3%

Social 5%

Environment and Social 8%

Environment, Health and Safety 14%

Environment 42%
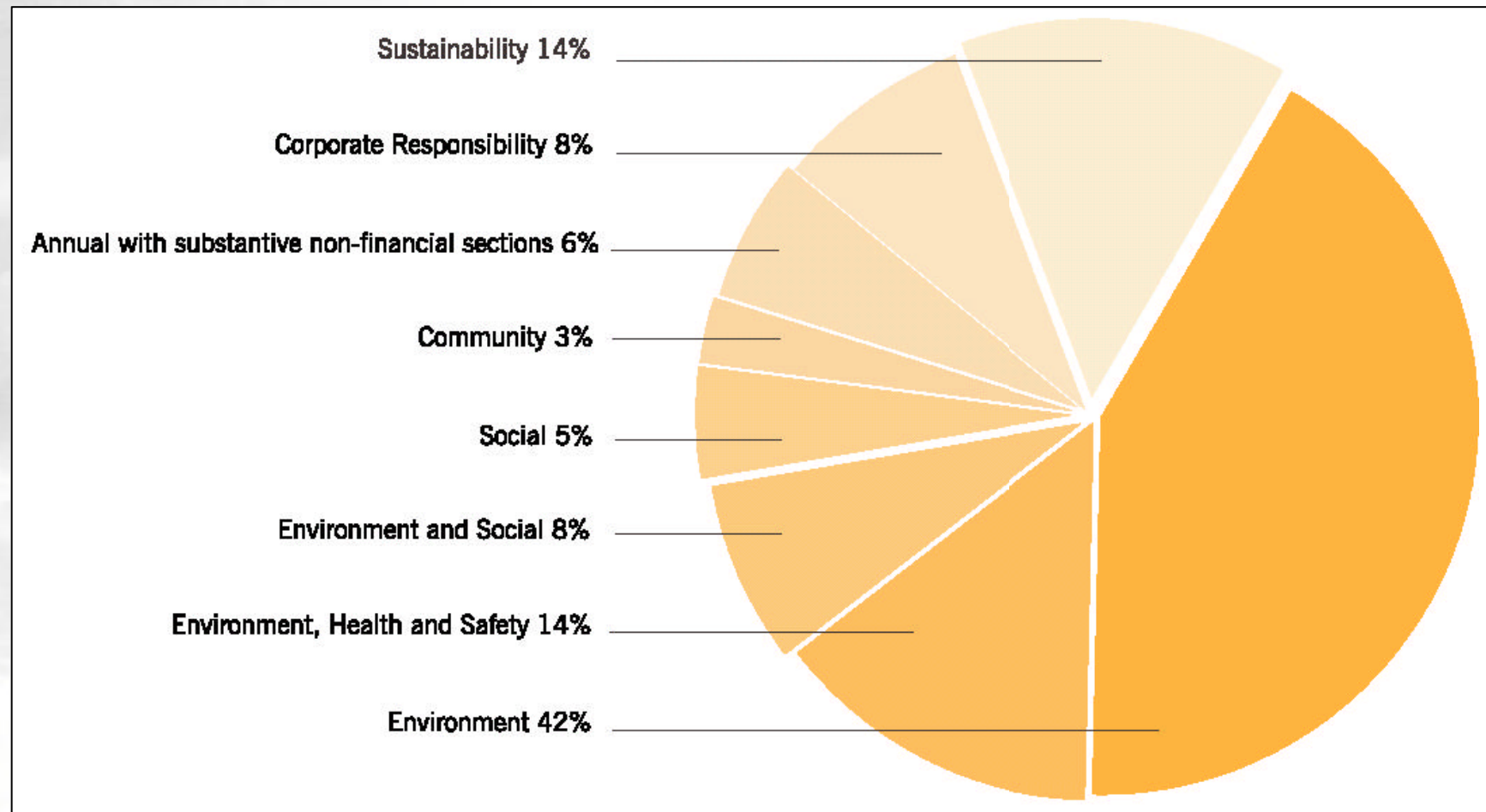
Source: CorporateRegister.com Spring 2004 (based on a total of 3,637 hard copy and PDF reports)

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Reports Produced by Region Internationally 1990 - 2003

Europe 58%
Africa and the Middle East 2%
The Americas 20%
Asia and Australasia 20%

Source: CorporateRegister.com Spring 2004 (based on a sample of 6,619 hard copy and PDF reports)

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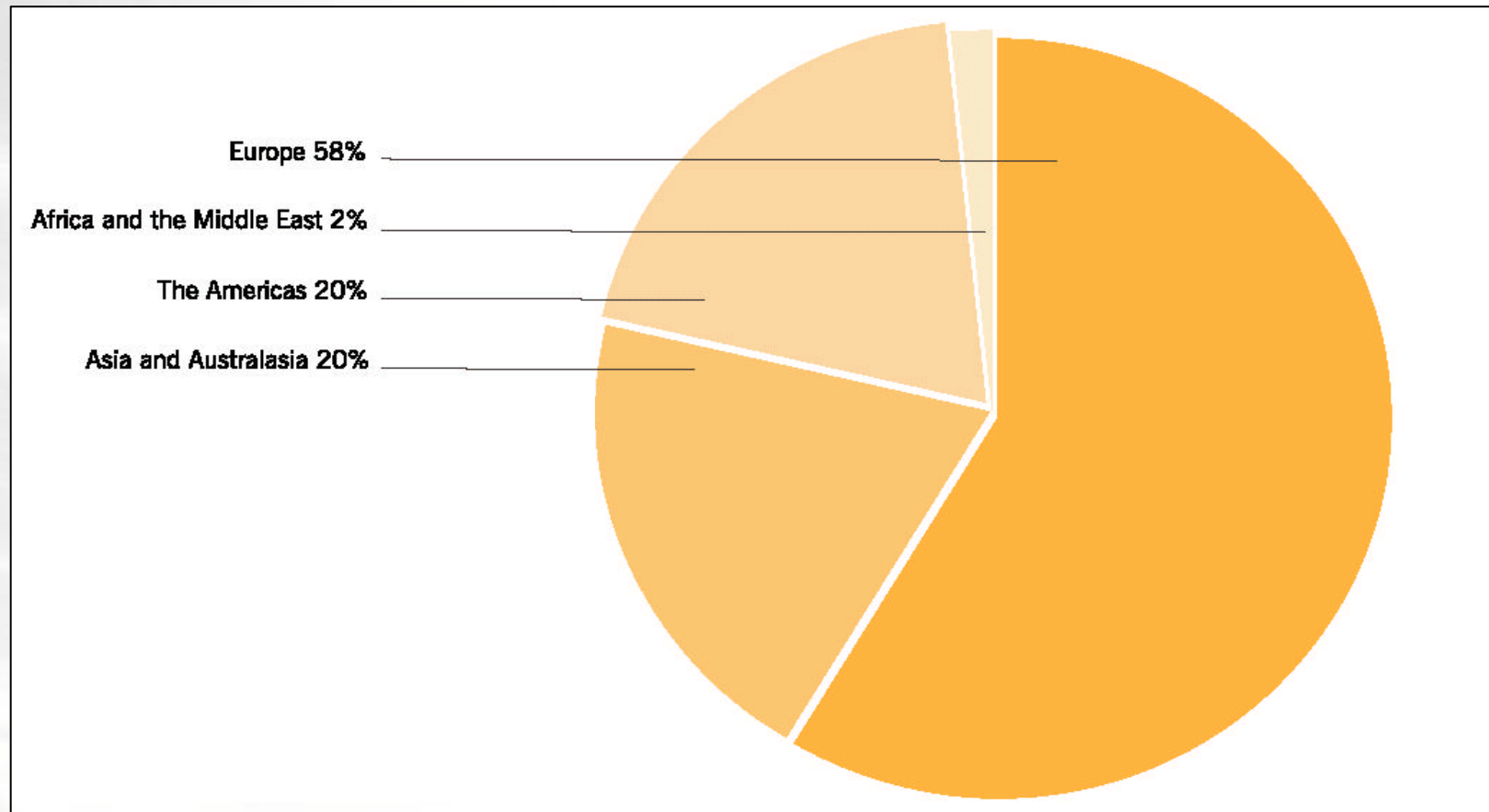# Hard Copy and Electronic Reports Produced Internationally 1990 - 2003
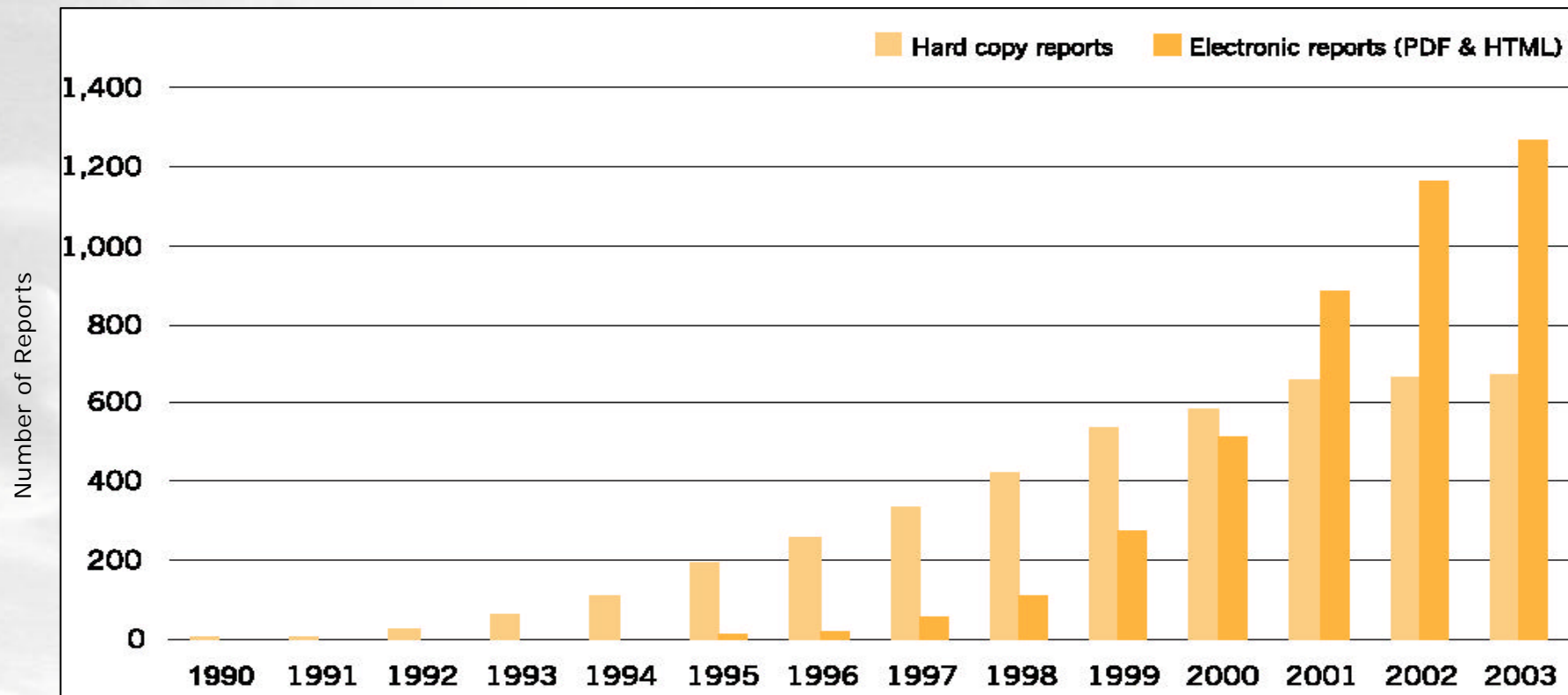
Source: CorporateRegister.com June 2004 (based on a sample of 4,528 hard copy and 4,295 PDF reports)

What are the Drivers?

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Drivers For Reporting

- ## Adding Business Value

  - Economic factors (74% of respondents)

  - Ethical considerations (53%)

  - Innovation and learning (53%)

  - Employee motivation (47%)

  - Risk management or risk reduction (47%)

  - Access to capital or increased shareholder value (39%)

  - Reputation or Brand (27%)

  - Market position improvement (21%)

Source: KPMG International Survey of Corporate Responsibility Reporting 2005.

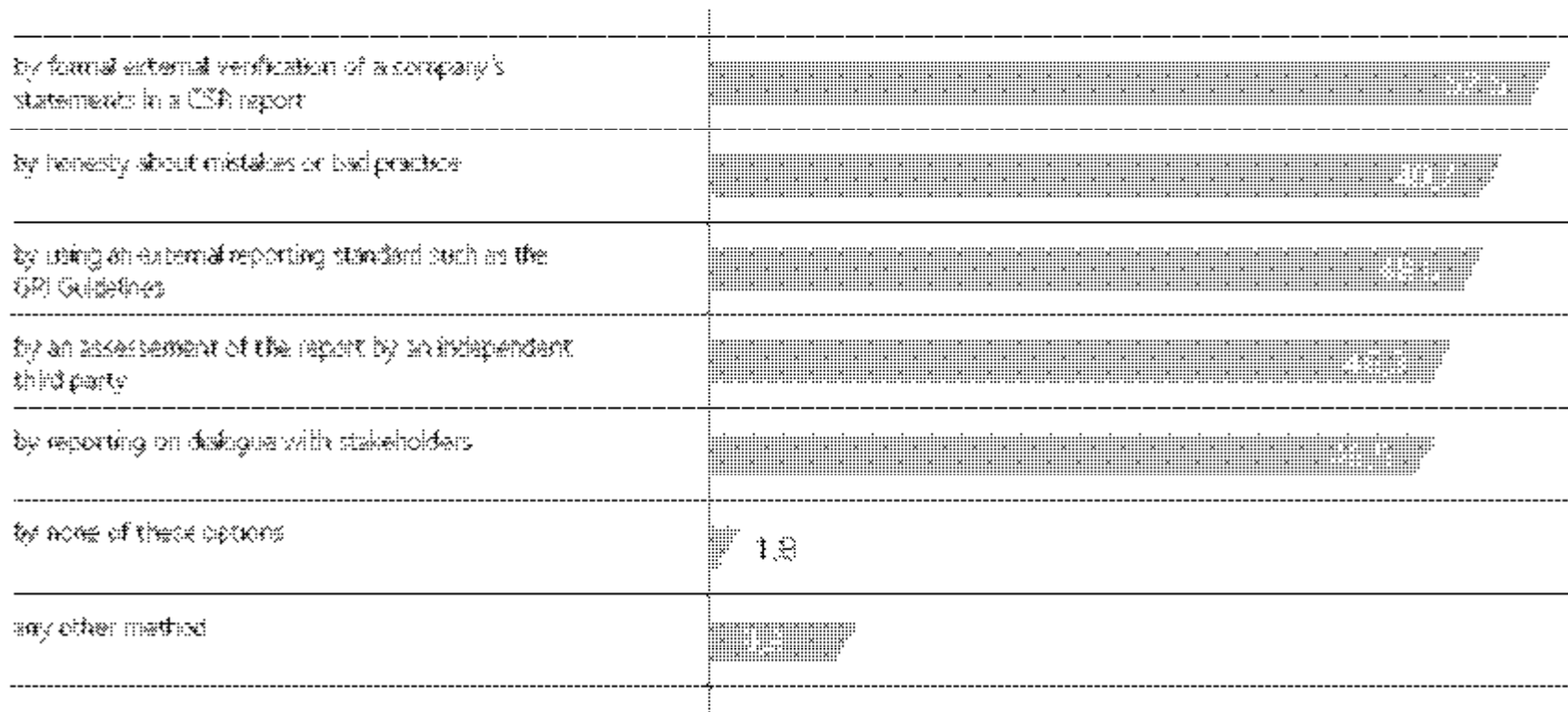# Drivers For Report Verification

- Primarily expressed in terms of improved corporate governance

- Closely linked to managing key risks and value opportunities

- Increase the credibility of the reported information

- Part of a broader corporate assurance net – seeking to improve the level of confidence in data and information being reported publicly, and used for internal business decision-making

How Can Credibility Be Increased?

FACTORS ENHANCING CREDIBILITY IN CSR REPORTING

Data in percent

by formal external verification of a company's statements in a CSR report	
by honesty about mistakes or bad practice	
by using an external reporting standard such as the GRI Guidelines	
by an assessment of the report by an independent third party	
by reporting on dialogue with stakeholders	
by none of these options	1.8
any other method	

Source: Pleon Kohtes Klewes GmbH. 2005. *Accounting for Good: the Global Stakeholder Report 2005 – The Second World-wide Survey on Stakeholder Attitudes to CSR Reporting*. Pleon: Amsterdam and Bonn.

Standards and Approaches
For Report Verification

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What is Assurance?

"Steps taken to increase
confidence in a report"[1]

- Includes more then independent assessment of the report, the underlying systems and procedures, and the quality of the data.

- Also includes the internal management control systems, and the technical or procedural underpinnings of how well an issue is being managed.

[1] Definition from: SustainAbility, S&P, and UNEP. November 2004. *Risk and Opportunity: Best Practices in Non-Financial Reporting*.

Standards

- Two key standards are shaping how reports are verified:

    - ISAE 3000 International Standard on Assurance Engagements (Issued by the International Auditing and Assurance Standards Board), and

    - AA 1000 Assurance Standard (Issued by AccountAbility)

Standards *(cont.)*

- Other relevant standards in use include:

    - Standards for Assurance Engagements (CICA)
    - Assurance Engagements for Sustainability Reports (Germany)
    - General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports (Australia)
    - Environmental Report Assurance Services Guidelines (Japan)
    - Independent Assurance on Voluntary Separate Sustainability Reports (Sweden)
    - Assurance Engagements Related to Sustainability Reports (Netherlands)

ISAE 3000 Standard

- Establishes basic principles and essential procedures for assurance engagements other than audits or reviews of historical financial information.

- Provides guidance on approach and procedures that enable the engagement to be undertaken in a systematic and consistent manner in line with professional auditing standards and codes of conduct.

- Reports issued by professional accounting networks should be in compliance with ISAE 3000.

ISAE 3000 Standard

- Establishes basic principles and essential procedures for provides assurance practitioners with additional procedural requirements including:

    - Terms of assurance engagement,

    - Assurance engagement acceptance,

    - Planning and performing the engagement,

    - Ethical requirements,

    - Quality control standards,

    - Criteria for the engagement,

    - Obtaining evidence,

    - Using the work of experts,

    - Structure and wording of the assurance report/statement.

Source: AccountAbility and KPMG, "Assurance Standards Briefing 2005"

AA 1000 Assurance Standard

- **Key Principles:**
  - Materiality
  - Completeness
  - Responsiveness

- **Requires an "Assurance Statement"**

- **Sets Out Assurance Provider Standards**
  - Independence
  - Confidentiality
  - Competence

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Key Scoping Considerations

- What can/or does a report verification cover?

    - Verification of reported data

    - Quality of systems or procedures that generate the data

    - Effectiveness of management systems around a specific issue or aspect

    - Materiality of the reported information

    - Completeness of the sustainability environment relevant to the company

    - Responsiveness to stakeholders

    - Stakeholder views on the reported information

Current Practices

Hard Copy Reports with External Assurance Internationally 1990 - 2003
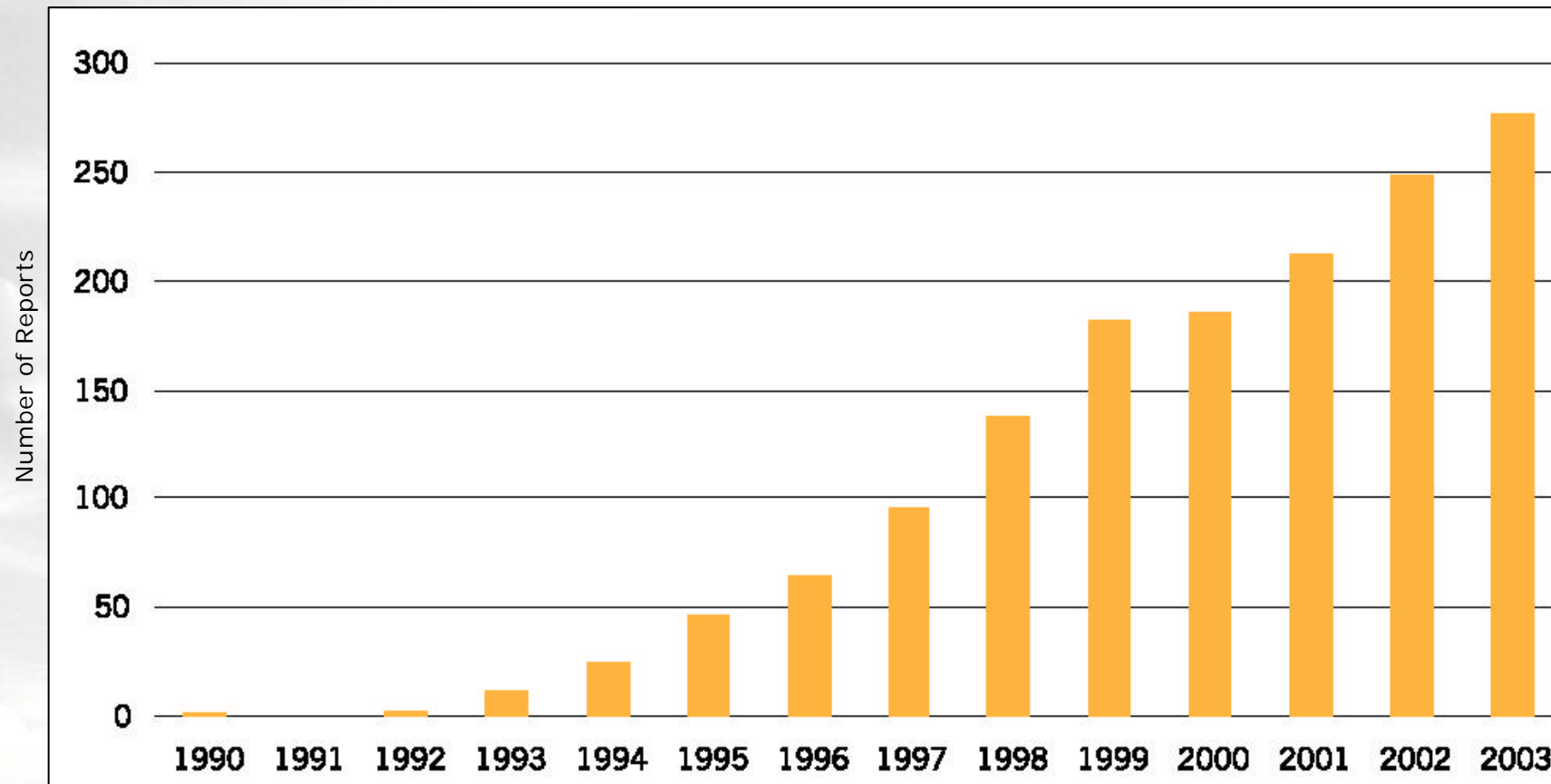
Source: CorporateRegister.com Spring 2004 (based on a total of 1,485 hard copy reports with external assurance)

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In Canada - Too Few Reporters Are Enhancing Report Credibility

Reputation = performance + credible communications

Performance

- Targets
- Trend data & analysis
- Absolute &/or normalized data
- Benchmarks

Credibility

- Transparency in issue selection
- Balanced reporting of issues
- Data reliability
- **Verification or Assurance**

Types of Verification & Assurance

Types of Verification/ Assurance (2003 data)	Canadian Reporters	International Reporters
Data Quality	7	5
Data Management Processes	5	5
Completeness & Relevance	2	4

Note:

Of the 110 identified reporters in 2005, 17 reports contain assurance statements, an increase from 14 in 2003.

Verification & Assurance Providers

Verification/ Assurance Provider (2003 data)	Canadian Reporters	International Reporters
Internal Auditor	0	1
Third-party Auditor	7	5
Stakeholder Advisory Panel	2	1
Expert Advisory Panel	0	3

# Future of Report Verification

Future of Assurance Activities

- Increased use of assurance mechanisms

- Slow integration of stakeholder issues and concerns

- External disclosure as a business process tool - driving improved performance

- More emphasis on understanding the materiality of non-financial information

- More robust internal management control of data and information

- Increased use of internal and third-party verifiers
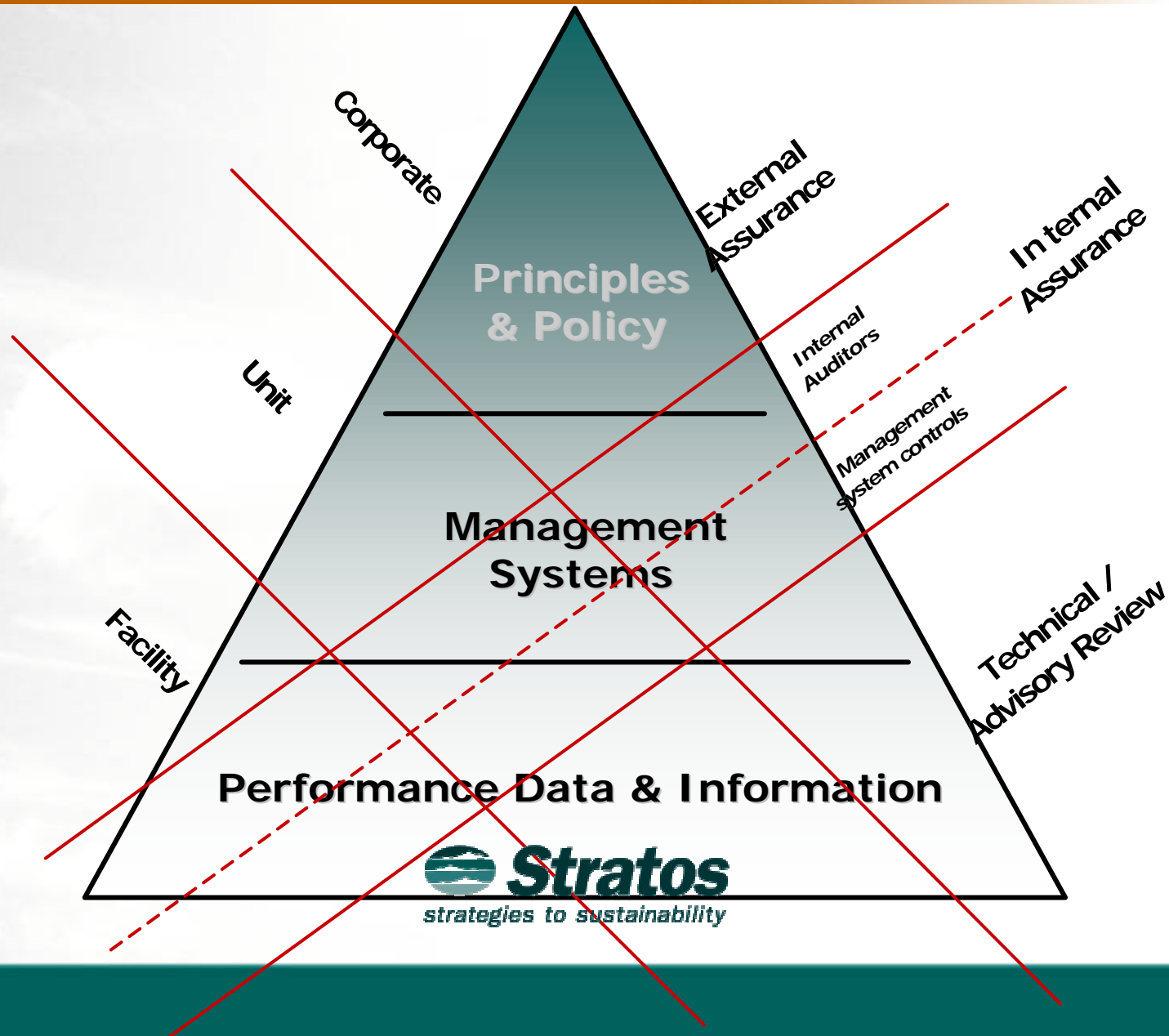
Survey of Canadian Corporate Sustainability Reports

The 2003 Canadian Benchmark Survey Report is available for download at:

www.stratos-sts.com

The 2005 Survey will be available in December.