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Patterns of Influence in the Sustainability Assurance Standard Setting Space

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2012

[Link to publication](#)

Citation for published version (APA):

Sonnerfeldt, A. (2012). *Patterns of Influence in the Sustainability Assurance Standard Setting Space*. Paper presented at 10th Interdisciplinary Perspectives on Accounting Conference.

Total number of authors:

1

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PATTERNS OF INFLUENCE IN THE “SUSTAINABILITY ASSURANCE” STANDARD SETTING SPACE

ABSTRACT

This paper aims to provide a better understanding of the context within which sustainability assurance standards are developing at the international level through tracing the patterns of influence among the institutions involved and how key regulatory issues develop. Through the decentred regulation theoretical perspective and sculpting an analytical framework utilizing the regulatory space metaphor, findings demonstrate competing concepts and regulatory logic brought about by polymorphous actors founded on different philosophical pursuits in the sustainability assurance standard setting space. Without the presence of an authority or central co-ordinating body making “final decisions”, the objectives of sustainability assurance, key definitions, concepts and issues undergo continuous construction, debate and negotiations without any agreement or settlement. The standard setting space is characterised by fragmentation and regulatory overlap resulting in national standard setters and practitioners being left with the discretion to decide on the objectives of such assurance engagements and how it is to be carried out.

INTRODUCTION

BACKGROUND

Sustainability is one key policy area where there are a growing number of regulatory initiatives by state and non-state actors at international, transnational, regional and national levels.¹ The shifts in regulatory focus towards self-assessment and control, which utilizes the resources of the regulated parties, have created the need for new instruments and institutions of monitoring². Corporations are increasingly utilizing these tools to legitimize their existence and operations in society³. A popular tool used to aid legitimacy is external reporting by corporations.⁴ Corporations measure and communicate the environmental and social impact of their operations to external parties through publication of reports.

¹ Zadek, S.; Raynard, R. (2004) “The Future of Sustainability Assurance” ACCA research report 86, p. 39. For example, the UN Global Compact and multi-stakeholder initiatives such as GRI, ETI the international level; EMAS at the regional level; Chapter 6 of this thesis for examples in Sweden. See also, Djelic, M. and Sahlin-Andersson, K. (2006), p. 4 for the concept of transnational governance.

² Power, M. (2007) *The Audit Society: Rituals of Verification*, Oxford University Press. The book covers in-depth discussion of three new areas that supported the audit explosion thesis.

³ Tomkins, C. (2001) "Interdependencies, Trust and Information in Relationships, Alliances and Networks", *Accounting, Organizations and Society*, 26(2), p. 161.

⁴ This form of reporting is distinguished from internal reports, reports by external parties to the corporation and social audits. See also, Gray, R. (2000) “Current Developments and Trends in Social and Environmental Auditing, Reporting and Attestation: A Review and Comment”, *International Journal of Auditing*, 4(3), p. 251 which makes a distinction between these forms of reporting.

Sustainability reports have been critiqued as a form of corporate ‘green washing’, adding value to the corporation instead of accountability and transparency towards the reporting organisation stakeholders⁵. Researchers have increasingly scrutinised these reports finding reporting-performance portrayal gaps and indicating its potential to reduce rather than increase the visibility of corporate social environmental impact.⁶ Studies have also pointed out corporate managements’ dominant influence over the contents and scope of reporting, the immaturity of reporting standards, the lack of stakeholder engagement, the exclusion of and favouritism towards particular stakeholder groups.

The essence of the well-institutionalised idea of an audit is that information is more credible if it has been subjected to independent examination by a third party. Third party assurance has been demanded by reporting organisations, put forward by assurance providers (push) and supported by a series of other groups, as a vital part of the credibility and trust building process. These groups include the European Commission, FEE, GRI, AccountAbility and academics.⁷ The increase in sustainability assurance engagements can therefore be explained by a “pull-push-endorsement” mechanism involving multiple actors, for different purposes, based on the notion that third party assurance increases the credibility of sustainability reports. The percentage of G250 firms commissioning assurance according to the KPMG survey has increased steadily from 29% in 2002 to 46% in 2011.

Sustainability assurance is an area of service where the accountancy profession does not possess sole jurisdiction of the market. The different conceptions of “sustainability” and “assurance” by different communities is characterised by the presence of a variety of assurance providers including professional accounting firms, quality and corporate social responsibility assurance consultancy firms, civil society assurers and NGOs providing a variety of assurance services.⁸ Although commonly referred to as “assurance engagements”, these engagements can take the form of data verification, certifications of standards, management consulting, or endorsement of a report aimed at various different users.⁹ Reporting organisations, on a case-by-case basis, exercise choices on the forms of assurance services and assurance provider based on the reporting organisations’ specific needs and purpose. Studies in this area have highlighted factors undermining the credibility of assurance services due to variations in the elements of assurance, management capture of the assurance process, lack of a common denominator of the subject matter, the lack of developed criteria, diversity in standards and methodology of assurance providers, the ambiguity of assurance reports and the lack of assurance standards.¹⁰

⁵ ‘Green washing’ is a term coined by Jay Westerveld in 1986 that refers to companies reporting their practices as “green,” when, in all reality; they used common practices shared throughout the industry. The term was originated by combining the words “green” and “whitewashing” Cowan, D.; Dopart, P. et al. (2010) “A Cross-sectional Analysis of Reported Corporate Environmental” Regulatory Toxicology and Pharmacology; Owen, D., Swift, T., Humphrey, C., Bowerman, M. (2000) “The new social audits: accountability managerial capture or the agenda of social champions?. *European Accounting Review* 9 (1), p. 81–98.

⁶ Gray, R. (2010) “Is accounting for sustainability actually accounting for sustainability and how would we know” An exploration of narratives of organisations and the planet, *Accounting, Organisations and Society*, 35(1), p. 4-61; Adams, C. (2004), p. 731; Adams, C.; Evans R. (2004), p. 97.

⁷ The European Commission recognised the benefits of assurance in the Green Paper, “Promoting a European Framework for Corporate Social Responsibility” July 2001, p. 18. See also, footnote 11 and 12 of this thesis.

⁸ Zadek, S. & Raynard, R. (2004), p. 9.

⁹ Ibid.

¹⁰ Owen, D.; Cooper, S. (2007) “Corporate social reporting and stakeholder accountability: The missing link” *Accounting, Organizations and Society* 32(7-8) p. 649-667; Park, J. and Broson, T. (2004), “Experiences of and views on third-party assurance of corporate environmental and sustainability reports” *Journal of Cleaner Production*, 13(10-11), p. 1095-1106; Wallage, P. (2000) “Assurance on

Sustainability assurance standards are a regulatory tool developed with the notion of improving the quality of sustainability assurance engagements. Until 2003, there were no internationally accepted standards providing guidance to assurance providers in this field. The scenario today is depicted by the presences of competing and related standards from different institutions (from the accountancy profession and non-accountancy organizations) at both the international and national levels.¹¹ Important international standards include the International Standard on Assurance Engagements (ISAE3000) by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and AA1000 Assurance standard (AA1000AS) by AccountAbility. National standards include 3410N by The Netherlands Institute of Chartered Accountants (NBA)¹² among others¹³. These standard setting initiatives have been keenly supported by various parties including the European Federation of Accountants (FEE)¹⁴ and the Global Reporting Initiative (GRI)¹⁵. In 2008, 62% and 33% of the assurance engagements performed on sustainability reports published by G250 have been conducted according to the ISAE3000 and AA1000AS respectively compared to 24% and 18% in 2005.¹⁶ As the accountancy profession is one of the major actors performing sustainability assurance engagements with 71% of the global market share, IFAC has expressed its intention to develop international standards in this area from the world capital market perspective using the Dutch standard as a point of departure.¹⁷ This project has however been postponed due to problems related to the criteria, the development of the International Integrated Reporting Framework (IIRF) and different demands on assurance by different jurisdictions.¹⁸

PURPOSE OF THE PAPER

The afore-section highlighted that sustainability assurance has been interpreted differently by different communities and complicated by the different providers, nature and purpose of assurance engagements; how, by whom and who these engagements are performed.

Setting standards for sustainability assurance is a new and developing area where little is known about the organisations, patterns of influence and how key terminology such as assurance and materiality undergo constant redefinitions. This paper aims to provide a better understanding of the context within which

sustainability reporting: An auditor's view" Auditing, p, 53-65; Dando, N.; Swift, T.(2003) "Transparency and assurance: Minding the credibility gap" Journal of Business Ethics, 44(2-3), p. 195-200.

¹¹ In today's context, assurance on sustainability reports may be guided by generic international standard ISAE3000 by the IAASB, AA1000AS by AccountAbility, a combination of the two, national standards based on ISAE3000 drafted by national assurance standard setters or other standards developed by private organizations.

¹² Royal NIVRA in the Netherlands has recently merged with the Nederlandse Orde van Accountants-Administratieconsulenten (NOvAA) and has adopted the abbreviation NBA. In the thesis, due to the timeframe of this study, NIVRA is used.

¹³ Country specific standards have been published in the Netherlands, Sweden, Germany, France, Japan and Australia.

¹⁴ FEE Position Paper: Call for Action: Assurance for Sustainability, June 2004, p. 32. FEE Press Release: "European Accountants Call for a Specific International Standard on Sustainability Assurance" 13th June 2006.

¹⁵ Global Reporting Initiative "Sustainability Reporting Guidelines" 2002, p. 17-18. GRI is a private standard setting organization that set sustainability reporting standards through a large multi-stakeholder network of experts worldwide to guide triple bottom line reporting. It encourages independent assurance and development of standards and guidelines for the assurance process.

¹⁶ KPMG(2008)

¹⁷ IFAC (2008) "Basis for Conclusions: International Auditing and Assurance Standards Board Strategy and Work Program, 2009-2011", p. 10-11.

¹⁸ IAASB Consultation Paper, Proposed IAASB Strategy and Work program for 2012-14, 2/1/2011, p. 36 – 37.

sustainability assurance standards are developing at the international level. The objective is to analyse the patterns of influence among the institutions in standard setting and how significant issues are constructed, negotiated and settled by actors in the standard setting space. It could be of interest and importance for future research in particular, in light of the developments in integrated reporting.

The study focuses primarily on the accountancy profession; the IAASB is only one important actor that has an interest in setting standards to guide sustainability assurance engagements at the international level. It is therefore important to look beyond the internal procedures and organisational borders of the IAASB to understand the context which standards are developing. To capture the standard setting dynamics, the presence of other actors, (including non-standard setters) with an interest to set standards, determine and influence regulatory issues have to be recognised. This paper focuses on how actors are involved in the development of sustainability assurance standards, what the interest they represent, the objective of their involvement and their attempts to gain legitimacy to analyse the interactions to identify tensions in the space and patterns of influence on regulatory issues.

SCULPTING A THEORETICAL FRAMEWORK

Julia Black defines regulation as “the sustained focused attempt to alter the behaviour of others according to defined standards or purposes with the intention of producing a broadly identified outcome or outcomes, which may involve mechanisms of standard setting, information-gathering or monitoring and behaviour-modification”¹⁹. This paper draws on the explanatory and prescriptive elements of Black’s view of regulation to understand the complexities of the standard setting space where Peter’s et al 2009 voices that the locus of regulation is not dominated by the state but undertaken by different polymorphous non-state actors (i.e., non-state actors organised in different forms and constitutions).²⁰ The suitability of this framework lies in its recognition of the regulatory initiatives of different actors and / systems. These actors, due to the different interest they represent and different philosophical groundings, have different ideas of what they intend to achieve with standard setting, and what powers or resources they have to achieve them. Without a hierarchical structure or central authority body to coordinate these efforts, standards are set in ‘many rooms’, grounded on different objectives and can prescribe different courses of action to provide guidance to a community. Decentred regulation functions in a dynamic sphere characterized by complexity arising from interactions, patterns of influences and power relationships between, the actors and / systems. The complexity and dynamic nature of problems, in light of how contemporary society operates makes it difficult for one single actor to be equipped with the knowledge, information and instruments required to regulate effectively. With the rise of corporations and challenges of modern society, regulatory power is dispersed between social actors leading to fragmentation of knowledge, power and control, the second notion of decentred regulation. From a decentred view, standards are co-produced and the importance of the understanding and defining the context which standard setting takes place. This paper adopts the perspective that standards are regulatory tools and a product of construction through activities in the standard setting space.

The above brings to our attention the complexity of standard setting in a decentred regulatory regime, indicating a need for a “device” to analyse the inner workings and the environment from which standards emerge, develop and are legitimised or de-legitimised. Hancher and Moran’s “regulatory space” metaphor is utilised in this paper to analyse the standard setting context. Regulatory space is a device depicting the ‘place’

¹⁹ Black, J (2001)

²⁰ Peters, A. et al. (2009) Preface and p. 1-4.

where regulation occurs, defined by the range of regulatory issues subject to public decision.²¹ In a decentred regulatory context, this device is thus particularly useful to enhance our understanding of the nature of the shared space, power and influences.²² This includes the terms on which actors can enter into the space (rules of admission or exclusion); the relationships between actors and their influence on the regulatory issues negotiated. The image of space connotes the idea that there is a gap available for occupation and it may be unevenly divided between different participants: state or non-state; major or minor. Actors have the ability to construct not just themselves, but also regulatory issues in and out of the space, defining and redefining the boundaries. Actors interpret, construct and reconstruct their interest while constructing and linking problems, actions and solutions within the space.²³ Through these strategies territory is carved out of the existing space.²⁴

Hancher and Moran determined five forces that shape the regulatory space and allocate power within it: the national political and legal setting, historical timing, organizational structure, character of markets, and nature of issues.²⁵ Particularly relevant is the nature of regulatory issues as it affects the composition of participants in the space. For example, if regulatory issues are constructed to be highly technical, a different group of actors is likely to control the regulatory process than if the issues are political. Changes in regulatory issues are indicative of the shifting balance of power in regulatory space. As issues are negotiated, actors gain, maintain, or lose space.²⁶ Although some of the five forces refer to its application at a national level, this does not deter the regulatory space metaphor to be applied at an international level.²⁷ In addition, similar to decentred regulation, it does not make distinct the private and public divide. The state is viewed as one of the actors in the regulatory space.

The regulatory space metaphor has been applied to study the complexity and interdependence in regulation.²⁸ In the field of accounting, it has been applied by Young to shed light on existing institutional arrangements (formal or informal) and the complexity of agenda and standard setting.²⁹ Young identified a series of constructions which took place within the regulatory space: first, the condition of practice was constructed as a problem by the participants of the space. Second, rationality for standard setting action was established which “gets the issue onto the standard setter’s agenda”. Third, solutions were constructed to be able to resolve problems. This paper draws on Young’s approach which is particularly suitable due to the fact sustainability assurance is regulated by non-state actors and operates in a market shared by many institutions with diverse roots, pursuing different objectives and grounded in different philosophical and functional pursuits. Furthermore, the sustainability assurance concept and standards are still “in the making”; definitions and issues remain to be negotiated.

²¹ Hancher, L and Moran (1989)

²² Morgan, B.; Yeung, K. (2007), p. 310-311.

²³ Young, J. (1994) “Outlining regulatory space: Agenda issues and the FASB” *Accounting, Organizations and Society*, 19(1), p. 86-89.

²⁴ MacDonald, L.; Richardson, A. (2004) “Identity, appropriateness and the construction of regulatory space: the formation of the Public Accountant's Council of Ontario” *Accounting, Organizations and Society* 29(5-6) Issue: 5-6, p. 489-494.

²⁵ *Ibid.* 279-297.

²⁶ Morgan, B.; Yeung, K. (2007), p. 63.

²⁷ *Ibid.*

²⁸ MacDonald, L.; Richardson, A. (2004), p. 489-498.

²⁹ Young, J. (1994), p. 85.

The regulatory space device supports looking beyond the organizational boundaries of the IAASB as “the standard setter” and takes into account the shifting and competing influences within the decentred regulatory environment. Along the lines of Young, this thesis adopts the regulatory space metaphor as a conceptual space where international standards develop to regulate sustainability assurance. It serves to map out what activities actors engage in to legitimise their entry, non-entry or exit from the regulatory space. Going beyond this, it enables the examination of how problems and issues have been constructed, which has a role in determining the legitimate solutions negotiated in the space.

Non-state standard setters are often not delegated the authority to set standards. Legitimacy has to be established for both the *standard setting organisation* and the *standards*.³⁰ The former calls for analysis of how actors construct legitimacy of their role in the regulatory space. The latter calls for analysis of the ideological persuasive arguments put forth by actors of usefulness and benefits of standards and the standard setting process.³¹

The term legitimacy has been used in several distinct literatures to address normative and cognitive forces that empower, construct and constraints organizational actors.³² In decentred regulation, standard setters are not granted legal authority, their acceptance is based on “*freely exercised reason and collective decisions reached through rational reasoning or deliberations*”³³. The adoption and compliance to the standard are dependent on the regulated parties’ willingness to limit the exercise of free will. It is thus important to analyse how legitimacy is constructed as institutions act to establish, maintain, and defend their position in the regulatory space. Just as important is how legitimate arrangements can be “de-legitimized” through complex interactions in the regulatory space.

In the case of sustainability assurance, standards have emerged from more than one site. The regulatory space device provides an additional dimension to enable the analysis of how standard setters respond to competing legitimacy demands by stakeholders and competition for legitimacy between standard setters.³⁴ Within the regulatory space, the legitimacy of non-state standards can be analysed in terms of input, throughput and output legitimacy.³⁵ Input legitimacy takes into account the participatory quality of parties involved in rule making. It points to the consideration of how legitimacy can be enhanced through the composition of participants in the standard setting process; the extent decisions are based on expert knowledge, technical agreement and consensus, and the extent of resource symmetry between different participants.³⁶ Throughout legitimacy, focuses on the standard setting process. It provides a basis for analysing if the standard setting procedures have been legitimately drawn up and implemented. Evaluation can be based on whether the

³⁰ Tamm-Hallström, K. (2004) “Organizing international standardization” Cheltenham: Edward Elgar, p. 28- 31.

³¹ Ibid.

³² Suchman, M (1995) “Managing Legitimacy: Strategic and Institutional Approaches” *Academy of Management Review* Volume: 20 Issue: 3 Pages: 571-610. Refer to Suchman synthesis of different concepts of organisation legitimacy. See also, Baldwin, R.; Cave, M. (1998), p. 82-88, five sources of legitimacy from a socio-legal view point; Peters, A. et al, (2009), p. 18-21.

³³ Boli, J. (1999), “conclusion: world authority structures and legitimations” in *Constructing world culture internal non-governmental organisations*. Stanford University Press, p. 273.

³⁴ Black, J. (2009) “Legitimacy, accountability and polycentric regulation: dilemmas, tri-lemmas and organisational response” in Peters, A. (2009) p. 255-267.

³⁵ Quack, S. (2010) “Law, expertise and legitimacy in transnational economic governance: an introduction” *Socio-Economic Review*, 8, p. 6-9.

³⁶ Ibid.

agenda setting and voting procedures are transparent, whether there are opportunities for different actors in the regulatory space to debate and engage in dialogues, etc. Output legitimacy refers to the perceived efficiency and results achieved through the standard. With standards emerging from multiple sites, each standard setter engages in the process of legitimizing its standard setting role and standards to their relevant stakeholders with potentially conflicting demands point to the importance of analysing how actors at site level construct and maintain legitimacy and also how these standard setters and standards interact and influence each other in building legitimacy with their relevant stakeholders.

METHOD

The analysis from the mid-1990s to 2010 allowed the capture of the context within which sustainability assurance standards had been drafted and applied, the developments in the contents of standards, and the dynamic interaction between them in regulating sustainability assurance. Documents serve as the main source of data to perform this analysis. The corpus of documents include unsolicited electronic and physical data that are contained in open archives or are publicly available published in the course of running the institutions and those with a specific communicative intent. Examples of the former include minutes of meetings, working papers, task force or committee reports, annual reports and websites. Obtainable documents from the following institutions: IFAC, IAASB, FEE, GRI, AccountAbility, and NBA are analysed. These documents are artefacts that give insights to institutional routines; they serve as a record of the decisions taken and a log describing the goals, processes and procedures of each of these actors. Documents serve as an unobtrusive data collection venue of snap shots or records of official memories defined by cultural and organisational dictates of the past.³⁷ Documents with a communicative intent include: invitations to comment on exposure drafts, standards and explanatory memorandums, press releases, transcripts of speeches, discussion and position papers among others.³⁸ These documents in particular, provide a dynamic view of the interactions that take place in the regulatory space. The analysis of the contents of correspondence between different actors, allows the capture of the intentions of actors issuing the documents and the reception of these documents by other parties.

Crucial to understanding the context in which standards are set, the contents of documents provides insights on each actor's strength of influence in constructing, negotiating and shaping regulatory issues as well as both the assurance and sustainability assurance standards. Documentation reflects human cognition coded into text, which informs the researcher of the cognitive schemas of groups at study.³⁹ This enables the researcher to seek out a paper / and electronic trail that informs about the narratives, the tensions and negotiations, critique and learning that occur within and between different actors.⁴⁰ A longitudinal analysis of documents allows the patterns of interactions and influences to be identified and traced.⁴¹ In this case, documents are used to

³⁷ *Ibid.*, p.268. Amdou, T (2008) For the record? Understanding regulatory processes through archival materials: the example of planning agreements the author, issue compilation, Cardiff U law school, p. 183-185.

³⁸ Saunders, M.; Lewis, P.; et al. (2009), p. 258-280.

³⁹ Amdou, T (2008), p. 185.

⁴⁰ *Ibid.*

⁴¹ Saunders, M.; Lewis, P.; et al. (2009), p. 269.

identify the regulatory objectives of the institutions and patterns of influence in filling the perceived regulatory gaps, to provide an understanding of the context within which standards develop at the international level.

During the course of collecting data, a number of difficulties were encountered. Difficulties include, obtaining web pages and on-line documents that had been removed and were not retrievable from web archives; access to private archives and documents published in other languages. The transparency of actors has not been consistent between organisations or within organisations over time. For example, when the IAPC became the IAASB in 2002, minutes of meetings and working documents from 2002 were made available publicly. From 2005, audio recordings of the meetings became accessible through the website which further enhanced the availability and quality of data used collected to perform the analysis. Audio recordings grant interested parties' access to the verbal interaction and negotiations by various parties that the minutes of the meetings fail to capture. The quality of evidence collected through documents in this thesis therefore, vary in quality. The reliability of the data is mitigated through the collection of corroborative evidence. Such evidence is collected primarily using two ways. First, documents published by different organisations on a particular event are collected for the purpose of reliability checks. Second, corroborative evidence is collected through informant interviews with expert customised to fill the information gaps of documents. These interviews were conducted with three experts to enhance the understanding of cross sectional and temporal dimensions on the development of standards.⁴² The interview questions were broad and open-ended questions organised along three broad themes: technical issues, standard setting process and standard setting context.⁴³

THE STANDARD SETTING SPACE

DEVELOPMENT OF SUSTAINABILITY ASSURANCE STANDARDS

Several actors have issued guidance and standards on sustainability assurance engagements that has had a significant impact on the development of standards at an international level. They can be grouped in three levels.

Levels	Actors	Standards	Users
International	IAASB of IFAC	IFAE and ISAE3000	Members of IFAC are obligated to apply ISAE3000 effective 1/1/2005
	AccountAbility	AA1000AS (2003 &2008)	Open source standard ⁴⁴
	GRI	Overarching Principles of Assurance (2001) ⁴⁵	Not targeted at particular users GRI has since withdrawn the document
Regional	FEE	Framework for providing assurance on sustainability reports (2002)	Not intended to be used as a standard
National*	NBA	Exposure drafts 3410(2005) 3410N Sustainability assurance standard (2006)	Members of NBA

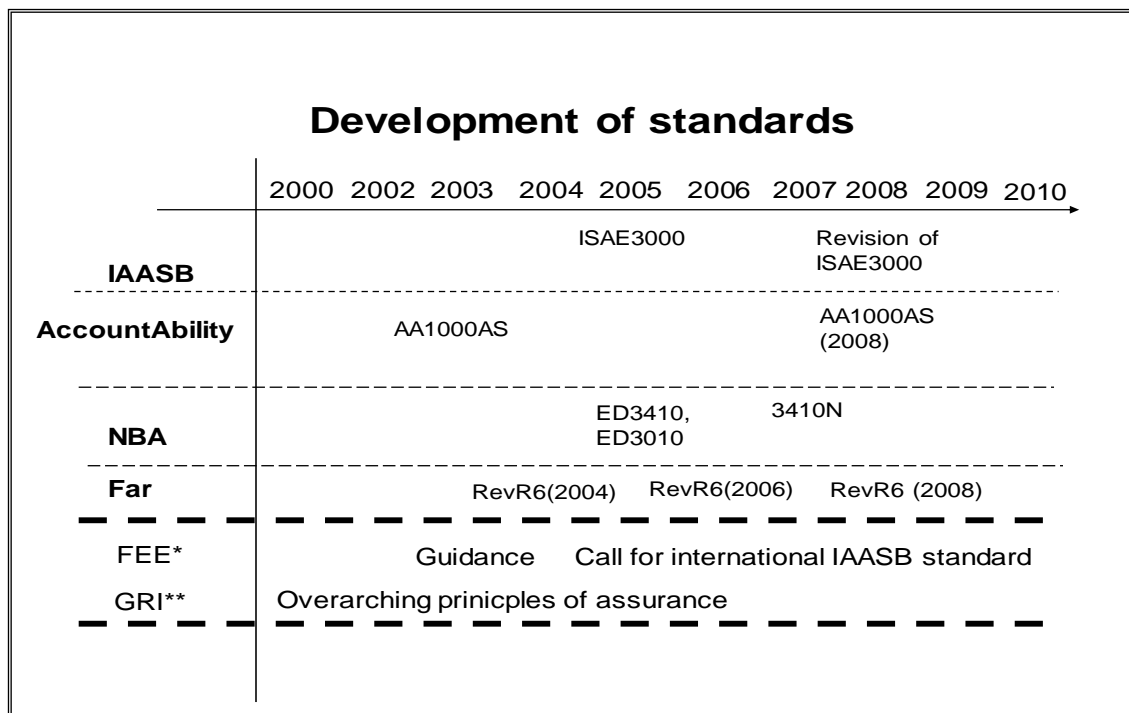
Standard setting institutions in the regulatory space

⁴² Meuser, M.; Nagel, U. (2010) "The Expert Interview and Changes in Knowledge Production", in Bogner, A.; Liittg, B.; Menz, C. Interviewing Experts, p. 25-28.

⁴³ The experts are promised anonymity as therefore their views will be presented collectively in relevant parts of the paper.

⁴⁴ The AA1000AS(2008) imposed new licensing restrictions for its use. For more information, refer to <http://www.accountability.org/standards/aa1000as/licensing-fee.html>.

⁴⁵ GRI (2001), *Overarching Principles for Providing Independent Assurance on Sustainability Reports*, Global Reporting Initiative Verification Working Group, Boston, MA.



*Note that sustainability assurance standards at the national level are present in Sweden, Germany, France, Australia and Japan to provide guidance to relevant assurance providers at a national level but the standards do not have the same impact as NBA standards in the regulatory space.

The diagram above presents a snapshot of the developments of assurance and sustainability assurance standards over time.

*FEE is not a standard setting body but issued initial sustainability assurance guidance that had a significant influence in the regulatory space.

**GRI sets reporting standards. One of its work groups, the verification work group published the Overarching guidance on sustainability assurance in 2003. To update!

BACKGROUND

IAASB'S STRUGGLE TO DEFINE THE ASSURANCE CONCEPT

The IAASB is a standard setting body of IFAC, which represents and sets standards providing guidance to its members. The core service performed by the profession is the financial audit, IFAC strategy to position itself as a global standard setter within the new financial architecture have an impact on the actors involved in its standard setting process, the issues and the interest it represents. Its activities are constrained by what its key stakeholders, who are predominantly interested in the functioning of the capital market, regard as appropriate

The framing of the assurance concept took place prior to and during the time period when IFAC made crucial developments in the governance and organisation structures introducing a standard setting due process involving greater transparency and participation of stakeholders. Assurance is an artificial construct. The assurance concept had been constructed through lifting the broad idealistic notions of, and decontextualizing knowledge from the financial audit domain to a global abstract level which can be re-embedded into other subject matter retaining terminology used in financial audits. This is evident from its initial draft of having an umbrella framework and general principles in order to guide assurance on reporting service engagements

(including the financial audit) and IAASB's constant struggle to position the financial audit within the more general assurance framework.⁴⁶

Research has shown that there had not been a strong conceptual underpinning by the accountancy profession as to what is an assurance engagement at the start.⁴⁷ The accountancy profession had been divided as to the prerequisites of accepting an engagement, the determinants of assurance and the related level as well as the reporting of assurance engagements. It was not till 2002 after a suggestion was made by the IAASB CAG that a task force was formed to explicitly lay down the "building blocks" of assurance where conscious choices of certain terminology and phrases that imparted particular meaning were made as a common ground to resolve differences.

The lack of agreement of "moderate assurance" and the loss of confidence in the financial audit resulting in the developments in the regulatory environment created a need for a clearer distinction between the financial audit and assurance services on other subject matter. In 2003, IAASB structured the ISAs and ISAEs as two separate sets of standards containing the general principles of assurance which are to be read in conjunction with the IFAE. Hence, even though assurance services (financial and non-financial) adopt common terminology, the developments in financial auditing are not reflected in engagements performed according to ISAE3000 leading to inconsistencies within the profession. On the other hand, this separation allows the IAASB a freer rein to make decisions on the general principles pertaining to non-financial assurance. The evolving assurance concept, the positioning away from the financial audit creates an opportunity for the accountancy profession to interpret ISAE3000 more flexibly allowing a more dynamic response to other actors in the regulatory space for sustainability assurance.⁴⁸

THE ACCOUNTANCY PROFESSION AND SUSTAINABILITY IN THE MID 1990S

The Environmental theme became increasingly important in the global policy agenda in the early 90s and was brought to the accountants' agenda through the work of the Intergovernmental working group of experts on International Standards of Accounting and Reporting (ISAR) and the Organisation for Economic Co-operation and Development (OECD).⁴⁹ In this context, the FEE was commissioned in 1992 by the European Commission, to carry out a study on the status of environmental accounting in the member states of the European Union (EU), which was presented to the EC Accounting Advisory Forum.⁵⁰ The Environmental Working Party (EWP) of the FEE was formed in December 1993 due to its growing profile and involvement in environmental issues. It served to encourage and facilitate the exchange of information among member bodies and other interested parties; promote the role of the accountancy profession; stimulate developments in environmental auditing, accounting and reporting and encourage pan-European studies and research programs in this field.⁵¹ The EWP,

⁴⁶ Tan-Sonnerfeldt, A (2011) *The Development and Use of Standards by Non-state Standard Setters*, Lund University. Chapter 4.

⁴⁷ *ibid.* See also IFAC(2002)

⁴⁸ *Ibid.*

⁴⁹ IFAC Discussion Paper: *The Accountancy profession and the Environment*, IAPC, May 1995. ISAR published a report on *Environmental disclosures: International survey of corporate reporting practices in 1992*. The OECD organised a round table on *Environmental accounting and auditing* for its work group on accounting standards in May 1993.

⁵⁰ Collison, D.; Slomp, S. (2000) "Environmental accounting, auditing and reporting in Europe: the role of FEE" *European Accounting Review*, 9(1) p. 114. The Accounting Advisory Forum is a consultative body which the European Commission set up in 1990. FEE was a member, other members include representatives of the accounting standard-setting bodies in Member States of the EU.

⁵¹ *Ibid.* For more information, refer to the original source document is *Terms of reference of the Environmental Working Party, 1998*

today the named the Sustainability Group of the FEE, subsequently became one of the most prominent groups in influencing the development of sustainability assurance standards.

FEE's objective prior to a revision made in 1998 was to serve as a representative body for Europe's leading accountancy institutions, to promote and advance the interest of the European accountancy profession which stands in contrast to today's emphasis on public interest. To develop its own position, it orchestrated the workshop "Environmental stewardship and management: positioning the accountancy profession" organized by FEE's Danish member body, the Institute of State Authorized Public Accountants. The workshop was targeted at senior partners of leading accounting firms and senior technical experts working in environmental field within accountancy profession⁵² The conclusion of the workshop was published in 1995 with theme "*wake up, do, communicate, protect*" laying grounds for professionalization and quests for professional jurisdiction in this field.⁵³ The workshop created awareness and prepared accounting firms to extend their activities applying their unique expertise to environment aspects e.g., designing internal control systems, environmental reporting and third party verification of information. The accountancy profession was also encouraged to develop appropriate review and reporting standards on environmental issues cooperate with experts and advisers from other disciplines as well as participate actively in development of environmental legislation and regulations. These include the development of Eco-Management and Audit Scheme (EMAS) and ISO.⁵⁴ The profession sought involvement through communication of its position in environmental field to governments and other policymakers, industry and other stakeholders and strongly emphasized that the public should be protected against "experts" who do not have necessary education in environmental accounting and auditing and exclude them from practicing in this area.⁵⁵

In specific countries large audit firms were already involved in environmental auditing. The scope of these engagements varied widely as there was no standardized verification, audit or reporting practices.⁵⁶ A survey by FEE in 1995 reflected that there was growing tendency for national professional institutes and other standard setting bodies to be involved in environmental auditing.⁵⁷ Accountancy bodies and research institutions in various countries undertook studies on environmental reporting, accounting and auditing⁵⁸. There were initiatives in sponsorship of academic research centres⁵⁹ and conferences⁶⁰; introduction of courses

⁵² Ibid. p. 115.

⁵³ "Final Conclusions of the FEE Workshop: Environmental Stewardship and Management: Positioning the Accountancy Profession" in FEE (1995) *Environmental Accounting, Reporting and Auditing: Survey of Current Activities and Developments within the Accountancy Profession*, p. 85-87.

⁵⁴ Ibid, p. 16

⁵⁵ Ibid, p. 86-87

⁵⁶ Kamp-Roelands, N.(2002) "Towards a Framework for Auditing Environmental Reports", Tilburg University, 2002, p.

⁵⁷ FEE (1995), p.17.

⁵⁸ Ibid. Appendix 2 of FEE(1995) report gives examples in the UK, including ICAEW and ACCA. Other institutions include Canadian Institute of Chartered Accountants (CICA), Foreningen af Statsautoriserede Revisorer of Denmark, Limperg Institute of the Netherlands.

⁵⁹ For example, the Centre for Environmental and Social Accounting Research in University of Dundee was at that point in time sponsored by KPMG and ACCA.

⁶⁰ ACCA, ICAEW and NIVRA cosponsored the Environmental management, accounting and auditing (EMAA) network workshop focusing on environmental accounting and sustainable development for researchers and practitioners: discussing research and practice in environmental management, accounting and auditing.

in tertiary institutions⁶¹; formation of networks and associations for financial auditors trained in environmental issues to exchange of practical experiences and participation in discussion on environmental accounting, reporting and the related auditing activities⁶². The events highlighted in this section laid foundation to the activities undertaken and the way key issues were defined by the FEE, professional bodies and the large accounting firms in the sustainability assurance standard setting space.

ESTABLISHING THE REGULATORY ISSUES (1999-2002)

INVITATIONS INTO THE REGULATORY SPACE

1999 to 2002 marked a period where the number and scope of sustainability reports were on a rapid increase and GRI reporting guidelines was gaining international acceptance. The development for sustainability assurance standards lagged behind sustainability reporting. Up till 2002, no standard had been published internationally to guide sustainability assurance engagements.⁶³

FEE published a discussion paper in October 1999 which served as an arena to stimulate international debate on assurance engagements on environmental reports, and to provide input to the IAASB and the GRI to develop an internationally accepted assurance framework in the environmental area.⁶⁴ At that point in time, the IAASB had received comment letters for its second exposure draft on “Assurance standards”, and was in the process of developing a framework and generic assurance standard which could be used to develop subject matter specific assurance standards. Assurance on environmental reports had been listed as an example. The GRI, a standard setting body for sustainability reporting had created a Verification Working Group, a “*small but informed and representative international forum*”⁶⁵ with the objective of reaching a consensus on a series of questions. Questions crucial to this discussion include the role of verification and its use to enhance reports prepared according to GRI standards, and the role GRI can play in the process.⁶⁶

Drawing on the lack of harmonization in environmental assurance that led to variations in practice⁶⁷, the lack of mandatory requirement, generally accepted reporting guidelines as well as the presence of other providers than accountants issuing the assurance report in this area; FEE put forward that “*room for differences in the scope of engagements and in subsequent reporting is undesirable to both entities and the users of environmental reports and increases the expectations gap.*”⁶⁸

⁶¹ For example, the University of Amsterdam 1990, introduced environmental accountancy in its curriculum to enable accountancy profession to specialize in environmental services.

⁶² For example, Vereniging voor Milieu Accountancy (VMA) Association for Environmental Accountancy, a professional organization was founded in 1991, EMAA was formed in 94 by the Limperg institute to encourage research within and across Europe on environmental management, accounting and auditing.

⁶³ Some countries had standards guiding the environmental audit e.g., IDW. Firm specific standards were developed, usually customized to clients’ needs

⁶⁴ FEE (1999) Discussion paper: “Providing assurance on Environmental Reports”, p. 6

⁶⁵ <http://web.archive.org/web/20010710133538/globalreporting.org/News/June1999Update.htm> downloaded 2/2011.

⁶⁶ Ibid.

⁶⁷ FEE(1999), p. 11-12

⁶⁸.ibid

By constructing diversity as a problem, and highlighting the states' lack of interest to take regulatory initiative in this area, FEE called for the development of internationally accepted guidance on reporting and assurance as solutions" to mitigate the diversity. The discussion paper was intended to act as a catalyst towards an internationally accepted assurance framework in the environmental reporting field.⁶⁹

The discussion paper provided a space for those interested to raise and discuss issues pertinent to assurance on environmental reporting. The definition of environmental report adopted by the FEE was not restricted to separate reports but included environmental information published in site, health and safety, sustainability or annual reports in order to stimulate interest, thoughts and ideas from larger pool or potential respondents.⁷⁰ The core group invited to comment were professional accountants, FEE also invited other interested groups such as stakeholders, companies, environmental consultants and other experts into the regulatory space.⁷¹ By identifying the subject matter as providing assurance on environmental reports, the FEE excludes from the space parties interested in assurance of systems and processes that do not result in reporting (e.g., certification schemes). Through the discussion paper, the FEE played a significant role "inviting and excluding participants" into the regulatory space, putting forth issues and stimulating debates on how to guide assurance engagements for environmental (which was later extended to sustainability) information. The discussion received 9 responses: 6 from National standard setting bodies or bodies representing the accountancy profession within Europe, 2 from Danish organizations and 1 from a practitioner.⁷²

INTRODUCING REGULATORY ISSUES TO THE REGULATORY SPACE

The FEE raised seven issues which set the agenda for debates, discussions and negotiations in the regulatory space: the term "assurance" and "impediments" to a high level of assurance; responsibility of assurance providers; acceptance of engagement; risk assessment and internal control; compliance with law and regulation; materiality and Reporting. The table in Appendix 1 shows the key issues discussed.

General consensus was reached on the need to development a generally accepted environmental reporting framework which serves as criteria for the assurance engagement, the need for a flexible approach using multidisciplinary teams and scope limitations on the subject matter should not deter the acceptance of sustainability assurance engagements. There was also agreement that the responsibility of compliance with environmental law rested on the management of the organisation and assurance providers role to evaluate procedures relevant to the objectives of the engagement. The discussion brought forth other issues that required further evaluation and those that had not been taken up in FEE's final position.

FEE raised the issue that different terminology had been used to describe assurance services which caused confusion and led to an expectations gap. For example, engagements to assure environmental reports were also referred to as verification, review, limited review, audit or attestation. The term "assurance" was proposed

⁶⁹ FEE issued two other relevant papers: FEE(1999) Position Paper "Review of International Accounting Standards for Environmental Issues" 1999 and FEE(1999)Position Paper "Towards a Generally Accepted Framework for Environmental Reporting", which contributed significantly to the development of the GRI guidelines.

⁷⁰ FEE(1999), p. 3.

⁷¹ Ibid.

⁷² Responses from ICAEW, IDW, APB, Royal NIVRA, CECCAR, DnR, Danish Commerce and Companies agency, Danish Confederation of Trade Unions and Carter, a CPA. The comments were considered and published by FEE in its Position paper (2000) Analysis to responses to FEE discussion paper "Providing assurance in Environmental Reports" published in October 1999 and Discussion Paper (2002) "Providing assurance on sustainability reports".

as a solution to describe the audit of environmental information. FEE sought general consensus and strengthened the appropriateness of the term by differentiating it from “audits” and “verifications” that had more specialized institutionalized meanings.⁷³ The term was supported by IDW, NBA and DnR based on the fact that it was in line with the terminology adopted by IAASB in its second ED on assurance engagements. Two UK respondents voiced concerns on the use of the term assurance. Due to its wide application in practice, ICAEW voiced concerns on its clarity and the degree of comfort and responsibility of accountants. APB asserted the importance that the term applied should reflect the nature and scope of the engagement e.g. agreed upon procedures or review in light of the immaturity of environmental reporting and assurance. Despite some concerns raised, FEE concluded that there was general agreement to the use of the term assurance.⁷⁴ The conceptual pinning of environmental assurance was not further explored.

The FEE brought the debate on the determinants of the levels of assurance into the environmental domain by questioning the impediments to high level assurance. Two key issues it highlighted were the lack of reporting standards which serve as assurance criteria and the qualitative nature of the subject matter which made obtaining sufficient and appropriate evidence difficult. Respondents raise various concerns pertaining to the lack of and immaturity of criteria resulting in inconsistencies and completeness in reporting. Whilst the issues raised by the national accountancy bodies much resembled the debate IAASB in the development of ISAE3000, the non-accountancy respondents raised other concerns. One example is the Danish confederation of trade unions who cautioned against too much stress on quantitative environmental information which could result in the neglect of relevant qualitative data, and the development of competences. It expressed concerns of an audit led rather than stakeholder led development in environmental reporting.⁷⁵ FEE attached primary importance on developing the reporting criteria and related assessment standards. The final position adopted by FEE was that the level of assurance was a matter between the “client” and assurance provider and the impediments remained in its initial position to be resolved. NBA pointed out several matters to address including engagement risk, reporting relationship with clients and knowledge competence which at that point did not appear to be taken further by the FEE.⁷⁶

FEE raised issues pertaining to the approach required to perform environmental assurance and responsibility of the assurance providers. It gained consensus that multidisciplinary teams and a flexible approach was warranted. The term multidisciplinary carries the connotation of the need for an orchestrator to coordinate activities of different experts (defined in the paper as independent individuals, employees of the accounting firm or reporting firm); it also provided a basis for subordinating other forms of expertise to the audit process.⁷⁷ The questions constructed by FEE were: “who should be the signatory? How many reports should be issued? Who and to what extent should the accountant and expert bear responsibility?”⁷⁸ These questions can be conceived as a way to seek legitimate consensus as to who the orchestrator should be. There was no consensus as to who the legitimate “coordinator” to the multidisciplinary teams should be. Most of the respondents felt that the ultimate responsibility depended on the nature and scope of the engagement though some

⁷³ FEE(2000), p. 8,9.

⁷⁴ FEE(2000) pages 7, 8.

⁷⁵ *Ibid*, p.4-6.

⁷⁶ *Ibid*.

⁷⁷ Power, M. (1997) “Expertise and the construction of relevance: accountants and environmental audit” *Accounting, Organizations and Society*, year: 1997, volume: 22, issue: 2, pages: 123-146;

⁷⁸ FEE(2000) p. 15-18.

respondents preferred the professional accountant bear the ultimate responsibility. Respondents were of the view that a single report issued and signed by either the auditor or environmental expert clearly stating the responsibilities of each party in the report; a jointly signed report within the framework of the legal system and professional standards or one that is signed under the firms overall name (both auditor and experts are employees of the firm providing assurance) were acceptable and preferred to the alternative of having more than one report. The APB and IDW made reference to ISA 620 “Using the work of an expert”. The FEE gain consensus and held the view that a single report is preferred; responsibilities of parties should be clearly spelt out and the report should be signed by either or both parties. The legitimate coordinator and the guidance provided in ISA620 were issues to be further debated.

In engagement acceptance, FEE raised the issues as to whether scope limitations to the boundaries of the reporting organization, the subject matter and obtaining proper evidence were acceptable. Respondents generally agreed that scope limitations on subject matter should not deter engagement acceptances due to the non-mandatory developing status of environmental reporting and assurance.⁷⁹ However, precautions had to be taken on clarity to avoid misleading readers of the report and issue a qualified report if needed. The APB however felt scope limitations on obtaining evidence could not be assessed due to lack of standards in determining material and “reasonable evidence”⁸⁰ required. Concerns were also raised by IDW pertaining to an assurance provider’s responsibility on the information contained but not subject to assurance and the applicability of ISA720 “Other information in documents containing audited financial statements”. The FEE adopted the position that the responsibility lie with the provider to transparently declare the unavailability of evidence to support disclosures and the providers’ role to acquire adequate evidence to conclude that the report was not misleading. Although there was general consent that assurance could be provided on qualitative information, FEE cautions that the level of assurance depended on the type of information and there could be instances that assertions were not verifiable and should not be included in the report.

The FEE brought forth the question on how suitable of criteria could be enhanced to provide an effective determinant in providing assurance on sustainability reports. In this context, a few respondents point to the need for environmental reporting framework or standards. NBA put forth that development of “suitable criteria” involve discussion and agreement between the reporting organization, stakeholders of the reporting organization and assurance provider. The APB and the ICAEW also recommended needs of stakeholders to be established to determine relevant information to disclose, the latter made reference to the audit committees role. This led FEE to conclude that the GRI and FEE generally accepted framework for environmental reporting could be supplemented by stakeholder opinions to determine suitable criteria.

The FEE sought the opinion of respondents on actions available to assurance providers in cases where the reporting organizations environmental reporting system were inadequate to ensure reasonable reliability of disclosed information (a significant problem in practice) and whether providers should perform work to determine if the systems in operation were in line with the reporting organizations reporting policy. Both the respondents and FEE felt that the agreed objectives and scope of the engagement determined this matter, providers should only evaluate those procedures within the EIS or EMS relevant to the engagement objectives be stated it clearly in the assurance report (or environmental report). The role of provider was to plan and perform the engagement to reduce to an acceptable level risk of expressing inappropriate conclusion. The FEE was of the opinion that withdrawal from an engagement should be an action of last resort. The APB however questioned if the traditional audit risk model was suitable and pointed to alternative business risk approaches

⁷⁹ DnR specifically mentioned, scope limitations are acceptable in limited assurance engagements

⁸⁰ The term raised in APB’s comments

adopted by the large accountancies could be of greater value to environmental assurance. The point was not taken further.

Both FEE and respondents agreed on the importance of the materiality concept which warrants further discussion. The respondents comments centred on the definition; what constituted materiality; from whose perspective it should be defined and the significance of a legal threshold. NBA pointed out importance of stakeholder consultation as a “major process” to determine materiality. Taking into consideration respondents’ views, FEE stressed importance of provider understanding factors that influenced decisions of users. It provided a list of issues relevant in assessing materiality including the relevance of stakeholder views, legal thresholds, basis to decide materiality of an item, relation between size and impact of an entity and changing expectations etc. It noted the difference between financial and environmental assurance and indicated a possible for explanations in the engagement letter.

FEE suggested that the lack of a clear structured approach to reporting contributed to an expectations gap between what assurance providers intended to convey and users’ perception of assurance. There was consensus that clarity in reporting was fundamental to close the expectations gap and the report should be standardized to contain certain elements.⁸¹ In line with APB’s suggestion, FEE concluded that rather than premature standardization, “current practices” could be analysed to better understand assurance providers and users perspectives with regard to style and content of the assurance reports on different engagements and disseminate best practices. It however maintained that a structured approach explaining the scope of engagement, responsibilities of parties and level of assurance provided would facilitate better understanding of assurance engagements.

EXTENDING FROM ENVIRONMENT ASSURANCE TO THE SUSTAINABILITY DOMAIN- REDEFINING THE REGULATORY SPACE AND INTRODUCING THE BUSINESS CASE

The GRI published its first sustainability reporting guidelines in 1999 which drew on FEE’s position paper 1999 “Towards a Generally Accepted Framework for Environmental Reporting “. Adopters increased from 20 in 1999 to 150 in 2002. The term sustainability was increasingly used by reporting organisations to reflect the expansion of their environmental reports to include economic and social elements. The developments in reporting create a need for assurance services filled by assurance providers extending their services to cover the three domains of triple bottom line reports.

In 2001, the Environmental Working Party of the FEE changed its name to Sustainability Working Party to illustrate its extension of activities from the environmental to the sustainability reporting and assurance domain. In 2002, it engaged in two initiatives that contributed to developments in assurance on sustainability reports. First it held a sustainability conference⁸², which it perceived led to support and consensus amongst standard setters, NGOs, accountants, investors and consultants present that third party assurance raised quality and credibility of sustainability reports.⁸³ Second, it published a Discussion Paper in 2002: “Providing assurance on sustainability reports” with a focus on independent third party assurance prior to the World Summit on Sustainable Development held in Johannesburg. FEE legitimised this initiative as being in line with

⁸¹ The FEE identified 11 elements that should be included: Title, addressee, description of engagement and identification of subject matter, objective and level of assurance, responsibility of respective parties, criteria, description of work performed, description of inherent and specific limitations on engagement, conclusion based on work performed, name and address of provider, date which report is signed

⁸² The Sustainability conference was held In April 2002, organised by FEE and its Danish member body

⁸³ FEE Annual report 2002, p. 9

its goal as raising the quality and credibility of sustainability reporting and claiming the belief that its members had resources and proven expertise in the provision of reporting and assurance services fundamental to strengthening sustainability reports.⁸⁴

The FEE redefined participants invited to participate in the regulatory space in comparison to its 1999 initiative. In light of the increasing number of stand-alone sustainability reports being issued, FEE limited the discussion paper to providing assurance on stand-alone sustainability reports.⁸⁵ On one hand, it broadened its field of potential respondents to include the reporting organization, users or stakeholders, standard setters, other assurance providers and experts. These parties were invited into the space in recognition that the accountancy profession had no monopoly status in this voluntary field and other parties report bounded by different codes of practice provided assurance services and issued assurance reports published with sustainability reports. Further, two significant shifts in discourse took place between 1999 and 2001 which impelled FEE to encouraged participation of reporting organisations and users of reports respectively. First, as part of the process to rebuild confidence of the audit, IFAC instituted the view that “audit is part of the reporting process” which extended the responsibility of the reporting organisation.⁸⁶ Second, IAASB’s construction that assurance providers merely obtain assurance and conveys assurance in the report put responsibility on the users to understand and interpret the report issued by the provider. On the other hand, FEE excluded from the space actors with an interest in assurance of sustainability information reported in other areas than the stand alone report.

The new actors invited brought the “business case” discussion into the regulatory space. To establish the business case, FEE raised questions on the benefits and drawbacks for sustainability reporting and assurance to enhance the discussion of the objectives of assurance from “commissioners” as well as stakeholders’ points of view.⁸⁷ To stimulate discussions in this field, the FEE raised questions as to who should appoint the assurance provider, for who is the assurance commissioned and objectives of a “full scope” assurance engagement⁸⁸ e.g., whether the information accuracy or the completeness and balance of the report was the objective of engagements.

In recognition of other providers of assurance services, FEE brought into the debate the different non-provider specific approaches to assurance including the consultancy, accountancy, social audit, internal audit and other judgment approaches such as rating agencies and use of independent experts or “famous faces”. The paper introduced the “comprehensive approach” which principally was the “accountancy approach” incorporating the elements of appeal of the social and consultancy approaches taking into account stakeholder dialogue and understanding of management systems and processes. FEE brought to attention the use of terms such as “external” and “third party” by both accountancy and non-accountancy assurance providers depicting the notion of independence. It then stressed that no established ethical, procedural or reporting standard for providing assurance on sustainability reports were in place and raised the issue of whether and how special emphasis should be given to the quality of independence, a well-established and institutionalized prerequisite of the financial audit.

⁸⁴ President of FEE in 2002 Göran Tidström in Discussion paper “Providing assurance on sustainability reports”

⁸⁵ FEE(2002) page 6.

⁸⁶ IFAC (2001) Rebuilding Confidence in Financial Reporting.

⁸⁷ FEE (2002), questions 4 to 6.

⁸⁸ Ibid. Questions 17-19,21-22

The FEE brought into discussion again the acceptability of scope limitations imposed by the reporting organisation and the assurance provider's responsibility to deal with information in the report that is not part of the engagement with reference to ISA720. It raised the need for reporting standard setters to consider "auditability" when drawing up reporting guidelines questioning whether subject matter that cannot be subject to any or any "acceptable" level of assurance should be included in the report or segregated from disclosures that assurance could be performed.

FEE also raised the question if a conceptual framework for sustainability reporting was required to address the concept of materiality and what it should include.⁸⁹ It also brought up the role and issue of stakeholders in determining materiality. For example, what role stakeholders could play in appointing assurance providers? What is meant by balancing need of stakeholders; should and if so, how stakeholders can be involved in an objective way in assurance? Should stakeholder dialogue be provided for in assurance standards and whether it is a process which should be examined to address concerns of management capture? The paper also invited comments on key issues to address in assurance on environmental, social and economic subject matter within sustainability report.⁹⁰

The FEE re-raised the issues of assurance reporting. E.g., how assurance could be communicated in the sustainability report? If there was more than one assurance provider how their responsibilities should be conveyed and whether reporting according to the minimum contents specified in ISA100 was sufficient or if a longer narrative form was required.⁹¹

Finally, it raised a core question if the time was appropriate to set standard on sustainability assurance. It identified, thereby invited into the regulatory space two potential standard setters the IAPC and AccountAbility. Given that assurance providers were drawing from ISA100 (at that time) in practice, which depicted the "accountancy approach", FEE questioned it this approach which did not take into account dialogue with stakeholders explicitly was sufficient or flexible enough to accommodate assurance engagements on sustainability reports or if more specific pronouncements were needed. With increasing number of firms and assurance providers who were familiar with AA1000 series, FEE brought into discussion if the new standard AA1000AS would meet the need for an assurance standard and the potential role AA1000 series would have on provision of assurance services.⁹²

INFLUENCE OF THE GRI

GRI published a revised version of its reporting standards in 2002. Two accountancy bodies the ACCA (member of FEE) and CICA were amongst bodies represented on GRI steering committee. The GRI advocated the use of assurance and encouraged the development of assurance guidelines.⁹³ A Verification Working Group which FEE has representation, was formed as a forum to discuss how verification was to be addressed in the GRI⁹⁴ as well as needs, expectations and best practices in assurance on sustainability reports. Its role was to encourage

⁸⁹ Ibid. Question 5

⁹⁰ Ibid. Questions 21-23 , 26-28

⁹¹ Ibid. Questions 5, 29-31

⁹² Ibid., Questions 14-16

⁹³ <http://web.archive.org/web/20010710133538/globalreporting.org/News/June1999Update.htm> Feb 2011

⁹⁴ GRI(2002) Glossary and Annexes Annex 1 "Overview of the Global Reporting Initiative"

standardization of verification methodologies; development of tools and it created a forum for reporters, users and verifiers to reach mutual understanding. A working paper “Overarching Principles for providing independent assurance on sustainability reports” was published as a discussion or feedback mechanism.

One could draw several parallels of the issues raised by GRI with FEE’s publications. Both FEE and GRI stressed that the assurance process should be considered in terms of the value they might bring to the reporting organization i.e. the business case. Both organisations also brought forth conditions for assurance acceptance, approaches and procedures to assurance, communication of results and attributes of assurance providers. The GRI however adopted a more stakeholder oriented approach and looked upon assurance as “one approach” that reporting organization could use to enhance credibility of sustainability report. GRI encouraged the reporting organizations to clarify with assurance providers if all categories of stakeholders were recognized, if any significant stakeholders had been excluded and if the organization had ascertained expectations of stakeholders with regard to reporting and improving credibility. In assessing evidence and determining materiality, GRI suggested that consideration should be given on whether corroborative statements and other evidence from external stakeholders were collected (where necessary) and if stakeholders were consulted about the usefulness and credibility of report content and usefulness of assurance. Organizations were also encouraged to continually assess the results of the assurance process where possible in consultation with stakeholders, to further improve value and its credibility.⁹⁵

In communicating their conclusions, GRI provided minimum requirements in assurance reporting. In comparison with the accountancy approach ISAE 100, the key differences lie in GRI’s support for assurance providers’ opinion regarding the accuracy, completeness, reliability and balance of the sustainability report relative to the scope and the objective to the engagement and the use of constructive reporting. The GRI also encourage assurance providers to include in describing the work carried out the extent different categories of stakeholders that participated in the planning and execution of the assurance process and indicate any constraints to this process. In addition, a statement assuring assurance provider’s independence and freedom from bias and conflicts of interest was recommended.

The GRI asserts the importance of the assurance providers’ ability to balance the consideration of the interest of different stakeholders and independence when making a choice of an assurance provider. It defines as independent those who have not been involved in the design and development or implementation of the reporting organization’s monitoring and reporting systems or assisted in compiling of the sustainability report.

SUMMARY OF PHASE 1 1999-2002

FEE through the publication of discussion and position papers created a space for identifying and discussing core regulatory issues serve to support and catalyse standard setters’ efforts towards setting sustainability assurance standards. The logic behind their active role in this field can be summed up by the following quote:

“Sustainability reporting is in its infancy and accountants, in particular, have an opportunity to influence the way that it develops in parallel with financial reporting. Accounting profession should also recognize urgency of engaging in those quickly developing areas to ensure expertise is usefully put to work for the public interest and to maintain a position of influence and leadership for the benefit of its members.”⁹⁶

⁹⁵ Annex to the GRI G2 guidelines.

⁹⁶ FEE Update on Sustainability Issues Nov 2001: Sustainability and the accounting profession (with part ref to GRI)

Acknowledging the need to establish the “business case” for sustainability assurance, it invited not only the accountancy profession but also other actors into the regulatory space whilst excluding others. It played a significant role identifying issues to be debated which consequently sought out issues where a consensus arose and those that remained to be resolved. The FEE also gained influential representation in the work of GRI and had been active in responding to the invitation for comments in IAPC’s (IAASB) work towards a generic assurance engagement standard. Whilst GRI’s verification committee elaborated on the role of stakeholders in sustainability assurance and developed broad principles published in the annex of its reporting standards, the IAPC refrained from involvement.

From the activities in the regulatory space, the following table builds on the table in the appendix to identify the key regulatory issues have been established. Although assurance is applied the sustainability assurance context, the issues debated when setting a generic assurance standard by IAASB continue to resurface particularly in the planning and performing assurance engagements, levels and communication of assurance.

Issues pertaining to the assurance provider	Competence, ethics and independence of the assurance providers? Use of experts and division of responsibilities. Should ISA620 provide guidance? Who should be the legitimate coordinator?
Objectives of assurance	Is there a business case for assurance? Who should appoint assurance provider? What should be the objective of an assurance engagement? Accuracy or “balance and completeness”? Acceptable scope limitations? Applicability of a piecemeal approach?
Planning and performing the assurance engagement	Subject matter and criteria prerequisites? Role of stakeholders? How to determine materiality? Applicability of traditional financial audit risk model? Relationship between elements and level of assurance?
Levels of assurance	Gaps towards achieving a “high level” of assurance? How it can be addressed through reporting or scope limitations?
Communication of assurance	Narrative or standard form of reporting? Should minimum contents to specified, is it sufficient? Is constructive reporting more favourable?

Key regulatory issues in phase 1

COMPETITION AND COOPERATION WITHIN THE REGULATORY SPACE PHASE 2 (2003-2005)

From 2003 to 2005, three significant paths of development occurred in parallel that influenced and drew from one another through interaction and representations between actors where technical expertise was shared, shaping the development of sustainability assurance. First, in 2003, the IAASB approved the ISAE3000, which members of IFAC were obligated to apply from 1st January 2005. Second, AccountAbility staked a claim in the regulatory space publishing the first “internationally accepted” sustainability assurance standard AA1000 Assurance Standard (AA1000AS). Third, national assurance standard setters from e.g., Sweden, Netherlands, France and Germany took a proactive stance to draft and published national guidance for assurance on sustainability reports to guide their members to performed such engagements.

CLAIMING A STAKE IN THE REGULATORY SPACE WITH AA1000AS

In March 2003, AccountAbility entered the space with the launched a non-proprietary, open source standard AA1000AS, the first international sustainability assurance claiming a stake in the regulatory space. The standard was positioned as part of the AA1000 series to reach out to existing users of the AA1000 series and a stand-alone standard for assurance. Two supporting documents, guidance notes and practitioner-2-practitioner notes were published. The former offered technical guidance to provide operational interpretation and clarifications of the standard; the latter provided practitioners’ accounts and analysis of using AA1000AS.

AccountAbility was incorporated in UK in 1996 as a non-profit organization with the mission of promoting accountability for sustainable development, to rebuild trust between corporation and stakeholders and address trust deficit. Its work is based on “*collaborative governance*” by international membership of business, service providers, civil society organization and research institutes and is focused on addressing the need for organizations to embed their stakeholder engagement process into daily activities. Though it is not an organization representing the accountancy profession, several members of the accountancy profession have been actively involved in the technical committee developing AA1000 standards.

It attempted to gain legitimacy as a standard setter through persuasive assertions that it is a “*leading international professional institute, offers professional development and certification, and undertakes leading-edge research and related public policy advocacy*” and that it adopted an “*innovative, multi-stakeholder governance model*”. Efforts were taken to heighten its profile through influencing the on-going development of the architecture of sustainability standards through collaboration with the GRI, Transparency International and the ISO Social Responsibility Working Group, to ensure that standards took a stakeholder focused approach. In addition, it collaborated with CSR network rating yearly to rate the extent which the Fortune Global 100 companies integrated responsible business practices into their core activities.

AccountAbility supported the notion that trust building efforts through the development of reporting standards would be undermined without a generally accepted profession standard for assurance. It constructed as “*problem*” that few assurance providers adopted a forward looking approach that gave adequate perspective on the broader context and materiality to stakeholders.⁹⁷ It carved out its position in the regulatory space pointing out existing standards were either too narrowly focused on specific aspects such as carbon emissions,

⁹⁷ AA1000AS (2003) 2.4

too broad or focused primarily on the accuracy of quantitative data and robustness of accounting systems. It also pointed out that these standards were commercially proprietary which made it difficult to scrutinise, compare or replicate.⁹⁸

AccountAbility emphasized the participatory quality of the standard setting process to legitimize the AA1000AS. AA1000AS was based on a, multi-governance forward looking model which integrated key learning with emerging practice of sustainability management and accountability, reporting and assurance practices. AccountAbility constantly emphasised the use of “*extensive international consultation process (direct participation)*” and “*drawing on the practical experience and perspectives of the business, public and civil society sector*”⁹⁹. It further stressed input legitimacy of the standard based on the representation and composition of its technical committee which included the accountancy profession e.g., ACCA and members belong to Big 4), other assurance providers, companies, civil organizations dealing with sustainability issues.¹⁰⁰ In the process, it demonstrated expertise and competence drawing from and building on mainstream financial, environmental and quality-related assurance. It stressed output legitimacy i.e., efficiency and effectiveness of standards drawing attention to that it was complementary to the GRI Reporting Guidelines and also other company-specific approaches to disclosure. In addition, it claimed that the standard could be applied by all providers in conjunction with their current frameworks including the ISAE3000. It was not till 2007, that this claim was openly challenged.

Further strategies to legitimise AA1000AS were adopted after publication of the standard through referral networks or collaboration with businesses (e.g., Novo Nordisk, British Petroleum), civil society organisations (e.g., IRCA, CSR network), the accountancy profession (e.g., KPMG Sustainability), and academia (e.g. Harvard). Six months after the publication of the standard, AccountAbility collaborated with Novo Nordisk co-hosting an event to bring together “*business leaders from leading adopting companies*” and issued Practitioner Notes to assist in the practical development of the standard both for and by companies and assurance providers. It also collaborated with International Register of Certificated Auditors (IRCA) to launch the Certified Sustainability Assurance Practitioners Program in November 2004 combining its “*sustainability assurance expertise*” with IRCA’s expertise in personnel certification programs.¹⁰¹

SHIFTS IN THE FOCUS ON REGULATORY ISSUES FROM PHASE 1

In AA1000AS, AccountAbility defined the subject matter of assurance to include not only the sustainability report but sustainability performance i.e. the reporting organisations policy, decisions, actions that affect sustainability outcomes¹⁰² thereby redefining the boundaries of the regulatory space. AA1000AS was described as “*generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of*

⁹⁸ AA1000AS (2003)

⁹⁹ <http://www.accountability.org/>

¹⁰⁰ AA1000 technical committee composition: 14 members. 5 practitioners, 2 representing big 5, 2 representing accounting organization, 1 independent consultant, 4 other organizations and research center FEE participated but stopped after 2005

¹⁰¹ Certification as a Sustainability Assurance Practitioner Including the Accountability Sustainability Assurance Competency Framework Built on AA1000 Assurance Standard platform (p7). There were three grades of certification (Associate sustainability assurance practitioner, sustainability and lead sustainability assurance practitioner) targets not only internal and external sustainability assurance providers but also consultants, novices and members of CSR departments working with this issue with the aim to improve stakeholders confidence in expertise and provide better understand of standards as such.

¹⁰² AA1000AS Annex A3

organizations' sustainability reporting, and their underlying processes, systems and competencies."¹⁰³ The AA1000 series placed emphasis on the issues of materiality and the role of stakeholders. Organisations that applied AA1000 series had to be committed to the practice of inclusivity i.e., to understand sustainability performance, impact and views of stakeholders; to consider and coherently respond to aspirations and needs of stakeholders in policies and practices and account to stakeholders for its decision, action and impacts. Though materiality and the role of stakeholders were raised in FEE's discussion papers at phase one, AccountAbility explicitly constructed three "reporting" principles: materiality, completeness and responsiveness to support inclusivity which assurance providers had to take into account when performing the engagement.

Being in a regulatory space where no profession has been granted monopoly status allowed AccountAbility to reassess and challenge existing terminology introduced in the regulatory space. Following the publication of AA1000AS, it issued a paper "Redefining materiality" in July 2003 that reassessed materiality in three aspects: Intention (to whom?), subject (about what?) and calibration (significance to fall within the bounds of materiality) comparing the traditional perspective of materiality and proposed the need for a more structured approach to deal with materiality in sustainability reporting. Proposing materiality be assessed from a wider range of shareholders interested in environmental and social impact of company's performance focusing on both financial and non-financial performance of the reporting organisation and extending the basis upon which a reasonable person would decide on materiality. It also introduced a five part materiality test to provide organisations and assurance providers a guide to assess materiality giving consideration not only to direct short term financial impact but policy based performance, business Peer based norms, stakeholder behaviour and concerns and societal norms.

Completeness and the role and importance of stakeholders were raised in discussions in the regulatory space in 1999-2002. Difficulties with the completeness concept were attributed to the lack of a general reporting framework and the immaturity of reporting standards at that point in time. AccountAbility defined completeness as "the extent to which reporting organization can understand material aspects of sustainability performance". The role of the provider was to identify material shortfalls in that understanding and encourage the reporting organisation to address those issues or admit their shortcomings in the report which otherwise would be reflected in the assurance report. AccountAbility also introduced the concept of responsiveness defined as the "evaluation of whether reporting organization has responded to stakeholder concerns, policies and relevant standards and communicated these responses in its report."¹⁰⁴ Assurance providers were guided to evaluate if processes and resources for developing, communicating and follow up of a response were available. The AA1000AS also required assurance providers to provide additional commentary in the assurance report to inform stakeholders on the progress made and areas for improvement of the reporting organisation.

The above illustrates AccountAbility's attempt to construct materiality and the role of stakeholders at the forefront of the agenda in determining the objective, the planning, performance and communication of sustainability assurance engagements. Through its definition of the subject matter of assurance and role of stakeholders, it re-invited into the regulatory space assurance providers that provide assurance on information other than those contained in a separate sustainability report. It also down played strongly debated topics by accountancy profession on the competence and independence of assurance providers, the rigour of assurance process, subject matter and criteria prerequisites, determinants and the levels of assurance. Through staking a claim and redefining terminology in the space, AccountAbility had significant influence on the development of

¹⁰³ AA1000 AS par. 2.2

¹⁰⁴ AA1000AS Sections 4,2-4,4 respectively

sustainability assurance standards and practice changing the balance of power of actors and regulatory issues at focus.

The AA1000AS however is not without its limitations. Issues relating to the behaviour of the assurance provider and work performed were provided for in AA1000AS however no detailed guidance had been given¹⁰⁵. It provided that the level of assurance should increase over time and was a function of information available, sufficient evidence, underlying systems and processes, internal assurance systems, existing assurance, resources allocated, legal or commercial constraints and competencies of provider. No further guidance was given.

RESPONSE BY THE ACCOUNTANCY PROFESSION

In 2003, FEE published a short paper “The benefits of assurance” developed by the Sustainability Assurance Subgroup which was presented at the launch of the AA1000AS by AccountAbility. The paper defined assurance as a “provision of confidence” and assurance engagement according to ISAE3000. It stressed the both internal and external benefits of independent assurance and pointed out: “The intended users of the report are the immediate external beneficiaries, but the organisation frequently benefits indirectly” The indirect benefits attributed “improved public perception of its activities” and “positive changes, for example in control procedures and reporting systems.”¹⁰⁶

In 2004, it published the Call for Action: Assurance for sustainability. The paper built on and updated the issues raised in the 2002 discussion paper and called for action by standard setters, reporters and other stakeholders (government, investors, NGOs) to develop reporting and assurance. In this paper, FEE focused not on the regulatory issues previously defined but on the action and behaviour desired of participants in the regulatory space. A shift in focus on technical issues and the elements of assurance is replaced by the capital market and stakeholder discourses. The purpose was stated as to promote sustainability assurance to businesses and the capital markets and the sharing of knowledge across national and corporate boundaries, breaking technical barriers. To highlight, FEE stated *“it is hoped that the paper will provoke debate that will enhance the ability of national and international standard setters, notably the IAASB, to meet the needs of the market place for suitable standards of assurance that will increase the credibility of sustainability reports.”*¹⁰⁷ In recognition that AA1000AS was a sustainability assurance standard but had not issued supporting ethical codes and guidance on quality standards¹⁰⁸, it called on IFAC and AccountAbility *“to co-operate and not to compete so as to move speedily to provide high quality standards of assurance on sustainability”*¹⁰⁹. FEE also called for standard setters to cater to piecemeal approach to reporting and improve disclosure requirements on internal and external assurance; inform and educate by making available simple language explanations of pronouncements; adopt a more proactive approach to stakeholder engagement and reduce the democratic deficit through higher participation of stakeholders in development of standards.

¹⁰⁵ AA1000AS section 5

¹⁰⁶ FEE(2003) The Benefits of Assurance p. 4.

¹⁰⁷ FEE Annual report 2005 p. 27.

¹⁰⁸ FEE 2004 page 20.

¹⁰⁹ FEE 2004, p. 109

In January 2005, NBA published in English, two drafts: ED 3410 “Assurance engagements relating to sustainability reports” and ED 3010 “Practitioners working with Subject Matter Experts from other disciplines on Non-Financial Assurance Engagements” exposed for a six month comment period. NBA has been involved actively in the work of IAPC and FEE pertaining to environmental reporting and auditing and had been an active participant in the regulatory space. NBA published IAASB’s intention of using the exposure drafts as a source standard to build for wider international use, if the exposure drafts were well received. The NBA draft was the first standard on sustainability assurance issued by a standard setting body representing the accountancy profession and based on ISAE3000 in Europe.¹¹⁰ The efforts of NBA brought to discussion the accountancy approach in the context of AA1000AS a non-accountancy standard used by a number of assurance providers belonging to the accountancy profession. For example, how materiality could be defined within the scope of ISAE3000, role of assurance provider, what constituted suitable criteria and subject matter, level of work required to make conclusions and reporting requirements.

ED3410 provides guidance to engagement on a separate sustainability report. It defines Sustainability report as: “a report in which a reporting organization provides information to relevant targeted groups of stakeholders and accounts for the economic, environmental and social aspects of the organization and the effects of its business activities on society. The sustainability report consequently offers a platform for dialogue between the organization and its stakeholders.” It puts emphasis on the intended user identified as forming the “core aspect” both for the reporting organization and the assurance provider. It also provides guidance on the practitioner’s responsibility with regards to reporting materiality and completeness of a report two issues that were emphasized by the GRI and AccountAbility. Accordingly, the auditor should: “assess the decision making process of the organizations management concerning the selection and depth of information in the sustainability report (reporting materiality) and, at a minimum, verify that the report is not misleading, or could be, owing to under-emphasis or over-emphasis on certain groups of intended users, topics and/or information on these topics, and that it satisfies the legitimate information needs of the report’s intended users”. Legitimate information needs was defined as “*information need of an average representation of the intended users or user groups can demand based on legislation, general accepted reporting standards, case law or agreements between the reporting organization and these intended users or user group.*” The draft distinguished reporting materiality (for the targeted group of stakeholders and the reporting organisation) and tolerance (materiality for planning and performing the assurance engagement which according to the standard was a matter of professional judgment). It also introduced guidance for testing for completeness to assess if the report addresses the legitimate information needs of 6 user groups: suppliers, employees, customers; environmental, financial and social stakeholders.

The IAASB had refrained from involvement in the regulatory space of assurance standards for sustainability reporting. In April 2004, IAASB steering committee formed the Sustainability Experts Advisory Panel (SEAP) in recognition of its increased popularity and lack of harmonisation and quality control in activities among assurance providers. It identified as “significant” the fact that prior to ISAE3000 being made obligatory to members: 50% of reports issued by accounting firms (who had 50% market share at that point in time) failed to cite reporting criteria and 55% of assurance reports issued by made no reference to standards in accordance with which the engagement has been performed. The IAASB attributed the problems to the absence of suitable reporting criteria (and the potential of the G3) and standard on sustainability assurance issued by a recognized

¹¹⁰ The draft recommendation published by Far (now Far) in 2004 was not based on ISAE3000 but drew from ISA100 and FEE discussion paper

standard setting body of the accountancy profession. “Anything we can do the raise the quality of assurance services”¹¹¹ was viewed to improve public interest.

The SEAP had two crucial functions: first, to channel efforts and expertise to contribute to the development of sustainability reporting standards by the GRI¹¹² and second, contribute to development of sustainability assurance standards by commenting on NBA’s exposure drafts. The Panel consists of 16 members: 2 from IFAC; 5 from Big 4; 3 consultants, 3 from organisations representing the accountancy profession and 1 retired individual. It is also interesting to note that 8 members were affiliated to GRI, 5 with AccountAbility and 4 were active in the FEE. Analysis of the geographical composition, half the panel were from Europe (United Kingdom, Netherlands and Scandinavia), 3 from Asia, 2 from Canada and Oceania and only one member was from the United States.

SEAP’s analysis and comments of the NBA exposure draft served a two-fold purpose. First, it was in line with IAASB’s strategy to build on the efforts of national standard setters. In the March 2005 meeting, NBA’s ED3410 was viewed as “one upon which IAASB would be able to build for wider international use” as sustainability reporting and assurance were not a legal requirement in the Netherlands and therefore the standards would not be tailored the Dutch regulatory environment. Furthermore, it was “well received” and NBA had been involved in IAASB’s work in “that area”.¹¹³ Second, the IAASB in line with its commitment during the publication of ISAE3000 to keep the IFAE and ISAE3000 under review indicated that an analysis of NBA’s ED3410 based on IAF and ISAE3000 would highlight the practical implementation issues arising from guidance provided by IFAE and ISAE3000.¹¹⁴

A task force¹¹⁵ set up by the IAASB steering committee for this purpose, with the advice from the Sustainability Experts Advisory Panel (SEAP)¹¹⁶ were asked to comment on the draft. The SEAP was asked to provide initial comments in less than one week, which were collated and discussed at a Task Force conference call on 1 February where detailed comments were present in June 2005.¹¹⁷ The task force raised two matters to be

¹¹¹ Audio meeting June 2005

¹¹² (a) Engaging directly with the Chair of the GRI Board and the Chair of the GRI Stakeholder Council, and GRI staff;(b) Nominating members for the GRI Technical Advisory Committee (TAC), which provides the GRI Board with high-level technical guidance on the Guidelines revision process, and working groups dealing with specific issues for the revision;(c) Providing technical background material for the TAC about what is meant by “suitable criteria,” and how the accounting framework could relate to sustainability reporting; (d) Responding to a GRI exposure draft about determining a reporting organization’s sustainability reporting boundaries; and (e) advise on the development of guidance for assurance on sustainability reports.

¹¹³ Audio recording meeting mar lima Discussion held on Thursday morning, March 10, 2005 Agenda item 7. It was raised in the meeting if comments would be given to IDW which would release its standard in May the same year. The board however clarified that also the board would be interested in the document, comments should not be an expectation. It would however encourage people in the expert panel to submit feedback to efforts of national standard setters in that respect.

¹¹⁴ March Item 7, meeting 2005, par 7

¹¹⁵ Sustainability Task force has the task of developing formal response to ED 3410 3010 liaising with SEAP. Members of the Task Force are:
• Roger Simnett, chair • Denise Esdon • Rogério Gollo • Cedric Gelard

¹¹⁶ Sustainability Experts Advisory Panel (SEAP) as set up in April 2004. It’s tasks include: to give advice on the development of guidance for assurance on sustainability reports and provide expertise to the sustainability task force in providing useful feedback to enhance NIVRA’s developmental process pertaining to the 2 exposure drafts, 3410 and 3010, to provide IAASB with insights as to application of ISAE 3000, to liaise with GRI to have G3 as generally accepted reporting criteria by accounting community.

¹¹⁷ The ED was available in English 25/1/2005, initial comments were submitted 31/1/2005 for the meeting 1/2/2005 minuted in par 8. March meeting Lima, item7

discussed at the board meeting: the form of the feedback to be given to NBA and the major issues of concern identified by the task force and SEAP members. (Refer to appendix 2)

The task force proposed feedback in the form of a comment letter from the board using precautionary language to avoid expectations that IAASB is doing more than offering comments. With deliberation, a member of the board commented:

“What struck me particularly was the number of issues and the very significant issues which the task force identified in a short time...I certainly have big concerns about the stakeholder group ...the identification of stakeholders... response needs to be fairly firm...probably the response should not be batched as a response from the board as such but perhaps from the panel ... learning as we go along...not necessarily have full authority of the board but input from the board and you will have the support of the board when sending the response”

The task force proposed in the next meeting that feedback to NBA in the form of a comment letter was to be signed by the Chairman of the task force / SEAP Roger Simnett and Technical manager of the IAASB Michael Nugent¹¹⁸. A board member expressed that it was “entirely satisfactory” as the signatories gave recognition that the draft had been gone through thoroughly by “Roger and his group” and the board had not gone through the drafts in as great detail as one of their own drafts.¹¹⁹ It was worded in the comment letter to NBA that “while members of IAASB have reviewed these comments they did not necessarily represent the views of IAASB”.¹²⁰ IAASB also encourage other national auditing and assurance standard setters and other interested parties to respond to the draft. Among the respondents was the FEE stressing the importance of a more principles based approach to standard setting.¹²¹ The structure of the feedback to NBA clearly indicated IAASB’s interest in the area but also intentions to exclude itself from the standard setting role in the regulatory space.

The second matter raised by the task force within the week were the major issues pertaining to NBA’s ED: the scope of guidance, suitability of criteria, scope of engagement, stakeholder engagement, materiality and completeness, joint responsibility, reasonable and limited assurance, reporting and other matter such as quality, drafting style and fraud. The details were not discussed at the meeting. The IAASB board and technical members were encouraged to submit comments¹²².

The task force met in April, took into account issues identified by SEAP and feedback letters they received and prepared the comment letter paying attention to the EDs consistency with IFAE and ISAE3000.¹²³ The task force noted that the issues of criteria, engagement acceptance and responsibilities of practitioners were among the issues in the feedback received and were incorporated in the response to NBA. In both meetings, details of the major issues raised by the task force were not discussed. However, meeting attendees were given the opportunity to raise specific issues. In the March meeting, issues surrounding transparency of the criteria; supplementary criteria and identification of stakeholders were brought up as areas of concern. In the response

¹¹⁸ And staff instead of Michael Nugent (minutes) inconsistency with audio recordings

¹¹⁹ Prior to this comment, Roger Simnett commented “I am getting mini nods” suggesting the general consensus of this approach by members attending the meeting

¹²⁰ (IAASB main agenda 2005245 agenda item 7 and Item 3A 3rd paragraph page 1

¹²¹ Far contributed to the comment letter through its participation in FEE.

¹²² Draft minutes of 14th Meeting of the IAASB March 7-11 Lima pt 9 p 14-16 agenda Item 1-A

¹²³ Draft minutes of 15th Meeting of the IAASB June 13-17 Rome Agenda Item 1-A point 9 pa 17

to NBA, the task force supported the fact that suitable criteria are context sensitive and did not support having one sole criterion. It emphasized that the evaluation of the suitability of criteria should take into consideration the purpose of the engagement rather than for the purpose of the report and to perform assurance engagement. It opined that criteria which reports are prepared should be complete and made available to users of the report. A supplementary criterion is therefore not consistent with IFAE and ISAE w.r.t role of criteria, assurance standards and assurance practitioners.

The role of stakeholder engagement was discussed in relation to the completeness assertion and implications on level of assurance. There was consensus that completeness was viewed to be broader than a cost benefits considerations. Concerns were raised as to whether completeness made it impractical to conclude reasonable assurance. It was noted in the meeting that completeness consists two components: identifying relevant information which stakeholder engagement play a role and full disclosure in those areas. The latter was identified as a significant area of concern.¹²⁴

The task force prepared extensive comments to NBA in the area of engagement Acceptance, practitioners' responsibility, completeness of the standard, editorial and other matters, drafting style structure and terminology in addition to the points raised in the March meeting which influenced the revision of ED3410. Among key issues are inconsistencies detected with regard to evidence gathering procedures, E.g. review engagements according to ED3410 does not have to test effectiveness of internal controls; the drafting style; the terms audit, review, materiality and relevance and the possibility to issue a qualified conclusion accompanied by negative assurance were not consistent with IFAE. The main points are summarised the table in the appendix.

The IAASB through this initiative constructed NBA into the regulatory space, giving legitimacy NBA's sustainability standards, this initiative also essentially side-line the efforts of other national standard setters such as IDW which was issuing an exposure draft according to ISAE3000 a few months later. The board confirmed the marginal role IAASB intended to play¹²⁵ with claims that this type of engagement fell under the scope of ISAE3000 and given the IAASB workload, there was no guarantee that it would initiate assurance standards specific to sustainability reporting.¹²⁶ NBA's ED3410 and the comments made by the task force raises discussions on how the approach adopted by AccountAbility and GRI could be used within the framework of IAASB pronouncements.

Its intention to contribute to the development of GRI and the composition of SEAP to comment on NBA's draft set boundaries and the direction which the accountancy profession was to take. An interesting observation was that the task force recommended sustainability report be defined along the lines of *"comprehensive information prepared by an entity about its economic, environmental and social performance. This information may be presented in a stand-alone report, or included as a separately identifiable part of a broader collection of information, e.g., in the entity's annual report, or in a suitable form on its website"*.¹²⁷ The task force drew on the work of GRI in at least three separate points. First, it proposed NBA adopt the term "performance" in its definition of sustainability report instead of "aspects of the organization" and the "effects of its business activities on society" thereby aligning its terminology with GRI. Second, the definition made clear its

¹²⁴ Minutes June meeting 2005 par. 9 Agenda item 1A

¹²⁵ IAASB meeting June 2005

¹²⁶ Ibid p. 18

¹²⁷ IAASB meeting June 2005 Agenda item 3B

applicability with regard to the source (where sustainability information is reported) and form of reporting and favored the “incremental approach” which GRI promotes. Third, in defining the scope of the report the task force made reference to the “boundary protocols” for guidance on supply chains issues.

From 2003, two international standards provide guidance to assurance providers from the accountancy profession to perform assurance on sustainability reports: the ISAE3000 and AA1000AS. The joint application of standards gained popularity which led to concerns if the standards were technically complementary or conflicting due to the different philosophical underpinnings, ethical standards providers were subject to, the objective and approach to assurance. This led AccountAbility and KPMG Sustainability Netherlands to issue a report in April 2005 endorsing that: “based on comparison of the values, approach, methodology, conclusion and communication of the two standards, combined use of the two standards would likely deliver enhanced results”. This conclusion was supported by the claimed facts that “the two standards are technically complementary, there is no methodological conflict, both approaches draw from the financial audit model and the combination will deliver a win-win situation as different objectives lead to different emphasis.”¹²⁸ . Accordingly, each standard was settled to have a function that complemented each other. ISAE3000 provided guidance on the assurance process whilst AA1000AS aligned the process to take into account stakeholders’ material interest. The accountancy profession did not stand as a whole with regard to how AccountAbility or its standard was viewed. As assurance providers increasingly apply the standards jointly, FEE voiced concerns on the risk of inconsistent application of AA1000AS in absence of a code of ethics, quality control standards and Guidance notes on AA1000AS¹²⁹ and stated that a common position has not been agreed.¹³⁰ National standard setting organisations reveal they had “no comments” or stated that “we only recognise our global assurance standard i.e. ISAE 3000 but qualifies that having said that, we have no problems with our members using our standard with AA1000AS so long as it is not in conflict with our standard (ISAE 3000).”¹³¹

SUMMARY OF PHASE 2

From 2003-2005, sustainability reporting and adoption of the GRI sustainability reporting guidelines continue to increase rapidly.¹³² For both G250 and N100¹³³ firms sustainability reporting increase by 15% and 43% respectively.¹³⁴ The extension of the EU reporting requirements to include non-financial issues, led to more companies integrating sustainability information into their annual reports.

In this phase, stakes in the regulatory space were claimed. Several standards were published to provide guidance on sustainability assurance. At the international level, the ISAE3000 provided the accountancy

¹²⁸ Iansen-Rogers & Oelschlagel, 2005

¹²⁹ Fee 2004 Comment letter to FEE

¹³⁰ Informant interview with FEE

¹³¹ Interview with Experts

¹³² The trend has been reflected in both academic studies e.g., Kolk 2003, 2010 and surveys carried out by consulting companies, KPMG and ESRA reports

¹³³ 100 largest companies by revenue in 22 countries

¹³⁴ KPMG survey 2008 Reporting trends however tend to be country (with Japan and United Kingdom taking the lead in reporting) and sector specific (with forestry, electronic, utilities oil and gas, chemicals industries being more likely to publish reports).

profession generic guidance of assurance services and the AA1000AS provided an open source standard applicable to all providers on sustainability assurance. At a national level in Europe, published pronouncements to guide their members on providing assurance on sustainability reports. Both drafts from NBA and IDW were translated to English and exposed to the public for comments. The IAASB who refrained from involvement took its first step by setting up a task force and appointing the SEAP to comment on NBA's exposure draft. The logic of its involvement could be tied to its objective to mitigate diversity of practice to enhance the quality of audit and assurance services performed by its members. It was also in line with its strategy to build on the work of national standard setters, in which case NBA's ED3410 was then identified as being a potential starting point when it engages in setting standards in this specific subject matter. The FEE as a non-standard setter continued its influence through the sustainability subgroup's comment letters on the drafts issued by AccountAbility, NBA (ED3410 and ED3010) and GRI (G3 guidelines) as well as its representations e.g., in IFAC's SEAP.

In the regulatory space, there is evidence of both competition and cooperation by actors. As no party own professional jurisdiction of the market for assurance services, debates centre on the definition of terms and the weight of regulatory issues. At the same time, there was evidence of learning as members of actors within the regulatory space are cross represented in committees. Actors gain legitimacy stressing the "complementary" features of standards. For example, AccountAbility claimed that AA1000AS complemented the GRI, both standards placed heavy weightage on stakeholder interest. Key regulatory issues pertaining to the competence and ethics of assurance providers, objectives, planning, performance, level and communication of assurance continue to be debated on. The weight of the issues however shifted heavily towards debates on stakeholder materiality in the assurance process. The cooperation of AccountAbility and KPMG Sustainability further lifted materiality on to a "meta-level" suggesting that stakeholder materiality had influence on the assurance process i.e. AA1000AS and the five part materiality test could be used to determine subject matter, objective, criteria, planning, performance and communication of assurance engagements. The introduction of AA1000AS thus shifted the focus of the debate (gave greater prominence to) towards the issues of materiality and responsiveness to stakeholders and completeness or balance of the reports.

The accountancy profession did not take a common standard on AA1000AS. The approach taken by NBA in ED3410 tested the interpretation boundaries of ISAE3000 with regard to reporting materiality, test for completeness and responsibilities of assurance providers which lead to comments by the SEAP and FEE. The above also showed evidence of competition and collaborative efforts by standard setters in particular the joint adoption of accountancy based standards with AA1000AS.

PHASE 3 (2006-2010) REFLECTIONS AND DEFENDING THE REGULATORY SPACE

THE REVISION OF AA1000AS

AccountAbility intensified efforts in the regulatory space through the publication of further guidelines¹³⁵ on application of the principles of materiality, completeness and responsiveness in 2006 and on how the different approaches to assurance can be combined in 2007. The latter report focused on the application of AA1000AS within the context of GRI's reporting standard G3 and ISAE 3000. It also provided a sample of an assurance statement that met both AA1000AS and ISAE3000 standards. AccountAbility continued building legitimacy as

¹³⁵ E.g., AA1000 Guidance Note on the Principles of Materiality, Completeness and Responsiveness as they Relate to the AA1000 Assurance Standard 2006

an “international standard setter” through publications on key issues within the regulatory space,¹³⁶ collaboration with reputable academic institutions in researching issues pertaining to accountability and publication of the Accountability rating in the well-regarded business magazine Fortune.

AccountAbility embarked on a project to revise AA1000AS in 2007. It launched Wiki standard setting where interested parties could participate, raise issues and voice concerns on current assurance practices through the web. In addition, it held worldwide consultations in about 20 countries to obtain feedback on concerns which were then published on the website. Although the Technical Committee¹³⁷ was ultimately responsible for the text construction of the revised standard¹³⁸, AccountAbility invited interested parties to comment during the three periods for public participation¹³⁹. Concurrently, efforts were made to align AA1000AS to ISAE3000. The revision of AA1000AS resulted in the drafting of the AccountAbility Principles Standard (AA1000APS) and the Assurance Standard (AA1000AS(2008)). The former defined and established the criteria for the AccountAbility Principles (previously the principles of materiality, completeness and responsiveness) that were essentially reporting principles. The latter provided the requirements for conducting the assurance engagement. Guidance on the use of AA1000AS(2008) was drafted to provide guidance to assurance providers, reporting organisations and users of assurance statements.

The revision introduced three key changes. First, completeness was replaced by inclusiveness as one of the AccountAbility principles. Second, AA1000AS (2008) distinguished between two types of engagements, Type 1 required the evaluation of publicly disclosed information, systems and processes of the organisation to ensure adherence to the three AccountAbility principles and Type 2, required the additional evaluation of the reliability of specified performance information against a reporting framework. Third, the introduction of two levels of assurance: high and moderate which could be used in combination. High level of assurance referred to where “sufficient evidence has been obtained to support their statement such that the risk of their conclusion being in error was very low but not zero” whereas moderate referred to “not reduced to very low but not zero”. The evidence required to make conclusions were specified in the standard. For example, high level of assurance required extensive depth of evidence gathered including corroborative evidence and sufficient sampling at lower levels gathered from internal and external sources from all levels of the organisation. In addition, the AA1000AS specified in greater detail the prerequisites of accepting an engagement (e.g., appropriate subject matter and criteria); requirements imposed on the assurance provider (e.g., clearer ethical and competence requirements, due care); assurance process (e.g., planning requirements, evaluation processes adherence for Type 1 & 2 engagements); output requirements (e.g. content of assurance report) and other requirements (e.g., terms of engagement, engagement contract, use of standard). AccountAbility introduced a licencing fee to assurance providers for each commercial use of AA1000AS (2008). A fee of £500 (otherwise £200) is charged if the turnover of the reporting organisation is greater than £2 million.

¹³⁶ For example, the stakeholder manual and reports such as “what assures consumers”, “What assures: listening to the words of assurance” etc.

¹³⁷ The 2008 Technical committee made up of the following representatives: 2 from Big 4, 1 from accounting organization, 1 from GRI, 2 from other civil society organisations, 2 consultants, 1 academic, 6 from companies

¹³⁸ The Consultation issues register include: What is assurance, sustainability assurance? For who? To whom is the duty of care, role in relation to financial audits and other certifications, relation to other standards and guidelines, barriers to commissioning an sustainability assurance

¹³⁹ Jan24 – April 4, 2008; April 30 – June 13th 2008, July 4th – Sept 19th 2009

FEE'S RESPONSE IN THE REGULATORY SPACE

FEE persisted on its efforts to call IAASB for a specific standard on sustainability assurance, responding to IAASB's intention of issuing merely short practice statement to guide sustainability assurance. FEE reiterated that ISAE 3000 was *"too general and high level for practical use"* and highlighted that it did not provide guidance on suitable criteria, particular to engagements of this nature as criteria could be determined through stakeholder dialogue observations which could only be assessed in the midst of the engagement.¹⁴⁰ It then made persuasive arguments in line with IAASB's objectives of protecting public interest and the interest of the accountancy profession. It asserted the benefits of a sustainability assurance standard and the made links between standards, quality of assurance services and the credibility and quality of sustainability reporting in this voluntary field. It also stressed that *"competing standards are finding their way to the market"*, AccountAbility was regarded as a leader in this field and users needed to distinguish between the type of provider and assurance provided. Finally, it called for *"IAASB to allocate resources and fulfil professional leadership role in promulgating quality practices and sharing knowledge in developing a specific standard in relation to sustainability assurance"*.

The call for standard was supported with a discussion paper published in June 2006 on "Key Issues in Sustainability Assurance - An overview" highlighting similarities and differences of country specific standards of four European countries (Sweden, Netherlands, Germany and France). The discussion paper also provided constructive comments the national standards from FEE's viewpoint which could potentially contribute to the work of SEAP and IAASB standard setting activities in the future.

Following the discussion paper, a round table was held in November the same year consisting members from FEE, IAASB, GRI, AccountAbility, a representative from European Parliament and leading corporations. The following conclusions were reached. First, there is demand for assurance from the investors' community and companies to raise the credibility of the sustainability reporting which completeness of the report and concentration on the relevant information were needed. Second, assurance report was identified as a key element to an effective approach however, current report issued by the accounting profession is not always clear to the readers. There was a need to work on the content of the report, what is meant, explain the work the accountants do and what the report can bring to the stakeholders. It was agreed that different levels of assurance for different elements of the sustainability report could be considered and assurance work should be carried out with multidisciplinary teams comprising experts on sustainability, specific sectors and accountants. Third, it was agreed that clear and recognized criteria of sustainability reporting need to be in place on which to provide assurance and the GRI G3 guidelines could serve as a reference. The accounting profession was to assesses G3 as suitable criteria. Fourth, it was agreed that a global framework on sustainability assurance should be at principle level and different standards may be developed with the aim of converging over time.

The round table gave a particular stakeholder: the investor community special mention though no further elaboration was made, having a "dominant" stakeholder had implications on how relevant issues would be defined. It also reiterated the importance of the regulatory issues it introduced into the regulatory space including criteria, levels and communication of assurance and reaffirmed the accountancy approach through the use of multidisciplinary teams. This initiative reaffirmed regulatory issues (in phase one) in a new context taking into consideration developments and involving new actors in the regulatory space.

¹⁴⁰ FEE comment letter to IAASB and SEAP on "Consultation paper on assurance aspects of G3 –The GRI 2006 Draft Sustainability Reporting Guidelines" May 2006

FEE expressed the professions disappointment in a comment letter to the member of European Parliament who participated at the round table on EC communication “Implementing the partnership for growth and jobs: making Europe a Pole of Excellence on CSR” 2006. The comment letter stated that the document “*unfortunately did not call for global standards in relation to CSR reporting and assurance*” but only stressed that reporting transparency of CSR information would better serve stakeholders’ understanding on organizations non-financial performance.¹⁴¹

To facilitate activities and undertake a more prominent role in the sustainability field in 2007, the work group was restructured into 3 groups: Sustainability Advisory Panel consisting of external high level individuals e.g., CEOs to advise FEE’s work in the sustainability area at a strategic level; Sustainability Policy Group, to address political, policy and strategic issues and set direction for the group and Sustainability Working Party to undertake technical work such as preparation of discussion papers, comment letters etc.¹⁴²

In response to AccountAbility, as opposed to its call for collaborative efforts between IAASB and AccountAbility in standard setting as well as having representation in the technical committee drafting the AA1000 standards, FEE took a different stand in July 2007. Following the AccountAbility’s publication of guidance notes on combining ISAE3000 and AA1000AS in 2007, FEE responded by questioning the nature of assurance engagements performed according to AA1000AS and the compatibility of using both standards. It commented that the guidance notes included many characteristics which resembled agreed upon procedures performed by the accountancy profession under IAASB’s International Standards on Related Services 4400 and therefore did not view both standards as complementary.¹⁴³ FEE also commented on revision draft of AA1000AS published on 24 January and 17 July 2008 but made clear that comments did not constitute FEE’s endorsement or any form of support for AccountAbility standard.¹⁴⁴ FEE’s comments centred on: the different meanings of common terminology between AA1000AS and ISAE3000; the lack of distinction between reporting and assurance principles in standards and areas that were neglected or lacked clarity.

FEE commented on term “materiality” which had been commonly used in both IAASB standards and AA1000AS but had different meanings. It commented that AccountAbility did not distinguish between reporting and assurance materiality. FEE pointed out that AccountAbility’s definition of materiality involved identifying issues relevant to performance and evaluating how important the issues are; relevance was therefore a subset of materiality.¹⁴⁵ In comparison, materiality in financial audits could be viewed as threshold, tolerance or “tolerable rate of deviation or misstatement”¹⁴⁶ which put materiality as a subset of relevance. This point of view was not shared by AccountAbility. Based on its definition (reporting materiality) it regarded definitions as compatible. The difference AccountAbility claimed rested on the fact that ISAE3000 defined materiality in

¹⁴¹ FEE Comment Letter to Mr. Richard Howitt, MEP Assurance on Sustainability Reports 06 December 2006.

¹⁴² Informant interview

¹⁴³ FEE Comment Letter to AccountAbility on Consultation on Guidance Note on Assurance Levels & Statements as they relate to AA1000 Assurance Standard 26/7/2007

¹⁴⁴ FEE Consultation on AA1000AS revision draft 24/1/2007 par. 2

¹⁴⁵ FEE Comment letter to AccountAbility, par 9-14 22/9/2008

¹⁴⁶ ED ISA 530 Audit Sampling. Tolerance in NIVRA ED3410, FEE Comment Letter to Mr. Alan Knight, Head of Standards and Related Services, AccountAbility Comment Letter on Consultation on AA1000 Assurance Standard Revision Draft issued on 24 January 2008 par 11-13.

terms of the intended user whereas AA1000As referred to stakeholders which required materiality to be defined from broader perspective.¹⁴⁷

It also commented on the lack of distinction between reporting and assurance principles in standards AA1000AS. Assurance principles had been equated with reporting principles and the differentiation was needed to determine the suitability of criteria. It also commented on the lack of clarity as to whether subject matter referred to the content of sustainability report or process to compile the report; whether the standard catered to full report or parts that were subject to assurance. It expressed concerns with regard to leaving the reporting organisation to determine their own performance criteria in Type 2 assurance engagements which did not meet criteria stated in ISAE3000. It viewed that the requirement imposed on oversight by the assurance provider was insufficient in the revision draft and there was a need for a system of quality control and minimum requirements set out.

The FEE further requested for the FEE Discussion paper: “Key issues in sustainability assurance – an overview” to be taken out of reference of AccountAbility’s publication as the discussion paper did not constitute guidance and the proposed guidance had been “taken out of context further the text had been paraphrased”.¹⁴⁸

To improve the compatibility with ISAE3000 FEE suggested AccountAbility require the level of assurance to be decided upfront rather than allow the scope of an engagement to define an anticipated level of assurance adjusted during the engagement which tend to result in clean reports. It also suggested AccountAbility introduce common standard headings in assurance reports and recommend different forms of conclusion leaving the reporting organisation to report on implementation of previous recommendations. The revision draft introduced two levels of assurance, high and moderate. FEE opined that the chosen terminology were “outdated” and brought back the debate that the term “high” denoted achieving a level higher than the financial audit which was misleading. It recommended the terms reasonable and limited in line with IFAE and ISAE3000.

OTHER RELATED DEVELOPMENTS IN THE REGULATORY SPACE

Standards published by NBA and Far underwent revisions in this phase. In the Netherlands, NBA from the comment letters received during the exposure period redrafted the ED3410 and adopted a more “principles based” “clarity style” of drafting. The standard N3410 “Assurance Engagements Relating to Sustainability Reports” was made effective July 2007. Far revised RevR6(2004) and aligned the new RevR6 “Assurance on Sustainability Reporting” standard with ISAE3000 in December 2006 due to its membership obligations. In December 2008, it made a second revision to RevR6 and replaced its contents with the Dutch standard.

In 2006, the third version of GRI reporting guidelines was published following a 3 year consultation process¹⁴⁹. It introduced a reporting framework containing Sustainability Reporting Guidelines, Protocols (definitions for

¹⁴⁷ AccountAbility (2010) Frequently asked questions

¹⁴⁸ FEE Comment Letter to Mr. Alan Knight, Head of Standards and Related Services, AccountAbility Comment Letter on Consultation on AA1000 Assurance Standard Revision Draft issued on 24 January 2008 par. 12

¹⁴⁹ The G3 draft was released for public comment in the beginning of 2006, 60 Stakeholder Council members were appointed and the Organizational Stakeholder membership program was launched in 2003. The structured Feedback Process concludes having engaged 450 experts worldwide in 2004 and a Technical Advisory Committee (TAC) appointed in 2005 guiding major technical revisions and development of a third version of the guidelines. 270 responses were received. It was also previewed in 28 cities worldwide to over 3000 participants. The comments were considered by the GRI board, technical advisory committee and stakeholder council and integrated in the final version of the G3.

key terms in the indicator, compilation methodologies scope and other technical references) and Sector Supplements (sector specific guidelines) that guide reporting organisations on what and how to report. Adopters of the standards increased to over 750 organisations.

The G3 provided stakeholder oriented principles and guidance to reporting organisations. Guidance determining the content of the report was built on materiality, stakeholder inclusiveness, the sustainability context and completeness. The GRI defined quality of the sustainability report as a function of balance, comparability, accuracy, timeliness, reliability, and clarity. Provisions were also made on how to set reporting boundaries and standard disclosures including strategy and profile, management approach and performance indicators. The GRI developed a grid which reporters could declare to what extent the GRI framework had been applied (A, B or C) and if external assurance had been commissioned (+). For example, reporting organisation fulfilling requirements of level B could “self-declare” its compliance to the GRI framework, commission a GRI application level check (the extent which GRI reporting framework has been used) and / or third party assurance.

The G3 took into consideration the “auditability of the report” and encouraged both internal and external assurance to enhance report credibility. It defined external assurance as “*activities designed to result in published conclusions on the quality of the report and the information contained within*”¹⁵⁰ as distinguished from certifications of sustainability performance. It however did not express preference of a particular assurance provider recognizing professional assurance providers, stakeholder panels, other external groups or individuals on equal footing. It withdrew earlier working paper on overarching principles of assurance and instead published key qualities of external assurance. The list reflected a combined strength of both the accountancy approach and that of AccountAbility.

key qualities of external assurance

competence of assurance providers in subject matter and assurance practices

systematic, documented, evidence-based, characterized by defined procedures;

assessment of whether the report provides a reasonable and balanced presentation of performance, taking into consideration the veracity of data in a report as well as the overall selection of content;

independence and impartiality of assurance providers to the reporting organisation;

extent GRI reporting framework had been used as a criteria in reaching conclusion;

conclusion are published and a statement from the assurance provider on their relationship to the report preparer are made available

Key qualities of external assurance

The development in GRI reporting guidelines had a significant impact on assurance standards. The key issue was whether G3 constituted a “suitable criteria” reflected in IAASBs consultation paper: Assurance Aspects of G3 published February 2006 The purpose of the consultation paper was to stimulate interest in G3, encourage members to respond to G3, assess if G3 would be acceptable as a suitable criteria. The publication of G3 lifted

¹⁵⁰ GRI (2006), G3 p. 38

the discussion on whether the long standing problem of “lack of suitable criteria” could be addressed with the G3. IFAC addressed in the consultation paper a discussion of assurance, stakeholder engagement, relevance and materiality. In particular, it evaluated G3 against “suitable criteria” according to framework on assurance engagements to assess if G3 fulfilled the requirements of relevance, completeness, reliability, neutrality and understandability.¹⁵¹ The table below provides a summary of IAASB’s evaluation.

Characteristics of suitable criteria	International Framework for Assurance	Evaluation of G3
Relevance	Criteria contribute to conclusions that assist decision-making by the intended users	Multi-stakeholder process Is it sufficient to ensure relevance? Are there circumstances where guidelines are irrelevant?
Completeness	When relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted	Are disclosure requirements complete? How will stakeholder engagement affect completeness Immaterial core indicators may be omitted Do such omissions undermine completeness?
Reliability	Allow reasonably consistent evaluation or measurement of the subject matter	G3 allow a number of choices on e.g reporting boundary, restating current disclosures, deciding on level of aggregation in the report Will such choices undermine reliability?
Neutrality	Contribute to conclusions that are free from bias	Do components of G3 limit extent which preparers can introduce undue bias into report preparation that the professional accountant could still conclude in accordance with G3?
Understandability	Clear, comprehensive, and not subject to significantly different Interpretations.	Is each component understandable and drafted clearly?

With reference to the consultation paper, the FEE reaffirmed its position that criteria is dependent on specific needs of reporting company and intended users and therefore different sets of criteria would be appropriate for different types of engagements rather than a “one size fits all reporting criteria”. It also stressed the importance of consistent evaluation in assurance engagements.¹⁵² Although a consultation paper “Assurance aspects of G3” was published in February 2006 for comments by March, according to FEE, SEAP informed that IFAC would not pursue an IFAC/SEAP response to GRI.

IFAC’s priorities in fulfilling its role in the “new financial architecture” channelled significant resources to the Clarity project quoted as: “our highest standard setting priority”¹⁵³. The clarity project involved the redrafting of existing IAASB standards to improve auditors’ understanding of the pronouncements, through greater clarity enabling more consistent application to enhance the quality and uniformity of practice worldwide.¹⁵⁴ IFAC

¹⁵¹ IFAE par 36

¹⁵² Par 14-17 FEE correspondence with IFAC ref IAASB consultation paper on assurance aspects of G3 23*5/2006

¹⁵³ IAASB Annual report 2006 page 2

¹⁵⁴ Improvements made through: •Identifying the auditor's overall objectives when conducting an audit in accordance with ISAs; •Setting an objective in each ISA and establishing the auditor's obligation in relation to that objective; •Clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements; •Eliminating any possible ambiguity about the requirements an auditor needs to fulfil; and •Improving the overall readability and understandability of the ISAs through structural and drafting improvements. (IAASB)

carried out extensive consultation with its stakeholders on whether resources were to be allocated to new areas of assurance or consolidating and improving current existing standards.¹⁵⁵

In September 2007, IAASB stated its intention in 2009-2011 draft strategic plan to contribute to the development in sustainability reporting through the world capital market perspective. The IAASB justified its involvement stating that *“international investors expect greater focus on sustainability from participants in the world capital markets, annual reports include sustainability information and often auditors are involved in assurance engagements on corporate sustainability reporting. IAASB was called on to consider how to contribute to the development of such reporting and plans to do so.”*¹⁵⁶

It proposed revision of ISAE3000 as well as reviewing NBA’s 3410N to determine whether it provided an appropriate basis for an international pronouncement in the third quarter of 2009 among the projects to contribute to developments in sustainability reporting. 52% of respondents commented on IAASB’s involvement in sustainability assurance standards and 18% commented on using NBA standards as a point of departure. Respondents that supported IAASB’s involvement¹⁵⁷ felt the need to consolidate the leading role of the accountancy profession and gain market share¹⁵⁸, improve quality¹⁵⁹, increase harmonisation¹⁶⁰ and supported the public interest argument¹⁶¹. There were also respondents that viewed it as a second priority (first to be given to the financial audit)¹⁶² which need a separate strategic initiative¹⁶³. Three respondents were in favour of IAASB reviewing N3410 as an initial point of departure reasons were to avoid duplication of efforts¹⁶⁴ and respond the threat of competition¹⁶⁵. Other members caution that it could be early to set standards in this field and that could impede development¹⁶⁶; IAASB should adopt a wider view taking into account other approaches by other jurisdictions¹⁶⁷ as well as outside the profession¹⁶⁸; and one respondent felt

¹⁵⁵ Reflected in Annual report page 6

¹⁵⁶ Draft consultation paper IAASB strategy 2009-2011pg 11 Section A.3.2 p. 7 (Agenda item 1.1 IAASB (March 2008).

¹⁵⁷ CNR, KPMG, ACCA, Far, Australian Treasury

¹⁵⁸ Institut des Reviseurs d’Entreprise, ICA Scotland, EY, Canadian public accountability board, European association of listed companies, FEE, PWC, Florida institute of CPA

¹⁵⁹ PWC

¹⁶⁰ European Association of listed companies, Deloitte, EY. ICAEW

¹⁶¹ ICA Australia, EY, European Association of listed companies

¹⁶² IDW, International Organization of securities commissions (Spain)

¹⁶³ Australian government auditing and assurance standards board

¹⁶⁴ FEE and Institut des Reviseurs d’Entreprise

¹⁶⁵ FEE, Far simply supported the proposal

¹⁶⁶ PWC

¹⁶⁷ ACCA, PWC

¹⁶⁸ Canadian Public accountability board

that there was no clear user demand of the service and thus did not meet the criteria to develop an international standard.¹⁶⁹

SUMMARY OF PHASE 3

At phase three, GRI reporting standards continue to gain international acceptance at an increasing rate with 80% and 45% of the G250 and N100 firms adopting GRI standards in sustainability reporting.¹⁷⁰ At the international level, standard setting efforts continue to intensify. IAASB announced indication to revise ISAE3000 as well as look into NBA's N3410 as a starting point to develop standard to guide assurance on sustainability reports. AccountAbility continued to develop its standards constructing input and throughput legitimacy through wiki providing transparency and access to the revision of the AA1000AS. National standard setters engage in revision of their exposure drafts or standards in light of the increasing acceptance of GRI standards and activities in the regulatory space.

At phase 3, activities centre less on cooperation and learning. From the observations above, actors at the phase refocus on their own goals and engage in defending and protecting their own terminology through publications and comment letters. Emphasis is stressed on conflicting elements, stressing regulatory issues that are significant to the objectives of the respective institutions.

SUMMARY AND DISCUSSION

LEGITIMACY OF STANDARD SETTERS AND STANDARDS IN THE REGULATORY SPACE

Drawing from the work of Peters and Black, it is recognised in this paper that standards can emerge from multiple sites; a decentred perspective of regulation would enable the capture of the dynamics of standard setting which highlights the fragmentation and interdependence of actors involved and their interplay in the regulatory space in their attempts to deal with the complexity of sustainability assurance.

The broad conception of both terms 'sustainability' and 'assurance' explain the presence of various types of providers operating under different frameworks providing a myriad of services to cater to the needs of reporting organisations. The concerns on the quality of sustainability assurance led to various initiatives from non-state actors to call for or /and set standards to improve the quality and harmonise sustainability assurance. At the international level, the AA1000AS remain the only international standard drafted specifically to guide sustainability assurance. ISAE3000 provides generic guidance to assurance services that is being applied to sustainability assurance engagements performed by the accountancy profession. NBA's 3410N, drafted in line with ISAE3000 to guide the accountancy profession providing sustainability assurance in the Netherlands is not in its own right an international standard but has a "pseudo-international" status by virtue of IAASB's intention of using it as a point of departure to set international standards in the future.

Standards on sustainability assurance are set by non-state actors. The regulatory space metaphor has been used to map out and trace patterns of influence of various actors engaged in filling the perceived regulatory gap to gain a better understanding of the context which standards and its contents develop. The development

¹⁶⁹ APB

¹⁷⁰ KPMG 2008

of key regulatory issues which determine the contents of standards had been a result of the dynamic interactions between: the accountancy and non-accountancy actors; and between standard setters and organisations that do not set standards but have an interest in defining regulatory issues in the regulatory space. Interestingly, the IAASB, the standard setter of the accountancy profession constructed for itself a very limited role in the sustainability assurance regulatory space. AccountAbility and FEE had been most active in the regulatory space in the period of study. Both organisations consequently played significant parts in establishing and shaping the regulatory issues that influenced the development of standards.

Findings support the literature reviewed that the entry, exit and level of participation of non-state actors is primarily driven by the how they legitimise their role to relevant communities in society. An interesting observation made in this thesis is that the FEE has been consistently enthusiastic about sustainability assurance standards. The fact that FEE is a non-standard setter that represents the accountancy profession in Europe suggests that the call for standards have been driven by professional associations at the national level. This counters the conventional “top-down” trends of standard setting. The IAASB’s passive role could be due to its priority to complete the clarity project, its earlier investment in the drafting of ISAE3000 between 1997 and 2003 and the availability of this generic assurance standard to provide guidance. But, on the other hand, it is important not to understate its influence. IAASB formed the SEAP and a task force to comment (in its own capacity) on NBA’s ED3410. The extensive comment letter to NBA highlighted the issues pertaining to sustainability assurance and drafting conventions, which today continue to give direction and to shape the development of standards.

Different non-state actors engage in different legitimising strategies to stake claims in the regulatory space. Strategies engaged to establish legitimacy vary according to the type and objectives of the organisation, the communities which efforts are targeted at, influences in the regulatory space and time. The accountancy profession had the advantage of relying on the established institutional structures and discourses of regulating the financial audit. Initial efforts by institutions representing the accountancy profession create legitimacy through construction of overlaps between the issues and expertise required for financial audit and environmental / sustainability assurance stressing the need for flexible multidisciplinary teams and calling for a legitimate coordinator putting the accountancy profession in a favourable position. In contrast, AccountAbility, new to the assurance field in 2003 engage in strategies stressing expertise, representations, transparency, democratic participation through multi-stakeholder participation appealing to the democratic ideals of standard setting in contemporary society. It further engaged in output legitimacy strategies through claiming the usability of the AA1000AS and applicability with other reporting and assurance standards, mentioning in particular the GRI and the ISAE3000. Analysis also revealed a shift in the way the accountancy profession constructed legitimacy over time, particularly after AccountAbility staked its claim in the regulatory space.

This was evident in phase two during which their initial efforts were complemented by collaborative efforts with other standard setters including AccountAbility, and evoking legitimacy claims through the support of third party organisations.

TENSIONS AND PATTERNS OF INFLUENCE IN THE REGULATORY SPACE

The patterns of influence in the regulatory space highlighted the normative challenges of decentred regulation. The polymorphous actors grounded by different philosophical pursuits brought competing concepts and competing regulatory logic into the space. Problems in the regulatory space had been constructed, debated and negotiated, without the presence of an authority or central co-ordinating body making the final decisions.

This is a role the state normally assumes in the development of state-centred regulation. To provide guidance to the accountancy profession, FEE has called for the IAASB to undertake this role.

Findings show that patterns of influence between actors in the regulatory space change over time driven by interactions between actors; practices in the assurance market and cross representation of members between actor groups. Three phases have so far been identified. In the first phase, actors attempted to establish the regulatory space through constructing problems, identifying issues and inviting, or excluding others into this space (1997-2002), this was followed by a phase of learning and cooperation between the actors (2003-2005). In the third phase (2006-2010), actors reduced their cooperative efforts. Instead they refocused on their own institutional objectives and engaged in interactions, to protect their own discourse and terminology.

In the first phase, the FEE raised the key regulatory issues built on extending auditing concepts and applying IAPC's generic assurance concept to a broader sustainability domain. The weak conceptual underpinning of the assurance concept, the lack of consensus as to the elements of assurance and positioning in relation to the financial audit were reflected in the interaction and negotiations in the space. It highlighted tensions within the profession on issues pertain to the assurance provider, objectives of sustainability assurance, the planning, level and combination of assurance as these issues continue to resurface. Sustainability assurance is relatively new service, companies engage these services voluntarily and the service is offered by a variety of providers, brought elements of competition and learning. The breadth and scope of 'sustainability' makes it difficult a single group of actors to be equipped with the knowledge, information decide and set standards on a single approach. FEE constructed the business case into the regulatory space and invited other actors including reporting organisations, users of reports, other assurance providers and standard setters to participate in the space. The introduction of the business case accentuated the shift of regulatory logic from that of professional trusteeship one that is driven by commercial logic creating tensions as to the role of the assurance provider and the nature of sustainability assurance engagements.

In the second phase, AccountAbility staked a claim in the regulatory space publishing the first international sustainability assurance standard. The different conceptions of "sustainability", "assurance" and "sustainability assurance" allowed AccountAbility to stake claims in the space broadening sustainability assurance to reflect the level sustainability is embedded in a reporting organisation's structure and activities. Without the legal mandate, terminology used by the accountancy profession in this field could also be adopted and redefined by other institutions. AccountAbility brought to prominence the importance of reporting the "right" information in addition to the accuracy of information. It redefined materiality, completeness and the role of stakeholders in the assurance process which the accountancy profession was forced to address. As sustainability assurance was at its initial stages of development, fragmentation of knowledge was recognised and there was an emphasis on cooperation and learning by institutions in the space. The dormant status of IAASB in setting standards on sustainability assurance after the publication of ISAE3000 led to tensions surfacing from different institutions of the accountancy profession on how AA1000AS should be regarded. Decentred nature of regulation led to two international standards duplicating, overlapping with each other. The obligation imposed on IFAC members to adopt the ISAE3000 in 2005 created a hierarchy of standards within standard setting bodies of the accountancy profession. National standard setting bodies setting subject specific assurance standards from then had to draft national standards based on ISAE3000.

In the third phase, cooperative efforts between different actors were downplayed. Actors in particular those from the accountancy profession focused on reiterating the issues it had established and protecting key definitions and terminology. The profession stressed conflicting definitions and elements of assurance and highlighted the weaknesses of "other" standards and made ISAE3000 obligatory to members. This made it more difficult for users to jointly apply standards and directed the discussions in the regulatory space towards addressing issues that are the strengths of the profession. The IAASB announced intention of using

sustainability standards by NBA as a point of departure to set international standards. This initiative brought NBA and 3410N into the international regulatory space as well as NBA's more stakeholder oriented approach to interpreting of ISAE 3000.

Decentred regulation also faces democratic and normative challenges due to the lack of agreement as to who should participate in standard setting process? Who should decide on the goals of regulation? What goals and whose goals should be pursued.

At present, tensions persist between different organisations representing the accountancy profession on the role of the profession and the nature of sustainability assurance as well as the elements of assurance engagements. Tension is also evidence between the accountancy and other standard setting organisations with regard to purpose and scope of sustainability assurance, including whether the approach should focus on stakeholder accountability, stakeholder management or a wider sustainability objective.

Until clearer policy objectives are set with regards to sustainability reporting and the role of assurance, it is difficult for social actors to organize themselves in a more integrated and systematic manner to offer alternative solutions to this relatively ill-defined problem. Futile negotiations in the regulatory space are likely to continue with each actor appealing to the different communities to which they legitimise their existence. The ability to steer and influence regulatory issues in the space is likely to depend on the resources and the political influence of the various actors. Consequently, national standard setters and practitioners are left with the discretion to decide on the objectives of such assurance engagements and how they are to be carried out.

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