



User Note on the Application of the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard

April 2007



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1. Introduction

The AA1000 Assurance Standard (AA1000AS) was launched in 2003 as the world's first sustainability assurance standard. It was developed to ensure the credibility and quality of sustainability performance and reporting and was the result of an extensive, two-year, world-wide consultation involving hundreds of organisations from the professions, the investment community, nongovernmental organisations (NGOs), labour and business.

In 2006, in response to requests for further guidance, AccountAbility published a *Guidance Note on the Principles of Materiality, Completeness and Responsiveness as used in AA1000AS*. During the development of this Guidance Note it was suggested that we provide examples of how the principles were applied in practice. It was agreed that the Guidance Note was not the right place for these examples. We have therefore developed this User Note to provide examples of the application of the principles in practice.

The nature of learning in the standards field means that the process of providing guidance is ongoing. By continually engaging with AA1000 Assurance Standard users and stakeholders, AccountAbility is able to reflect learning in the form of additional guidance to the standard. AccountAbility invites you to share your AA1000 Assurance Standard experiences with us so that we can continue to improve the AA1000 Series.

The User Note is an opportunity for assurance practitioners and other users of AA1000AS to further explore questions of practice based on the work of leading assurance practitioners, including KPMG Sustainability, Deloitte, Bureau Veritas, the Reassurance Network and Banarra Sustainability Assurance and Advice. Three of the case studies are written from the perspective of the assurance provider while the Reassurance Network-Camelot and the Deloitte-Vodafone cases present both the reporter and assurance practitioner's view of the assurance process.

This User Note is intended for use by Assurance Practitioners as well as by organisations that will have to understand it in order to prepare for assurance.

The AA1000 Assurance Standard is designed to be an assurance standard for reports as well as for the data, systems, processes, organisational conduct and competencies that underlie performance. The AA1000 Assurance Standard and its supporting guidance therefore aim to be applicable within the context of other relevant standards, guidelines and frameworks, including the GRI G3 Reporting framework and the IAASB ISAE 3000 standard.



2. Methodology

This User Note is not intended to be an exhaustive review of AA1000AS user practices. Rather, it aims to be representative by profiling the approaches of five leading assurance providers.

We sought case studies based on the following criteria:

1. Representation of assurance providers from distinct backgrounds, including at least one organisation from each of the following: a big four accountancy firm, a major certification body; and a firm of sustainability professionals;
2. Assurance providers who had worked for innovative and value-driven companies in the area of sustainability assurance.

The contributors provided a description of the process used during the assurance engagement to evaluate adherence to the principles, taking into consideration AA1000AS and the information provided in the Guidance Note on the *Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard*. They were asked to consider the following questions in their contributions:

1. What is the process used by the Assurance Practitioner during the assurance engagement when using the AA1000AS?
2. What activities does the Assurance Provider undertake to reach his/her conclusions?
3. What type of evidence is requested and reviewed at each stage of the process.
4. How does the Assurance Practitioner determine which systems and processes to test or sample?
5. Does the assessment against AA1000AS principles occur at all stages or at specific stages of the process?
6. Does the organisation have a methodology for materiality determination? How does the Assurance Practitioner test this methodology and the resulting list of material issues?
7. What other information is important to reaching the findings and conclusions.



3. General observations

The publication of the *User Note on the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard* marks the first time that AccountAbility has collected examples of the practical application of the AA1000 Assurance Standard (AA1000AS).

Based on these cases we can see that the practice of sustainability assurance is still evolving and maturing, and that there is a diversity of practice. The five case studies presented in this publication reveal consistency around the understanding and use of the principles of materiality, completeness and responsiveness, but variety around the approaches used to test adherence to each principle. This flexibility has made it possible for practitioners to develop and implement processes and methodologies that can give them a competitive advantage. While a principles-based approach is designed to allow for this flexibility of approach there must at the same time be an adequate basis for rigour and quality delivery.

The case studies described in the User Note demonstrate that:

- ❖ The AA1000AS principles were adopted by the assurance provider to determine the quality of the reporting organisation's systems and processes, to ensure the right issues were reported and to ensure that the information on these issues was correct. The principle of materiality came out strong in all cases and was fundamental to the successful outcome of the engagements.
- ❖ Although the assurance providers used different methodologies, their processes were all recognizable and provided an outcome that was similar. Use of the AA1000AS did not limit their ability to develop and implement their own processes and methodologies that give them a competitive advantage.
- ❖ The assurance providers used a balance of objective evidence and professional judgement to evaluate performance and assertions of the reporting organisation.
- ❖ In addition to applying the AA1000AS, the assurance providers possessed client and sector knowledge, competencies in related reporting standards and guidelines, as well as knowledge of the reporting organisation's peers and competitors. These additional skills and competencies ensured that the assurance providers effectively addressed company or sector-specific issues.
- ❖ The assurance engagements provided the reporting organisations with information that would assist in continual improvement.
- ❖ There is a trend for assurance practitioners to develop their own materiality analysis and to evaluate the organisation's process and results in relation to their own findings.
- ❖ Practitioners look at the underlying systems and processes as well as the report and not the underlying systems and processes only as they relate to the report.
- ❖ There is a high level of commonality in how evidence is gathered – what information is sought and the sources it is sought from.

Some of the challenges faced by the assurance practitioners included:

- ❖ Defining the scope in a way that meets the principle of completeness yet still has the focus needed to enable the depth of investigation required to provide an adequate level of assurance.



- ❖ Effectively investigating and providing assurance on commercially sensitive and confidential issues in a way that meets the principle of completeness. Some material issues, by their very nature, are confidential which precludes the inclusion of detailed information in public reports. In some cases it is also clearly not in the public interest for a company to disclose its activities or risks (e.g. relating to security arrangements). This presents a challenge for the assessor. However, it can also provide an opportunity to reassure stakeholders in the form of an independent assurance statement that confidential risks are being managed responsibly without having to reveal details.
- ❖ Making sure the necessary competencies are represented on the team.
- ❖ Determining materiality consistently for different types of issues. The significance of some issues can be measured quantitatively. Others must be evaluated qualitatively. But there must be a sense of equivalence.
- ❖ Since AA1000AS focuses on principles rather than the assurance process there is the need to find process guidance elsewhere or to develop it.

The cases demonstrate the learning that has taken place since the publication of the AA1000As in 2003. They also help us to understand where improvements in the standard are needed as we continue to develop and evolve the principles and practice of sustainability assurance.

4. Case Studies

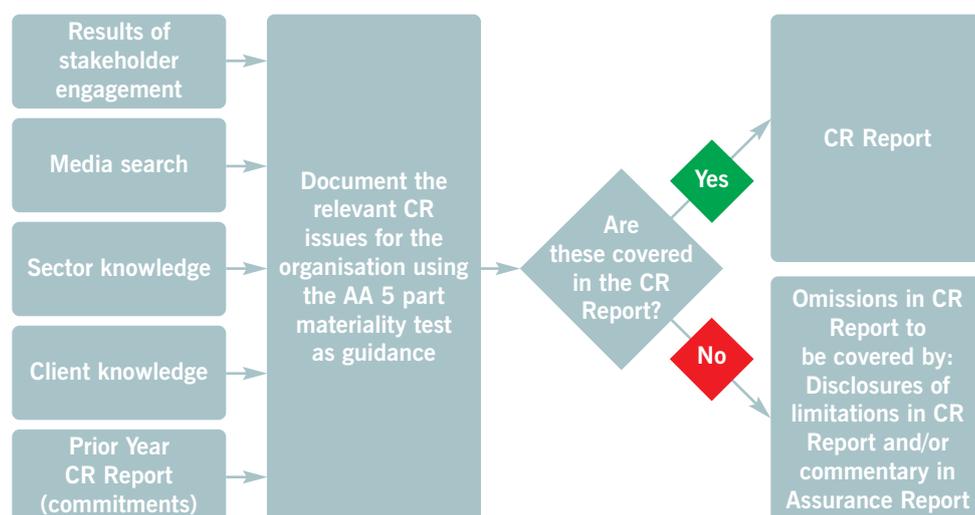
4.1 KPMG Sustainability¹: An approach to assurance engagements using AA1000AS and ISAE 3000

We have developed a specific methodology for CR assurance engagements which we use for all our engagements that provide assurance on a whole corporate responsibility (CR) or sustainability report, rather than being limited to specified data. As part of an accounting firm our approach to the AA1000AS principles is to apply them within the context of the standards that we have to use for our engagements relating to assurance on sustainability or corporate responsibility (CR) reports – The International Framework and Standard on Assurance Engagements (ISAE) 3000. These ensure not only the independence and competencies of the assurance team, but provide a sound basis for the engagement process based on established auditing principles, including the collection and documentation of appropriate evidence. We use the AA1000AS principles of **materiality** and **completeness** at two levels during the assurance engagement. First, in Phase 1, at the issue level, by asking the question “Is the right information in the report?” (are all the material issues covered/is the report complete) and secondly, in Phase 2, by asking, at the level of individual assertions (the qualitative or quantitative claims the client makes about its performance) “Is the information in the report right?” (reliable: accurate and complete).

For **Phase 1** (issue level), KPMG Sustainability uses a two-pronged approach. As stated in the recently published *Guidance Note on the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard* (2006), the responsibility for ensuring that all the material issues are in the report lies with the reporting organisation. **Our prime task is therefore to review and assess the client’s systems and processes for identifying and responding to material issues.**

For the review of the client’s process, we collect evidence from interviews with top management as well as documentary evidence. All the notes from the interviews and the documents have to be kept in our project file so we ask for a copy of everything that is relevant. Examples would include copies of minutes of Board meetings, stakeholder meetings and internal CR management meetings, documents relating to stakeholder and issue identification including CR risk analyses, as well as management system certificates.

At the same time, we run a parallel internal process as a way to test the robustness of the client processes. It is necessary for us, as assurance providers, to obtain a level of comfort that the client process has produced the correct results. We check the client’s systems by running a parallel process ourselves to identify potential material issues. This is based on AccountAbility’s 5-part materiality test with inputs as shown in the diagram below:

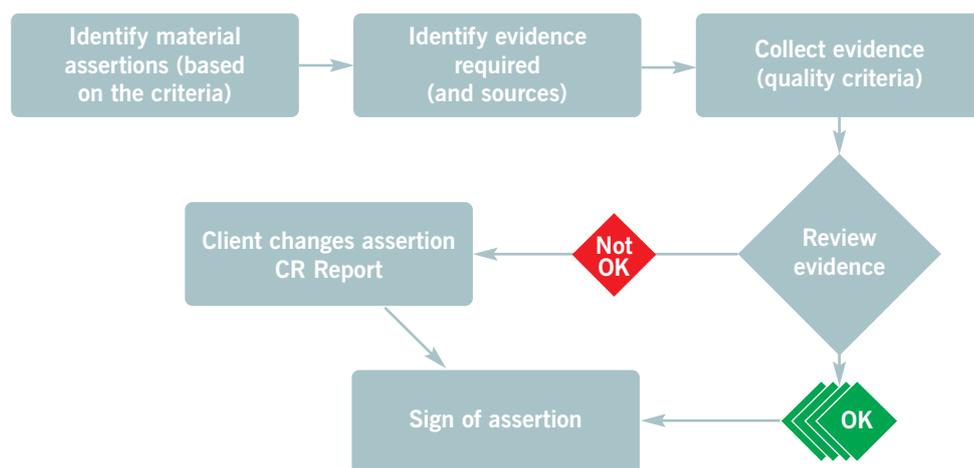


¹ KPMG Sustainability B.V. is part of KPMG in The Netherlands, with around 30 environmental, social and economic professionals. The group has provided assurance and advisory services in the field of environment and corporate social responsibility (CSR) for more than 20 years.

The inputs to the materiality analysis can be illustrated by a couple of examples; for Sector Knowledge we review peer CR reports, sector reporting guidelines (such as GRI or industry body guidelines) and use input from an internal brainstorming with our own sector CR experts. This helps to ensure that we incorporate a wider spectrum of professional judgement than is possible for one assurance provider on his/her own. For Client Knowledge, we often have experience of a client over a number of years and for many lines of business we can also discuss issues with our financial audit colleagues to ensure that we identify, for example, recent changes in the business which might result in new environmental or social risks. The output of this process is a list of 30-40 relevant and therefore potentially material issues. The final discussion on significance is one which we undertake with the client and relates to the results of their stakeholder engagement processes.

Once we receive a reasonable draft of the client's sustainability report we can check whether the identified issues are covered and whether the information on a material issue is balanced. This is usually the start of a lively debate with the client about what different parties may perceive to be material for their organization, which is more difficult to define if the client's own stakeholder engagement processes are not fully developed. However, most clients see this part of our work as a valuable way of testing their own systems and perceptions of their CR issues and helping to ensure the quality and credibility of the final report. In nearly all cases where we suggest adjustments the client adjusts the report to either include the missing information or to explain its omission – this could be, for example, a new business in a developing country where detailed information is not yet available. We also use the commentary in our Assurance Report to make recommendations in relation to this type of issue.

In **Phase 2** of the engagement, our main effort focuses on applying the AA1000AS principles to the information in the report on the material issues (*is it materially correct and complete?*). We need to ensure that there is sufficient evidence to support the claims or assertions in the report concerning the underlying processes for managing the material environmental and social issues, and the results of these efforts (the performance results/data). We also look at whether the information on a material issue presents a balanced picture with both good and bad news. The diagram below summarises the process we undertake to verify the report content:



For each *material issue* we identify the *material assertions* by applying the following criteria:

- ❖ assertions relating to corporate level governance and controls for CR;
- ❖ generalised claims (e.g. that we are the 'leader', 'best performer', 'world class');
- ❖ assertions relating to the management of the main risks/issues;

- 
- ❖ assertions relating to trends in performance (KPIs) and targets (e.g. we met our target, accidents decreased by xx%, performance improved by xx%);
 - ❖ assertions about future performance related to business objectives, strategy and performance improvement targets;
 - ❖ assertions relating to, or calculated from, financial data (e.g. investments in social projects, funds).

Although the main focus is naturally on the material issues from Phase 1 we also check material management assertions in the rest of the report (e.g. in the CEO introduction) as these statements may have significant influence on readers. Our evidence collection is designed to check whether the information is reliable – this means that it contains no material errors, is complete (e.g. all business units have reported data) and balanced, and that, overall, the information provided on the issue responds to stakeholder concerns.

We therefore undertake a risk analysis based on the type of assertions, the organization and its operations (type, location) and our work in previous years. This results in a detailed assurance plan (including a list of people to be interviewed and a list of the required documentary evidence) at corporate, business/regional and site level (if relevant), together with the selection of sites to be visited. The type and amount of evidence required varies depending on the type of assertion and the level of assurance being sought but all the evidence should meet the following criteria. The evidence should:

- ❖ originate from appropriate, credible and reliable (internal or external) sources;
- ❖ be authentic;
- ❖ not be subject to bias (needs independent source or corroboration);
- ❖ current (in reporting year);
- ❖ relevant (text should reflect conclusions in the evidence and provide a balanced picture).

KPMG can never guarantee that future goals or targets will be achieved. However it can give assurance that future plans described in the report are supported by sufficient evidence. This evidence may include:

1. a copy of a formal written plan which includes the items mentioned;
2. formal approval of the plans (e.g. copy of meeting minutes of CSR management team/Board);
3. a check on whether the plans/targets are included in resource planning (people/budget) for the coming year(s) (e.g. budget for additional CSR staff).

If the evidence is not available and the plan therefore appears to be weak (aspirational) rather than formal, we may request a change in the report text to indicate that the plan is not yet supported by resources.



Here are a couple of examples to illustrate how the assurance process often works in practice.

1. Qualitative “claim” for a material issue (Code of Conduct)

If a client claims “our Board approved a new Code of Conduct in February this year” this can usually be easily verified by checking the minutes of the Board meeting and in principle there is no difference between limited and reasonable assurance. From this assertion, it should also be clear to the reader (without us having to say this in the Assurance Report) that the Code of Conduct is not yet embedded in the organisation.

However if the claim/assertion is much stronger, such as “We implemented our Code of Conduct in 200X” our evidence collection would need to be much more extensive and could include, for example:

- ❖ reviewing the client’s implementation plan and role-out programme;
- ❖ reviewing related training plans and programmes;
- ❖ interviewing key staff responsible for the implementation;
- ❖ reviewing compliance structures in place;
- ❖ checking the reports of internal compliance procedures relating to the Code of Conduct;
- ❖ interviewing compliance officers;
- ❖ checking the implementation of the Code of Conduct at a sample of sites (through interviews with management and shop floor workers).

In order to provide reasonable assurance on this type of claim using the assurance standard ISAE3000 there would need to be a well developed internal compliance mechanism that we could test at various levels in the organisation. Without this we would need to cover a very large proportion of the company’s sites to feel comfortable providing a “positive” endorsement of the client’s assertions.

2. Quantitative “claim” for a material issue (SO₂ emissions)

If the client claims “we have plans to reduce our Sulphur Dioxide (SO₂) emissions by 10% over the next 3 years” we would look for evidence that this is already incorporated in proposed changes in the business or in production technology. However for a claim (usually shown in a graph) that “Our SO₂ emissions have gone down by 10% this year” we must undertake a range of detailed data analysis procedures at corporate level to check the completeness and accuracy of the “total” numbers as well as checking the reliability of the reported data at a sample of sites. As with the example above the number of sites increases substantially if the client is seeking “reasonable” assurance on the performance data and the internal review process for the SO₂ data is weak. Finally, we review the text which accompanies the data to ensure that the explanations given for the reduction reflect the evidence we have collected. In other words is the reduction caused, for example, by a change in measurement technique rather than a real change in actual emissions.

Once again, as in Phase 1 we discuss the results of our assurance procedures with the client and request, where necessary, that changes are made to either the text and/or data in the report. If, for example, not all the sites have reported data for a particular KPI then we ask the client to make this clear to the reader in the text.



The AA1000AS principle of **responsiveness** is covered by a final check on whether the report presents all of the issues identified in Phase 1 and that all the changes identified in Phases 1 and 2 have been made in order to ensure a reliable and complete picture of the organisation’s CR management and performance which responds to the information needs and concerns of key stakeholder groups.

The above description explains how KPMG Sustainability’s CR assurance process embodies the AA1000AS principles of materiality, completeness and responsiveness, resulting in a conclusion in the Assurance Report on whether the information in the report is “fairly stated” (complete, accurate and balanced). If this is not the case we will “qualify” our conclusions and indicate where we have identified a particular problem (e.g. data for spills were found to be incomplete). In addition to this we provide commentary in our Assurance Report on issues which do not conflict with our conclusion. For example, if the client describes weaknesses in their reporting, for example in the coverage of the report or the CR management systems for a particular issue we may highlight these by providing recommendations in the commentary section of the Assurance Report as well as in a detailed management letter to the client.

4.2 The Banarra² Assurance Methodology: A hybrid approach to assurance

Banarra has developed the Banarra Assurance Methodology (BAM) to provide a comprehensive approach for assuring organizations and their sustainability reports using the AA1000 Assurance Standard (AA1000AS). It is also aligned with the GRI G3 Guidelines.

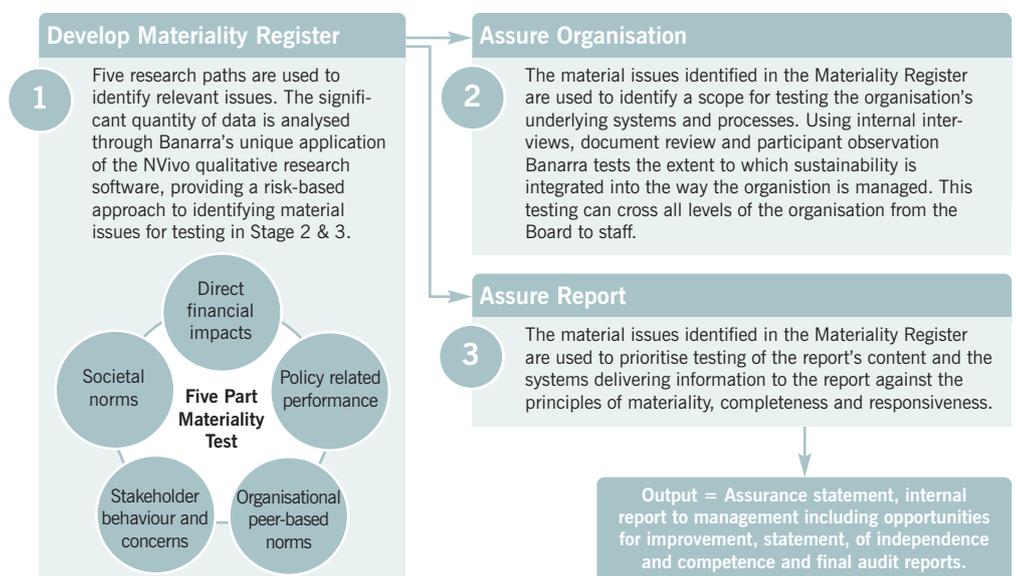
BAM takes a hybrid approach to assurance that combines social science research methods with traditional audit techniques. Core to this process is the development of a Materiality Register using qualitative research software.

Process for evaluating adherence to the principles

The BAM approach to sustainability assurance, which consists of three stages, is driven by the testing of the organisation against a set of material issues. These issues are identified in Stage 1 of BAM in parallel to the organisation’s own processes for material issue identification. The BAM identified issues are used to focus the testing of the organisation’s systems and processes and/or its sustainability report. Assuring an organisation’s systems and processes occurs in Stage 2 of BAM and assuring the report occurs in Stage 3 (See figure 1).

The figure below summarises the Banarra Assurance Methodology.

Figure 1 – Banarra Assurance Methodology (BAM)



² Banarra is an Australian-based firm providing specialised services in sustainability assurance and advice. Their assurance services cover assurance, verification, assessment, audit and review.



“Banarra eagerly welcomes each AA1000AS User Note. They have helped us improve our application of the AA1000 Assurance Standard. We have even started referring to relevant ones in our assurance statements. They have also been invaluable for our clients helping them to better prepare for our arrival.”

Richard Boele, Banarra Lead Auditor/Advisor

Stage 1 – Develop Materiality Register

BAM Stage 1 results in what we call a Materiality Register. The Materiality Register is created by putting into practice the AccountAbility five-part materiality test. Banarra has developed a research approach that collects information against all five tests.

A vast and wide-ranging set of both qualitative and quantitative information from the research is analysed using qualitative research software called NVivo. The software enables the production of a comprehensive list of relevant issues, usually 200-400. The software enables two further ‘tests’ of materiality: spread and frequency. The former identifies issues that appear in three or more of the five-part materiality tests. The second test identifies high frequency issues, even if they only appear in one of the five-part materiality tests. Professional judgment and expert knowledge is also used to include significant issues and these last set of filters usually result in 30-50 material issues. Of this set we make a risk assessment (consequence and likelihood) to identify and rank a set of high-risk material issues, which generally number 15-20.

We always stress with our clients that ours is a testing process only and that they must have their own processes for identifying their material non-financial issues. We also take a view on the robustness of these processes. The Materiality Register has proven to be a very useful tool for encouraging significant debate between the assurance provider, the organisation to be assured and on some occasions its stakeholders. Through eleven assignments the process has yet to produce any high-risk material issues that the client has rejected as immaterial. Instead the high-risk issues have resulted in debate in relation to the area of the organisation that has ownership of the issue or the extent or nature of coverage in the report. Anecdotally, the Materiality Register is being seen by our clients as a useful validation and testing of their own identification and understanding of their material issues. The register is significantly updated for each assignment.

The identification of a small set of high-risk material issues has proven invaluable in focusing our resources and lines of enquiry in both Stage 2, assuring the organisation and Stage 3, assuring the report.

The type of evidence collected/reviewed in Stage 1 includes:

For financial impacts, our requests include stock exchange announcements (if relevant) on non-financial performance issues that have or may impact on financial performance, analyst reports on the company, board papers and strategic and high level business plans.

For policies, we review existing sustainability and corporate responsibility policies. We also consider internal and externally communicated commitments such as those made in the sustainability report and CEO and executive speeches; and regulatory or voluntary requirements for non-financial disclosure, such as a Disability Action Plan.

For peers, The Banarra Assurance Methodology reviews the publicly available sustainability reports or web-based information for a minimum of five peers (usually competitors).

For stakeholders, it is a combination of direct engagement through internal and external interviews and a review of the results of the organisation’s own stakeholder engagement mechanisms. The latter can include the results from surveys of staff, customers and suppliers; customer feedback such as complaints; feedback from previous reports; and the records of whistle blower or other confidential feedback systems.

For societal norms, we look at international standards and indices such as the Global Compact, Dow Jones Sustainability Index, Corporate Responsibility Index, Global Reporting Initiative and reporting awards, judges reports and other norms that the organisation could be assessed against, including any sector specific initiatives.



Stage 2 – Assure organisation: Test a sample of underlying systems and processes

For Banarra, the greatest challenge in putting into practice the AA1000AS was to define a scope of work for testing an organisation's systems and processes for managing sustainability performance. For an organisation that has chosen to embed sustainability into their day-to-day business, this means almost every system and process in the organisation is being used to contribute to sustainability performance. We struggled with defining how we would select the systems and processes for testing against the AA1000AS. The solution was to create a parallel process for identifying our own relevant, material and then high-risk material issues (i.e. The Materiality Register).

In addition to identifying issues most relevant to the organisation, the Materiality Register also establishes a scope for testing a number of systems and processes. For example, in the case of Westpac's 2006 assurance engagement, the Materiality Register contained about 400 relevant issues. Of these, 40 met the materiality thresholds and of those, we ranked 17 as high-risk material issues. These 17 issues were used to identify the systems and processes for testing. For example, pricing was a high-risk material issue, so we reviewed the process for making decisions about pricing, including interviews with key people involved in the process, reviewing documentation such as Product Pricing Committee minutes and papers and observing key meetings.

When testing the organization in Stage 2, we produce a narrative document for each high risk material issue that is structured against the three AA1000AS principles.

For example, if the issue is lack of gender balance within the workforce, in Stage 2 we would look for formal evidence within the organisation that they had identified this issue (Materiality), we would listen for understanding of the issue from our interviews with the heads of business units and the head of human resources (Completeness) and finally we would request to see documentary evidence of a response (Responsiveness) such as a brief to the recruitment service provider that required a gender focus on recruitment. If we are able to collect evidence that demonstrates that the response has been implemented and adequately resourced we can form a view on future performance.

We collect both qualitative and quantitative evidence that allows us as assurance providers to provide a 'narrative' in relation to the organisation's identification, understanding and response to each high risk material issue.

The type of evidence collected in Stage 2 includes:

- ❖ reviewing the organisation's stakeholder engagement mechanisms;
- ❖ observing external stakeholder engagement processes;
- ❖ interviewing key management and staff both in head office and in agreed 'out of head office' locations (varied every year) to test their understanding of key issues and impacts as well as form a view of the organisation's responsiveness to those issues and impacts;
- ❖ observing internal decision making meetings to test the extent to which responsibility commitments and sustainability complexities are taken into consideration;
- ❖ reviewing a selection of the organisation's business processes and testing them using the Materiality Register (these may include governance, risk management, training, learning and development);
- ❖ reviewing Board and Board sub-committee papers for the incorporation of corporate



responsibility and sustainability issues as well as other documentation such as risk management procedures and reports, internal audit reports, and monthly internal reports; and

- ❖ reviewing organisational and departmental objectives, targets and performance indicators for the incorporation of corporate responsibility and sustainability issues.

Through building a number of narratives in relation to high risk material issues we are finally able to deliver an overall view on the organisation's approach to managing its sustainability performance.

Stage 3 – Assure report

In Stage 3, assessing against the AA1000AS principles is more straightforward as the object of the assurance is the report rather than the organisation.

For **Materiality**, we test whether the organisation has a formal process for deciding what should be included in the report and whether any issues which stakeholders would require to make informed judgements about the organisation's sustainability performance have been omitted from the report.

With **Completeness**, we test whether the organisation has understood its material issues and has presented a complete and balanced view of its impacts. For example it may be that the issue of lack of gender diversity is acknowledged in the report but there is no discussion of the importance of gender balance to the success of the organisation.

Finally for **Responsiveness**, we test if the report accounts for the organisation's responses to all the material issues including commitments made in previous reports, for example a diversity action plan to address the lack of gender diversity.

The report and the systems supporting its production are also subject to the assurance process including verification of specific data points, claims and assertions. Activities include:

- ❖ Identify all that is verifiable in the draft report.
- ❖ Subject key data points to verification including establishing an audit trail and assessing if there is sufficient evidence.
- ❖ Repeat the processes with qualitative information such as case studies, assertions and claims, including about future performance.
- ❖ Interview information providers and review relevant records and documents.
- ❖ Compile audit reports recording the evidence sighted or obtained.
- ❖ Negotiate and agree how the organisation will respond to omissions, inaccuracies and other aspects of the draft report where we have provided recommendations.
- ❖ Determine whether communication with stakeholders through the report is done in a timely and accessible way.

The assurance process results in an opinion that we provide in the form of an assurance statement against the AA1000AS principles for both the organisational processes tested and for the report. This is supported by a statement of our credibility (independence, impartiality and competency). We also provide a report to the organisation's management which goes into



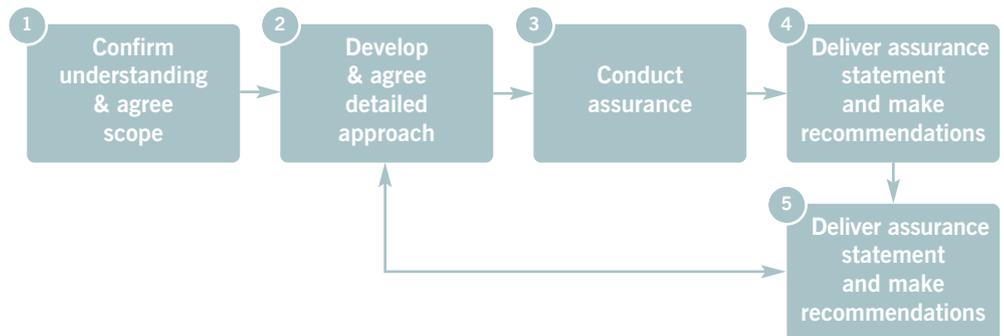
greater detail regarding the outcomes of the assurance assignment, in particular prioritised recommendations for future improvement.

4.3 Bureau Veritas³ and British American Tobacco: Developing Global Consistency

Bureau Veritas has provided assurance of British American Tobacco’s Corporate Social Report for over 5 years, each year applying the AA1000 Assurance Standard (AA1000AS). The company also uses the Bureau Veritas global network to deliver assurance of market level reports, with quality control ensured by technical review and support from the UK assurance team. This now amounts to the assurance of 32 country reports deploying a consistent approach across each of the company’s end markets.

The emphasis of British American Tobacco’s reporting process is on formalised stakeholder engagement and consultation in line with the requirements of the AA1000 framework. Bureau Veritas attends and evaluates stakeholder dialogue sessions to ensure balance and accuracy in reporting of dialogue outcomes and alignment with the principles of materiality, completeness and responsiveness.

The Assurance Process



1. Confirm understanding and agree on scope

Bureau Veritas develops bespoke assurance solutions. Effective assurance should be an evolving process and it is necessary to define the scope of work at the beginning of each assurance cycle. Bureau Veritas uses the AA1000 Assurance Standard (AA1000AS) which provides a framework on which to build and develop the assurance over time. We work closely with the company to understand their expectations and existing internal controls to identify where they would gain most value from an in depth assurance process. We also provide our own materiality analysis in line with the AccountAbility five-part materiality test to identify the areas where the assurance should focus. British American Tobacco is an experienced social reporter with a high profile and well evolved stakeholder engagement and assurance processes in place. Therefore, for British American Tobacco the scope of assurance is based on risk, areas for improvement identified from previous cycles and, most importantly, issues identified as material by stakeholders.

2. Develop and agree on a detailed approach

Once both parties are clear on the scope of work, Bureau Veritas develops a detailed project plan. For British American Tobacco, this involves identifying which areas of the report are to undergo what levels of assurance. This is decided based on the materiality test, stakeholder expectations, previous assurance work, existing knowledge of the systems and processes and client expectations.

During the early stages of the assurance programme, it was agreed that bespoke assurance criteria was needed to meet the needs of British American Tobacco but transparent for the

³ Bureau Veritas is an independent professional services company that specialises in environmental, quality, health, safety and social accountability compliance services. They offer technical services and solutions in the fields of certification, conformity assessment, consulting and training.



reader to understand. Bureau Veritas developed its advanced, positive and basic assurance levels. These levels have been applied for several years in the UK and across the end markets:

- ❖ **Advanced:** The information presented is supported by underlying evidence, the activities have been observed by the assurator and the activities described are aligned with the requirements of AA1000AS.
- ❖ **Positive:** Information reported is supported by underlying evidence and no material errors or omissions were identified.
- ❖ **Basic:** During the course of our review nothing came to our attention to indicate that there were any material errors, omissions or misstatements.

This is a transparent process so that readers are clear on the methodology applied and type of evidence examined for each level of assurance. For purposes of clarity, each level is assigned a symbol which is displayed throughout the report.

This use of different levels works for British American Tobacco because of the detailed nature of the Social Reports produced to date and meets the demands of its stakeholders in terms of transparency in order to facilitate trust. However, Bureau Veritas recognises that this approach may not be suitable for all organisations and would adapt this accordingly.

3. Conduct assurance

The assurance process is a complex combination of assessment, review and evaluation of the company's policies, processes, systems and controls related to the identification, prioritisation and management of issues, information and data that are material to the organisation's social report.

Bureau Veritas assesses against AA1000AS principles where applicable and centred on two central themes:

1. **Process:** We assure the processes and systems that the company uses to embed, manage and improve its sustainability performance.
2. **Content:** We assure the information reported for its selection, accuracy and overall reflection of reality. We are interested in the internal identification and pre-selection of issues in the consultation and reporting process, and how the outputs from the dialogue are prioritised and managed to provide a basis for the setting of objectives and indicators and for the compilation of information that will appear in the report.

During our assurance of the stakeholder dialogue process (including pre- and post-dialogue inputs, activities and outputs) we are able to address the three main principles of AA1000AS. We will also interface with participating stakeholders to ensure that there is impartiality and balance to the engagement and reporting process. This sequence is then followed up with assurance of the report, which is in many ways a secondary check, or confirmation of information generated, processed and reported.

The use of the three levels of assurance enables us to focus our assurance work on risk and interrogate different components of the report based on their materiality. The pre-selection of reported areas and topics to undergo basic, advanced or positive assurance are decided through consultation with British American Tobacco and indirectly through stakeholder feedback from the previous reporting cycle. However, our assurance process is not just about reviewing the reporting process and content; it is also about confirming that appropriate structures, systems, processes and controls are appropriately embedded within the organisation at the Board level and down to manage and improve British American Tobacco's social and environmental impacts.



We also compare the content of the report to that of previous years to check consistency, balance and identify any duplication and/or omissions that may occur in relation to commitments previously made or performance expectations.

Example of our application of AA1000AS to Stakeholder Consultation

Prior to developing the Social Report, British American Tobacco consults with its stakeholders through a series of dialogue sessions and consultation exercises. Bureau Veritas provides assurance over the entire stakeholder consultation process from review of the stakeholder mapping process, review of stakeholder lists, invitation letters and rejection/acceptance letters to interviews with stakeholders. The stakeholder consultation process is one of the main driving forces for the report; it is therefore given great emphasis within the assurance process and consequently undergoes advanced assurance.

In 2004/05 the following work was carried out in order to provide this level of assurance:

“We provided advanced assurance over the stakeholder dialogue activities that were conducted from November 2004 to March 2005 and assessed whether the information reported was supported by underlying evidence and whether the activities described were aligned with the requirements of AA1000.

We assessed this by:

- ❖ conducting face-to-face and telephone interviews with relevant British American Tobacco personnel, both at its headquarters in the UK and at local company level;
- ❖ reviewing relevant systems and processes in place where available;
- ❖ carrying out detailed reviews of documentary evidence held at the British American Tobacco headquarters in London in relation to activity conducted there and of information relating to British American Tobacco's responses to the points raised in dialogue;
- ❖ holding discussions with external parties to corroborate information where appropriate;
- ❖ attending all stakeholder dialogue sessions held by British American Tobacco in London; Kenya and Brussels;
- ❖ attending four consumer dialogue sessions held by British American Tobacco in Cardiff; Sutton; Glasgow and Manchester; and
- ❖ reviewing reports compiled by the independent facilitators from each UK-based and international dialogue.”*

We review all components of the stakeholder consultation process against AA1000AS. For example:

Materiality: We consider how the material issues of the business are identified prior to consultation with stakeholders and whether these correspond with what stakeholders want to see in the report. We ask whether material issues are being adequately

* Excerpt from p 123 British American Tobacco Social Report 2004/05



identified and included in information provided to stakeholders and whether material issues are given sufficient discussion time. Where matters are considered material by stakeholders but not so by British American Tobacco, we review whether the company allows space in the report to present those alternative views.

Completeness: We look at how the company presents information to stakeholders and consider whether any material topics are omitted from discussion or information sources. We consider whether stakeholders are given an adequate level of information which is balanced and not biased. We review the stakeholder dialogue report, which is independently compiled by MORI*, for accuracy and completeness and check that the final social report is an accurate and complete reflection of the stakeholder dialogue process. Bureau Veritas ensures that fair and balanced views are represented throughout the report.

Responsiveness: We review the responsiveness of the company each year against previous years' reports. Therefore where a commitment has been made to respond to a stakeholder concern in one year, we check that it is or has been responded to. We also review the entire consultation process for responsiveness. We look to see that during the consultation/dialogue process, stakeholders are given ample opportunity to have their say and that company provides a response. We do not expect them to always respond by meeting stakeholder demands as this is not always appropriate, however we do check that the company at least acknowledge a stakeholder comment and respond to that comment. We then check that the final social report gives a balanced reflection of the dialogue process and that responses are also made within the report. We attend follow up meetings with senior personnel to review the post dialogue process whereby consideration is given to the matters discussed and decisions made as to the response it will give. We also consider whether the company actually listens to its stakeholders and whether the process is embedded within the wider business to implement change.

We also consider the level of Governance and ownership of the topics and issues and interview personnel from all levels within the organisation to identify how topics were selected for inclusion within the stakeholder dialogue process. From this we can understand the level of commitment by the business and that the reporting process is embedded throughout the company.

Assurance over the report content

When an approved draft of the report is provided we divide it into its component sections and align these to the technical expertise within the assurance team. We then seek to validate that the information provided in the report is a true and accurate reflection of what is reported and that no material omissions/exclusions are made. We review the report for balance, accuracy, consistency, materiality and transparency. We identify evidence from a variety of sources and our level of evidence gathering and systems and controls testing will depend on the level of assurance we are applying.

The assurance process is carried out over several months and incorporates Bureau Veritas internal senior level review process and control procedures to ensure quality, consistency of global approach. We have developed an internal protocol and assurance tools, including our assurance tracker which logs every stage of the assurance process, such as evidence received, issues identified, proposed text changes and outcomes.

* MORI is a research company employed by British American Tobacco to facilitate the stakeholder dialogue sessions and deliver an independent report of each session; this is also reviewed by Bureau Veritas.



“Bureau Veritas welcomes this guidance which provides greater detail and clarity for the application of the AA1000AS Principles. Used effectively, it should provide increased confidence to stakeholders that a robust and effective assurance process has been applied that also promotes performance improvement.”

**Tracy Oates, Bureau Veritas
Business Manager, Corporate
Responsibility Services**

Objective evidence is key to the assurance process. Evidence requested includes, but is not limited to:

- ❖ attendance as an observer at meetings and stakeholder consultation exercises;
- ❖ interviews of personnel across the organisation including Board members (The greater number of people we talk to, the better we understand the business and the easier it is to identify any inconsistencies. We pose a range of questions which will revolve around identification of risk and associated management systems, how information is sourced and what internal controls are in place to ensure that it is accurate and complete. Interviews with board members provide insight into governance processes and top level commitment in decision making that determines the identification of material issues and resources available to address concerns and improve performance of the company now and in the future.);
- ❖ interviews with third parties including external agencies;
- ❖ interrogation of spreadsheets and internal information systems, including detailed review of systems and data (usually on a sample basis) and testing formulas, standardisation aspects and conversion factors within data sets to ensure robustness and quality assurance;
- ❖ site visits (i.e. to factories, sites and offices) to review source data, witness operations and the implementation of policies, procedures and physical conditions/changes that may form part of the social reporting;
- ❖ internet/library research (in addition to the media search, peer review and sustainability best practice review that occurs as part of the materiality test discussed earlier we undertake research to corroborate information or identify independent validation sources);
- ❖ review of scientific/technical journals/information to build an understanding of the issues related to the sector to assist us with our own professional judgement over the completeness and materiality of the reporting agenda and of potential omissions; and
- ❖ cross referencing against historic documents such as previous reports.

Determining which systems to test or sample during the assurance process depends on what is being assured and what level of assurance is being provided. We select systems and processes to test by level of materiality to the business and stakeholders. We also take into account whether the reported information can impose an undue risk to the organisation, its stakeholders, the environment or community.

As we have been providing assurance to British American Tobacco for several years, our team members understand its business, processes and internal systems, as well as the main material risks facing the sector. Where we have reviewed a system thoroughly in previous years and found it to be robust, then unless requested to by stakeholders we will not examine it in such depth in subsequent years provided there has been minimal change.

Future performance can be assured in two ways. The first is evidence of future plans (e.g. are they formalised, in business plans, balance scorecards or senior management personal objectives). Is there Board approval? Are budgets agreed? Have action plans for delivery been compiled and signed off? Have they been communicated to staff? The second way is for the assurance process to examine previous years' reports to consider what statements of intent have previously been made and assess progress against these. For example, the last British



American Tobacco Social Report compiled all the commitments the company had made over the last six years and Bureau Veritas gained evidence of stated progress.

4. Feedback and review of future assurance processes

Best practice in reporting and assurance is constantly evolving, as are the company's aspirations and objectives. It is important to recognise that what works one year may not be suitable for future years and may not create the best value for the business. As such, at the end of each reporting cycle we have a close-out meeting to receive feedback on the process in order to promote on-going refinement and improvement in assurance. This includes a review of the approach to assurance to ensure that it is meeting the needs of its stakeholders and is adding value to the business by promoting performance improvement. This feedback process is also used as one of the ways to ensure that the assurance continues to focus on material issues.

4.4 The Reassurance Network⁴ and Camelot: Partnering to Add Value

Introduction & Background

Camelot commissioned The Reassurance Network to provide external assurance of its 2005 and 2006 Corporate Responsibility Reports, to assess the accuracy, completeness and relevance of their content according to the AA1000 Assurance Standard and to provide assurance of the management practices that contribute to responsible business.

As part of an improvement-based assurance package, The Reassurance Network evaluated a broad range of Camelot's activities and identified areas for improvement in relation to Camelot's responsible business performance.

For Camelot, it was important that assurance added value to the business, and that it was not approached as a tick-box exercise. Camelot's aim was to use assurance along with stakeholder dialogue to gain an external perspective and commentary that would catalyse ongoing and continuous improvement.

In order to set the scope and define the goals of the engagement, Camelot and The Reassurance Network developed a set of scoping questions. These questions were used to create a bespoke assurance framework to evaluate not only Camelot's contribution to society, but also the contribution of CR to Camelot's business performance. This reflected the highly integrated approach that Camelot takes to its CR activities.

The questions included:

- ❖ Is Camelot engaging effectively and with the right stakeholders to anticipate risks and opportunities in order to maximise business performance?
- ❖ How well does Camelot understand and anticipate its various social and environmental impacts?
- ❖ To what extent is Camelot actively seeking opportunities for improvement in areas of CR?
- ❖ How well does Camelot consider social and environmental impacts and the feedback from stakeholders in its decision-making?
- ❖ How well are social, environmental and ethical risks integrated into the business? Is the level of integration appropriate?

4 The Reassurance Network provides an innovative portfolio of assurance services to help organisations demonstrate responsibility to their directors, employees and other stakeholders.



- ❖ Is the content and application of Camelot's social, environmental and ethical policies appropriate?

Engagement Timeline & Activities

Reassurance Network's main activities included:

- ❖ attendance at the Corporate Responsibility Board (CRB) and other management meetings in order to observe and report on their effectiveness;
- ❖ attendance at the Advisory Panel for Corporate Responsibility (APCR)⁵ meetings as observers and participants;
- ❖ review of the design of dialogue sessions such as the Retailer Forum, Staff Consultative Forum, Players' Forum etc. with internal and external stakeholders and attendance at such meetings to provide feedback on areas for potential improvement, using a template agreed with Camelot;
- ❖ review of minutes and agendas of current and previous management meetings and dialogue sessions;
- ❖ interviews with managers, including Camelot's Chief Executive and other members of the executive team;
- ❖ review of policies;
- ❖ validation of data and information contained in the Report; and
- ❖ review of previous assurance statements.

1. Analyse CR activities and provide feedback

The Camelot CR team first issued The Reassurance Network with a timetable of key events and activities that the assurance provider would want to attend or take part in:

- ❖ Corporate Responsibility Board meetings;
- ❖ meetings of the Advisory Panel for Corporate Responsibility;
- ❖ stakeholder dialogue sessions; and
- ❖ opinion surveys.

During the period leading up to the production of the Report, The Reassurance Network conducted a number of interviews with Camelot management and employees. The original scoping questions were embedded in these interviews. There were three main elements to each interview:

1. understanding interviewees' responsibilities; to determine what corporate responsibility entails for the person and how he/she engages in it;
2. posing questions that put relevant report content into context in order to establish materiality and completeness; and
3. identifying opportunities for improvement.

⁵ The Advisory Panel for Corporate Responsibility (APCR) is made up of independent specialists from outside the company with professional expertise in areas of stakeholder concern. Its purpose is to challenge Camelot's approach and advise on how to improve practice and members represent different stakeholder groups such as players, retailers, suppliers, employees etc.

The Reassurance Network reviews key documents to assess content and quality. For example, it reviewed a supplier relationship survey and then submitted recommendations to ensure the right questions were included and were phrased in the right manner to obtain the best possible answers from respondents were gained.

Assessment of AA1000AS Principles

The AA1000AS principles of Completeness, Materiality and Responsiveness were assessed throughout the assurance engagement via a range of investigative techniques.

The Reassurance Network also assesses the degree of embeddedness of systems, behaviours and policies. The Reassurance Network and Camelot believe that a key characteristic of responsible organisations is that they define their personality through clear values, principles and policy statements and ensure that these are understood and adopted throughout the organisation. It was important that assurance provided Camelot's management team with feedback on the degree of integration along with any possible gaps or risks.

Embeddedness, along with the AA1000AS principles, therefore formed the backbone of the assurance framework and was assessed throughout the reporting cycle as outlined below.

Principle	Assessment	Stage of Assessment
Completeness	Interviews with management	During early stages of report drafting
	Copies of agendas and minutes	Throughout reporting cycle
	Attendance at management meetings	Throughout reporting cycle
	Attendance at stakeholder dialogues	Throughout reporting cycle
	Review of stakeholder-based surveys and questionnaires	Throughout reporting cycle
	Review of internal communications (intranet, newsletters, etc)	Document review
	Review of media coverage (independent review and press office)	Throughout reporting cycle
	Review of policies	Document review
Materiality	Interview with Chair of Audit committee	During early stages of report drafting
	Review of risk register	Document review
	Review of Board agendas and CR Board minutes	Throughout reporting cycle
	Interview with Head of Risk Management	During early stages of report drafting
	Independent professional assessment by the assurance team, based on knowledge of the business and the CR agenda.	Throughout reporting cycle

Principle	Assessment	Stage of Assessment
	Attendance at external Advisory Panel meetings	Throughout reporting cycle
	External contextual review	Throughout reporting cycle
Responsiveness	Review of the quality of dialogue – how well does it promote a cycle of listening and responding? Attendance + remote review. Exit interviews etc.	Throughout reporting cycle
	Review of the quality of responses to issues raised by stakeholders	Throughout reporting cycle
	Review of formal responses to stakeholder interests in CR Reports and other communications	During verification of report content
	Interviews with management etc to assess the quality of responses	Throughout reporting cycle
	Progress against recommendations made in previous assurance statements and management reviews	During early stages of report drafting
	Monitoring of the quality of progress made during the year against commitments made during previous reporting cycle	During early stages of report drafting
Embeddedness	Confidential interviews with management	During early stages of report drafting
	Focus groups and interviews with employees	During early stages of report drafting
	Interviews with external stakeholders (where possible)	During early stages of report drafting
	Review of policies, principles, codes, procedures and management systems	During early stages of report drafting
	Integration of values, principles and policies into day to day operations e.g. <ul style="list-style-type: none"> • Job descriptions • Objectives • Targets and indicators • Reporting and management focus 	During early stages of report drafting + document review
	Integration of CR elements into management controls e.g. <ul style="list-style-type: none"> • Internal audit programme • Risk management • CR Board agendas • Appraisals and rewards 	During early stages of report drafting + document review

Camelot was particularly keen to receive feedback on its stakeholder engagement activities. For example, The Reassurance Network observed a sample of dialogue sessions with retailers, public interest groups and players, as well as reviewing surveys to employees, suppliers and shareholders. This year, dialogue sessions were each evaluated using a framework based on the AA1000 Stakeholder Engagement Standard.

Governance and top-level management of business responsibility was assessed in a similar way, through the attendance at key CR Board and management meetings. This included observation of the Advisory Panel for Corporate Responsibility (APCR). As well as providing commentary on each governing body, The Reassurance Network was asked to observe and comment on the interaction and linkages between them to ensure that key information was being transferred and that issues were being responded to. For example, in order to maximise the role of the APCR, The Reassurance Network suggested in 2005 that the engagement format become more informal. This was then monitored during 2006.

2. Detailed review and analysis of draft report

Towards the end of the engagement cycle, The Reassurance Network was presented with a draft of the final report. The assurance provider disaggregated the content into several hundred individual pieces of data or narrative. Each element was incorporated into a table of the key issues contained in the report. Each of the elements was verified. In this way, the whole report content was covered within budget – the result of an efficient partnership between assurance provider and client, where information needed for verification was collected and filed throughout the year.

An example is displayed below:

Verification Summary - Camelot 2005/06

#	Section	Data from Report	Comment	Closed out
11	2.2	Sales grew 5% to £5.01 billion – marking the longest period of growth in Camelot's history.	Annual Report	↔
24	2.2	❖ 99% of retailers think the lottery is valuable / invaluable to their own business, an increase of 21%.	Retailer Satisfaction study – Retailer File	↔
25	2.2	❖ The first evaluation of the Camelot Board and its committees has been carried out and the Board has agreed to continue the process annually.	June 06 Amended report by adding footnote 'This was completed in June 2006'	↔
89	5.2	That's why we have strengthened our management structures [link to Improving our management] and set up the Player Protection Panel chaired by our Commercial and Operations Director [link to Managing CR & risk]. Our target is to fully establish this panel in 2006/07.		↔
135	7.5	Produce a community information leaflet for employees	Copy of leaflet as evidence	↔

#	Section	Data from Report	Comment	Closed out
136	7.5	Employees' volunteering time can now be match-funded to the tune of £20 an hour	Community Involvement Policy	↔
149	8.0	The minimum weekly sales target has been lowered from £1,400 to £1,000	Retailer Forum minutes and SIP programme	↔

Prior to the collation of the report, Camelot ensured that it had collected all of the necessary evidence.

In order to identify material issues for inclusion in the report, Camelot considered:

- ❖ issues raised during stakeholder dialogues; and
- ❖ issues relevant to the drivers of business performance.

Camelot prioritises issues each year depending on how important they are to its stakeholders and the relative impact of the issue on business performance and strategy. For example, in 2005, one of the most important issue was responsible growth (i.e. maximising returns to Good Causes while at the same time protecting vulnerable groups). While important, environmental issues were less critical. To help prioritise issues, Camelot organises risk workshops to identify key risks and opportunities related to topics brought up by stakeholders and which are important to the business.

3. Update Report and agree on final version

During this stage, Camelot and The Reassurance Network agree on a process for final content approval. The assurance provider ensures that the final draft accurately and completely communicates Camelot's corporate responsibility performance. Some indicators may need to be readjusted and certain statements need to be re-stated.

The Reassurance Network produces three documents:

1. full assurance statement (included in the website report);
2. fummary assurance statement (included in the hardcopy report);
3. management Review (an internal, improvement-based report for the CR board).

Information included in the Management Review is reviewed in detail by Camelot's CR management and executive team. Key action items and areas for improvements are implemented when and where deemed appropriate. Shortly after submission of the assurance outputs, Camelot meets with The Reassurance Network to present plans for implementation of the key action items and identified areas for improvement.

Assuring Future Performance

All commitments made in past reports are reviewed and assessed each year under the assurance scope. This includes any form of commitment or undertaking mentioned in the body of the report, as well as those explicitly grouped under Camelot's "Next Steps." The Reassurance Network includes a performance review of these in the assurance statement. Camelot is therefore aware that they will be accountable for delivery on each commitment made. For example,



future strategies, plans and initiatives feature in interviews with management. The Reassurance Network becomes familiar with many initiatives through these discussions, seeking to understand the rationale, resources and resolve behind them.

4.5 Deloitte⁶ and Vodafone Group: Reporting on the subjects that matter – Assurance delivered in accordance to both AA1000AS and ISAE 3000

Summary

This case study presents a summary of the practices developed by Vodafone and Deloitte on CR reporting and assurance over the past four years. This case is based on Vodafone's CR Dialogue paper "Assurance of CR reporting – what we have learnt". Further information can be found on www.vodafone.com/responsibility/dialogues.

In 2005 Vodafone expanded its assurance process to cover the alignment of its approach to managing and reporting CR performance to the AA1000AS principles of materiality, completeness and responsiveness.

Deloitte's CR assurance methodology follows both the AA1000AS and the ISAE 3000 standards. Vodafone believes this provides the necessary rigour to the assurance process as well as taking a rounded view of its report. Vodafone formally states its interpretation of AA1000AS and how it believes it complies with the principles in its report (see page 6 of the 2006 Vodafone CR report). Deloitte comments on the reliability of the statement and provides commentary on areas for improvement.

Both the AA1000AS and ISAE 3000 assurance standards have requirements for the reporting organisation and the assurance provider. Combining them allows the delivery of information which opinion formers expect while ensuring robust CR management, reporting and assurance methodologies.

Vodafone 2006 CR report assurance approach

Introduction

In 2006, the subject matter for Vodafone's CR assurance included:

Managing and reporting CR performance – whether Vodafone's description of its approach to managing and reporting corporate responsibility using the principles of completeness, materiality and responsiveness set out in the AccountAbility 1000 Assurance Standard (AA1000AS) is not materially misstated.

Performance data – whether the performance data relating to selected environment, social investment and occupational health & safety data is not materially misstated.

Progress against targets – whether the reported progress against Vodafone's 2005 commitments is not materially misstated.

It is Vodafone's responsibility to report on this subject matter and Deloitte's to express conclusions on Vodafone's assertions. The assurance work was delivered in accordance to both ISAE 3000 and the AA1000 assurance standard. With regards to the ISAE 3000 assurance standard, Deloitte delivered "limited assurance," which is designed to give a similar level of assurance to that obtained in a review of interim financial information. For further information on the ISAE3000 standard, please refer to www.ifac.org/IAASB.

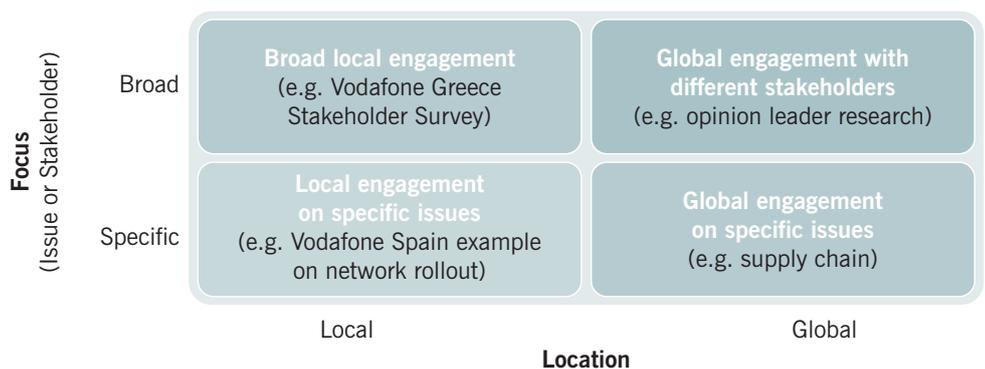
⁶ Deloitte Touche Tohmatsu is an organization of member firms around the world that offer services in audit, tax, consulting, financial advisory and enterprise risk. Deloitte's Corporate Responsibility and Sustainability teams help organisations manage and report on corporate responsibility, and obtain assurance on sustainability reporting.

Vodafone's public assertions on the AA1000 principles

On pages 6 and 7 of its 2006 CR report, Vodafone describes how it is performing against the AA1000AS principles of completeness, materiality and responsiveness (www.vodafone.com/responsibility). These are the assertions on which Deloitte based its assurance.

Completeness – How we ensure that we have clearly identified our stakeholders and fully understand their views and concerns

We believe it is important to identify people and organisations relevant to each issue and circumstance, rather than expecting one set of stakeholders to have a dialogue on all the issues in all the countries in which we operate. Our general approach is to work primarily at a country or issue level, so we identify stakeholders who have a “stake” in the specific issues, the specific localities or countries (perceptions can vary widely across countries). The diagram below illustrates the varied forms of engagements and the potential for interaction between them. The horizontal axis relates to the location of engagement, ranging from local to global. The vertical axis is concerned with the focus of engagement. This can relate either to stakeholders or issues. In the case of stakeholders, the focus is on who the stakeholders are. Engagement is mainly directed to understanding their needs and our impacts on them. When looking at an issue, the focus is on what the issue is and how to deal with it.



Our primary stakeholders and how we engaged with them in 2006:

- ❖ **Consumers** – We commissioned the research agency MORI to understand perceptions of our CR performance. They interviewed more than 5,000 people in 2003 in our five major markets, and 12,500 people in 2004 across 10 countries. We found that there are significant differences in attitudes from one country to another, and that local companies are often trusted more than multinationals.
- ❖ **Investors** – We hold frequent meetings with mainstream investors and specialists in socially responsible investment (SRI). They help us understand and respond to investor concerns and to identify the relative importance of different issues.
- ❖ **Employees** – We carry out a Group-wide survey of employees every other year. It helps us understand how employees feel about the Group, and helps us plan responses to issues, which need to be addressed. We are introducing a global strategy to increase employee engagement.
- ❖ **Governments** – We meet frequently with government officials to discuss issues of public policy including privacy, digital inclusion, and data security.
- ❖ **NGOs and CR experts** – We meet NGOs on a face to face basis. We have commissioned research for the past two years into opinion leaders' attitudes, including an on-line survey, face-to-face meetings and panel discussions, which bring together academics, journalists, activists and policy-makers.



Vodafone Albania's Stakeholder Panel – An Example of Engagement

Vodafone Albania established an opinion leader panel in May 2005 to create and strengthen relationships with key stakeholders. This is the first such initiative for a Vodafone operating company and for the growing Albanian business community.

The panel consists of 25 opinion leaders from 20 civil society, academic and government organisations. Members were selected for their direct influence on CR issues – for example the Public Health Institute plays a key role in the debate on Radiofrequencies (RF) fields and health. The panel meets quarterly and reviews a different aspect of the company's CR programmes each time. During 2005/06 it looked at issues around RF and health, the environmental impact of mobile communications, and social investment. As the panel becomes more established, its members will help to decide the agenda for future meetings.

The panel includes people from the following organisations:

- Academy of Sciences
- Albanian Helsinki Committee
- Albanian Media Institute
- Citizen's Advocacy Office
- Environment & Massmedia Association
- Faculty of Electric Engineering, Polytechnic University of Tirana
- Institute of Contemporary Studies
- Institute of Nuclear Studies
- Institute of Statistics
- Ministry of Environment
- Mjaft Foundation & Movement
- Ombudsman Office
- Open Civil Society Foundation SOROS
- Polytechnical University of Tirana
- Public Health Institute
- Telecommunication Regulatory Entity
- UNICEF Albania
- University of Tirana
- World Health Organisation Albania

Materiality – How we assess the relative importance of the issues and determine the content of our CR reporting

We assess the extensive list of issues for significance in the following areas:

- 1. The level of concern and interest among stakeholders most affected by our operations** – Vodafone has a Corporate Reputation system which tracks issues raised at local level across stakeholders group.

At Group level we also regularly engage with international stakeholders and conduct opinion formers surveys. For example in 2006 we conducted a survey of 140 European opinion formers. Such surveys track the relative importance of issues as well as the perception of our performance in each issue.

The way of analysing the level of interest differs for each stakeholder. For example, for investors we try to quantify their feedback by tracking the number of times an issue is raised (for further details see page 4 and 5 in the Vodafone 2006 CR report). Ultimately, inputs from the different stakeholder engagements result in a matrix that helps us prioritise issues by level of significance.

- 2. Our impact on society and the environment** – Social and environmental impacts are determined by assessments undertaken by CR and the given issues of business professionals (e.g. procurement team, network roll-out team etc). Not only are we undertaking regular reviews at Group or Country levels but also ensuring that such consideration for environmental and social issues are integrated within the given business process. For example, the network rollout guidelines include indicators which monitor our practices and performance with regards to the environment as



well as the community. Many of these impact assessments or reviews are done at a very local level.

At macro-level, we commissioned a series of research studies into the socio-economic impact of mobiles (SIM). The areas of research were decided in conjunction with the experts on the Vodafone Advisory Panel, a group of academics, officials and NGOs.

- 1. Financial and reputational impact on our business** – Finally, a group of senior managers analyse the potential financial and reputational impact of the issues identified as well as their likelihood to happen. In our experience, this assessment process is not an exact science and requires judgment. Ultimately, this prioritisation process then drives our approach to managing such impacts and reporting on them annually within our CR report.

Our assessment at the end of March 2006 indicated that the most material issues for Vodafone Group are:

- ❖ clear pricing,
- ❖ content standards,
- ❖ energy use and CO₂ emissions,
- ❖ handset recycling,
- ❖ network rollout,
- ❖ radio frequency fields and health,
- ❖ supply-chain issues, and
- ❖ tax

Responsiveness – How we respond to challenges and concerns

We use the knowledge gained from stakeholder engagements to explore possible actions and solutions. Where these are possible we make an appropriate commitment and publish it in our report. On occasion we will not agree with a criticism or not be able to respond with a solution. In this situation we explain our view clearly and publicly.

In 2005, our assurance provider made recommendations to improve our reporting on employment and network rollout. They also recommended extending CR to partner networks, affiliates and franchised retailers. We have improved our performance measures and included additional employee data. Our progress in reporting network rollout issues has been slower but we have made a significant commitment to establish new measures next year. Partner networks and affiliates are increasingly being included in our CR activities by attending workshops and participating in sharing of good practice. To date we have not extended our CR work to franchised retailers globally.

In 2006, our assurance provider presented another set of recommendations, including reporting on customer satisfaction and customer complaints, reporting on the status of compliance against codes of conduct signed at local level, and ensuring local reporting is consistent with Group standards.

Deloitte has interviewed and tested evidence provided by CR teams and CR issue owners across functions at Group and country levels. The assurance procedures undertaken by Deloitte were as follows:

- ❖ interviewing managers at Vodafone's head office, including the CR team and those with operational responsibility for performance in the areas Vodafone is reporting on;

- ❖ visiting six local operating companies (Egypt, Greece, Ireland, Japan, Spain and the UK) and gathering information about a further nine companies using interviews and questionnaires;
- ❖ reading and analysing public information relating to Vodafone and industry CR practices and performance during the year;
- ❖ understanding, analysing and testing on a sample basis the key structures, systems, processes, procedures and controls relating to:
 - ◆ stakeholder identification, engagement and responsiveness;
 - ◆ management commitment and the governance structures used for managing CR;
 - ◆ implementation of CR-related policies/ strategies/ codes of conduct;
 - ◆ relevant management systems to support the implementation of the above mentioned policies;
 - ◆ internal audit and other internal monitoring activities with regard to CR;
 - ◆ CR report development and approval process, including the selection of material CR issues to be reported on, related key performance indicators and other features of the CR report;
 - ◆ the collation, aggregation, validation and reporting processes of the environmental, community and occupational health & safety performance data; and
 - ◆ progress made against 2005/06 commitments.
- ❖ reviewing the content of the report against the findings and, as necessary, make recommendations for improvement.

How assurance influences the report preparation process

The alignment with the AA1000AS has helped Vodafone strengthen the way it prepares the report. It has assisted the organisation to deliver honest, balanced reporting.

There are three phases in developing Vodafone's report: planning, drafting and checking. Assurors are involved at each stage to help the organisation achieve its objective of a complete and balanced report.

A. Planning

This stage is key to achieving an effective report because this is when Vodafone identifies the subject matter to cover and how best to report on each issue. Vodafone begins with an assessment of issues, incorporating analysis of feedback from stakeholders to help identify the most material issues. This establishes an outline of the content, which the organisation then develops in meetings with content experts in operational functions. Assurors are involved at this stage to observe the decision-making process and challenge Vodafone on whether it takes account of relevant feedback and learning from previous years.



B. Drafting

The report content is developed over three drafts, and assurers are involved throughout the process. Their fieldwork includes testing the way Vodafone gathers information. They also review relevant draft content and comment on any weaknesses. There is also a continuing informal dialogue throughout the drafting process, which helps to deal with issues as they emerge.

In 2006, Vodafone added a Materiality, Completeness and Responsiveness table (see next table) to the first draft of each content section for review by issue owners. The table includes standard assurance questions and specific questions from the group CR manager relating to the specific section content. The assurers' comments from last year are also included, where relevant. This helps issue owners to focus on the need to provide content which addresses the material issues and which is supported by solid evidence. It reinforces the need for substance, not spin - reporting factually on what stakeholders are interested in, rather than presenting a favourable picture that the local managers might prefer to promote.

Testing the AA1000 principles for each issue makes the report more balanced and responsive. Below is the template that each issue owner needs to fill out for preparation of the first report draft. The assessor plays a key role in testing the AA1000 principles with the issue owners:

<i>Materiality, Completeness and Responsiveness Table</i>
<p>Does the information respond to stakeholders' expectations, claims or feedback?</p> <ul style="list-style-type: none"> ❖ Has something material been raised during the year by the media, campaigners or other stakeholders? ❖ Has there been any significant non-compliance with industry codes, legal and regulatory requirements, others? ❖ Have there been any new society norms that emerged during the year? How have we considered it and responded? ❖ What are our competitors doing?
<p>Does the information explain clearly if the company response to the issue has materially changed?</p> <ul style="list-style-type: none"> ❖ Has our position changed? ❖ Do we have different views? ❖ Has our position relative to competitors changed? ❖ Are there conflicting interests between stakeholders? What is our stand with regards to these?
<p>Are there any areas where we should acknowledge weaknesses on:</p> <ul style="list-style-type: none"> ❖ Understanding stakeholder views ❖ Improving performance
<p>Are there any other issues that need to be disclosed in the web or other sources?</p>
<p>Assurers' comments from last year</p>



C. Checking

The second and third drafts are reviewed in detail by CR issue owners, assurers and some external CR experts. Their comments are incorporated in the next stage.

The drafts are reviewed by senior management and the assurers, and ultimately signed off for publication. During this stage, assurers make a formal presentation on their findings, discussing their recommendations with group CR managers and relevant issue owners. Management considers these and takes actions as necessary. The assurers then finalise their statement to be published in the report, and provide a “management letter” which includes further feedback and suggestions.

This process results in a balanced account of Vodafone’s performance on the issues, which are most material to the organisation at Group level. It should avoid material misrepresentations or omissions, and provide the information required by stakeholders to make informed judgements about the organisation. Assurers need to be involved throughout the process to carry out their assurance work, but the continued interaction makes both the report preparation and assurance more effective.

Assurance work on the ground – Field work at group and local level

Deloitte plans the project and the work required, including the issue owners and data owners they need to interview at both Group and Operating Country levels. In 2006, Deloitte interviewed about 20 managers at Group level and carried out six visits to local operating companies: Egypt, Greece, Ireland, Japan, Spain and UK. They select countries to provide a balanced sample, based on several factors including the size of the company and its position in the market and the quality of CR management and reporting.

This work involves reviewing practices, risks, stakeholder responses to build knowledge and understanding. This step also includes a continuing involvement in the report itself – understanding the planned structure and reviewing drafts as they develop. This continuing dialogue helps our reporting by identifying as early as possible any important gaps in the report content and supporting evidence.

During operating company visits, assurers build their understanding of the local management practices and processes used by the CR team and functional managers to identify and manage the issues and to gather the information reported to the corporate CR team.

Specifically, this means interviewing CR and other managers to understand, analyse and test systems, processes, and controls relating to:

- ❖ management commitment and the governance structures used for managing CR;
- ❖ CR issues identification and risk management;
- ❖ stakeholder identification, engagement and responsiveness;
- ❖ the selection of CR issues, and related policies, strategies, objectives, targets and action program and performance; and
- ❖ internal audit activities and other internal monitoring activities relating to CR.

Deloitte staff interview the local CR team, key issue owners, and internal audit staff. They review documentation such as local reports (where there is one), management KPIs, the local CR risk schedule, the Long Range Plan submission, any stakeholder dialogue, media review or issues tracking processes.



This work allows Deloitte to generate a sufficient understanding of local performance and practices to arrive at a conclusion on quality of assertions about Vodafone's alignment with the AA1000AS principles.

In addition to gaining assurance on the quality of our approach to managing and reporting CR performance (in accordance to AA1000 AS), Vodafone also commissioned Deloitte to undertake assurance work on selected environment, health and safety and social investment performance data. For this, the assessor examined and tested processes for gathering, aggregating and reporting data to Group level. This involved interviews to understand the processes used, including control procedures, a review of key documents, and sample analysis, assessment and testing of the reporting processes.

At Group level, there were approximately 20 meetings with managers responsible for specific issues covered by the report, as well as several meetings focusing on the report data. These interviews were concerned with data collection processes, group-level issues such as content standards, but also with raising issues identified during the local company fieldwork, challenging where necessary and corroborating fieldwork findings.

Below are the basic issues covered in fieldwork interviews:

- ❖ understanding of the function/activity,
- ❖ management commitment, team competencies, available resources,
- ❖ key CR issues and events of the year,
- ❖ stakeholder dialogue, feedback, and benchmark,
- ❖ management practices (policy, governance, objectives, targets etc),
- ❖ performance (KPIs, data systems, competitor benchmark, compliance to policy, legal/regulatory compliance),
- ❖ compliance with voluntary external CR-related commitment,
- ❖ understanding of management assessment of CR aspects/issues/impacts,
- ❖ understanding of management's response to stakeholders' expectations/needs,
- ❖ summary assessment against the AA1000AS principles,
- ❖ review of practices (at group and country level) against reported information.

With regards to considering whether the reporting organisation is committed to managing its CR impact in the long run, amongst other things, Deloitte reviewed material CR issues management commitment and the degree of embeddedness within management practices. This included considering the existence of objectives and targets, associated initiatives and roll-out plans to deliver these over the coming years; whether management had made any public commitment to specific Code of Conducts; the existence of a network of individuals with adequate responsibilities and resources.



How this is reflected in the analysis and writing of the assurance statement

The fieldwork provides the information necessary for assurors to make judgements on the subject matter. In this closing stage, they check the evidence they have gathered against the draft report, present their findings and seek feedback from Vodafone management. This leads to their final sign-off and delivery of the “management letter”, which presents their findings and identification of areas for improvement. The most significant improvement recommendations are included in Deloitte’s public statement, printed in the report.

While this closes the formal assurance process for the year, feedback from stakeholders helps to develop and improve the assurance process for the following year.



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Malcolm Guy, The Reassurance Network

Annex A. AccountAbility Technical Committee

The mandate of AccountAbility's Technical Committee is to oversee the development of the AA1000 Series. Its membership includes:

Jennifer Iansen-Rogers

Co-Chair
KPMG

Paul Monaghan

Co-Chair
The Co-operative Bank

David York

ACCA

Adrian Henriques

Middlesex University

Eileen Kohl Kaufmann

Social Accountability
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Dave Lucas

Eskom

Johan Piet

TranspaRAbility

Preben Soerensen

Deloitte

Chris Tuppen

British Telecom

Charles Gatchell

Nike



Related AccountAbility Publications

AA1000 Framework: Standard, guidelines and professional qualification: An exposure draft (1999). AccountAbility.

AA1000: Overview of standard and its application (1999). AccountAbility.

AA1000 Assurance Standard (2003). AccountAbility.

AA1000 Stakeholder Engagement Standard: Exposure Draft (2005). AccountAbility.

Guidance Note on the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard (2006). AccountAbility

The State of Sustainability Assurance (2003). Cohen, J., Nacamuli, C., Zadek, S.

The Future of Sustainability Assurance, ACCA Research Report No. 86 (2004). Zadek, S., Raynard, P., Forstater, M., Oelschlaegel, J. (written by AccountAbility for ACCA)

These publications can be obtained at www.accountability.org.uk

What Assures? Listening to Words of Assurance (2006) Simon Zadek with Peter Raynard and Maya Forstater

The Materiality Report: Aligning Strategy Performance and Reporting (2006). Forstater, M., Zadek, S., Evans, D., Knight, A., Sillanpää, M., Tuppen, C., Warris, A.M.



User Note on the Application of the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard

The User Note is an opportunity for assurance practitioners and other users of AA1000AS to further explore questions of practice based on the work of leading assurance practitioners, including KPMG Sustainability, Deloitte, Bureau Veritas, the Reassurance Network and Banarra Sustainability Assurance and Advice. Three of the case studies are written from the perspective of the assurance provider while the Reassurance Network-Camelot and the Deloitte-Vodafone cases present both the reporter and assurance practitioner's view of the assurance process.

General findings

The case studies described in the User Note demonstrate that:

- ❖ The AA1000AS principles were adopted by the assurance provider to determine the quality of the reporting organisation's systems and processes, to ensure the right issues were reported and to ensure that the information on these issues was correct. The principle of materiality came out strong in all cases and was fundamental to the successful outcome of the engagements.
- ❖ Although the assurance providers used different methodologies, their processes were all recognizable and provided an outcome that was similar. Use of the AA1000AS did not limit their ability to develop and implement their own processes and methodologies that give them a competitive advantage.
- ❖ The assurance providers used a balance of objective evidence and professional judgement to evaluate performance and assertions of the reporting organisation.
- ❖ In addition to applying the AA1000AS, the assurance providers possessed client and sector knowledge, competencies in related reporting standards and guidelines, as well as knowledge of the reporting organisation's peers and competitors. These additional skills and competencies ensured that the assurance providers effectively addressed company or sector-specific issues.
- ❖ The assurance engagements provided the reporting organisations with information that would assist in continual improvement.
- ❖ There is a trend for assurance practitioners to develop their own materiality analysis and to evaluate the organisation's process and results in relation to their own findings.
- ❖ Practitioners look at the underlying systems and processes as well as the report and not the underlying systems and processes only as they relate to the report.