



**FEE Call for Action:
Assurance for
Sustainability**

June 2004

FEE

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 41 professional institutes of accountants from 29 countries. FEE member bodies represent more than 500,000 accountants in Europe. Roughly 45% of these accountants work in public practice, providing a wide range of services to clients. The other 55% work in various capacities in industry, commerce, government and education.

SUSTAINABILITY

Societies aim to secure a higher standard of living through economic development. The world has become highly populated and the impact of agricultural and manufacturing on its natural resources has reached a significant level. In response to these pressures, this generation has begun to work towards protection of those resources for the benefit of future generations so that development may be sustained.

In 1987 the United Nations World Commission on Environment and Development, under the Chairmanship of Mrs. Gro Harlem Brundtland, issued *Our Common Future* (often referred to as the 'Brundtland Report'). The report included wording that has come to be widely accepted as a definition of sustainable development: *'meeting the needs of the present generation without compromising the ability of future generations to meet their own needs'*.

The Commission's work was directed towards formulating a global action plan proposing long-term environmental strategies and new ways to try to reconcile the objectives of development and the protection of natural resources. However, sustainable development involves more than just seeking a balance between economic development and conservation of the environment. Both exert considerable influence over the quality of life. These three factors together comprise the model that is currently in general use to describe sustainable development. Reporting by companies of the environmental, social and economic dimensions of performance has been referred to as sustainability, triple bottom line, corporate social responsibility (CSR) and ethical reporting.

FOREWORD

As the representative organisation for the accountancy profession in Europe, FEE is well aware of the public interest in its work, especially in the field of financial reporting. The accountancy profession is not just concerned with financial reporting, however, firms provide a wide range of services to business, government and the community and of course many accountants are employed in organisations that rely on their technical skills and ethical principles.

One of the reporting issues for the accountancy profession is of interest to all society. In the 2002 Johannesburg UN World Summit on Sustainable Development politicians, business leaders and community leaders renewed the commitments made at the 'Earth Summit' in Rio de Janeiro, ten years earlier to work together towards sustainable development.

Corporate reporting is a fundamental part of this work and the credibility of reporting is essential if stakeholders are to derive from it the maximum benefit. The last few years have seen substantial growth in the number of companies reporting on sustainability performance and considerable improvements in the information provided. The pace of change shows no sign of diminishing.

Assurance on corporate reports is an essential part of enhancing credibility and it is vital, therefore, that preparers, stakeholders and other users are fully aware of the benefits and limitations of assurance. The accountancy profession's relevant experience is an essential element in providing assurance on sustainability reports. FEE members have been active in the development of assurance both through raising awareness and by contributing to the work of standard setting bodies. In 2002, FEE issued a Discussion Paper *Providing Assurance on Sustainability Reports* that examined in detail the issues affecting independent, third party assurance provision. This paper builds on that and makes use of more recent experience to call for action from those with much to contribute to and much to gain from the development of assurance for sustainability.

FEE hopes you find this paper useful and that those called on for action respond to the challenge. Preparers, stakeholders and indeed society as a whole will benefit from enhanced sustainability reporting.

David Devlin
President
FEE

ACKNOWLEDGEMENTS

This discussion paper has been prepared under the supervision of Lars-Olle Larsson, Chairman of the FEE Sustainability Assurance Subgroup, with editorial advice from David York, a member of the FEE Sustainability Assurance Subgroup and of the FEE Auditing Working Party.



FEE gratefully acknowledges the contributions made by many individuals to this document, in particular members of the FEE Sustainability Working Party, the FEE Auditing Working Party and the following members of the FEE Sustainability Assurance Subgroup:

Denmark	Helle Bank Jørgensen
Germany	Albrecht Ruppel
Ireland	John Bowen-Walsh
Italy	Chiara Mio
	Giorgio Orru
Netherlands	Fred Drieënhuizen
	Nancy Kamp-Roelands
	Johan Piet
Sweden	Lars-Olle Larsson
United Kingdom	David Collison
	David York
FEE Secretariat	Catherine Ameye
	Hilde Blomme
	Derek McGlynn
	Saskia Slomp
	Corinne Soubies

CONTENTS

EXECUTIVE SUMMARY	6
1. INTRODUCTION	7
2. OBSTACLES TO ASSURANCE	9
2.1 Technical Issues	9
2.2 Establishing the Business Case for Reporting and Assurance	10
3. REPORTING AND REPORTERS	11
4. STAKEHOLDERS IN THE DEVELOPMENT OF ASSURANCE	13
4.1 Introduction	13
4.2 Investors	13
4.3 Governments	13
4.4 NGOs.....	14
5. INTERNATIONAL BODIES AND PRONOUNCEMENTS FOR ASSURANCE.....	15
5.1 Introduction	15
5.2 International Bodies	15
5.3 IFAC and its Standards.....	17
5.3.1 General	17
5.3.2 Professional Pronouncements	17
5.3.3 Technical Standards	18
5.3.4 Implications for Sustainability Assurance.....	19
5.4 AccountAbility	20
6. VISION OF THE LONG-TERM FUTURE	21
7. CURRENT STATE OF ASSURANCE	22
7.1 Introduction	22
7.2 The Assurers.....	22
7.3 Developments in Assurance related to Financial Statements.....	23
7.4 Issues arising from Current Assurance Practice.....	25
7.4.1 Overall View.....	25
7.4.2 Trust in the Assurer.....	26
7.4.3 Reporting on the Sustainability Information	27
7.4.4 Recommendations and Commentary	27
7.4.5 Changes over Time	28
7.4.6 Assurance Implicit in Sustainability Reports.....	28
8. CALL FOR ACTION	30
APPENDIX 1 – REFERENCES AND SOURCES	35

EXECUTIVE SUMMARY

Increasingly, annual reports containing financial statements include sustainability information and auditors are also involved in assurance engagements on corporate sustainability reporting. It is established practice for auditors to give an opinion that conveys reasonable assurance that financial statements give a true and fair view in accordance with an identified financial reporting framework. Capital markets have yet to place, however, the same level of emphasis on sustainability reporting with independent assurance.

In FEE's vision of a sustainable future, sustainability reporting is as established as financial reporting is now and corporate reports allow stakeholders to assess with confidence the extent to which private sector corporations actually contribute to the evolution of equitable and sustainable communities and societies. The vision is still far from reality as sustainability reporting and assurance is at a relatively early stage of development. This paper is a call for action from reporters, standard setters and other stakeholders in the development of reporting and assurance. Appropriate action will address the principal barriers to progress: capital markets do not place sufficient value on reliable sustainability information and the technical issues are yet to be solved by standard setters. Implicit in this future is the use of widely accepted reporting criteria, a trustworthy assurance profession and effective procedural and quality control standards for assurance work.

FEE recognises that progress depends on the sharing of knowledge across national and corporate boundaries and calls on all parties to continue the co-operation that has been a feature of the development of the field to date. Similarly, FEE calls on all parties to inform and educate those who need to know more about sustainability reporting and assurance.

FEE calls on parties who are not yet engaged with sustainability assurance to build their understanding and appreciation of the developments in this field and take appropriate action: potential reporters and assurers, stakeholders who have an unsatisfied need for reliable information, and many others who could benefit directly and indirectly as participants in a sustainable future.

FEE calls for action over the next few years from the many parties now involved in assurance for sustainability including: reporters, assurers, governments, investors and NGOs. Such action is necessary to further the business case and to remove technical and other obstacles to assurance. Specifically, at this time, FEE calls on standard setters to accelerate the pace of development of usable standards that are relevant to assurance.

There remain many challenges of a business and technical nature to be overcome. Through issuing the 'call for action' FEE aims to facilitate progress to ensure that those challenges are overcome sooner rather than later.

1. INTRODUCTION

1. FEE has been active in drawing on the expertise of the European accountancy profession to improve the quality and credibility of new forms of reporting. In 1999, FEE issued a discussion paper on providing assurance on environmental reports and, in 2000, an analysis of responses to it. In 2002 a Discussion Paper *Providing Assurance on Sustainability Reports* dealt with the technical issues seen as barriers to assurers providing high levels of assurance on standalone sustainability reports. One of the intentions behind that paper was to allow FEE to establish technical positions on providing assurance on sustainability reports that would contribute to the work of standard-setting bodies.
2. This paper is less technical in nature. It examines a wide range of issues against a background of sustainability reporting which can take many forms: ranging from separate comprehensive sustainability reports to isolated disclosures in annual reports including financial statements. The paper also recognises that assurance may not extend to the whole of the sustainability information.
3. FEE and its member bodies have called on the International Federation of Accountants (IFAC) to make progress on a standard on assurance for sustainability reports. IFAC has issued the *International Framework for Assurance Engagements* and a general ‘umbrella’ International Standards for Assurance Engagements 3000 Revised *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (International Standard on Assurance Engagement 3000 Revised¹) which provides basic principles and essential procedures that could be used for assurance engagements on sustainability reports. IFAC has also issued revised professional standards for quality control. FEE was pleased to be able to contribute to the development of an IAASB framework for assurance engagements, both by commenting on exposure drafts and by publishing a theoretical paper on assurance engagements.
4. In the last few years, an assurance standard has emerged from a non-accountancy organisation, AccountAbility. This has gained widespread support in some countries and is clearly meeting a need in the marketplace. FEE has commented publicly on drafts and members of FEE working parties have given their time to contribute to its development. We look forward to continuing to support, across a broad front, the development of appropriate assurance standards. Co-operation between all interested parties is something that we see as vital in this emerging area.
5. Without attempting to be a comprehensive survey, this paper examines the current state of assurance in order to provide a basis for recommendations to standard setters and others with an interest in sustainability reporting and assurance. Section 2 *Obstacles to Assurance* reviews the technical barriers identified by earlier FEE papers which assurance now needs to surmount. Three short sections (3 to 5) identify the reporters, the stakeholders and the standard setters with a direct interest in assurance. The current state of assurance (Section 7) is considered but only after establishing a vision of the long-term future to measure it against (Section 6). In Section 8 *Call for Action* we conclude by setting out, for those parties concerned with assurance for sustainability reports, the actions we feel are needed to continue to make progress over the next few years towards our vision of the future.

¹ ISAE 3000 Revised

6. FEE welcomes feedback from those on whom calls for action are made and from others. Please send any comments to:

Saskia Slomp
Technical Director
Fédération des Experts Comptables Européens
Rue de la Loi 83
1040 Bruxelles
BELGIUM

Email: Saskia_Slomp@fee.be
Fax: +32-2-231 11 12

All comments will be treated as being on the public record and may be published on FEE's website: <http://www.fee.be>

2. OBSTACLES TO ASSURANCE

7. Capital markets place considerable emphasis on companies needing to satisfy an independent auditor that the financial results and position are properly reported. As discussed in Section 7 *Current State of Assurance*, this is not currently the case, however, for other forms of corporate reporting.
8. There are two main reasons for this, which are both related to the fact that, as illustrated by the discussion in sub-section 7.4 *Issues arising from current assurance practice*, sustainability reporting and assurance are not as mature as the disciplines of financial reporting and auditing. The first reason is that there are technical issues that deter assurers from providing assurance reports on sustainability reports. The second, and more important, reason is that the business case for sustainability reporting and assurance is not yet fully accepted: direct costs can be ascertained but benefits are difficult to establish because they accrue to a wide range of stakeholders and are not all measurable in financial terms.

2.1 Technical Issues

9. The technical issues that deter assurers from providing assurance on sustainability were dealt with in depth in the 2002 FEE Discussion Paper *Providing Assurance on Sustainability Reports*. They are important to an understanding of the topic, but they do not present an insurmountable barrier. These technical issues include the absence of generally accepted authoritative standards for sustainability reporting.
10. It is not realistic to expect appropriate standards for sustainability reporting and assurance to emerge before practice is sufficiently developed. Indeed, documents issued as standards, unless given legal force, have to be generally accepted by their intended users before truly becoming acknowledged as authoritative standards. Nevertheless, FEE calls for action to quicken progress towards such standards, as they are a key element in resolving both the technical issues and in convincing those for whom the business case is as yet undecided.
11. Even if generally accepted standards were to be available, sustainability reporting is considerably more qualitative than financial reporting and this introduces difficulties for reporters and assurance providers. For example:
 - While financial statement disclosures can generally be related to a common unit (e.g. the euro), there is no agreed unit for the measurement of sustainability performance
 - Financial statements are prepared principally for the primary users (shareholders) but sustainability reports acknowledge many groups of stakeholders whose relative importance varies from company to company
 - Sustainability reports can include matters, such as reporting company policies or stakeholder dialogue, which are intrinsically different to reporting outcomes
 - Sustainability reports can involve highly subjective judgements over their scope (e.g. the extent to which secondary impacts are reported, or stakeholders are acknowledged) as well as over the disclosures themselves (e.g. assessing unquantifiable social impacts)
 - Some disclosures in sustainability reports depend on external information (such as country or industry-wide performance figures).

12. Further difficulties arise because companies may report only part of their impacts as a step towards full sustainability reporting, either because they have not yet put in place all necessary management systems or because they choose to report first those impacts that they judge to be the most important. Assurers may encounter problems with immature systems and procedures, incomplete reporting or lack of comparative information.

2.2 *Establishing the Business Case for Reporting and Assurance*

13. The limited company often separates the owners of assets (the shareholders) from those with effective control over them on a day-to-day basis (the directors). Lack of trust of directors was an important factor in the development of financial reporting and auditing. Shareholders had a real and direct interest in the stewardship of their assets, the maintenance of their capital and the continuing profitability of the business. The direct costs of financial reporting and auditing were regarded as a cost of raising capital and, once legislation gave recognition to the value to society of financial regulation, a cost of legal or regulatory compliance.
14. The concept of corporate trust has assumed greater importance and a wider range of parties are now interested in how directors and their companies behave. The concept of capital maintenance can be extended to the maintenance and stewardship of human or environmental capital. Sustainability reporting addresses these issues and can contribute to the maintenance of brand value or the mitigation of risks, such as adverse media comment, product boycotting and ethical investors investing elsewhere. This is one reason why companies with significant environmental impacts have been 'early reporters' and why they place value on independent assurance.
15. In several jurisdictions, legislation or capital market rules have required some disclosure of sustainability information. In most instances, however, sustainability reporting has been voluntary.
16. Some stakeholders may have no interest in the direct financial costs of companies' sustainability actions or reporting but the business case has to be judged and accepted by those who do. In the absence of mandatory measures, investors have to be convinced by a business case that sustainability reporting contributes to good financial performance. This is because investors assess the benefits of improved sustainability performance at a secondary level, such as through the mitigation of reputational risk. Investors assess companies that comply with good labour practices are being assessed not on the benefits to their workers but on the reduced reputation risk. The potential damage to sales, for example if a company is found employing child labour, will act as a powerful driver towards better behaviour and its reporting and assurance. This is a simplistic analysis because individual shareholders can interact with a company in other ways and shareholders can, for example be as altruistic as any pressure group concerned with workers' rights. Nevertheless, proponents of sustainability reporting and assurance have a primary need to convert investors, regulators and legislators to their way of thinking.

3. REPORTING AND REPORTERS

17. Corporate sustainability reporting has developed from the environmental and health and safety reporting which first achieved widespread notice in the late 1980s. After the 1992 UN Conference on Environment and Development in Rio de Janeiro, sustainable development became a term in general use prompting the addition of the social dimension to corporate reporting. Histories of the development of reporting are available, as are current surveys (see Appendix 1 – *References and sources*).
18. Environmental information had been made available as part of annual financial reports and in separate environmental reports aimed at informing those with a particular interest in such matters. The reasons for reporting varied across the world. In Europe, shaken by the Chernobyl nuclear disaster in 1986, companies were prompted by environmental concerns as well as legal compliance, competitive advantage and public relations. Improving a company's standing with the media, campaign groups, local communities, customers and regulators was seen as important. The needs of investors were not felt to be as important as in North America where widespread shareholding gave investors a higher level of involvement in the environmental impacts of a company.
19. Historically, the companies that first chose to report were in those industries perceived as having the most direct impact on the environment: manufacturing and extraction (mining, oil and gas) and with the social element becoming more prominent, those with a high social impact, particularly those with operations in developing countries. Users of such reports were naturally concerned to have assurance that the material reported was balanced so as not to unduly favour the interests of the reporting company.
20. As the number of companies reporting has grown, the way in which they report has changed. All reporting depends on the development of management reporting systems that can provide the necessary data and this introduces a lag between management's desire to report and the capability to do so. While there are some jurisdictions where disclosure in relation to financial statements is required by law, standalone reports have evolved in line with:
 - Stakeholder expectations
 - Emerging practice, developing through consideration of what other companies are doing (informed by well-publicised surveys)
 - Voluntary reporting guidelines.
21. Stakeholder expectations not only drive reporting but are also, in turn, influenced by it. A 'virtuous circle' develops which acts to improve the quality of reporting. Stakeholders and their influence are further described in Section 4 *Stakeholders* below. There has been a very considerable degree of co-operation amongst companies, stakeholder organisations and standard setters. People have, to a remarkable extent, given their time and shared their knowledge and experience to enhance the quality of sustainability reporting.

22. The efforts of business associations and those promoting surveys and awards have complemented those of individual companies. The World Business Council for Sustainable Development (WBCSD) is a coalition of 170 international companies united by a shared commitment to sustainable development. WBCSD has had accountability and reporting as one of its key projects. It operates a Web portal showcasing reporting practices and provides a guide to help companies to develop their reports.
23. Reporting awards, first for environmental reporting and latterly for sustainability reporting, have motivated reporters and spread good practice in Europe and elsewhere. In 2002, 38 reports that had won national awards were submitted for the seventh year of the European Sustainability Reporting Awards (ESRA). There are 15 participating countries and each year a report of the judges is written which highlights the strengths of the winning reports and improvements that can be made.
24. There is not yet a generally accepted standard for sustainability reporting. However, the form of reporting has been increasingly determined by the influence of those issuing pronouncements. For comprehensive reporting, the most influential is the Global Reporting Initiative (GRI). Started in 1997 by the Coalition for Environmentally Responsible Economies (CERES), the GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in co-operation with UN Secretary-General Kofi Annan's Global Compact.
25. The GRI Sustainability Reporting Guidelines (2002) are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. They outline core content that is broadly relevant to all organisations regardless of size, sector or location. The full GRI Reporting Framework comprises the Guidelines, technical protocols on indicator measurement, sector supplements (e.g. mining, automotive and banking), further reporting guidance documents (e.g. on diversity) and other resource documents. By the end of April 2004, GRI was able to list 429 organisations using the Guidelines in some way, including prominent European companies such as: British Airways, Carrefour, Deutsche Telekom, Shell and Volvo.
26. Legal requirements for sustainability reporting have been introduced in some countries, but these are generally for disclosure in, or in connection, with the financial statements. Perhaps of greater importance is the strong encouragement provided by governments for disclosure.

4. STAKEHOLDERS IN THE DEVELOPMENT OF ASSURANCE

4.1 Introduction

27. In the context of sustainability reporting, the term 'stakeholders' refers to individuals or organisations that have, or could have, a valid interest in a sustainable development decision of a company. The interest could be in influencing the decision or simply through being affected by the outcomes of a decision. For a company, stakeholders include investors and other providers of capital, governments, employees, suppliers, customers, and others potentially affected by environmental and other impacts (often represented by non-governmental organisations (NGOs)).
28. Some company stakeholders also have an interest in reporting and assurance in a wider context. This section focuses on investors, governments and NGOs as they have considerable influence over the development of reporting and assurance.

4.2 Investors

29. Companies wishing to attract and retain investors are motivated to provide the information they demand for investment decisions. Investors, perhaps informed by advisers, may invest directly or through intermediaries such as investment funds. Their investment decisions are vital to those they invest in and their understanding of and support for sustainability reporting and assurance is vital to its development. Large institutional investors may pursue 'ethical' investment policies, either individually or together through a trade association. Several indexes have arisen that identify companies as 'good citizens' and rate them against standards of conduct and reporting.
30. It is not just through investment decisions that the influence of investors is felt. Active investors and intermediaries often engage with companies to encourage them to meet their corporate responsibility standards. These standards can include obtaining assurance as an element of policy and reporting practices.
31. Appendix 1 – *References and Sources* provides examples of investor-related stakeholders in sustainability reporting and assurance including an ethical investor, a trade association, an ethical fund manager and an ethical investment index.

4.3 Governments

32. Governments increasingly work together, either through the UN or regional bodies to further the public interest. There is a general commitment to sustainable development through which stems the desire to influence businesses for the common good. At the 2002 UN World Summit on Sustainable Development (WSSD) held in Johannesburg, governments agreed '*to encourage industry to improve social and environmental performance through voluntary initiatives*'.

33. Government voluntary initiatives to promote sustainability reporting can vary from simple statements that such reporting should be undertaken, through to the issue of comprehensive guidance on the form of such reporting. Voluntary initiatives may be successful and involve little cost to government but where there is insufficient take up, legal requirements may follow. Legal requirements may be direct – specifying how reporting is to be done – or indirect, for example requiring major investors (such as pension schemes) to disclose in their own financial reports the extent to which their investment policy has been responsive to sustainability issues. The importance of indirect legislation is that it is a strong encouragement for sustainability reporting but it still allows flexibility in reporting at a time when practice is still developing. A legal mandate for assurance is more in keeping with a direct legal requirement. Appendix 1 – *References and sources* provides information on inter-governmental agencies.

4.4 NGOs

34. The term ‘non-governmental organisation’ (NGO) describes many different organisations that aim to represent private citizens and which are independent of government (and political parties). NGOs are generally not-for-profit organisations. Some are recognised by the United Nations and are consulted over policy issues. NGOs are advocates of human rights, animal welfare and conservation, the environment, social programmes, women’s rights, fair labour policies and more. Appendix 1 – *References and sources* provides further information on NGOs.
35. NGOs demand information from companies; their campaigns influence investors, governments and individual stakeholders who also demand greater reporting. Companies may even begin reporting to counter, with what they feel is more balanced information, potentially damaging reports from NGOs.
36. NGOs may have the resources to obtain or to verify the information they need without recourse to a company. Where company reports are used, NGOs may be well placed to reject or challenge information that is not verified. NGOs are also demanding of assurance providers, evaluating their independence and competence before giving credence to their reports.

5. INTERNATIONAL BODIES AND PRONOUNCEMENTS FOR ASSURANCE

5.1 Introduction

37. This section deals with international bodies associated with assurance issues and their pronouncements or standards. Assurance cannot be divorced from reporting or from the subject matter that is reported. It is not just the existence of a generally accepted reporting framework that is important, so too are standards for individual aspects of reported performance where that performance cannot easily be reported through simple facts. For example, a company may want to report on the employment conditions of its agricultural workers in a developing country. Describing the policies and procedures in detail could do this, but it may be more informative for the company to assert that it meets the minimum standards laid down in the International Labour Organization 2001 Convention and Recommendation on Safety and Health in Agriculture. As explained later in this section, detailed reporting standards can feature directly in related assurance standards.
38. Financial statement auditing is generally highly regulated around the world. In the EU, the audit is required by law, those allowed to audit have to be appropriately experienced members of a professional body with high technical and ethical standards, and there are disciplinary mechanisms to enforce those high standards. Oversight or supervision by independent bodies is an additional layer of protection for users of the work of auditors. In contrast, the law does not control sustainability assurance; anyone may provide assurance and process standards are not well developed.
39. Some sustainability assurance pronouncements are directly relevant to the assurance process, whereas others provide the context in which it exists. For assurance providers from the accountancy profession, the context is subject to quality control and ethical standards that are as rigorous as the standards applying to the process.

5.2 International Bodies

40. Pronouncements and standards have been and are being developed for sustainability assurance. These standards may draw on a body of standards developed for assurance on other subject matters, particularly financial statements and environmental reports. The following international bodies are relevant:
 - The International Federation of Accountants
 - AccountAbility
 - The International Organization for Standardization
 - Social Accountability International.
41. The first two organisations issue pronouncements for the work of independent assurers. Further details are given in sub-sections 5.3 *IFAC and its standards* and 5.4 *AccountAbility*. The standards issued by IFAC are particularly relevant to the accountancy profession. As described below, the other two organisations issue pronouncements that are only indirectly relevant to independent assurance.

42. The International Federation of Accountants (IFAC) is the global organisation for the accountancy profession. Its current membership consists of 158 professional accountancy bodies in 118 countries, representing 2.5 million accountants in public practice, industry and commerce, government, and education. Its structure and governance provide for the representation of and interaction with external groups that rely on or influence the work of accountants. The International Auditing and Assurance Standards Board (IAASB) functions as an independent standard setting body under the auspices of IFAC. IAASB issues standards for assurance (including auditing) and quality control. IAASB has issued the International Standard on Assurance Engagements 3000 Revised *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000 Revised). This is an ‘umbrella’ standard, which provides basic principles and essential procedures that could be used for assurance engagements on sustainability reports.
43. The Institute of Social and Ethical AccountAbility (known generally as AccountAbility) is a not-for-profit, professional institute dedicated to the promotion of social, ethical and overall organisational accountability, a precondition for achieving sustainable development. AccountAbility has issued the AA1000 Series. This comprises the AA1000 Framework, which is designed to improve accountability and performance through stakeholder engagement, and further specialised ‘modules’. The first specialised module is the AA1000 Assurance Standard for sustainability reporting. Guidance notes and other materials, some of which are currently under development, will accompany the Standard, which was issued in March 2003.
44. The International Organization for Standardization (ISO) is a worldwide federation of the national standards institutes of 148 countries. ISO standards are produced in many fields. The ones that are most important in the context of sustainability are the ISO 9000 (quality management) and ISO 14000 (environmental management) series. A company whose system satisfies an ISO standard may publicise that fact by referring to or displaying a certificate awarded by an independent certification body.
45. In the EU, ISO 14000 is closely related to the Eco-Management and Audit Scheme (EMAS), a voluntary initiative controlled by EU Regulation 761/2001. By the middle of 2003, there were almost 4000 EMAS registered organisations. EMAS includes the publication of a public environmental statement that is intended to be an accurate and fair presentation of a company’s environmental position. Once verified this allows the company to be listed on the public register of the EMAS National Competent Body. In each country an accreditation body (such as the national ISO member) accredits other bodies to deliver EMAS verification.
46. The users of a sustainability report may believe that they gain some assurance from the fact that the reporting company has achieved ISO certification or EMAS registration. The assurance work involved in awarding a certificate is not subject to standards directly. It is responsive to standards in an indirect way, however, as a certification body must prove that it is capable of assessing companies. It must meet stringent criteria that accreditation bodies use to assess certification bodies for suitability. For example, the European co-operation for Accreditation (EA) *Guidelines for the Accreditation of Certification Bodies for Environmental Management Systems* include competency standards which are sufficiently detailed to be used as process standards by those actually performing certification work. In other words, while there are no

explicit assurance process standards, their content is implicit in other documents. This also provides an enforcement mechanism, as a certification body that fails to meet the criteria will lose its entitlement to issue certificates.

47. ISO has established an advisory group, whose membership extends to consumers and labour, to examine whether ISO should initiate projects to address corporate social responsibility. It is expected that related decisions will be taken in mid 2004, following an ISO international conference in Sweden. ISO groups are continuing detailed work on environmental communication and aspects of climate change (including emissions trading). It is expected that revisions to ISO 14001 and ISO 14004 (part of the environmental management series) will be implemented for 2005.
48. Social Accountability International (SAI) is a not-for-profit, human rights organisation dedicated to improving workplaces and communities by developing and implementing standards. It has issued Social Accountability 8000 (SA8000), a widely used workplace standard that covers all key labour rights (including ILO Conventions). This is an example of an assurance standard that is inexorably bound up with a related standard for the subject matter - an organisation will issue a code and certify compliance with that code providing companies undergo a prescribed assurance regime. SAI certifies compliance through accredited auditors using an independent verification method similar to that employed in ISO certification.

5.3 *IFAC and its Standards*

5.3.1 *General*

49. IFAC occupies a unique position of strength, because it has issued a comprehensive set of standards for financial statements auditing which are widely accepted around the world. It is currently expected that such International Standards on Auditing (ISAs) will be implemented throughout the EU from 2005 and become mandatory under a revised 8th Directive.
50. ISAs include detailed standards covering the concepts (e.g. materiality) and techniques (e.g. sampling) relevant to auditing as well as the process itself. Standards extend to using the work of experts and internal audit. This guidance may be referred to by those carrying out assurance engagements. IFAC has issued an *International Framework for Assurance Engagements* (the Framework) and a general 'umbrella' standard - the *International Standard on Assurance Engagements 3000 Revised Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000 Revised). The latter provides basic principles and essential procedures that could be used for assurance engagements on sustainability reports.

5.3.2 *Professional Pronouncements*

51. IFAC has issued a *Code of Ethics for Professional Accountants* which serves as a model for all codes of ethics developed and used by national accountancy organizations. Such bodies also act as a conduit for IFAC assurance standards where these are not adopted directly so that all

members of accountancy bodies have to follow them. The IFAC Code of Ethics endorses the concepts of objectivity, integrity, and professional competence and highlights how all accountants can attain the highest levels of performance in meeting their responsibilities to the public. The IFAC Code applies to all accountants, including those in public practice, industry and commerce, government, and education. It deals extensively with independence for assurance engagements. Independence is, in essence, a public demonstration of the avoidance of factors that may compromise objectivity when making judgements. IFAC's Ethics Committee is considering responses to a wide-ranging exposure draft that proposes to put the whole Code on a principles basis (rather than rules, which can be circumvented) and to raise its status from that of a model to a true global standard.

52. ISA 220 *Quality Control for Audit Engagements* provides standards that are relevant both for individual engagements and for an audit firm's organisation. Recent revisions to ISA 220 provide additional guidance on quality control matters specific to engagements to audit financial statements. Firm-wide quality control matters are dealt with in a new International Standard on Quality Control *Quality Control for Firms that perform Audits and Reviews of Historical Financial Information and other Assurance and Related Services Engagements* (ISQC 1).
53. ISQC 1 deals comprehensively with firms' quality control practices in the area of assurance and related services engagements. It puts an obligation on firms and practitioners to establish a system of quality control designed to provide reasonable assurance that the firm and its personnel comply with professional standards (for example competence and independence) and applicable regulatory and legal requirements. The system of quality control is required to include documented policies and procedures addressing:
 - Leadership and responsibilities within the firm
 - Ethical requirements
 - Acceptance and continuance of client relationships and specific engagements
 - Human resources
 - Engagement performance
 - Engagement quality review
 - Monitoring.

ISQC1 and the IFAC Code of Ethics apply to assurance engagements, including assurance for sustainability, as well as audits and provide necessary foundations for assurance process standards.

5.3.3 Technical Standards

54. Having issued an *International Standard on Assurance Engagements* (ISA 100)¹, IAASB continued its discussion of, and research into, concepts for assurance, particularly 'reasonable assurance'. In March 2003, FEE was able to contribute to this process by the publication of an Issues Paper *Principles of Assurance: Fundamental Theoretical Issues with Respect to Assurance in Assurance Engagements*. The paper argued *inter alia* that this concept, which had

long been central to the audit of financial statements, should be the basis for all assurance standards, including standards with respect to non-financial subject matters.

55. In January 2004, IAASB issued an *International Framework for Assurance Engagements* (the Framework) and the International Standard on Assurance Engagements 3000 Revised *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000 Revised) to replace ISA 100 and ISA 120. The new concepts in the Framework and ISAE 3000 Revised are designed as a basis for the accounting profession to obtain assurance on a broad range of non-financial subject matters, including assurance on sustainability. The Framework defines and describes the elements and objectives of an assurance engagement and identifies engagements to which ISAs and ISAEs apply. ISAE 3000 Revised is effective for engagements where the assurance statement is dated on or after January 1, 2005. While ISAE 3000 Revised has been written for general application, it is intended to serve as an ‘umbrella’ standard for assurance engagements on non-financial information. IAASB expects to develop further ISAEs to provide detailed guidance on specific subject matters and has stated that it will consider possible projects dealing with assurance on internal control and assurance on sustainability reports.

5.3.4 Implications for Sustainability Assurance

56. ISAE 3000 Revised requires compliance with a system of quality control (in accordance with ISQC 1) and relevant parts of the IFAC Code of Ethics, including independence.
57. The Framework identifies those engagements to which ISAEs apply. There are two types of assurance engagements: a reasonable assurance engagement and a limited assurance engagement. The concept of reasonable assurance is very important in the circumstances of an engagement to issue an assurance statement on a sustainability report. Reasonable assurance is not absolute assurance. The objective of a reasonable assurance engagement is a reduction in the risk of not detecting material misstatement to an acceptably low level in the circumstances of the engagement. A higher risk of not detecting material misstatement is accepted in a limited assurance engagement which, nevertheless, still results in a meaningful level of assurance being obtained. The two types of engagement are clearly differentiated by the form of assurance statement used by the independent assurance provider. A negative form of expression is used to communicate limited assurance.
58. Under the Framework, the assurers for whom it is mandatory are allowed to accept assurance engagements that fall into one of these two categories. As these two categories are defined, they are intended to convey a clear understanding of the characteristics and limitations of assurance to the intended user. Consulting engagements are excluded, because they are not assurance engagements, but the Framework still applies to an assurance engagement that is part of a larger engagement. A further requirement of the Framework and ISAE 3000 Revised is that engagements cannot be accepted unless the subject matter is appropriate and the criteria used to evaluate the contents of the report are suitable. Although the subject matter, such as a sustainability report, may be identifiable and evidence is available to support it, the criteria used by the reporting company may cause problems for the assurer. To be suitable, criteria have to

be relevant, complete, reliable, neutral and understandable. Suitable criteria are a basic condition for the accountancy profession to provide assurance. As a result, this might prevent sustainability reports being turned into or used as mainly a ‘public relations exercise’.

5.4 AccountAbility

59. The AccountAbility AA1000 *Assurance Standard* is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organisations’ sustainability reporting, and their underlying processes, systems and competencies. It describes key elements of the assurance process.
60. AA1000 covers the whole range of organisational sustainability performance and focuses on the materiality of subject matter to stakeholders. It provides the basis for assuring a sustainability report and underlying processes, systems and competencies against the AA1000 Series definition of accountability and associated principles. The core assurance principles in it are equivalent to the accountability principles underpinning the overall AA1000 Series. These are materiality, completeness and responsiveness, which are part of an overall commitment to ‘inclusivity’. A company may use the AA1000 Framework to guide it in establishing systematic accountability processes and, where that is done, management may understand and welcome the use of the related Assurance Standard.
61. The AA1000 *Assurance Standard* includes consideration of levels of assurance and the required assurer competencies (individual and organisational) and independence. It is, however, written at a high level and it is intended to be supplemented by Guidance Notes. The first of these is on materiality. This includes a broader definition of materiality to ensure that companies are sensitive to stakeholder concerns. The related issues were first aired in a separate AccountAbility publication *Redefining Materiality*. This is an example of parallel development as a working party has also been set up in the UK to consider the issue of materiality for the expanded Operating and Financial Review (see paragraph 78 below). Overlap in membership between the two projects has contributed to a co-ordination of thinking. This may in turn influence IAASB in a revision of its ISA on materiality for audits and when considering materiality in relation to future ISAEs.
62. AccountAbility has not issued a code of ethics or quality control standards similar to those issued by IFAC. As stated above AA 1000 *Assurance Standard* is written in framework language allowing for some discretion in its application. For example, the concept of ‘assurance’ or ‘an assurance engagement’ is not clearly defined nor is there consideration of need for stringent reporting criteria. If not supplemented by the planned Application Guidance Notes there is a risk of inconsistent application of AA 1000 *Assurance Standard*.

6. VISION OF THE LONG-TERM FUTURE

'...all of us, coming from every corner of the world, informed by different life experiences, are united and moved by a deeply felt sense that we urgently need to create a new and brighter world of hope...

We commit ourselves to act together, united by a common determination to save our planet, promote human development and achieve universal prosperity and peace.'

(Source: Declaration World Summit on Sustainable Development, Johannesburg, South Africa; 2002)

63. All sectors of society have a role to play in building a future in which global resources are protected, and prosperity and health are within the reach of everyone. The World Summit on Sustainable Development, held in 2002 in Johannesburg, South Africa afforded an opportunity for representatives of governments, NGOs, business and industry, trade unions, and other sectors of society to take stock and to direct future action toward meeting important challenges. The quotation above from the Summit Declaration expresses the shared commitment.
64. For the private sector the Summit Declaration stated that:
- 'We agree that in pursuit of its legitimate activities the private sector, including both large and small companies, has a duty to contribute to the evolution of equitable and sustainable communities and societies.*
- We agree that there is a need for private sector corporations to enforce corporate accountability, which should take place within a transparent and stable regulatory environment.'*
65. The long-term ideal future for reporting and for assurance is one where sustainability reporting can be as established as financial reporting is now and where assured corporate reports allow stakeholders to assess with confidence the extent to which private sector corporations actually contribute to the evolution of equitable and sustainable communities and societies.
66. Implicit in this is the use of widely accepted reporting criteria, a trustworthy assurance profession and effective standards for assurance work.
67. This is not to say that every enterprise will produce a sustainability report. Cost and benefit, even judged in non-financial terms, might dictate that the public interest is adequately served by reporting by only those entities that have higher impacts.

7. CURRENT STATE OF ASSURANCE

7.1 Introduction

68. The first part of this section sets out the bodies or individuals that are providing assurance. This is followed by a consideration of developments in assurance related to financial statements because these may also be relevant to assurance for sustainability. The section then continues with a review of the actions of standards setters in relation to sustainability assurance.
69. The section concludes with a discussion of issues arising from current practice (7.4 onwards). The discussion is illustrated by examples drawn from assurers at the leading edge of the discipline. It is not possible in a paper of this length to cover reporting and assurance in practice in great depth, so Appendix 1 – *References and sources* provides the reader with access to further information. In particular, a research study commissioned by CPA Australia, Triple Bottom Line: A study of Assurance Statements Worldwide, is recommended reading.

7.2 The Assurers

70. In theory, in exceptional circumstances, some categories of stakeholders could undertake their own procedures, for example by inspecting a production facility. This option may not be feasible for an ordinary citizen or investor, but may be attractive to an NGO that has the resources to take such action. An investigation of a company or an industry sector by an NGO may result in a published report of findings relevant to the particular objectives of the NGO concerned. For example, in January 2004 major computer production companies HP, IBM and Dell were forced to react to criticism from the Catholic Agency for Overseas Development after an investigation revealed ‘dire working conditions’ at sites in Mexico, China and Thailand. Direct stakeholder investigation/assurance is not dealt with further in this paper; however, as it need not relate to information disclosed by a company and each instance is different.
71. Where sustainability information is presented in the annual report containing the financial statements there may be some assurance albeit ‘hidden’ in the report of the financial statement auditors. Auditors are concerned with the whole of the annual report that includes the financial statements. They report on the financial statements in terms of ‘truth and fairness’ and compliance with the applicable law and financial reporting framework. Auditors’ responsibility for other information in the report, in their capacity as financial statement auditors, is generally less: they are normally only required to consider if it is misleading, or whether it is inconsistent with the financial statements. Nevertheless, they consider the implications for their report if they become aware of any misstatements or material inconsistencies with the financial statements. Thus to a very limited extent, the financial statement auditor is also a sustainability information assurer. Auditors may, however, provide further separate assurance.
72. Users may believe that they derive some comfort in relation to a sustainability report, even in the absence of explicit third party assurance. This can be through disclosure of an internal mechanism for assurance, such as the involvement of an internal audit function, or disclosure that a company reports has adopted a particular code of conduct or been awarded certificates for

its management systems. The value of such disclosures is difficult to ascertain, especially since, in the absence of independent assurance, their validity is not established.

73. Explicit external assurance may be from a well-known person, a ‘famous face’, providing some sort of comment on the report (although the value of such comments is open to question), a council or committee appointed to provide oversight, or an independent assurance specialist.
74. Different forms of internal and external assurance can be associated with one report and even where independent assurance is sought there may be more than one such assurer. For example, one assurer may verify quantified disclosures while another gives a commentary on stakeholder engagement.
75. Reporting is currently done mainly by listed or larger companies, which puts a constraint on assurers as they may be called upon to carry out assurance procedures to a tight deadline in many locations. When a full sustainability report is to be assured, the assurance provider has to have the capacity to perform work at many different locations as well as the expertise to address the many technical issues arising. As a result, large international accountancy firms, consultancies and certification organisations are at the forefront of assurance provision. Nevertheless, some assurance is provided by smaller entities including individuals who are recognised as assurance experts.

7.3 Developments in Assurance related to Financial Statements

76. Developments for annual reports containing financial statements will require auditors and auditing standard setters to address several of the technical issues that are currently seen as barriers to assurance on sustainability. These developments affect the financial statements and also other material, such as narrative commentary or disclosures about internal control.
77. Auditors are faced with considerable change in the content of financial statements as International Financial Reporting Standards (which are to be used in the EU for listed companies from (generally) 2005) require many assets and liabilities to be measured subjectively at ‘fair value’, rather than simply reported at their depreciated historical cost. Some sustainability-related information is now necessary in financial statements because it has a direct financial impact, for example a balance sheet may include financial instruments related to greenhouse gas emission trading. The recognition in financial statements of the importance of sustainability information may enhance the value that shareholders and other stakeholders place on comprehensive reporting by the company thereby furthering its business case. However, financial statements should be free from ‘information overload’.
78. A development over the last ten years, which has implications for the future of assurance for sustainability, is the inclusion in annual reports of material discussing and interpreting the business. In the UK for example, listed companies have been preparing an Operating and Financial Review (OFR), which includes a review of the business and its risks. This can include environmental and other sustainability issues. Hitherto, there has been no requirement for the OFR to be audited though auditors have had a responsibility to consider its consistency with the financial statements. The UK government has consulted over an expansion of the OFR and the

extent to which some form of assurance should be required. Draft Regulations on the OFR and directors' report were issued for consultation in May 2004 along with a publication, *Practical Guidance for Directors*, to help directors decide what principles and processes to follow in preparing an OFR. It is proposed that auditors should express an opinion on the process that is followed in producing the OFR, as distinct from its content.

79. A further change in auditors' responsibilities relates to the disclosure of information about a company's financial control system. In the UK, the Cadbury Committee (1992) recommended that directors should report on the effectiveness of a company's internal control system and that the auditors should report on their statement. This proved to be too controversial and by 1999 the Stock Exchange was looking for directors to report only that they had assessed the system of internal control; i.e. there was no judgement as to its effectiveness. Auditors have had to report that this statement is correct. A similar approach could be adopted for aspects of sustainability reports where stakeholders are interested in whether a relevant process has actually taken place.
80. The Sarbanes-Oxley Act of 2002 was enacted in the United States as a direct result of the Enron collapse. Under the Act and the rules of the body it set up (which in effect become rules of the Securities and Exchange Commission), directors have to certify the effectiveness of the internal financial control (a narrower concept than internal control). Auditors should provide an opinion that, in all material respects, the company maintained effective internal control over financial reporting. This amounts to an audit of the control processes as well as their outcomes. These proposals will have a considerable impact outside the US as many of the companies concerned have overseas operations that will be affected. In addition, some EU countries have introduced similar requirements affecting companies outside the sphere of Sarbanes-Oxley. For example, in December 2003, a corporate governance code was issued in the Netherlands that requires management to declare in the director's report that the company's internal risk management and control systems are adequate and effective and provide clear substantiation of this.
81. Some EU countries have also introduced requirements for sustainability information to be disclosed in the annual report that includes the financial statements. The nature of such disclosures and the degree to which they are audited show wide variations. In France, regulations under the Nouvelles Régulations Economiques require listed companies to provide a report on sustainability issues which is included in (or referenced from) their annual report. While the requirement is not as extensive as that of the GRI Guidelines, it provides a statutory underpinning for further voluntary disclosure. In the Netherlands, there is a recommendation that sustainability information is disclosed in the report of the directors that accompanies the financial statements. The Dutch Accounting Standards Board based its requirements on the GRI Guidelines but at a much higher level with reduced detail. Since 2002 the Danish Financial Statements Act has required the management review statement (which is considered part of the annual report) to include information about environmental issues and intellectual capital. The statement is required to give a true and fair view and is subject to audit. Similar requirements exist in Sweden. This trend will be increased through the implementation of the modernisation of the Fourth and Seventh Directives.

7.4 *Issues arising from Current Assurance Practice*

82. In the first instance, assurance depends on what is reported and how it is reported: sustainability reporting may be done on paper, or on the Internet, and may be more frequent than once each year. Sustainability reporting can range from a full stand-alone report, through separate reports on aspects of sustainability (e.g. an environmental report), down (or up) to the inclusion of information in the annual report that contains the financial statements. Indeed, some information can be in the financial statements themselves (e.g. in relation to trading of greenhouse gas emission financial instruments).
83. It is not appropriate in a paper of this nature to provide a full survey of current practice. Instead, readers are invited to refer to the research study mentioned in paragraph 72 and to read in detail the assurance statements reproduced in Appendix 1 - *References and sources*. These have mainly been selected because the associated sustainability (or environmental) report was on the published short-list for the 2003 European Sustainability Reporting Awards (ESRA). Two assurance statements are included for Novo Nordisk: one relating to a report included in ESRA and one more recently issued. The ESRA companies are all winners of national awards and their reports can be seen as representative of 'best practice in sustainability reporting' in 2003. The ESRA 2003 winners are: Aalborg Portland AIS for best environmental report, and Novo Nordisk AIS for best sustainability report.
84. The assurance statements themselves have not been assessed by ESRA for technical merit (nor does their inclusion in this paper represent any comment by FEE on their quality). In relation to their consideration of the sustainability or environmental report, the ESRA judges have regard only to the following principle regarding the presence of an assurance statement:

'The inclusion of a verification statement is an important aspect of report credibility. Issues to consider are: remit and scope, indication of site visits and site specific testing, use of verification standards and guidance literature (for example: IDW, FEE, GRI).'

7.4.1 *Overall View*

85. Readers of the assurance statements in Appendix 1 – *References and sources*, and indeed other reports currently available, cannot fail to notice the wide diversity in approach. This is partly because the scope of an assurance statement can vary depending on the precise nature of the assurance engagement and the sustainability report itself. This is particularly the case where a website is used for the main sustainability report. Such a presentation provides a much more flexible method of providing information, which can extend to the assurer's own website, where for example details of the assurer's competencies can be found.
86. The lack of standardisation may also be explained by the lack of standards for assurance. Reports that are very recently published (and which have not had time to be assessed for reporting awards) are more likely to refer to recently issued standards than reports relating to the year 2002. But even where more recent standards are used, the variation in reporting is considerable.

87. Each of the assurance statements reproduced in the appendix reveals much about the conduct of the assurance engagement and also the importance attached to elements of assurance by the reporting company and assurer. This may be illustrated in a very simple way by examining the titles given to some statements:

Your Assurance – External Verification Statement (BAA)
Independent Assurance Statement to Executive Management (Novo Nordisk 2002)
Moderate-Level Assurance Report on Certain Environmental Data (VE)
Assurance Statement (Wärtsilä).

88. The recent ISAE 3000 Revised requires that a statement has an addressee and that it gives a clear indication that the report is an independent assurance statement. Only one of the above reports satisfies both of these requirements, although one ‘verifier’ may have used the word ‘external’ as an alternative.
89. Clearly, IAASB feels that independence is of vital importance. Others may take the view, however, that the fact that a statement provides ‘moderate-level assurance’ is more important and so choose to highlight it in the title. There may also be divergence of views as to whether inclusion in the title is highlighting a matter or otherwise (a title being easily passed over by a reader).
90. In essence, a user of an assurance statement is interested in two things: whether the assurer may be trusted and what the assurer reports about the sustainability report. For financial statement auditors, used to a high degree of regulation, the former is often assumed to be taken for granted by users. Disclosure of the fact that the auditor is independent of the reporting company is the only relevant matter that is disclosed. In the sustainability field this no longer holds true. As discussed below, the same applies to the opinion the assurer provides.

7.4.2 Trust in the Assurer

91. The sceptical user of a sustainability report may assume that the reporting company is presenting only favourable information, or is in some way distorting what is reported to achieve the same end. Unless the user can place some trust in the assurer, then any assurance statement by the assurer has little value. Assurers can build trust through transparency and accountability in the same way as the companies that are their clients. Disclosure is an important aspect of this and the assurance statement is the most important way in which the disclosure can be made. Users can be expected to be concerned with honesty and integrity, with independence from the particular client and with competence to undertake the engagement. Competence can be broken down into expertise in assurance (linked to compliance with applicable standards) and the diverse technical issues associated with the subject matter and also the physical capability to carry out an engagement that may be global in scope.

‘The verifier is completely independent from BAA and any of its stakeholders or other conflicts of interest. The verifier exclusively is responsible for the contents of the verification statement which has been published in full by BAA.’

As statutory auditors of VE and specialists in the area of sustainable development, ... (report signed jointly by professionals of Ernst & Young (namely the financial auditors and sustainability experts) Jean Bouquot and Alain Grosmann, Barbier Frinault et Compagnie Ernst & Young and Eric Duvaud, Ernst & Young Environment and Sustainability)

'We have based our approach on emerging best practice for independent assurance on sustainability reporting, including the AA1000 Assurance Standard, Guiding Principles, Consultation Document, June 2002, and ISA 100 Assurance Engagements, issued by the International Auditing and Assurance Standards Board.' (Novo Nordisk 2002)

7.4.3 Reporting on the Sustainability Information

92. The user looks for assurance that a report contains information that is true and that it has not left out anything important. Establishing the truth of simple facts is uncomplicated but the truth of many disclosures has to be judged against criteria for measurement and disclosure. Similarly, unless there are appropriate criteria it is difficult to judge the boundaries or acceptability for inclusion of potential disclosures. The assurer may be able to refer to known criteria but may also have to provide more explanation. The concept of 'materiality' assumes considerable importance.
93. A further issue for users of an assurance statement is the degree of trust they can have in the opinion of the assurer. This is not just a matter of the trust they place in the assurer but also depends on the degree of certainty with which the assurer gives their opinion, based on the work they have done; this is often referred to as the 'level of assurance'. This degree of certainty may be communicated by the wording of the assurance statement.

7.4.4 Recommendations and Commentary

94. Users of sustainability reports may also be concerned to know what the assurer has found during the course of an engagement that does not relate directly to the subject matter of the sustainability report, for example recommendations to management on sustainability-related aspects of operations. The value of such material in sustainability reports is enhanced if the assurer can demonstrate expertise in the matter reported. Such disclosures are not normal in financial reporting where, generally, constructive suggestions to management are made privately.

'Our detailed recommendations for management ... are available in the internet version of the Report'

And (in the commentary section of the report):

'We recommend that Novo Nordisk clarifies whether issues of business ethics, such as competitiveness behaviour, bribery and corruption, should be part of the Triple Bottom Line approach.'

We have observed noticeable improvements in the Report's presentation on how Novo Nordisk deals with dilemmas and embeds actions in the context of global health and social responsibility.

We recommend further development of reporting measures on the 'Economic footprint' emphasising the societal value of Novo Nordisk's products and services to be a particular area of focus.' (Novo Nordisk 2002)

7.4.5 Changes over Time

95. The two Novo Nordisk assurance statements show considerable change between February 2003 and February 2004. The reports refer to different standards and the more recent report adopts a structure that highlights the differences between conclusions with a high level of assurance and those where the level is moderate.

'We have based our approach on emerging best practice for independent assurance on sustainability reporting, including the AA1000 Assurance Standard, Guiding Principles, Consultation Document, June 2002, and ISA 100 Assurance Engagements, issued by the International Auditing and Assurance Standards Board.' (Novo Nordisk 2002)

*'We have based our approach on emerging best practice for independent assurance on sustainability reporting, including the AA1000 Assurance Standard (AA1000AS) issued by AccountAbility; and the International Standard on Assurance Engagements (ISAE 100), issued by the International Auditing and Assurance Standards Board.'*² (Novo Nordisk 2003)

96. Unless a more-specific assurance standard is issued by IAASB, an assurance statement issued in 2005 is likely to refer instead to ISAE 3000 Revised, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* as it is effective where the assurance statement is dated on or after 1 January 2005. That document also ends references to high or moderate levels of assurance. Instead, each conclusion is to be expressed in the form that is appropriate to either a reasonable assurance or a limited assurance engagement.

7.4.6 Assurance Implicit in Sustainability Reports

97. As mentioned in relation to 7.2 *The assurers* above, sustainability reports can contain disclosures from which users may believe that they derive some assurance. These have not been reproduced in Appendix 1 – *References and sources* but may be read in the sustainability reports, which are generally available on the Internet. There can be several forms of disclosure, including:

² ISA 100 and ISAE 100 are alternative ways of referring to the same document. Its name was changed either when ISAE 3000 Revised was issued (23 January 2004) or on publication of the 2004 IFAC Handbook (February 2004) and is now *International Standard on Assurance Engagements 3000 Revised (Previously ISAE 100) Assurance Engagements*.

- Compliance with a code of conduct or signing of a relevant undertaking, such as the UN Global Compact action program
 - The involvement of an internal audit department
 - Senior management commentary on performance
 - Outcomes of stakeholder dialogue
 - Membership of ethical investment indices
 - The involvement in systems development of a respected environmental consultancy
 - Receipt of awards
 - Involvement of an industry regulatory body
 - Entry on a relevant register, for example EMAS
 - Possession of ISO certificates, such as for environmental management systems.
98. The implications of this particular feature of sustainability reports deserve fuller consideration. For example, in respect of codes of conduct, some codes are developed for particular industries and are not of general application, others may have been developed by organisations seeking to act as their verifiers. In some cases the disclosure will be within the scope of the assurance statement, but the user is generally left in doubt as to the importance of such disclosures, their relationship with the work of the external assurer and hence the degree of trust that can be placed in the sustainability report.

8. CALL FOR ACTION

99. There is clearly a progression towards a global understanding that corporate entities should report their sustainability performance and that assurance is a vital part of that reporting. Progress is naturally limited by the need for reporters and assurers to have access to the tools necessary for the task – appropriate standards and methodologies, and for all parties to develop expertise in preparing, assuring and using such reports. In addition, the cost and benefit of sustainability reporting has to be assessed by society; either governments legislate or markets determine which entities report and the nature of that reporting.
100. In this section of the paper, we call for action on the many parties involved in assurance for sustainability. We believe that continuous action over the next few years is necessary so that progress can continue to be made towards the long-term future set out in Section 6 *Vision of the long-term future* above. Although we attempt to direct each call to an appropriate party, there is much interaction and developments are facilitated if they are supported by those not directly concerned.
101. It is clear that much progress has been achieved so far through the sharing of ideas and expertise. It is through such sharing, across national, corporate and professional boundaries, that real progress can continue towards a sustainable future. While it is important to focus on corporate reporting and assurance, we must never lose sight of the goal that this is intended to achieve. Through promoting awareness, through education and through co-operation we can continue the evolution towards a sustainable future. **We call on reporters, assurers and all stakeholders in the development of assurance work in the public interest and to co-operate rather than duplicate efforts in the pursuit of sustainable development. This call extends to standard setters both for sustainability reporting and for assurance.**
102. **We call on reporters, assurers and all stakeholders in the development of assurance to share their knowledge widely with the objective of informing and educating those in the wider community who are not currently aware of the growing importance of sustainability reporting.**
103. For companies, there is no simple solution to the problems associated with sustainable development. Companies necessarily adopt an incremental approach to action and to reporting. Assurers need to be adaptable so that some assurance can be available to stakeholders in circumstances where a company is not yet fully compliant with generally accepted reporting standards. **We call on standard setters for assurance to recognise the need for assurance standards to be applicable in circumstances where companies adopt an incremental approach to sustainability reporting.**
104. Reporting companies may disclose information that conveys implicit assurance, for example, the involvement of an internal audit function, or ISO certification of management systems. We do not believe that these matters are well understood by the users of sustainability reports. **We call on reporters and, where appropriate, independent assurers to improve disclosure about implicit assurance so as to provide users with a clearer understanding of its usefulness and the relationship between such matters and the report of the independent assurer.**

105. Independence is in essence a public demonstration of the avoidance of factors that may compromise objectivity when making judgements. Independence is a prized quality for auditors of financial statements and, under the IFAC Code of Ethics, independence is necessary for almost all assurance engagements. The Code explains in relation to independence that: *'The use of the word "independence" on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.'*
106. Although the above wording acknowledges that degrees of independence exist, we do not believe that users of reports by independent assurers always appreciate the implications of this. This is particularly important at this stage of development of sustainability reporting because the development of sustainability management systems and reporting may be facilitated by the involvement of expert internal auditors or external consultants. If consultants both advise in this way and provide assurance they cannot be wholly independent. **We call on reporters and assurers to disclose sufficient information about circumstances relevant to independence for stakeholders to be able to assess the degree of independence of the assurer and hence the impact that it may have on the assurance communicated.**
107. Readers of assurance statements may not be familiar with the technical language used. For example, a statement in an assurance statement that *'quantitative data ... are free of material misstatement'* would be of greater value if the term 'material' was explained in the particular context. A simple reference to applicable assurance standards may not be sufficient to inform users, because those standards may not themselves, at this stage of development, contain appropriate explanation. We note that some reporters provide a glossary of terms in their sustainability report and this emphasises the fact that the reporter and assurer working together are best able to promote an understanding of assurance. **We call on reporters and assurers to understand that they should work co-operatively to provide users with a clear understanding of assurance in the context of sustainability reporting.**
108. Sustainability reporting and assurance are of interest to a wide range of stakeholders. Many of the stakeholders will not be well versed in the technical issues associated with assurance. For example, the difference between audit and review (or reasonable and limited assurance) or the use of the concepts such as risk and materiality. As well as improving the clarity of assurance standards and associated disclosures in reports, we believe that considerable effort is needed to inform and educate stakeholders generally. **We call on all stakeholders in the development of assurance to work towards increasing the general understanding of assurance issues. Specifically, we call on standard setters for assurance to make available (e.g. on the Internet) simple language explanations of their pronouncements and technical terms so that the majority of users may access and understand them.**

109. IFAC has no standard specifically for assurance for sustainability. Only one Guidance Note supports AA1000 Assurance Standard. **We call on IFAC and AccountAbility to co-operate and not to compete so as to move speedily to provide high quality and usable standards for assurance on sustainability.**
110. International Standards on Auditing (ISAs) deal with the responsibility that auditors have towards other information in the annual report containing the financial statements. There is a growing trend to include sustainability information in annual reports and financial statement auditors necessarily have to consider such disclosures to discharge their responsibilities. **We call on IFAC to consider whether the guidance in International Auditing Practice Statement 1010 *The consideration of environmental matters in the audit of financial statements* should be extended to sustainability matters.**
111. The majority of companies that prepare a comprehensive sustainability report use the GRI Guidelines to some extent, at least as the most commonly used source of reference material. GRI does not see itself as a standard setter for assurance. It is supportive of assurance and the structured feedback consultation on the 2002 Guidelines asked specific questions of reporters and users about the importance of independent external assurance. The Guidelines recognise that some reporters will report incrementally whereas others will aim to report ‘in accordance with’ the Guidelines. **We call on GRI to continue to recognise the importance of assurance and to maintain expertise in this area so as to be able to assist standard setters for assurance. We call for proper consideration of assurance issues when determining the form and content of the Guidelines and its sector supplements to ensure that the nature of indicators and other disclosures does not preclude assurance. We further call for GRI to encourage reporters to improve disclosure relating to internal assurance (such as for example the possession of ISO certificates) and its relationship with external assurance.**
112. Where reporters do not use the GRI guidelines, it is important for the provision of assurance that the criteria used for reporting are robust and clearly communicated to users. **We call on reporters to meet the information needs of users in communicating reporting criteria.**
113. There are a considerable number of codes of conduct that companies may consider and adopt. Indeed, there are so many that a ‘code books’ has been published to help companies understand the range of codes and their areas of overlap³. Some codes are developed for particular industries and are not of general application. Some codes have been developed by organisations seeking to act as their verifiers. Some requirements, which have the same effect as a code, arise through the development of criteria for inclusion on a register of compliant companies or an investment index. There is nothing inherently wrong with having codes and their equivalents. Indeed where code issuers actively engage with companies they can be forceful drivers of positive change. There is a danger, however, that the effectiveness of code compliance will be diluted by the proliferation of codes. **We call on reporters to ensure that, if reference is made to codes or their equivalents, sufficient disclosure of their content is made to allow stakeholders to develop an understanding of their significance and whether there is any associated assurance (or information is given as to where such information may be found). FEE has also issued a similar call related to ethical requirements in its paper *A conceptual***

³ For example, Corporate Responsibility Code Book, see Appendix 1 – *References and sources*.

approach to safeguarding integrity, objectivity and independence throughout the financial reporting chain.

114. Sustainability reporting and assurance is for the benefit of stakeholders, including those internal to a company. **We call on NGOs and other stakeholder organisations to increase their awareness and their members' awareness of the issue of assurance and to engage with standard setters to ensure that assurance standards are responsive to their needs.**
115. As a corollary, we are aware of the need for standard setters to engage more actively with those who are affected by their standards. The simple issue of proposals 'for comment', even if published on the Internet, is not sufficient. We note that, in contrast, the approach of the GRI involves both geographically balanced meetings as well as Web-based interaction. **We call on all standard setters for assurance on sustainability to adopt a more proactive approach to stakeholder engagement so as to achieve higher participation in the development of standards.**
116. The existence of a wide range of stakeholders and the emerging nature of sustainability reporting and assurance give rise to a risk that reporters and assurers may face litigation from many parties. As the development of reporting and assurance may be restricted by this risk, there is a public policy issue as to the extent to which liability to third parties could or should be restricted. **We call on legislators, standard setters and other affected parties to develop an understanding of the liability issues and to take account of them when acting.**
117. The provision of assurance on diverse matters in a sustainability report clearly requires considerable expertise in several fields. While it is normally necessary, therefore, for assurers to work with multi-disciplinary teams, the training and experience of staff in the core skill of assurance is one that has traditionally been developed by auditors in their professional training. **We call on accountancy professional bodies to develop an understanding of assurance for sustainability sufficient to ensure that, in deciding the content of their professional exams, they are aware of the necessary competencies. We also call on the bodies to assist their qualified members in keeping up to date with the associated professional developments. We call on standard setters for assurance to have regard to the issues arising in relation to multidisciplinary teams.**
118. The European Commission has been active, particularly in the environmental area, in promoting appropriate behaviour and reporting practice. We believe that the current development of sustainability reporting may not necessarily be enhanced by legislation. **We call on the EC to monitor closely the impact of national legislation requiring sustainability information to be presented in the annual report including the financial statements before initiating any legislation at EU level.**
119. Those sponsoring awards, indexes and registers for 'ethical investment', or developing codes for investors to steer their investment decisions along socially responsible investment lines, provide strong incentives for companies to adopt best practice reporting of sustainability issues. **We call on investor organisations to give due weight to the presence and nature of assurance when drawing up their criteria, such as for inclusion or rating.**

120. Shortly before this paper was finalised, CPA Australia published research commissioned from the RMIT University School of Accounting and Law: *Triple Bottom Line: A Study of Assurance Statements Worldwide*. The research has resulted in the availability of a database listing 160 companies (in Australia, Europe and Japan) that release sustainability reports with assurance statements. The development of assurance on sustainability may benefit from academic research relevant to the many technical and other issues arising. **We call on those funding and carrying out research to address the provision of assurance reports on sustainability reporting as a matter of priority. We suggest the need for broadly based research into matters such as:**

- **Relationship between corporate social responsibilities and sustainability**
- **Measures of wealth and value from a sustainability perspective**
- **Limits of the traditional financial (market) approach - the value of non-marketable goods**
- **Boundaries of entities viewed from a sustainability perspective**
- **Sustainability and corporate governance**
- **Stakeholder perceptions of materiality**
- **Geographical and societal variations in reporter and user perceptions of the value of assurance**
- **Communication and language issues where there is multidisciplinary, multilevel, multipurpose reporting.**

APPENDIX 1 – REFERENCES AND SOURCES

This appendix provides a number of links to other sources of information on this topic. This does not constitute a complete listing of sources in this area. Readers may also wish to refer to the FEE Discussion Paper *Providing Assurance on Sustainability Reports* (2002) which has a more comprehensive list of sources and which may be used to develop an understanding of sustainability and assurance issues (it may be downloaded from <http://www.fee.be/publications/main.htm>).

Introduction

Sustainability is an important area of inter-governmental and public concern. The UN website is a primary source of information

<http://www.un.org/esa/sustdev/index.html>

Global Reporting Initiative (GRI)

<http://www.globalreporting.org>

International Federation of Accountants (IFAC)

<http://www.ifac.org>

Institute of Social and Ethical AccountAbility (AccountAbility)

<http://www.accountability.org.uk>

Obstacles to Assurance

2002 FEE Discussion Paper *Providing Assurance on Sustainability Reports* and other FEE publications may be downloaded from <http://www.fee.be/publications/main.htm>

Reporting and Reporters

The history of sustainability reporting

<http://www.uneptie.org/outreach/reporting/sustainability-history.htm>

<http://www.sustainability.com/programs/engaging/history-reporting.asp>

The World Business Council for Sustainable Development (WBCSD)

<http://www.wbcsd.ch>

Surveys, awards and other indicators of current reporting trends

<http://www.corporateregister.com>

<http://www.stratos-sts.com/pages/publica010.htm>

<http://www.sustainability-index.com>

<http://www.sustainability.com/publications/engaging/global-reporters.asp>

<http://www.acca.co.uk/sustainability/awards/esra/>

European Sustainability Reporting Awards (ESRA)

An Internet search engine will provide links to national organisations involved in the awards.

Standard Setter

Global Reporting Initiative (GRI), *Global Reporting Initiative, Sustainability Reporting Guidelines on Economic, Environmental and Social Performance*, GRI, Boston, 2000 & 2002

<http://www.globalreporting.org>

Stakeholders in the Development of Assurance

Investors

A not-for-profit organisation promoting sustainable and responsible investment: European Sustainable and Responsible Investment Forum

<http://www.eurosif.info>

An investors trade association: Association of British Insurers

<http://www.abi.org.uk>

An ethical investor: Universities Superannuation Scheme

<http://www.usshq.co.uk>

A bank lending only to organisations and businesses with social and environmental objectives: Triodos Bank

<http://www.triodos.com>

Asset management company: SAM Sustainable Asset Management

<http://www.sam-group.com>

An index: FTSE4Good Index

<http://www.ftse.com/ftse4good/>

Governments

UN Department of Economic and Social Affairs, Division for Sustainable Development

<http://www.un.org/esa/sustdev/>

European Environment Agency

<http://www.eea.eu.int/>

Non-Governmental Organisations

A comprehensive briefing on NGOs

<http://www.globalpolicy.org/ngos/>

Standard Setters for Assurance

The Fair Labor Association
<http://www.fairlabor.org>

International Federation of Accountants
<http://www.ifac.org/IAASB/>

Institute of Social and Ethical AccountAbility (AccountAbility)
<http://www.accountability.org.uk>

International Standards Organisation
<http://www.iso.ch>

Social Accountability International (SAI)
<http://www.cepaa.org>

EMAS

<http://europa.eu.int/comm/environment/emas/>
<http://www.european-accreditation.org>
<http://www.bsi-global.com>
<http://www.emas.org.uk>

Vision of the Long-Term Future

Johannesburg summit 2002
<http://www.johannesburgsummit.org/>
<http://www.un.org/events/wssd/>

Current State of Assurance

Catholic Agency for Overseas Development
<http://www.cafod.org.uk/>
Clean up your Computer: Working conditions in the electronics sector is available online at
www.cafod.org.uk/policypapers

CPA Australia
Triple Bottom Line: A Study of Assurance Statements Worldwide
http://www.cpaustralia.com.au/01_information_centre/26_tbl/1_26_0_6_database.asp

UK Operating and Financial Review Working Group
<http://www.dti.gov.uk/cld/financialreview.htm>

The Sarbanes-Oxley Act of 2002
<http://www.law.uc.edu/CCL/SOact/toc.html>
<http://www.sec.gov/spotlight/sarbanes-oxley.htm>

APPENDIX 1 (CONTINUED)

SUSTAINABILITY ASSURANCE REPORTS EXAMPLES

As set out in the body of this paper, these assurance statements have mainly been selected because the associated sustainability (or environmental) report was on the published short-list for the 2003 European Sustainability Reporting Awards (ESRA). Two assurance statements are included for Novo Nordisk: One relating to a report included in ESRA and one more recently issued. The ESRA companies are all winners of national awards and their reports can be seen as representative of “best practice in sustainability reporting” in 2003.

The assurance reports themselves have not been assessed by ESRA for technical merit nor does their inclusion in this paper represent any comment by FEE on their quality. They are presented only in order to illustrate the current diversity of assurance statements and to facilitate the discussion of other matters referred to in the body of this paper.

1. Aalborg Portland (Denmark) – 2002 KPMG Report
http://www.aalborg-portland.dk/uk/pdf/Environmental_Report_2002.pdf
2. BAA plc (UK) – 2002/03 Cassela Stanger report
 - a) Summary of Statement
http://www.baa.co.uk/main/corporate/investor_relations/reportsresults/annual_20022003/table_of_contents/BAA_Annual_Report_2003.pdf
 - b) Expanded report
http://www.baa.co.uk/main/corporate/sustainable_development/verification_page.html
3. CORUS (NL) – 2002 Ernst & Young report
http://www.corusgroup.com/media/pdf/IJ_Env_Report_02.pdf
4. Janssen Pharmaceutical Ltd (Ireland) – 2002 ERM CvS report
5. Novo Nordisk A/S (Denmark) - 2002 Deloitte & Touche report
<http://www.novonordisk.com/images/Sustainability/sr02/SR2002UK.pdf>
 - 2003 Deloitte & Touche report
http://www.novonordisk.com/images/Sustainability/sr03/Novo_SUS_2003_UK.pdf
6. SIDMAR (Belgium) – 2001/02 Ernst & Young report
<http://www.sidmar.arcelor.com/CONTENT/pdf/EnvRp02E.pdf>
7. Unique Zurich Airport (Switzerland) – 2002 PricewaterhouseCoopers report
8. Veolia Environment (France) – 2002 Ernst & Young report
<http://www.d.durable.veoliaenvironnement.com/en/file/1/026DF2AWYQB6VS7VDqX1184G.pdf>
9. Wärtsilä (Finland) – 2002 KPMG report
<http://www.wartsila.com/english/pdf/sustainabilityraport02.pdf>



Auditors' opinion

As was agreed, we examined the Environmental Report 2002 presented by the Management for the activities of Aalborg Portland A/S in Aalborg. The Management of Aalborg Portland A/S in Aalborg is responsible for the contents of the report, the views stated and the choice of subjects.

Basis of opinion

As was agreed, we did not perform an audit, but our responsibility is to test the statements and data contained in the report independently and to give our opinion. Our review is therefore not wholly as extensive as an audit.

We planned and conducted our work in accordance with good auditing practice, including the recommendations of the Danish Institute of State Authorised Public Accountants concerning the work of auditors in connection with environmental

reports, with a view to examining

- whether quantitative data and information are calculated reliably and presented in accordance with the accounting policies chosen by the Management, including the description in the section concerned with Measuring methods and calculation basis.
- whether the statutory information requirements for environmental reports are met.

During our examination we tested the basis and documentation for the data and information in the Environmental Report based on an evaluation of materiality and risk. Our work included inter alia analyses, enquiries, examination of data, information and underlying documentary material, and checking of whether the stated measuring methods and calculation basis had been

applied. Using financial analysis, we tested the relationship with the Annual Accounts and made an independent assessment of the accounting policies chosen. We utilised the services of environmental specialists in the performance of our examination.

Opinion

During our examination of the Environmental Report we found nothing disconfirming that the report complies with the relevant statutory requirements and that the documentation and statement of numerical data conform to the accounting policies described.

Aalborg, 14 March 2003

KPMG C.Jespersen

Svend Skov
State Authorised Public Accountant

Jens Frederiksen
State Authorised Public Accountant

EMAS registration

DANSK STANDARD has verified this statement written in Danish and does not vouch for translations of the environmental statement into other languages.

"On the basis of an examination of the environmental statement and the environmental management system mentioned above, including the environmental policy, environmental programmes and audit procedures, DANSK STANDARD hereby certifies that the environmental policy has been established so that it meets the requirements of Article 3 and relevant requirements in Annex I of the Regulation referred to; that an environmental programme and an environmental management system are in place and comply with the relevant requirements in Annex I of the Regulation, that the environmental audit has been carried out in accordance with the relevant requirements in Annexes I and II of the Regulation; that data and information in the environmental statement are reliable and adequately cover all the significant issues of relevance to the site in accordance with the relevant requirements of Annexes III, VI and VII of the Regulation, and that the industrial activities of the company correspond to the above NACE code and industrial sector."



Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for ensuring that the company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the company and the Group, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, and for taking such steps as are reasonably open to them to safeguard the assets of the company and the Group and to prevent and detect fraud and other irregularities.

The above statement should be read in conjunction with the statement of the auditors' responsibilities set out on page 50.

External verification statement summary

Objectives

The aim of the external verification statement is to provide assurance that the information in this annual report is accurate, reliable and objective. We have also considered the completeness of the report to ensure that it is balanced and provides a true reflection of BAA's sustainability impacts and performance.

The process we have used in this verification exercise is based on current best practice, such as that detailed in the Global Reporting Initiative (GRI) and the AccountAbility Standard AA1000. The 2001/02 verification process was one of only five to receive a full score in the verification section of the international Global Reporters Survey conducted by SustainAbility and the United Nations Environment Programme in 2002.

Scope of Verification

- All factual statements and associated environmental and social initiatives, processes, systems and supporting data.
- The environmental targets adopted at BAA's UK airports.
- Environmental and social key performance indicators (KPIs).
- Progress against recommendations from last year's verification statement.

Financial data or information relating to non-airport or international operations has been excluded.

Opinion

Accuracy and Completeness of Report

- We are satisfied that all information contained within BAA Annual Report is accurate and reliable and a true reflection of performance.
- There are no significant omissions, but we would direct readers to the corporate website where BAA has identified its progress and gaps against the GRI Sustainability Reporting Guidelines core indicators.

Performance

- The overall level of target achievement was medium to high in 2002/03 with 73% of the targets being fully or substantially achieved (scoring 8.5/10 or over). This can also be represented as an average score of 9/10 (90%). This is consistent with the results achieved over the last five years.
- We were pleased that BAA has put a formal process in place to progress the recommendations resulting from the verification exercise. Key areas of progress include:
 - The stakeholder survey, which identifies key stakeholder issues and assesses the quality of stakeholder dialogue.
 - The revised BAA Sustainable Development Policy, which was developed in consultation with stakeholders and has increased in scope to further consider social issues and include non-airport and international operations.

Further details of audit recommendations can be found on BAA's website.

www.baa.com/sustainability

Ken Smith Tracy Oates

Director of Environmental Management,
Sustainability & Risk Senior Consultant

www.casellastanger.com

2 June 2003

Verification

Your Assurance - External Verification Statement

Introduction

Casella-Stanger has conducted an external independent verification of the sustainability information presented within BAA's Annual Report and website (hereafter referred to as the 'Report'). This is the fifth year that Casella Stanger has been commissioned to undertake this exercise which involves the assurance of management systems, data collection processes and performance measures that support BAA's sustainability strategy and reporting.

A summary version of this verification statement has also been developed for inclusion within [BAA's Annual Report and Accounts](#).

Objectives of Verification

The overall aim of the verification statement is to provide assurance to stakeholders that the information provided in the Report is accurate, reliable and objective. We have also considered the completeness of the report to ensure that it is balanced, has no significant omissions and ultimately that it provides a true reflection of the sustainability impacts and performance of BAA over the last year.

Casella Stanger recognises that there are currently no statutory requirements in the UK with regard to the verification of sustainability reports. Therefore the process we have used in this verification exercise is based on current best practice in the Global Reporting Initiative (GRI), the Institute of Social and Ethical AccountAbility Standard AA1000 and the Association of British Insurers (ABI). The BAA 2001/02 verification process conducted by Casella Stanger was one of only five to receive a full score in the verification section of the international Global Reporters Survey conducted by SustainAbility and the United Nations Environment Programme in 2002 and is therefore recognised as best practice in verification.

Casella-Stanger is committed to continually improving the verification process to add value to both the company and to external stakeholders. We recognise the need for a robust, transparent verification process to ensure credibility and to act as a tool to drive performance improvement of BAA's sustainability programme.

Responsibility of the Verifier – Casella-Stanger

The verifier's obligation is to stakeholders and readers of this report.

The verifier is completely independent from BAA and any of its stakeholders or other conflicts of interest. The verifier exclusively is responsible for the contents of the verification statement which has been published in full by BAA.

BAA has provided access to all UK sites, records and data required to undertake a comprehensive verification process and the verifier is confident that no material has been withheld.

Casella-Stanger has not been involved in the preparation of any of the material included in the Report.

Scope of the Verification

This verification exercise has covered:

At corporate level:

- All environmental and social data and performance indicators that describe BAA's performance.
- BAA's sustainable development programme.
- All factual statements on the web and in the Annual Report regarding environmental and social initiatives, processes, systems and supporting data. This includes health and safety and security information.
- Progress against recommendations contained within last year's verification statement.

At site level:

- The reported performance against each of the 2002/03 environmental targets adopted at each of BAA's seven UK airports.
- The Environmental Key Performance Indicators (KPIs) collated for the airports and aggregated at BAA corporate. This includes historical data (back to the 1997/98 reporting year) which was included as part of previous verification exercises.
- Progress against recommendations contained within last year's verification statement.

This verification exercise has NOT covered:

- Information relating to non-airport or international operations.
- Any information added to the web-site after 9 June 2003.
- Although we have conducted a top-level check on the factual economic statements, the financial data from BAA's financial report and accounts has not been traced back to source. This is the role of the financial accountants Deloitte and Touche.

Methodology

At corporate level:

BAA's Sustainable Development Programme, Supporting Data and Recommendations

Factual statements and supporting environment, community, human resources (HR) and other social data were verified through a series of interviews at Corporate level, document review, data sampling and interrogation of supporting databases and associated management and reporting systems. This involved challenging and substantiating the content of the material presented in the Report. This process was used to assess the quality of reporting and underlying systems that support sustainability performance.

The same methodology was used to assess BAA's progress against the recommendations published in last year's (2001/02) verification statement.

At site level:

2002/03 Environmental Targets

The 2002/03 targets were verified through independent audit at all seven UK airports. During each on-site audit, evidence of target achievement was reviewed and analysed. This involved interviews with those responsible for the environmental targets, inspection of internal and external records, document review, interrogation of in-house databases and associated management and reporting systems. The integrity and accuracy of aggregated data was tested by tracking sample data back to its source. The verifier then assigned a score out of ten (a process for which had been agreed with BAA) for each target on the basis of evidence reviewed. Progress against a total of 88 [targets](#) was verified. Please see the individual airport's sustainability reports for further details of progress against specific targets at a site level.

Progress against recommendations from last year's verification exercise was reviewed at Heathrow and Gatwick airports and supported by additional evidence where applicable. The remaining UK airports did not have a process in place to progress these recommendations.

Environmental Key Performance Indicators (KPIs)

Environmental KPIs were verified through a review of documentary evidence at airport level and an audit of the system used to generate the data. This included interrogation of in-house databases and inspection of internal and external records. The integrity and accuracy of aggregated data was tested by tracking sample data back to its source. The methodology for data collection, estimation and aggregation adopted by BAA Corporate was also examined and tested for accuracy and robustness.

Opinion of the verifier – Casella Stanger

Accuracy of Report

- We are satisfied that all factual statements contained within BAA's Report are accurate and reliable. However, a more complete and robust picture of BAA's performance could be presented in future by addressing the priority recommendations made in this verification statement (see recommendation section of this Statement).
- We are satisfied that the KPI data is reliable and an accurate reflection of data collected at airport level and collated by BAA corporate. We have found data collection systems to be robust and underlying trends correct. However, there are some inconsistencies in data collection systems adopted by the individual airports in relation to de-icer, noise complaints and biodiversity data. This has led to qualifying statements being included alongside some of the KPI data where necessary. Please see recommendation 8.

Completeness of Report

- We are satisfied that BAA has provided an accurate and balanced report of performance. In general BAA has demonstrated a good understanding of their direct and indirect impacts. This is illustrated throughout the Report and reinforced within its revised [Sustainable Development Management Framework](#) and [Policy](#) which highlights BAA's priority issues and wider impacts relating to sustainable development. There are no significant omissions. However, we would direct readers to the part of the website where BAA has identified its progress and gaps against the [GRI Sustainability Reporting Guidelines](#) core indicators. We would also direct the reader to the individual sustainability reports produced by each airport for further information on local impacts and performance.
- Although BAA's revised Sustainable Development Management Framework and Policy includes non-airport and international operations, there is still a focus upon UK airport operations when reporting sustainability performance in the 2002/03 Report. Casella Stanger was pleased to observe the formation of sustainability targets for 2003/04 for some of the non-airport functions and international operations. Please see recommendation 9.
- In terms of using stakeholder feedback to inform Report content and ensure it meets their needs, BAA has put processes in place to facilitate this earlier in the report production process. There are a variety of feedback mechanisms for stakeholders to comment on the report but this primarily occurs throughout the feedback mechanism for stakeholders within the website.
- In addition to this process, in March 2003 BAA conducted a stakeholder survey of over 600 individual stakeholders. Although, this did not relate to the Report specifically, the survey identified key stakeholder issues in relation to responsible airport growth and sustainable development and assessed the quality of [current stakeholder dialogue](#). We were pleased to observe that the process for the undertaking the survey was reviewed against the requirements of AA1000. This provides an opportunity for BAA to use the results of the survey to inform 2003/04 sustainability reporting processes and content. Please see recommendation 2.
- Overall, BAA continues to play a leadership role in corporate sustainability reporting, especially with regard to meeting the needs of institutional stakeholders such as Business in the Environment (BiE), the Association of Chartered Certified Accountants (ACCA) and the Global Reporters Survey.

Performance in 2002/03

- The overall level of target achievement was medium to high in 2002/03 with 73% of the targets being fully or substantially achieved (scoring 8.5/10 or over). This can also be represented as an average score of 9/10 (90%).
- Environmental KPIs are reported in the Environment section of the website. Where applicable, this illustrates KPI performance against BAA's long term objectives. 2002/03 data indicates that 9 out of 11 of these are currently on track to be achieved by the nominated timescales.
- We were also impressed by the following features of BAA's environment and sustainable development programme in 2002/03:
 - The continued development and implementation of the car sharing scheme across BAA and liaison with other business partners such as British Airways;
 - The continued implementation of surface access strategies and increasing the scope of ownership through liaison with on-airport companies to produce company travel plans.
 - The Corporate Social Responsibility baseline study at Heathrow;
 - The development of action plans to implement waste and carbon dioxide reduction initiatives;
 - The development of a Biodiversity Strategy;
 - The revised sundry charging scheme at Scottish Airports Limited (SAL) which incorporates environmental factors; and
 - The continued implementation and increased formalisation of community initiatives.

Strategic Overview of BAA's long-term Progress (since 1997)

Sustainable Development Programme

This is the fifth year that Casella Stanger has been commissioned to undertake this exercise. This not only enables us to reassure stakeholders on the veracity of the information contained within the Report but also to assess BAA's long-term progress against its sustainable development objectives.

We recognise that some statements in relation to long-term sustainability impacts of any company are by their very nature difficult to verify. However, progress within BAA's sustainable development programme is evidenced through a variety of different systems and processes that are now in place. These include:

- Improved governance processes through the Corporate Social Responsibility Board;
- Development of sustainability Objectives, Goals, Strategies and Measures (OGSM) which is linked to the company's overall business model and performance at each airport including the Senior Management Incentive Scheme;
- Continued success in staff involvement and community programmes;
- Improved staff learning and development programme through its Virtual University programme;
- Increased consideration of the socio-economic impacts of airport development with numerous regeneration initiatives at airport level; and
- Increased use of the GRI Guidelines facilitating improved sustainability reporting

This demonstrates BAA's continued integration and implementation of its sustainability policy into decision-making processes.

Environmental Targets

- The overall level of target achievement has remained consistent over the last 5 years.

Given the inter-year differences in the nature and scope of the environmental targets, we believe that a detailed comparison of performance is not meaningful. However, the environmental target process has become more formalised over the last five years. For example, target performance is linked to remuneration and an internal interim assessment of target achievement takes place at each of the UK airports half way through the target year. The environmental audits also continue to demonstrate high levels of staff commitment and greater ownership and dissemination of issues through all aspects of operations.

In addition, the target setting process has also improved over the last five years. This improvement is characterised by a requirement for all targets to be externally reviewed to ensure that they are challenging, reflect BAA corporate objectives and that they provide coverage of sustainability issues, prior to publication. The targets are also beginning to increase in scope to include coverage of social and economic issues as well as environment.

Please note that in general, the recommendations made in relation to environmental target achievement were as a result of local rather than BAA group-wide issues and as such are provided in further detail in the individual airports Sustainability Reports.

Environmental Key Performance Indicators (KPIs)

- Significant progress has also been made in aligning the environmental KPI data collection processes at individual airports with the environmental target process over the last five years. This has resulted in improvements in the quality of KPI data generated. However, there are still some areas that could be improved in relation to the process and refinement of some of the KPIs reported. Please see recommendation 8.

BAA's progress against recommendations from last year's verification exercise

Casella Stanger was pleased to observe that BAA has put a formalised process in place to progress the recommendations resulting from the 2001/02 verification exercise. At corporate level action plans were developed to address the recommendations with the assignment of owners and timescales. As detailed in the methodology, Casella Stanger has assessed BAA's progress in addressing these recommendations. Highlights include:

- The stakeholder survey, which identifies key stakeholder issues and assesses the quality of stakeholder dialogue.
- The revised BAA Sustainable Development Framework and Policy, which was developed in consultation with stakeholders and has increased in scope to further consider social issues and include non-airport and international operations.
- The review of the GRI Sustainability Reporting Guidelines where BAA has identified its progress and gaps against the Guidelines core indicators.
- The launch of BAA's Sustainability Intranet site 'Start2Day' and Airport Internal Radar publication to increase awareness and promote sharing of best practice.
- Development of 'mapping Diversity in BAA' programme which involved a benchmarking exercise and gap analysis of HR related data.

This process has been put into a table, and further details of progress for each specific recommendation can be found in the [stakeholder](#) section on the website.

At airport level a less formalised approach was adopted and Heathrow and Gatwick have put processes in place to progress recommendations. At BAA's other UK airports, some progress has been made in addressing some of the recommendations contained within the verification statements but there is not a specific process in place.

Where there are still elements of improvement related to the 2001/02 verification exercise these have been incorporated into the recommendations and signposted accordingly.

Priority Recommendations

Where the recommendation also applied in 2001/02 it is indicated in *red italics*

Progress against recommendations made in last year's Verification Statement

Observation: Casella Stanger were pleased to observe that a formalised process has been put in place to progress recommendations from last year's verification exercise and recognise that BAA decided to progress all of the 2001/02 recommendations. However, it was highlighted that there may be potential difficulties in the future in progressing all of the recommendations from the verification process due to the timing of their issue which occurs after BAA's workplans and subsequently resources are allocated for the year. There were also a few other areas highlighted for improvement as detailed below.

Recommendation 1: BAA should continue to ensure that a robust process is in place to progress recommendations and incorporate these into forward planning processes, namely:

- Further improve the internal process for reporting of progress against recommendations with more frequent, documented reporting to the Environmental Strategy Group;
- Further improve document control to ensure that all action plans and updates are dated and have a version number; and
- At airport level, Stansted, Southampton and the Scottish Airports should put processes in place to progress the recommendations resulting from the verification exercise undertaken at each airport. (*Part of Recommendation made in 2001/02*)
- Casella Stanger does not anticipate that BAA always addresses all of the recommendations at once but rather that an incremental approach is adopted with long-term timescales for achievement where appropriate. If applicable, future review of recommendations by BAA should therefore include transparent communication of any recommendations that they are unable to fully action within the year (and assign new timescales) and explanation of any recommendations that they do not think appropriate to address.

Corporate Governance, Management Systems and Reporting Process

Observation: As previously stated, we were very pleased to observe that BAA has undertaken a comprehensive stakeholder survey. The results of the survey were not available in time to inform the verification exercise. It is understood that BAA intends to develop action plans to improve the stakeholder dialogue programme.

Recommendation 2: BAA should ensure that the resulting stakeholder action plans include:

- Feasibility of a consistent methodology for measuring and reporting stakeholder dialogue is explored for application across the business;
- BAA should consider using the results of the 2002/03 stakeholder survey to develop measures against which to assess and report the impacts of BAA's Sustainable Development and stakeholder dialogue programme on the business and on stakeholders; and
- The results of the 2002/03 stakeholder survey should be used to inform the 2003/04 sustainability reporting process and content.

Social

Observation: We recognise BAA's progress in relation to its review of the GRI guidelines, revised Sustainable Development Policy which considers social impacts, and development of some social and economic targets at the airports. Nevertheless, the process for setting BAA's objectives, targets and KPI's still focus on environmental issues.

Recommendation 3: BAA should use the results of the stakeholder survey to inform the scope of performance measurement and identify

whether this should be widened to include more social issues. BAA might consider producing a formal evaluation of the type and nature of social data which requires collection and analysis in support of the sustainable development programme. This could be facilitated by expanding GRI review to incorporate its 'Additional Indicators', review of other best practice guidance such as Business in the Community, and a review of indicators published by other 'best practice' reporting companies. This could also be linked to the HR Departments 'Mapping Diversity in BAA' programme which considers HR related data. *(Part of recommendation made in 2001/02)*

Observation: Casella Stanger was impressed with the progress made in relation to identifying the gaps in relation to existing HR data and processes and there were no issues with regard to verifying the HR equal opportunities data. However, the roles and responsibilities at a local and Group level for inputting and interrogating HR data systems is defined from a business process perspective and this is not linked to the sustainability reporting process. In addition, there is not an overall owner for other social data, such as community and consultation.

Observation: There have been improvements with regard to reporting social and economic KPIs on BAA's website. However there are some inconsistencies in how the consultation, employee involvement and tangible outcomes KPIs are collated across the airports. In addition, the verification process for these occurs later than that of the environmental KPIs.

Recommendation 4: BAA should ensure that a robust process is in place with regard to the provision of social data and supporting processes for the purpose of sustainability reporting. One option may be to define an overall owner for all social data. Specifically, in relation to the consultation, employee involvement and tangible outcomes KPIs, BAA should identify and review processes for collating data on these to facilitate a consistent approach to reporting of these KPIs. These should also be incorporated into the verification process earlier, in line with the approach for the environmental KPIs. *(Part of recommendation made in 2001/02)*

Observation: All data reported was accurate, however, there were some differences in how the health & safety in construction figures were normalised and reported in the Annual Report and website.

Recommendation 5: Ensure that the health & safety in construction figures are normalised and reported consistently in the Annual Report and website according to RIDDOR requirements, i.e. use of per million hours as opposed to per 100,000.

Environmental Targets and Airport Environmental Management Systems (EMS)

Observation: Casella Stanger recognise that BAA has continued to make significant progress with regard to the development and implementation of airport EMS's during 2002/03. All airports have now developed an EMS Manual. As we would expect, these have been developed to reflect local significant aspects and the approach taken to EMS development varies across the airports. However, the audit highlighted some EMS related areas for improvement such as document control and record keeping. In addition, it was not always clear the process by which targets that were not fully achieved last year were addressed.

Recommendation 6: In addition to the Environmental Strategy Group, BAA should consider assigning an overall owner to co-ordinate the EMS process across BAA. This would help to promote a consistent approach (where appropriate), review progress, and facilitate the sharing of resources and any 'lessons learnt'.

Recommendation 7: Now that EMS Manuals have been developed at all UK airports BAA should continue to focus upon the implementation aspects of an EMS. Specifically, at each airport BAA should:

- Ensure that roles and responsibilities for all aspects of EMS implementation are clearly defined and that record keeping and document control is in line with the requirements stipulated by ISO 14001;
- In addition to the annual corporate audit, define and implement an EMS specific internal audit process;
- Implement an EMS training programme in line with the training needs analysis;
- In addition (or incorporated into) the airport's Sustainable Development Boards, conduct a EMS specific Management Review on at least a six-monthly basis; and
- Ensure that targets that were not fully achieved in previous years are progressed, e.g. through personal targets, and that this is communicated to external stakeholders through transparent reporting processes at airport level.

Please see the individual airports specific verification statements for further information.

(Part of recommendation made in 2001/02)

Environmental KPIs Observation: We recognise that progress has been made in relation to KPIs, namely the review against GRI's 'core indicators' and further development of biodiversity KPIs. However, this review could be further improved to incorporate the points below. Recommendation 8: BAA needs to further formalise the existing KPI review process. Specifically, this review should:

- Define all roles, responsibilities and timescales at airport level;
- Take place as early as possible in the reporting year to facilitate data collection and inclusion in the annual report;
- Include development of KPI review criteria which ensures that the KPIs are up to date with current and emerging best practice, that they are aligned with corporate and individual airport's sustainable development programmes and with the outputs of the stakeholder survey. For example, BAA should extend the review the environmental KPIs reported against the GRI criteria. This should include further communication on how gaps in relation to GRI's core indicators will be prioritised and progressed, i.e. the KPIs identified for 'further development in the future' in BAA's GRI table. In addition, BAA may wish to consider extending the review to include the GRI's 'Additional Indicators';
- Include implementation of a consistent methodology across the airports for the KPI data reported. Areas for improvement highlighted in 2002/03 include de-icer, noise complaints, and biodiversity;
- Specifically, in relation to biodiversity, BAA should review the process for determining if

Biodiversity Action Plans (BAPs) are on track to ensure a consistent approach at each airport. BAA may wish to consider adopting the approach used to track Heathrow's Southern Balancing Reservoir BAP;

- Ensure that the KPIs are calculated and normalised using the same, i.e. end of year, PAX figures (in 2002/03 the waste and utilities teams used different PAX figures);and
- Ensure that the KPIs are calculated using the final end of year (as at 31 March) data sheets from the KPI owners and that this is consistent with the data submitted to the verifier.

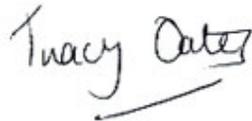
(Part of recommendation made in 2001/02)

Strategy for Non-Aviation and International Operations Observation: Casella Stanger was pleased to observe the formation of 2003/04 targets for World Duty Free, Lynton and other parts of BAA's functions such as supply chain, retail and group utilities. In addition, BAA's revised Sustainable Development Framework and Policy further incorporates non-airport and international operations. However, BAA's sustainability programme and report still focus on UK airport operations. Recommendation 9: BAA should ensure that appropriate systems are in place, e.g. governance, EMS, targets and KPIs, to roll out its sustainable development programme to all of its non-airport and international operations. This should be in line with the approach adopted at the airports for environmental targets, KPIs and external reporting.

(Recommendation made in 2001/02)



Ken Smith,
Director of Environmental Management and Sustainability and Risk



Tracy Oates,
Senior Consultant

June 2003

Casella-Stanger
Great Guildford House
30 Great Guildford Street
London SE1 OES
Telephone : 020 7902 6100
www.casellagroup.com

Casella-Stanger

Casella Stanger is an UK based environmental consultancy which has expertise in a wide range of areas, such as Corporate Social Responsibility, EMS, Risk, Air Quality, Noise, Water Quality and Ecology. The company has experience in the design, development and verification of sustainability reports in a wide range of sectors. Several staff are registered with the Institute of Environmental Management and Assessment (IEMA) as qualified auditors and members of AA1000.

Risks in the workplace However many people work here every day, Corus Steel is no run-of-the-mill workplace: all of us are united in making it both safe and healthy.



Assurance report

Introduction

We have audited the People, Environment and Society annual report 2002 of Corus Staal B.V., IJmuiden. This report is the responsibility of the management of Corus Staal B.V. Our responsibility is to express an opinion on the accuracy and adequacy of the People, Environment and Society annual report 2002.

Scope

We conducted our audit in accordance with the standard for assurance engagements generally accepted in the Netherlands, as issued by the Royal Netherlands Institute of Register-accountants. The comparative figures prior to 2000 did not form part of the audit.

Our principal audit procedures were:

- An assessment by conducting interviews with the responsible management, reviewing the relevant company documents and taking samples of information to substantiate the quantitative data provided.
- Assessing the reporting principles used and significant estimates and calculations made in preparing the People, Environment and Society annual report 2002.
- Assessing the adequacy of the disclosures of quantitative data presented, including the disclosures on the measuring methods applied and the way in which data was collected.
- Evaluating the overall presentation of the People, Environment and Society annual report 2002, partly by assessing the contents of the report against the reporting guidelines set out by the Global Reporting Initiative (GRI) where applicable.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

Based on our procedures performed, in our opinion:

- The description of the policy and management of safety, health and the environment contained in the People, Environment and Society annual report 2002 of Corus Staal B.V. properly reflects the efforts made in 2002 and the envisaged policy of Corus Staal B.V.
- The quantitative data included in the People, Environment and Society annual report 2002 of Corus Staal B.V. are free of material misstatement.

Groningen, 22 April 2003

for Ernst & Young Accountants

D.A. de Waard RA MA

External Verification Statement

Janssen sought the services of ERM-CVS to conduct an external verification assessment of this report.

As part of this process the following was conducted.

- Off-site review of the 2002 report to refine scope and plan for the on-site visit
- On site assessments involving opening meeting with site-based personnel to explain the approach to our work and the agenda of activities;
- site tour and interviews with relevant managers and operators to determine if all relevant sources of environmental impact have been considered.
- verification of a sample of the data and information collected from source to collated reported data;
- detailed review of the data collation processes and review of the final text and data of the final report;
- presentation to management of the findings

A statement of their findings can be found opposite

Verification Statement

Verification Objectives and Scope

ERM Certification & Verification Services (ERM CVS) was commissioned by Janssen Pharmaceutical Limited (JPL) to undertake verification of its 2002 Environment and Social Responsibility report. The objective of the verification was to establish that the information presented is a complete, accurate, and reliable representation of performance for the year 2002.

Janssen Pharmaceutical Limited is responsible for the collection and presentation of information within the 2002 Environment and Social Responsibility Report.

Verification Approach

ERM CVS verification procedures and methodologies have been developed with due regard to the requirements of international standards governing environmental management systems, and general principles of auditing. Our verification approach is customised for each client and involves detailed challenge of principles, selected document review, random chain of custody audits for data, selected interrogation of source data and consolidated data, interviews with both corporate and operational staff at all levels of the organisation.

The verification was conducted through a series of meetings with a variety of staff from JPL including the Plant Manager, EHS Specialists, production managers and operational staff. Additional interviews were conducted with staff responsible for data management, collation and presentation. A thorough site tour was conducted of the activities of to understand the environmental, health, safety and social issues arising from the operations. The assessment included sampling of the data and information collected, from source to collated data, a review of the data collation processes and a review of the information contained in the report. Substantiation of a sample of statements and claims made in the Report has been undertaken and evidence sought where deemed appropriate. A sample of statements included in the report from external sources have been substantiated through direct contact with sources.

Opinion and Recommendations

In the opinion of ERM CVS, and based on the sample of data reviewed, the performance data and analysis provided by JPL provide a reliable platform for assessing the performance of the company with respect to environmental, health, safety and social issues. Data management processes are mature and internal assurance processes in place to ensure reliability and accuracy. All levels of staff demonstrated an awareness of the key programmes associated with understanding and improving performance associated with the issues reported. The assertions, claims and statements made by Janssen Pharmaceutical Limited have been substantiated by ERM CVS via review of supporting evidence obtained during the verification process. Interm recommendations made by ERM CVS during the verification exercise have been incorporated into the Report and have been checked by ERM CVS.

ERM CVS believes that the information gathering processes and the stated corporate performance targets provide a robust basis against which progress can be reviewed by the management team and external stakeholders. JPL has developed a set of key performance indicators for the majority of issues associated with its activities and has made good progress in developing indicative indicators for social related issues. Adequate and reliable descriptions of the extent of social and community engagement actions have been provided.

Future initiatives for JPL should include a review of how greenhouse gas emissions should be reported to stakeholders. There is additional scope for inclusion of safety and health information, as management have mature and robust processes and programmes to manage this aspect of the operations. While JPL already collect some indicative performance data to evaluate social issues progress it is recommended that a review of potential indicators that can be used in future reports be conducted.

Brian Kraus - Chief Operating Officer ERM Certification and Verification Services
<http://www.ermcvs.com>

ERM CVS

Independent Assurance Statement to Executive Management

INTRODUCTION We have performed an assurance engagement on the Novo Nordisk *Sustainability Report 2002* ('the Report') and the underlying systems, structures and processes

These subject matters are the responsibility of the Novo Nordisk Executive Management, with whom the objective and terms of the engagement were agreed. We are responsible for expressing our conclusions and findings based on the engagement.

We have based our approach on emerging best practice for independent assurance on sustainability reporting, including the AA1000 Assurance Standard, Guiding Principles, Consultation Document, June 2002, and ISA 100 Assurance Engagements, issued by the International Auditing and Assurance Standards Board.

This independent assurance statement concludes our engagement, which was conducted in three parts. Our detailed recommendations for management as well as information on our independence are available in the internet version of the Report.

THE REPORT AND ITS UNDERLYING PROCESSES We have reviewed the Report and its preparation considering the objective of the Report and its accordance with GRI's 2002 Sustainability Reporting Guidelines, as described in 'About the report'

In this part we reviewed the systems, structures and processes applied by Novo Nordisk as described in the Report (excluding quantitative data) and as required in 'the Novo Nordisk Way of Management' pertinent to the company's Triple Bottom Line approach

Our engagement included a review of evidence supporting the subject matters, and performing such other analytical procedures and interviews, as we considered necessary in the circumstances. We believe that our review provides an appropriate basis for our conclusion.

The objective of this part of our engagement is to obtain a moderate level of assurance on completeness, materiality and responsiveness of aspects addressed in the Report and the underlying systems, structures and processes.

In conclusion, nothing has come to our attention that causes us not to believe that:

- ◉ Management has designed and applied reasonably effective systems, structures and processes to identify and understand activities, performance, impacts and stakeholder views
- ◉ The Report provides, as an extract from this basis, a reasonably balanced representation of these activities, performance, impacts and stakeholder views, and it has been prepared in accordance with GRI's 2002 Sustainability Reporting Guidelines. A comprehensive GRI compliance index is available in the internet version of the Report
- ◉ Management has a reasonably effective process in place for managing these aspects of performance and responding to stakeholder views; and Novo Nordisk has applied processes that allow stakeholders to access the Report.

CATCH AND DATA ON WATER AND ENERGY In this part we examined the environmental information system CATCH at the

corporate level. CATCH is described on page 59 in the Report. We have further examined the energy and water consumption data presented in the Report and consolidated from production sites as determined in 'About the report'.

On a test basis we examined the evidence supporting the subject matters and we performed other such procedures, as we deemed necessary. We believe that our examination provides a reasonable basis for our opinion.

The objective of this part of our engagement is to obtain a high level of assurance. In our opinion, in all material respects:

- ◉ CATCH is functioning as described, and the system ensures an appropriate data collection process at the corporate level
- ◉ The data for energy and water consumption are complete, and accurately reported in accordance with 'About the report'

OTHER QUANTITATIVE DATA IN THE REPORT In this part we performed certain procedures focusing on the collection and inclusion of other quantitative data in the Report. The agreed-upon scope and work performed under this part of our engagement preclude us from stating an opinion as to whether other data in the Report are complete and accurate.

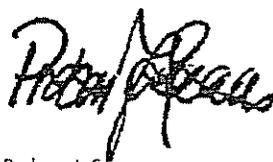
We find that Novo Nordisk applied detailed data collection procedures for the purpose of collecting 2002 data from the reporting units for inclusion and appropriate reflection in the Report; and made reasonable endeavours at corporate level to verify the data. For the two reporting units, Kalundborg and Køge, included in the scope of this engagement, submitted data were consistent with the source documentation presented to us.

COMMENTARY We recommend that Novo Nordisk clarifies whether issues of business ethics, such as competitiveness behaviour, bribery and corruption, should be part of the Triple Bottom Line approach.

We have observed noticeable improvements in the Report's presentation on how Novo Nordisk deals with dilemmas and embeds actions in the context of global health and social responsibility. We recommend further development of reporting measures on the 'Economic footprint' emphasising the societal value of Novo Nordisk's products and services to be a particular area of focus.

Copenhagen, 6 February 2003

DELOITTE & TOUCHE
Statsautoriseret Revisionsaktieselskab



Preben J. Sørensen
State Authorised Public Accountant

Independent assurance statement to Executive Management

We have performed an assurance engagement on the Novo Nordisk Sustainability Report 2003 ('the Report') and the underlying systems, structures and processes. These subject matters are the responsibility of Novo Nordisk's Executive Management, with whom the objective and terms of the engagement were agreed. We are responsible for expressing our conclusions based on the engagement.

We have based our approach on emerging best practice for independent assurance on sustainability reporting, including the AA1000 Assurance Standard (AA1000AS) issued by AccountAbility; and the International Standard on Assurance Engagements (ISAE 100), issued by the International Auditing and Assurance Standards Board.

This independent statement concludes our engagement. Our detailed recommendations for management as well as information on our independence are available in the internet version of the Report.

Conclusions with high level of assurance

On a test basis, we examined the evidence supporting conformity with criteria for the subject matters below. We performed such procedures as we deemed necessary and we believe that our examination provides a reasonable basis for our opinion. The subject matters are:

- The environmental information system CATCH at the corporate level as described on page 59 in the Report.
- The energy and water consumption data for 2003 presented in the Report and consolidated from production sites as described on page 59 in the Report.

In our opinion, in all material respects:

- CATCH is functioning as described, and the system ensures an appropriate data collection process at the corporate level.
- The data for energy and water consumption for 2003 are complete and accurately reported.

Conclusions with moderate level of assurance

On a test basis, we have gathered and evaluated evidence supporting the conformity with criteria for the subject matters below. This work included analytical procedures and interviews performed as necessary, but no substantial testing was undertaken. We believe that our work provides an appropriate basis for our conclusion. The subject matters are:

- Presentation of material sustainability management and performance information of Novo Nordisk in the Report and preparation of the Report in accordance with the GRI's 2002 Sustainability Reporting Guidelines. The materiality concept for sustainability reporting is emerging. Hence we refer users of the Report to the management assertion that "we hope that by presenting the issues we see as material to Novo Nordisk's future business we have also fairly reflected what matters to our stakeholders".
- Description in the Report of Novo Nordisk's response to the United Nations Global Compact principles and conditions.
- Systems, structures and processes in place for identifying, understanding and responding to material sustainability aspects, including views of stakeholders, as required in the Novo Nordisk Way of Management pertinent to the com-

pany's Triple Bottom Line approach, and as described in the Report.

- Procedures for collection and validation of other 2003 quantitative performance data of Novo Nordisk compiled from reporting units and reflected in the Report, as described in the Report.

In conclusion nothing has come to our attention that causes us not to believe that:

- Management has designed and applied effective systems, structures and processes to identify, understand and respond to material sustainability aspects, including views of stakeholders, affecting Novo Nordisk.
- The Report met its objective to provide a reasonably balanced representation of material sustainability management and performance information of Novo Nordisk and that the Report has been prepared in accordance with the GRI's 2002 Sustainability Reporting Guidelines.
- The Report addresses appropriately Novo Nordisk's response to the United Nations Global Compact principles and conditions.
- Other quantitative performance data for 2003 are compiled from reporting units and appropriately reflected in the Report by applying detailed data collection and validation procedures.

Commentary

Stakeholders would note that this Report is part of Novo Nordisk's annual reporting and is approved by the Board of Directors and Executive Management. This underpins the weight and priority given to business sustainability aspects by these two tiers of management. Compared to last year, another noticeable step was taken to make the structure and content of the Report even better illustrate business opportunities and risks driven by the sustainability agenda and by stakeholders' views and needs. With the first seven articles in 'Acting on our commitments' focusing on market opportunities; and the next 14 articles focusing on internal endeavours, the Report reflects how numerous complex sustainability areas are being managed by Novo Nordisk and maturing into business operations.

We recommend that Novo Nordisk establish indicators to measure and report progress in the National Diabetes Programme and other Global Health partnership initiatives. It would also be relevant to align reporting on business and societal benefits with the indicators of TBL performance.

Copenhagen, 5 February, 2004

Deloitte

Statsautoriseret Revisionsaktieselskab



Preben J. Sørensen
State Authorised Public Accountant

*FREE TRANSLATION OF THE AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2002
AND ADDRESSED TO THE READERS OF THE ANNUAL ENVIRONMENTAL REPORT OF THE COMPANIES SIDMAR,
GALTEC AND DECOSTEEL II, AND OF SIDGAL ESV*

We are pleased to report on an engagement entrusted to us by the management of Sidmar NV, Galtec NV, Decosteel II NV, and Sidgal ESV. Our engagement does not consist of an audit of the environmental report taken as a whole, which results in an opinion on the true and fair view.

Our engagement consists of a verification of certain information included in the environmental report of 2002, more specifically the figures relating to 2002 mentioned in paragraph 4.1.2, with the exception of the background value, which is an estimate, paragraph 4.2.1, paragraph 4.2.3, and chapters 6 and 7. More specifically, the purpose of our engagement consists of a review whether:

- the annual environmental report was carefully prepared;
- the figures included in the environmental report agree with those reported to the competent authorities;
- the figures reviewed by us are the result of acceptable measurement techniques and procedures.

The environmental report was prepared under the responsibility of management.

For the purpose of our engagement, we mainly relied on the reporting directives for environmental information as contained in the directives of the Global Reporting Initiative (GRI). We have conducted our engagement in accordance with the standards, recommendations, advises and technical notes of the Institute of Company Auditors. We have adapted these standards, recommendations, directives, advises and technical notes so that they could be used for the purpose of our engagement.

We performed the following procedures:

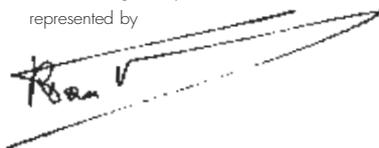
- We had interviews and discussions with management responsible for the preparation of the annual environmental report, for the collection and processing of data and for the performance of measurements.
- We verified whether the annual environmental report was adequately based on the data made available by the environmental department.
- On a sample basis, we verified whether the data included in the annual environmental report were reported to the competent authorities.
- On a sample basis, we verified whether the measurement data were adequately included in the annual environmental report.
- Through interviews, partial observations and external confirmations, we verified whether the measurements were based on acceptable measurement techniques and procedures. In this respect, we would like to bring to your attention that the assessment of the representativeness of the measurement points and their location fall beyond the scope of our engagement. We also would like to bring to your attention that emissions resulting from possible incidents were not included in the annual environmental report, except for continuous measurements.
- Through interviews and partial observations, we verified whether the measurements result from an acceptable environmental management system. In this respect, we would like to bring to your attention that our engagement does not consist of an audit of the environmental management system as such. However, we did take into account certain aspects that are related to the measurement techniques and procedures.

The companies' management have responded to our request for explanation and information. We believe that the procedures described above provide a reasonable basis for our opinion. In our opinion, based on these procedures:

- the annual environmental report of the companies Sidmar, Galtec and Decosteel II, and of Sidgal ESV was carefully prepared;
- the figures reviewed by us agree with those reported to the competent authorities;
- the figures reviewed by us result from acceptable measurement techniques and procedures.

Ghent, May 22, 2003

Ernst & Young Bedrijfsrevisoren BCV (B 160)
represented by



Rosita Van Maele
Partner

Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
Société civile ayant emprunté la forme d'une société coopérative à responsabilité limitée
R.B.V. Brussel – R.S.C. Bruxelles 2131 – B.T.W. – T.V.A. BE 446.334.711
Bank – Dexia – Banque 551-4009200-65 – BBL 310-1231371-42
Bank – Fortis – Banque 210-0905900-69 – KBC 435-0317791-02

Zurich, 22. April 2003

Verification

We have been engaged to verify the «2002 data» of the table titled «Environmental Data Zurich Airport 2002» on pages 32 and 33 and of the section «Environmental Costs» on page 13 within the 2002 Environmental Report. The 2002 data is the responsibility of the top management.

Our responsibility is to issue a conclusion on the 2002 data based on our verification.

The scope of our verification was as follows:

- Review of internal reporting guidelines (Environmental Data Management within the Environmental Operations Management Handbook) with respect to the German Airports Association's guide for Environmental Indicators of Airports (ADV guide, September 2002).
- Review the application of the internal reporting guidelines using a sample of business activities and reporting parameters (in particular NO_x-emissions, environmental costs and earnings, net energy input with a special focus on the data related to the large consumer contract),
- Review the procedures by which environmental data are prepared, collated and aggregated internally and the control environment over the accuracy and completeness of the 2002 data, and
- Perform specific procedures to check, on a sample basis, the 2002 data.

We conducted our verification in accordance with the standards issued by the International Federation of Accountants suitably adapted. The standards require that we plan and perform the verification to obtain moderate, rather than absolute, assurance on the 2002 data. A verification provides less assurance than an audit. We have not performed an audit in accordance with International Standards on Auditing and accordingly, we do not express an audit opinion.

Based on the verification as described above, we conclude:

- The internal reporting guidelines are - with the qualifications and explanations mentioned on page 24 - in line with the German Airports Association's guide for Environmental Indicators of Airports (ADV guide)
- The internal reporting guidelines are applied properly in the selected samples.
- The procedures by which the 2002 data was prepared, collated and aggregated as well as the control environment at the selected sites are based on established and accepted measurement and analytical methods.

During our verification, nothing has come to our attention that causes us to believe that the 2002 data does not reflect properly the collected data or does contain significant errors

Our statement should be read in conjunction with the inherent limitations of accuracy and completeness for environmental data, as well as in connection with the scope of reporting on page 31.

PricewaterhouseCoopers AG

Thomas Frei
Manager



Thomas Scheiwiler
Partner

MODERATE-LEVEL ASSURANCE REPORT ON CERTAIN ENVIRONMENTAL DATA

As statutory auditors of VE and specialists in the area of sustainable development, and in accordance with your request, we conducted a partial review of the 2002 data identified by the ● sign in the following key performance data tables. VE's management was responsible for preparing the environmental data in accordance with the Group's Measurement and Reporting Protocol (hereinafter "the Protocol"), which is available upon request from the Sustainable Development department. Our role is to express a conclusion on these data.

Nature and extent of our work

After reviewing the suitability of the Protocol against the requirements of the International Standard on Assurance Engagements (ISAE), our procedures included:

- inquiries at both the Divisions and business levels (Veolia Water UK, the Flanders Artois Picardy region of CGE, Sarp Industrie, Onyx France, Dalkia France, Dalkia Nord and Connex Rouen) to ensure proper implementation of the Protocol,
- verification of the calculations and data consolidation process and the testing of documentation evidence at certain of these entities, which account for between 0% and 17% of the Group total, depending on the data.

Procedures of this kind do not include all the verifications specific to an audit providing a higher level of assurance, but still provide a moderate level of assurance as to whether the data are free of material misstatement.

Comments

Based on these procedures, we wish to make the following comments:

- The relevance of the Protocol has improved compared with 2001 owing notably to the preparation of indicators to monitor attainment of the Group's objectives. This said, the methods used to calculate the data, particularly where they have changed from the previous year or involve the use of estimates, are not stated in the Protocol. In addition, even though the scope of the operations over which VE has operational control is more clearly defined this year, further clarifications are still needed concerning the definition of this concept for each Division.
- Lastly, the procedures and internal control arrangements for these data have not been systematically formalized, distributed and applied at all levels of the Group, which may engender material risks of error.

Conclusions

Based on our review, no material misstatements came to our attention concerning the data prepared in accordance with the Protocol, subject to the following exceptions:

- "Percentage of relevant activities covered by an Environmental Management System" owing to the insufficiently precise definition with regard to the ISAE criteria.
- "Number of ISO 14001 certified sites" for which we noted two instances of under-estimates.
- "Direct emissions of greenhouse gases" the larger scope of which this year was not defined clearly enough.
- "Efficiency ratio of water distribution networks" owing to the insufficiently formalized methods used to prepare estimates.

Neuilly-sur-Seine, March 21, 2003

Statutory Auditors

Barbier Frinault et Compagnie

Ernst & Young

Jean Bouquot

Alain Grosmann

Expert

Ernst & Young

Environment and Sustainability

Eric Duvaud

Assurance Statement

At the request of Wärtsilä Oyj, we have reviewed the information, systems and methodologies behind the economic, environmental, social performance data and statements presented in the Wärtsilä Sustainability Report 2002. The report is the responsibility of and has been approved by the Board of Management of Wärtsilä Oyj. The inherent limitations of completeness, consistency and the accuracy of the data are set out in the report.

Activities undertaken were performed on a test basis and provide a moderate level of assurance. In the context of assurance we recognize that non-financial data are, in general, subject to more inherent limitations than financial data due to their nature and methods used for determining, calculating or estimating such data.

Our review has consisted of the following procedures:

- making enquiries of management responsible for compiling the report;
- an examination of relevant supporting information;
- an evaluation of accuracy, completeness and consistency of data in the report,
- review in more detail of the systems for gathering and reporting economic, environmental and social performance data at operating level at one site in Finland and one site in Italy, selected by us.

The report has been prepared in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines. Based on our activities undertaken, nothing has come to our attention that causes us to believe that the presented data and statements in the Wärtsilä Sustainability Report 2002 would not provide a fair and balanced view on the group's sustainability performance.

Helsinki, 23 May 2003

KPMG WIDERI OY AB

Mauri Palvi
Authorized Public Accountant

Mats Hägerström
Sustainability Assurance