The Right Combination*

Corporate Responsibility reports: the role of assurance providers and stakeholder panels

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Foreword

Shareholders expect companies to generate profits. But, they also want companies to make a positive contribution to society while minimising any negative effect it might have on the environment. This approach to business—balancing economic, social and environmental interests—is commonly referred to as sustainability.

Over the past decade, sustainability has moved from the fringes of the business world to the top of shareholders' agenda. The concept of sustainability has gained traction among corporate employees, regulators, and customers, too. Consequently, any miscalculation or misjudgement of matters related to sustainability can have serious repercussions on how the world judges your company and values its shares.

Nowadays more and more companies give account of their sustainability policies and performance through special reports. These reports, often referred to as corporate responsibility reports or sustainability reports, have developed over the past decade from one subject reports (often only environmental or social) into fully fledged reports that integrate issues on the dimensions of planet, people and profit. With better standards on CR reporting evolving, the quality of those reports has also increased. A sound result of those developments is the rise in the number of reports that include a third party assurance statement.

The main difference between financial reporting and CR reporting is the involvement of stakeholders in the reporting process. The first step for companies towards demonstrating responsible leadership is establishing trust between themselves and their various stakeholder communities, starting by understanding stakeholders' concerns and acknowledging their legitimacy. Some companies have set up stakeholder panels to advise them on their CR reporting. These panels have, in some cases, issued statements on the CR report of a company.

As the attention of shareholders is shifting from financial performance to a combined performance in economic, social and environmental fields, we feel CR reporting will become as important as financial reporting. Therefore it is our opinion that companies should strive for assurance on their CR reports in alignment with their financial reporting. Assurance providers like audit firms can provide assurance on the contents of the report, the accuracy of the performance and the underlying management systems and processes. Together with opinions of stakeholder panels on the selection of issues addressed in the report and the adequacy of the performance, it enhances the credibility of the CR report.

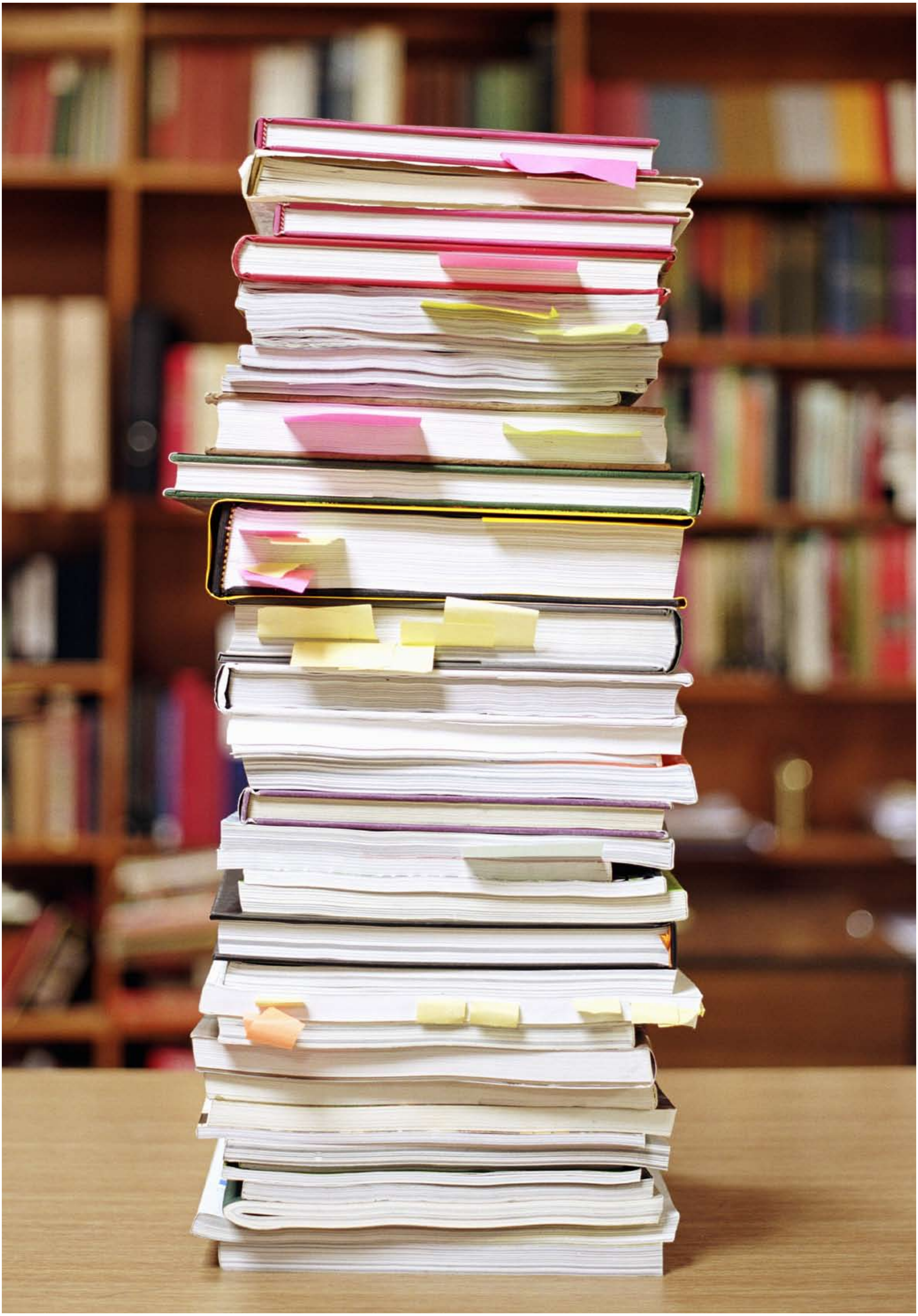
The authors,

Klaas van den Berg

Nancy Vollering-Manhave

"Public disclosure on Sustainability-related matters has become common practice for hundreds of multinational corporations in all geographies, and yet we still see a wide variety in terms of the quality of such non-financial reporting. The challenge for Audit Committees is to get the comfort which enables approval of the disclosure, i.e. the comfort to have sound accounting principles, robust and functioning reporting processes in place for the KPIs and the comfort that the disclosed KPIs are free of significant misstatements. In this context, 3rd party assurance is but part of good practice in a company's reporting supply chain. But do companies actually disclose the information which stakeholders want and need? Companies may establish a dialogue with the target audiences (stakeholders) to find out. It is an obvious extension of the Investor Relations function into other areas of disclosure."

Thomas Scheiwiller, Global Sustainability Leader, Switzerland



Introduction

Since companies started reporting on Corporate Responsibility (CR)[1], ever more of them are seeking assurance on their CR reports. Traditionally, they request assurance providers, like PricewaterhouseCoopers (PwC), to provide assurance on both qualitative and quantitative information. The assurance statement relates to the information in the report, and the internal control and monitoring systems implemented by the company.

There is a tendency for companies asking stakeholder panels to express an opinion on the CR report. Their opinions relate to the issues covered by the CR report and the effort by the company to address these issues. However, they do not include an assessment of internal control systems or performance data and therefore do not represent a conclusion on the "fairness" of the information included in the report.

This development raises the question as to the kind of relationship between stakeholder panels and formal assurance providers. Both opinions are referred to as independent opinions and sometimes "assurance" but the scope of the engagement is entirely different. However, this is often not clear to users of the CR reports and this could well lead to confusion. It is also unclear what companies expect from an assurance provider and what they consider to be the added value of assurance on their report.

PwC has conducted a global survey amongst clients and relations in order to get a better insight into why companies seek assurance on their CR reports, and if and how they use stakeholder panels. We have also asked specialists in the field about this development.

The outcomes of that survey underpin our view that assurance providers and stakeholder panels complement each other, and so enhance the credibility of CR reports. Assurance providers are able to state if a company is "reporting things right" and stakeholder panels can comment on whether a company is "reporting the right things". Together they can provide a more complete picture of a company's CR performance.

"Stakeholder panels are a promising new dimension in enhancing credibility of sustainability reports. However, a threat for both assurance providers and stakeholder panels is confusing the readers of reports by mixing up their respective competences. Both are of great value for the legitimacy of sustainability reports. A good definition of their scope of work and a conscientious use of definitions are the first conditions to avoid misunderstandings"

Klaas van den Berg, Sustainability Leader, The Netherlands

1 Comparable to Corporate Responsibility reporting are inter alia corporate social responsibility reporting, sustainability reporting, environmental reporting, and social reporting.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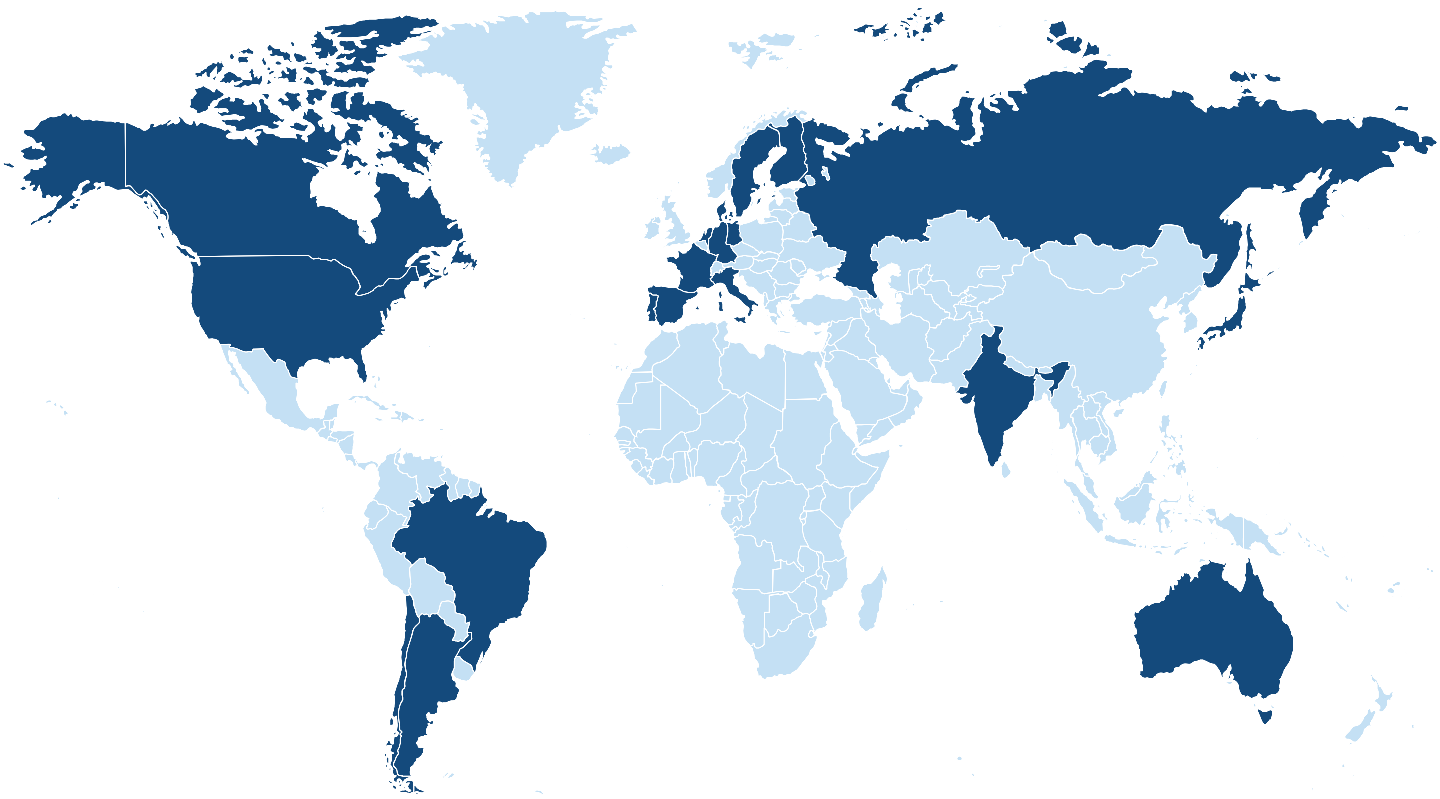
1 Why companies seek assurance on their CR reports

Through our global network of Sustainability Practitioners, PwC has conducted a survey among clients and relations with experience in the CR field, in order to get a better insight into the current developments of assurance on CR reports, the use of stakeholder panels and what our clients think is the relationship between assurance providers and stakeholder panels. In this chapter we will elaborate on the general survey results. The results will be discussed in more detail in chapters 3 and 4.

Responses from our global network

In total 50 companies responded, from 18 different countries. We received completed questionnaires from Argentina, Australia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, India, Italy, Japan, the Netherlands, Portugal, Russia, Spain, Sweden and the United States.

The participating countries are marked dark blue in the world map depicted below.



What is CR reporting?

Corporate responsibility (CR) reports explain and evaluate the environmental, economic and social impacts – both positive and negative – of a company's operations.

Unlike the annual report, which accounts for operational and financial reporting, a CR report details the company's performance against specific environmental, economic and social goals and metrics. The CR document also reports on how sustainability is incorporated in the companies overall strategy and policies.

According to the Dutch assurance standard for CR reports, COS 3410N, a CR report is a publication for a reporting period in which a reporting organisation informs and renders account to intended users about its policy regarding sustainable development, as well as its activities, events and performance relating to sustainable development.

The responding companies

The 50 responding companies represent 12 different sectors. The sectors Energy and Utilities, Industrial Products, and Retail and Consumer are best represented. These are the sectors with the longest history in CR reporting. The sector Banking and Capital Markets is also strongly represented. The chart below provides an overview of the various sectors of industry with the number of respondents.

The Industrial Products sector is very diverse. Therefore the respondents in this sector are further specified in the pie chart below.

We received responses from both large multinational companies and smaller non-listed national companies. The outcomes therefore represent a wide range of companies.

The majority of companies seek assurance on CR reports

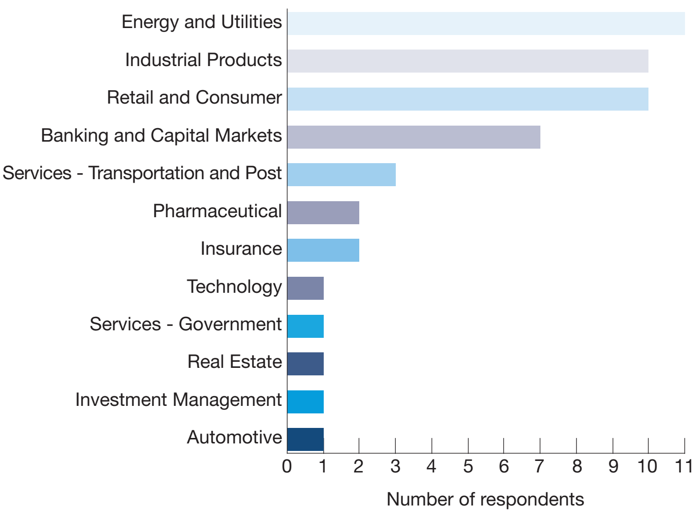
From the 50 companies that participated in our survey, 48 companies have issued a CR report over 2006. Some 40% of these companies have until now issued five or more CR reports (or similar). These companies are clearly front-runners, as CR reporting is still on the increase globally.

We also asked companies if their CR report included an assurance statement and who provided that assurance statement. Of the 48 companies that have issued a CR report, 37 indicated that one or more editions of their CR report included an assurance statement (77%).

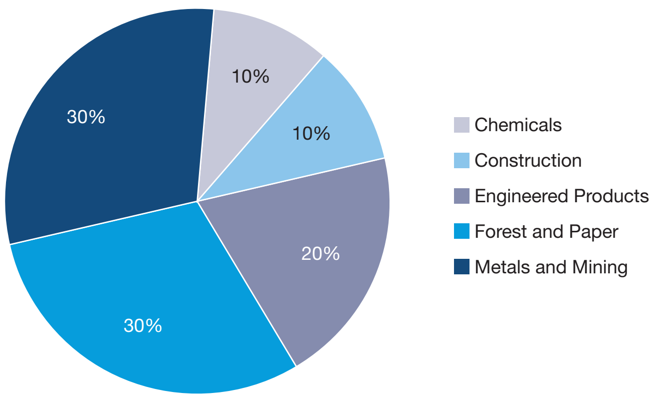
Other surveys and studies,[2] signal an increase in external assurance statements in CR reporting, most of which are based on financial reporting. From the Craib report "CSR trends 2007",[3] that surveyed a wide variety of Canadian, American, European and Australian reports, it appears that 45% of the companies provided a separate assurance report. Our score of 77% of the reporting companies therefore can be termed relatively high.

This high score can be explained by the fact that we have not concentrated on companies in the Fortune Global 500 nor did we use other company listings. Instead, we tried to obtain responses from companies and countries throughout our global network that are already active in the CR field, because they could provide us with meaningful input for our publication.

Sectors of respondents



Industrial products



2 Such as the Report of the judges, ACCA UK Awards for sustainability reporting 2006, published by Certified Accountants Educational trust, London, February 2007.
3 Craib, CR trends 2007, a comprehensive survey of sustainability report trends, benchmarks and best practices, September 2007.

From the results it appears that the responding companies belong to the front-runners in the field of CR reporting and assurance. And what we also experience in our day to day practice, companies that do well are more likely to share their experiences.

When experience in reporting increases, so does the number of assurance statements

The results indicate that companies that have more experience in reporting more often ask for assurance on their CR report. This is a development we also see in our daily work.

The graph below illustrates this development.

More than 60% of the first-time reporters do not have an assurance statement. These companies have commented that they want to gain more experience in the reporting of CR data and in streamlining their processes before they will ask for external assurance.

Assurance statements mainly provided by audit firms

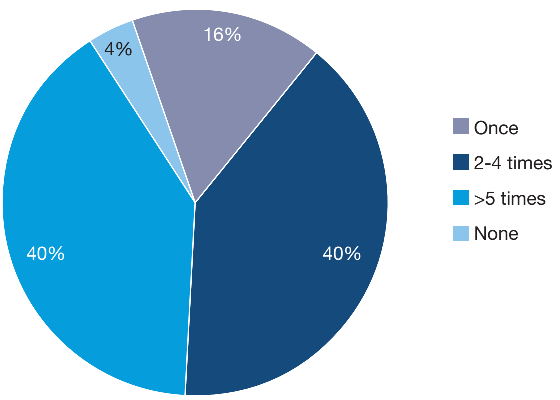
The majority (87%) of the assurance statements included in the last editions of the companies' CR reports, was provided by an audit firm, sometimes in cooperation with internal auditors of the company itself. This outcome may be biased as we only asked clients/relations of ours to participate in our survey. However other surveys underpin the fact that the major accountancy firms dominate the CR assurance market.[4]

Some companies use a consultancy firm or a combination of audit firm and consultancy firm for this purpose. In the latter case, the audit firm audits the financial information in the report and the consultancy firm focuses on specific CR issues. Only two of the companies in our survey indicated that they included a statement of a stakeholder panel in their CR report.

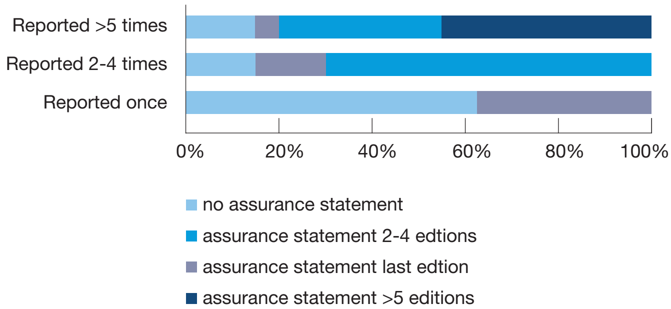
Country differences

There is a difference in the use of assurance providers between countries. In Australia and the UK consultancy firms have a strong position with regard to providing assurance on CR

Number of published CSR reports until 2006



Development of assurance on CSR reports



4 University of Amsterdam and KPMG Global Sustainability Services (2005), KPMG International Survey of Corporate Responsibility Reporting 2005

reports. In Europe most companies turn to audit firms for assurance, especially in countries where CR aspects are also part of the annual report. For listed companies in France, for instance, CR aspects are an obligatory part of the annual report and therefore the financial auditor also provides assurance on CR. This is also the case in Denmark and in Germany.

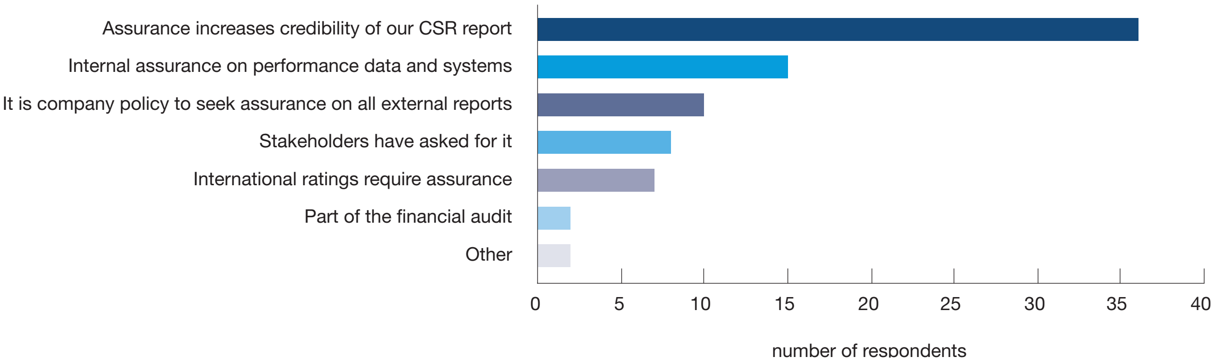
Increasing credibility is main reason for assurance

We have asked the companies why they have sought assurance on their CR reports (they could indicate multiple answers). The results are indicated in the graph below.

Enhancing the credibility of the CR report is the main reason for companies to ask for external assurance. Another important reason is the internal assurance on performance data and systems. Both the results of the survey and our day-to-day practice show that the drive to obtain assurance on CR reports comes from the companies themselves, based on convictions or instigated by legislation. Intended users of CR reports appear do not often demand for third party assurance on CR reports.

A number of companies that do not have an assurance statement in their CR report now, indicated that they would in the future. They have just started reporting on CR issues and want to gain more experience before they ask an opinion of an external assurance provider. Other companies indicated that they felt no external pressure to have an assurance statement in the CR report and would refrain from asking external assurance.

Reasons for seeking assurance



Transparency is an important subject for Robeco. Exchange of information is often the first step in engaging with companies. As part of this process we often state that external verification of corporate responsibility reports is advisable. This is in line with the recommendations of the Global Reporting Initiative, the standard for sustainable reporting.

Verification of the corporate responsibility report is important to us. If a report is verified by an external accountant we can be sure the information in the report is correct. Verification by stakeholders is on the increase. A good development. The appropriate stakeholders can make profound and substantive comments based on their specific expertise.

In all cases it is self-evident that the verification is performed by competent persons or groups who are independent from (the board of) the company that is publishing the report.

Robeco, The Netherlands

2 Reporting things right- Audit Firms

Audit firms have many years of experience in providing assurance on all sorts of accounts. Even though the field of CR reporting is relatively young and standards on reporting and assurance have only just been accepted and applied by a wider group of companies around the world, audit firms are fully able to provide assurance on the qualitative and quantitative information in CR reports.

Development of sustainability assurance

Sustainability assurance is a special form of non-financial assurance. As reporting on aspects of performance other than financial by companies has evolved, the need for assurance on non-financial information has increased.

This need has been acknowledged by coordinating organizations of (financial) auditors, which developed standards for performing assurance engagements relating to non-financial information.

The most important standard for assurance on non-financial information is ISAE 3000[5]. The purpose of this standard is to establish basic principles and essential procedures for professional accountants in public practice. It also provides guidance for the performance of assurance engagements on non-financial information. Country-specific standards have also emerged.

Next to the standards developed by the audit profession other organisations such as AccountAbility have developed subject specific standards, e.g. the AA1000 Assurance Standard. The existence and further development of standards for performing sustainability assurance engagements is very important, because they ensure a certain level of quality of the assurance provider that is using them.

Characteristics of a sustainability assurance engagement

The main characteristics of a sustainability assurance engagement are:

- the engagement may have a hybrid form regarding the level of assurance provided;
- the scope of the engagement is determined individually;
- the audit teams should be multidisciplinary;
- Independence of the auditors is important.

Levels of assurance

It is possible to have limited and reasonable assurance in one engagement. In that case it is important that the assurance provider clearly identifies the differences in the assurance statement. As CSR reporting is still developing and the information in the reports originates from a lot of different departments and management information systems in a company, the underlying reporting systems are often far less robust than the systems used for financial reporting. When reporting systems are weak, the costs for obtaining reasonable assurance can be considerable. Taking into account that assurance on CR reports is not mandatory; companies therefore often opt for limited assurance. Some performance indicators, due to their nature, lend themselves more easily to reasonable assurance than others. For certain qualitative information it may not be realistic to strive for reasonable assurance.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those performed to obtain a reasonable level of assurance. When limited assurance is provided the engagement is referred to as a review. When reasonable assurance is provided the engagement is referred to as an audit.

Standards for sustainability assurance

In the field of sustainability assurance several, country-specific standards provide guidance for the assurance provider apart from ISAE 3000.

In the Netherlands, COS 3410N – "Assurance engagements relating to sustainability reports” was issued by Royal NIVRA in 2007. This standard is based on ISAE 3000, but is focused on sustainability reporting. It states that the objective of an assurance engagement relating to a sustainability report is an examination of the information in the report to determine whether it meets the relevant reporting criteria. The perspective of the intended users of a sustainability report is central to assurance engagements according to the Dutch standard.

Germany, France, Italy and Sweden have also issued specific guidance on sustainability assurance.
Spain is in the process of issuing a standard.

5 IFAC/IAASB (2003), International Standard on Assurance Engagements 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”

Scope of the engagement

There are a lot of different approaches when it comes to the scope of assurance engagements for CR reports. Some assurance statements in CR reports only cover certain parts of the report or only the financial or environmental KPI's in that report. Other statements cover the entire report, including both the quantitative and qualitative information.

For sustainability assurance, the assurance provider should form a conclusion on the data in the report; is it accurate and complete? The assurance provider should also form an opinion on the report as a whole: does it include all the issues that stakeholders would expect to be in the report and is the report balanced, e.g. does the presentation in the report do justice to the importance of the issue, and are positive and negative results equally presented?[6] He should also review the statements made in the report and collect evidence that support those statements.

The scope of the engagement, the assurance procedures performed and the conclusions of the auditor are included in the assurance statement.

The use of multidisciplinary teams

To perform the assurance procedures necessary for sustainability assurance, it is beyond dispute that assurance providers need to form multidisciplinary teams. Besides general audit skills, the team must also have specific knowledge of the different subjects in the CR report, such as CO2-emissions or labour rights. If this knowledge is not available in-house, assurance providers should use external experts to join the audit team.

Independence of the auditors is important

As with financial auditing, the independence of the practitioners performing the assurance procedures should be guaranteed. Audit firms have robust policies in place to ensure their independence. They are under supervision of supervisory bodies such as the SEC[7] in the US and the AFM[8] in the Netherlands. Auditors cannot be responsible for drawing up (parts of) the report if they are also providing assurance on that report.

Challenges for sustainability assurance

There are different interpretations of the term ‘assurance’. When we as an audit firm speak of ‘assurance’, we adhere to the definition used in the International Framework for Assurance Engagements[10]. This Framework states that: “an assurance engagement is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter (e.g. CR report) against criteria.”

Other parties also use the phrase ‘assurance’. But they refer to broader definitions that do not necessarily include criteria or standards. The opinion, which stakeholder panels express when commenting on the contents of CR reports, is sometimes also referred to as an assurance statement, but the scope and the depth of their assignment and work performed is different and is generally not governed by standards.

These different interpretations of the term assurance may lead to confusion. It is our concern that users of CR reports are not

> “Stakeholder panels are used for a different purpose than assurance providers: you ask your stakeholders to give their views on your activities, and you turn to an assurance provider for objective assurance of your facts. The similarity is that they both give feedback on your report, but they cannot substitute for each other in any way. There might be a risk if statements of stakeholder panels start to be used as assurance, as the reporting as such might then lose credibility.”
>
> **Energy company, Sweden**

Limited assurance

A limited assurance engagement is designed to give a similar level of assurance to that obtained in a review of financial information. To achieve limited assurance the ISAE 3000 requires that the assurance provider reviews the processes, systems and competencies used to compile the information in the CR report. It does not include detailed sample testing of source data or the operating effectiveness of processes and internal controls. This provides less assurance and is substantially less in scope than a reasonable assurance engagement.

6 A recent study of E&Y indicates that most reports are unbalanced, with far more positive messages and a limited explanation of real dilemma's, October 2007.
7 U.S. Securities and Exchange Commission
8 The Netherlands Authority for the Financial Markets
9 According to COS 3410N
10 International Framework for Assurance Engagements, IAASB (2003)

always aware of those differences. Therefore any party using the term assurance should state clearly which assurance procedures they have performed and which standards and criteria they have used to reach their conclusion.

From our survey it appeared that the current scope of the assurance engagement and the wording of the assurance statement meet the needs of the participating companies. The majority of the companies that currently have an assurance statement in their report indicated that they were satisfied with the current situation.

However, there were some words of criticism. Some companies would like the assurance statement to cover the full report, both with regard to qualitative and quantitative information, instead of being limited to certain data in the report. Also several companies indicated that they would like to see a shorter and simpler assurance report being delivered.

It is our opinion that audit firms should not limit themselves to a few indicators in the report. Otherwise there is a risk that the assurance statement of audit firms will become an instrument of the company to enhance the legitimacy of the organisation. Using guidance from the different standards, it is possible to include the whole report in their scope of inquiry.

One of the companies in our survey indicated that it would like the assurance statement to contain positive comments on the actual performance. This is difficult, however, for the auditor to provide in an assurance engagement. The auditor should be objective and independent and stick to the facts. In order to provide such comments the auditor would need to have objective criteria and audit evidence to be able to compare the performance of the company to that of its peers. This would require a separate investigation. These sorts of comments could however be made by stakeholder panels based on their expertise.

Reporting things right

Sustainability or CR reporting is becoming increasingly important to companies. Formal assurance providers like audit firms have the skills and the knowledge to provide assurance on the information in the report. It is our opinion that companies should strive towards giving CR reporting the same status as financial reporting and therefore put more emphasis on the reliability of the key performance data. Audit firms can provide that assurance and state if the company is “reporting things right”, based on their assurance procedures, objective facts and audit evidence.

> “Our view is: if you want to be taken seriously, you have to audit the report.”
>
> **Bank, The Netherlands**

The assurance statement

The assurance statement has to contain certain basic elements[9]:

- title which expresses the extent of the conclusion (qualified or unqualified);
- addressee, preferably the intended users of the report;
- identification and description of the subject matter of the assurance engagement and whether the information has been audited or reviewed (or a combination);
- statement of the reporting criteria;
- limitations on the examination, for instance whether there is forward-looking information in the report, or whether parts of the report have been omitted from the examination;
- reference to the assurance standard used (ISAE 3000, COS 3410N, AA1000 AS, et cetera)
- summary of the procedures performed;
- conclusion of the auditor;
- date of the assurance report;
- name and registered place of business of the audit firm or auditor.

Definitions of assurance

“An assurance engagement is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter (e.g. CR report) against criteria.” - International Framework for Assurance Engagements, IAASB (2003)

“Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of a Reporting Organisation’s subject matter, such as reports, and the organisation’s underlying systems, processes and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to provide credibility to the subject matter for its users.” - AccountAbility AA1000 Assurance Standard (AA1000 AS)

“Assurance is defined broadly in terms of its outcome as: enabling the confidence of a party or group of people that the information they have is accurate and complete enough for them to make an informed decision about a certain subject matter”. - AccountAbility, What Assures? (2006)

3 Reporting the right things- Stakeholder panels

More and more organizations are involving their stakeholders in their CR reporting process: some companies in a very direct and proactive manner, others in a more reactive way. It is clear that stakeholders are very important, especially in the field of CR.

While stakeholder engagement is not new, developments in the field of CR reporting have intensified the attention given to it. Generally accepted principals and standards such as The OECD Principles on Corporate Governance, AA1000 Stakeholder Engagement Standard and the Global Reporting Initiative G3 Guidelines, all emphasise that organizations should identify, listen to and give account to stakeholders when taking decisions. However, the way of engaging with stakeholders is not yet fully crystallised.

> "We consider this kind of stakeholder engagement very useful and we obtained quite interesting feedback. However we found it quite difficult to reach a significant number of participants to the focus groups in order to have a meaningful result."
>
> **Bank, Italy**

Different forms of stakeholder engagement

In practice we see organizations using many different forms of stakeholder engagement. This engagement is sometimes indirect, like with stakeholder consultations or surveys (e.g. employee or customer satisfaction). Sometimes it is more direct and proactive, like in case of stakeholder panels and partnerships.

The majority of the companies in our survey indicate that they consult stakeholders for different reasons. Often these consultations are made indirectly through surveys sent to different stakeholder groups (for instance NGO's, trade unions, customers, suppliers and employees) with the purpose of commenting on the company's CR report and/or strategy. The results of those surveys are taken into account while drawing up the CR report. Other reasons for consulting stakeholders are to improve products or services, or to investigate the public perception of the company.

Companies also consult stakeholder groups in a more direct way by inviting representatives of those stakeholders to meetings to discuss the CR report, dilemma's and strategy with the management of the company. These consultations are used to set the boundaries of the report and identify the issues that should be included in the CR report. Many companies refer to the materiality process as described in the GRI G3 Guidelines.

The most proactive way of engaging with stakeholders is setting up a structural stakeholder panel which is consulted on a regular basis. Fourteen companies from our survey indicated that they use stakeholder panels.

Characteristics of stakeholder panels

A stakeholder panel has the following characteristics:

- It consists of representatives of different stakeholder groups.
- It has a clear purpose or assignment.
- The company has committed itself to responding to the outputs of the panel.

Composition and criteria

The panel should consist of a fixed group of representatives from different stakeholder groups. This group should be consistent for a longer period of time, in order to monitor the progress companies make. Some companies indicate that they have separate panels for separate stakeholder groups or issues (e.g. a customer panel or a supplier panel, or a diversity panel, a wellness panel, etc.). These panels are consulted periodically about their expectations and specific issues. These panels may be valuable to the company and its stakeholders, but for the purpose of this publication are not considered stakeholder panels because they do not have all of the above-mentioned characteristics.

Definition stakeholder panels

Stakeholders are individuals or groups that affect or could be affected by an organization's activities, products or services and associated performance.[11]

Stakeholder panels are groups of experts, stakeholders, or their representatives who have been brought together at the invitation of a company to examine some aspects of its policies, actions or performance and deliver a mandated output or series of outputs to which the company has made a specific commitment to respond (for example by publishing or issuing a response, or by acting on recommendations).[12]

11 AA1000 Stakeholder Engagement Standard

12 AccountAbility and Utopies (2007), Critical Friends – The Emerging Role of Stakeholder Panels in Corporate Governance, Reporting and Assurance

The criteria and procedures for selecting the members of the panel should be determined by the company. Only 8 out of the 14 companies that indicated using stakeholder panels have formulated specific criteria for the selection of the panel. The lack of specific criteria is a potential risk for the credibility of the stakeholder panel and the acceptation of the panel's opinion by the larger stakeholder groups. When criteria are set, these should be disclosed to the public either in the CR report or on the website or other means of publication.

"Companies and stakeholders need both to be proactive, open, transparent and honest in the engagement. While we have adopted a Stakeholder Engagement methodology, we welcome very much some recent initiatives by stakeholders to adopt an International Charter for stakeholders' organisation about transparency, conduct, funding et cetera, that is, in one word, their own social responsibility."

Energy company, Italy

Purpose of the stakeholder panel

The roles of stakeholder panels can be diverse. However, in practice most of the stakeholder panels provide input for the materiality process of the companies, e.g. determine what issues to report on. Most of the panels are also asked to comment on the (draft) CR report itself. Comments and recommendations are responded to either by processing them in the final version of the CR report or by attaching the comments and the responses thereto to the report. On two occasions the opinion of stakeholder panels was included separately in the CR report. Only in exceptional cases did the stakeholder panel also provide input for the CR policy and guidelines of the company as part of the Corporate Governance structure of the company. In summary, the majority of the panels therefore take on a combination of roles.

Challenges in using stakeholder panels

The results of our survey show that the purpose of the stakeholder panel is especially focussed on providing input and feedback on the materiality process of the company and the CR report. This requires certain knowledge of the business issues relevant to the company and to the countries it operates in. Many companies indicated that finding capable members for the stakeholder panels is a challenge.

"There are a few barriers to overcome in using stakeholder panels:

- Involvement of stakeholders has to be arranged at an early stage and during the whole reporting process.
- Stakeholders expect that their remarks/requirements are answered. This requires upfront commitment of the company to do so.
- Stakeholder panels need to be well-balanced in their composition.
- Members of the panel need to be capable to judge from a collective viewpoint and not only from their individual perspective."

Technology company, The Netherlands

Finding this capacity within the organisation to organise the stakeholder process can also be difficult due to lack of manpower or financial means. Many companies do not have a strategy on stakeholder engagement.

"There are usually very few experts on stakeholder management in companies. Many companies do not have a concept / strategy concerning stakeholder management. Organising stakeholder panels is often considered a waste of time and money. Many companies think they already know what their stakeholders think."

Car manufacturer, Germany

The independence of the members of the stakeholder panels is also an issue to be considered. Do members operate in an individual capacity or do they represent an organisation (NGO)? What deal have the members been offered in terms of influence on decisions in exchange for the time and reputation invested? Do members receive a financial compensation? It is important to be transparent to the public in order to ensure the credibility and independence of the panel.

"Relationships between the stakeholders and the organisation need to be clear and transparent. The purpose and objectives of any stakeholder engagement should also be made clear. This also applies to any engagement that the assurance provider may do with stakeholders on behalf of the organisation. The above points could lead to 'barriers' if not handled correctly."

Pension fund, Australia

Reporting the right things

When stakeholder panels are used, the panel gives input to determine the contents of the report and feedback on the extent to which the expectations of the stakeholders have been met. Stakeholder panels do not take into account the underlying systems and procedures of the company from which the information in the report is derived. They will comment whether the company is "reporting the right things".

"Theoretically it is a good thing to develop the reliance of CR reports and CR report verification. But it will be a long way towards an adequate quality of stakeholder dialogue and stakeholder panels."

Energy company, Germany

´We see our stakeholder panel as a provider of assurance not of factual data accuracy but of completeness, balance and responsiveness to stakeholders in line with AA1000. In theory it would be possible to combine this form of assurance with external assurance of factual accuracy via other assurance providers. In practice, in our view, this would amount to overkill.´

Oil company, The Netherlands

Purpose of stakeholder panels

Stakeholder panels can play different roles:[13]

- Advisory role. These panels continually provide an external perspective and advice on the company's corporate responsibility strategy. Their output varies from an expression of expectations on issues to feedback on draft policies, programmes and public positions.
- Assurance role. These panels focus on reporting. They complement and strengthen companies' existing reporting and assurance mechanisms by:
    - highlighting and debating emerging or difficult issues, thereby assisting the company in identifying the sustainability issues that are material to their business strategy (and therefore also the scope of their reporting);
    - overseeing the report scope and contents, thereby ensuring that reported information is aligned to what stakeholders care about;
    - providing some form of public assurance, such as a letter or statement commenting on the company's sustainability management, performance and reporting.

Panels often mix these advisory and assurance roles.

13 AccountAbility and Utopies (2007), Critical Friends

4 The right combination

Stakeholder panels are an important aspect in the development of the whole area of CR reporting. They can be the link between a company's strategy and business goals on the one hand and stakeholders expectations on the other. Also they play an important role in the materiality determination process for CR reporting.

Independent auditors can complement the stakeholder panel's opinion by providing assurance on the materiality process and performing audit work on the reported performance and data. They can also support stakeholder panels by providing expertise and knowledge (training) on standards used, et cetera.

From stakeholder panel to assurance provider and vice versa

The stakeholder panel can provide the assurance provider with information on the materiality process that was followed when drawing up the report. The panel can comment on whether all the issues, which the stakeholders feel are important, are sufficiently addressed in the report. The assurance provider can use that information to reach a conclusion on whether the report provides a balanced view.

A recent article[14] showed the limited guidelines assurance providers have for assessing the qualitative information. Although assurance providers have the skills and procedures in place to execute a solid assessment, stakeholder panels can partly fill in this gap by giving their opinion on that information in the report, based on their expertise.

The assurance provider can provide input for the stakeholder panel on the information in the report by assuring the information is accurate and complete. He can also provide knowledge and training to the stakeholder panel on the standards used.

In our view formal assurance providers -like audit firms- and stakeholder panels can complement each other in enhancing the credibility of CR reports. The relationship between the company, audit firms and stakeholder panels is illustrated.

Both stakeholder panels and audit firms perform their engagement under the authority of the reporting company. The circles represent the exclusive domains of the Stakeholder panels respectively the Audit Firms. From those domains they provide input for the CR report represented by the triangle in the middle.

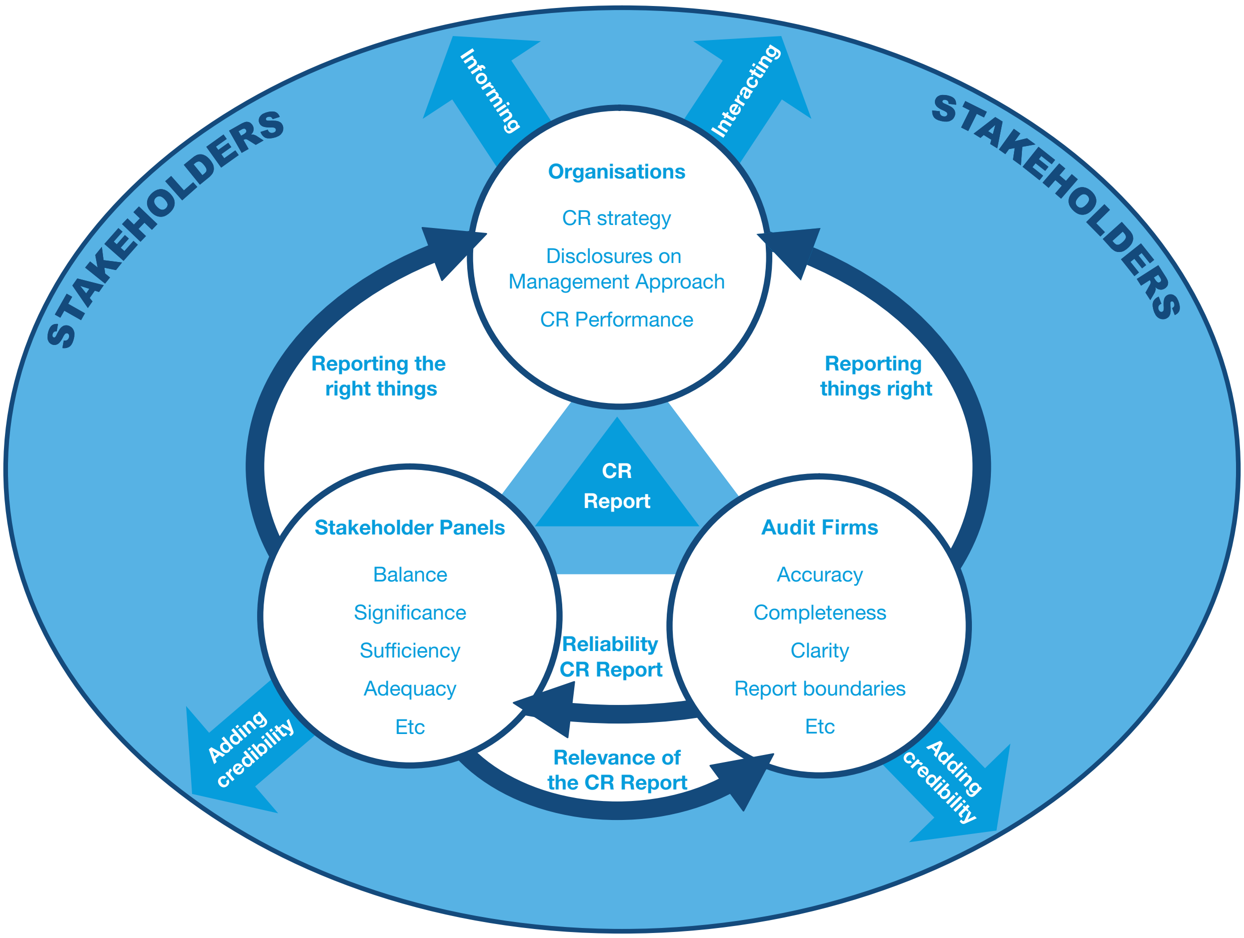
> "Assurance providers and stakeholder panels are both able to say something about the quality of CR reports. Provided that stakeholder panels consist of individuals with extensive knowledge of CR issues and business sectors, they know precisely what kind of information they are looking for and are able to make a statement about the credibility and quality of CR reports. Assurance providers comment on the 'how' of CR reports."
>
> **Clothing company, Sweden**

14 Dennis Veltrop and Dick de Waard, E&Y, A Methaphysical perspective on the verification of CSR reports, November 2007

In our view formal assurance providers -like audit firms- and stakeholder panels can complement each other in enhancing the credibility of CR reports. We strongly recommend connecting those two bodies to create efficiency and synergy.

Assurance providers like audit firms support the market's and stakeholders' needs to verify that the information that is reported is represented completely and fairly. Stakeholder panels represent stakeholder perspectives to ensure that the company is reporting information on topics which matter to them and to provide feedback on whether the company is performing adequately on those topics.

In other words audit firms can express an opinion on whether the company is "reporting things right" and stakeholder panels can express an opinion on whether the company is " reporting the right things".



Are you talking to the right people?

Our global sustainability network of over 400 practitioners around the world approaches the issues of sustainability and corporate social responsibility (CR) in accordance with local conditions and requirements. However, we are aware that not all solutions can (or need to) be exclusively local; we support global convergence around standards of sustainable development. To this end, we have established key relationships with other organizations through which we aim to advance the field of sustainable business practice.

PricewaterhouseCoopers (PwC) has been a member of the United Nations Global Compact (2002), the Global Reporting Initiative (1998) and the World Business Council for Sustainable Development (2001), of which PwC Global CEO, Samuel DiPiazza, has been appointed Chairperson as from January 1, 2008. PwC is also a board member of the Institute for Social and Ethical Accountability, and operates in local partnerships with national NGOs and national bodies representing some of the organizations mentioned above. In addition, our partners and directors occupy positions on institutional bodies in their own countries.

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