

# The truth about verification

The 'verification' of companies' environmental and social reports can be a lucrative business for those making the statements – but are the goods being delivered? **Paul Scott** looks beyond the 'greenwash' and finds all is not well

**H**ow can analysts or investors assure themselves that a company's environmental and social report is worth the paper it's printed on? Reporting companies are increasingly relying on third-party statements by independent consultants to help establish that the line between public relations-based greenwash and objective reporting has been crossed.

But in the absence of legislative guidelines, agreed standards or even generally accepted best practice, these consultants are producing statements that range from the meaningful, impartial and rigorous to the downright useless. Ideally, a common approach needs to be established. In the meantime, report users have to carefully consider exactly what each particular statement is worth.

The percentage of reports containing third party statements has been rising steadily over the last decade, with almost 40% of recent environmental and social reports containing some form of external statement (see Figure 1). The picture changes dramatically across different countries and sectors. Europe not only leads in the sheer volume of reports, but also in the proportion of third party statements, while North America and Japan are both lagging (see Figure 2).

Across sectors, the pharmaceuticals industry is clearly ahead of the field. The strong showing of the mining sector – a relative newcomer to reporting – contrasts with

that of several more vociferous sectors such as consumer goods and automotive (producers of particularly voluminous reports) (see Figure 3).

### Types of third-party statement

In the absence of generally agreed principles, third-party statements differ widely. In contrast with financial accounting, there is no underlying legislation on which the readers of the reports can rely. This means that each individual statement should define its parameters – such as what it sets out to achieve, the methodology used, the areas examined, and the degree of assurance obtained. Statements which claim to be developed in accordance with 'generally accepted principles for environmental statements' (without stating what these might be) are misleading to say the least.

Most statements term themselves 'verification', which is itself misleading – some statements are nothing more than an opinion based on a reading of the report with no additional research.

Then there are varieties of audit (often based on a single site, or one aspect of company operations) and the increasingly discredited 'validation' where consultants compiling the report on behalf of the company sign their own statement.

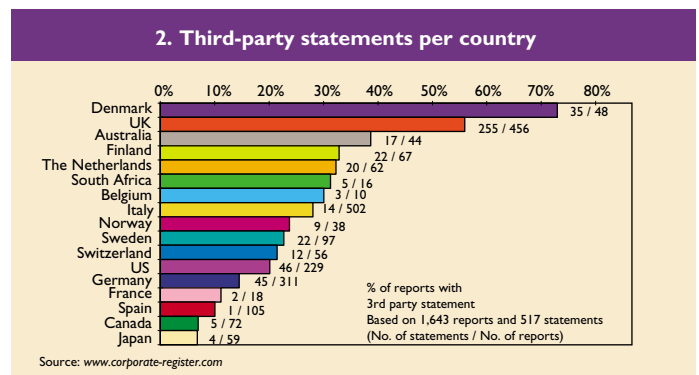
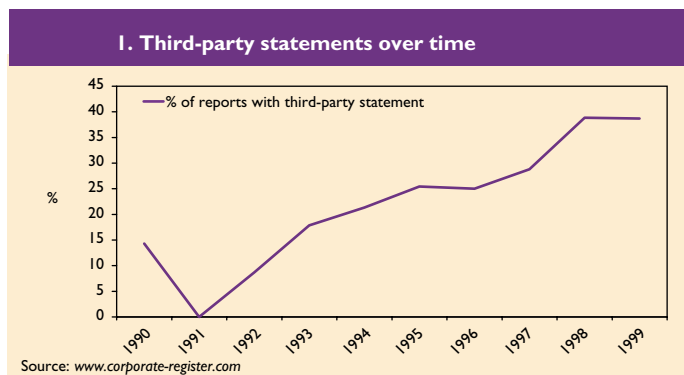
For this reason we term all these variations 'third-party statements'. For the purposes

of Figure 4 we have compiled an overview of statement classifications, and defined them as follows:

- Full verification – the full 'belt and braces' statement from an independent third party, comprising methodology, attestations of accuracy and completeness, together with recommendations for improvement;
- Partial verification – the same thorough approach has been taken, but at least one crucial element (usually recommendations of how to improve performance) is missing;
- Audit – as the name suggests. The audits do not usually refer to the report itself but to a specific operational aspect (such as finance or management);
- Assessment – a view on the report but with no defined methodology or recommendations;
- Opinion – generally the views of an external environmental 'personality', endorsing the company's aims and approach;
- Validation – a statement drawn up and signed by the consultants developing the report, attesting to the fact that the data collection process appears robust and the company is progressing well. These statements are likely to endorse the contents of the report, but are unlikely to highlight any inconsistencies or gaps.

### Consistency of approach

There are three main types of organisation



active in this field:

- Accountants. Often large, well-resourced international companies, these firms are often used by multinationals with operations in several countries;
- Environmental and specialist consultancies. These are able to identify weaknesses and gaps and generally deliver quality statements, but they usually have less international presence;
- Certification and assurance companies. If their teams include sector specialists, they can represent an effective 'third way'.

The large accountancies are increasingly targeting this market, profiting from the reputation of their names, but their fees may alarm all but the largest companies. The environment consultancies can provide the most practical help and support – where accountants may have several ways of counting the beans, environmental consultants can tell what types of bean are involved, and can tell a bean from a pea. Similarly, certification and assurance companies can deliver quality statements using rigorous methodologies based on technical expertise. The recent emergence of social reports, which also need third-party statements, introduces a further element of necessary expertise.

To take the accountancy analogy of 'true' and 'fair', the statement should:

- reassure the reader that the statements and data in the report are accurate and can be relied upon ('true');
- reassure the reader that the report is comprehensive, and that all material aspects are reported – with no omissions of 'bad news' or significant reporting areas ('fair').

Most established environmental and certification companies are well qualified to ensure that the report includes all significant environmental aspects of a company's activities, as they have direct experience of the diverse environmental issues across sectors. They are also well qualified to form views on recommendations for improving performance. Auditing companies, unless they can access specialist teams, may check the accounting and data collection procedures but are often weaker in the second vital aspect of verifying report comprehensiveness, and rarely include recommendations in their statements.

Each organisation type has its own approach. Environmental consultancies and assurance companies can demonstrate some of the most thorough approaches and provide

by far the highest proportion of 'verification' statements, but there are dishonourable exceptions. Generally, statements by accountants over the past decade have given the least degree of reassurance despite the authoritative phraseology – and they have often shown alarming inconsistency of approach by national offices within the same company. Some larger accountancies have realised this, and recent accountants' statements for petrochemical giants such as Royal Dutch/Shell and BP Amoco demonstrate a high degree of reassurance based on rigorous methodologies. Such accountancies have recruited environmental (and social accounting) specialists, but this quality may entail fees of several hundred thousand pounds.

### The way forward

Many of the current shortcomings have been recognised for some time, and committees – such as a sub-group of the Global Reporting Initiative (which is expected to report in November 2000) – have been discussing a common approach. However, merely calling for more third-party statements will not in itself improve the situation. There are too many poor quality statements, too many companies prepared to charge reporting companies significant fees for the privilege of using their names without delivering the statements of reassurance upon which stakeholders are able to rely (and in the case of investors, act).

The report of the judging panel for last year's European Reporting Awards (ERA) included the following statement on external verifications: "Environmental reports that are not externally verified are simply not acceptable. The cost of verification is rarely material in financial terms. The main obstacle to credible verification is often the restricted scope of engagement".

Quite apart from the fact that the overwhelming majority of ERA judges represent accountancy and auditing organisations – whose members may be expected to benefit from a blanket exhortation to reporting companies to include external statements in their publications – the judges' statement ignores salient facts. The cost of verification is significant and often amounts to tens – or even hundreds – of thousands of pounds. For a smaller company, fees may approach levels comparable with the cumulative costs of developing the entire report. They are cer-

tainly 'material in financial terms'. At the same time, many companies produce perfectly acceptable reports but choose to invest their money in improving their performance, rather than in a statement of dubious value.

The way forward is to ensure that these statements represent real value both for the reporting company and its stakeholders. Every company commissioning an external statement is advised to examine a range of statements developed by different organisations, and decide which best meets its needs. Statements which do not state their methodology, their views on the accuracy and comprehensiveness of the report contents or include any recommendations should be rejected. Bold statements which on closer inspection consist largely of 'weasel words' should likewise be rejected. Statements which are not impartial, or which are audits or opinions should not be termed 'verification'. Eventually, it is to be hoped that best practice will develop, along the lines of some of the excellent statements already published.

Above all, independent research should be conducted into what the report readership – the stakeholders – expect from these statements. What are the elements they would look for in a satisfactory statement? What methodology, level of detail and form of wording should be adopted? What would reassure them that a statement is both impartial and rigorous?

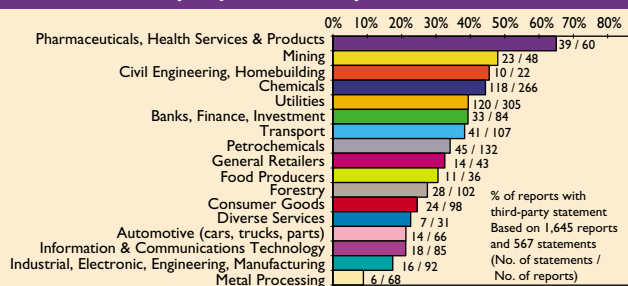
When quality, consistency and value can be assured, companies will recognise that third party statements are an essential part of the reporting process. In the meantime, the continued development of meaningful statements should be encouraged and sub-standard work exposed for what it is.

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*Readers interested in environmental and social reporting may like to visit [www.corporate-register.com](http://www.corporate-register.com), which gives details of almost 1,800 individual reports, and offers extensive search facilities.*

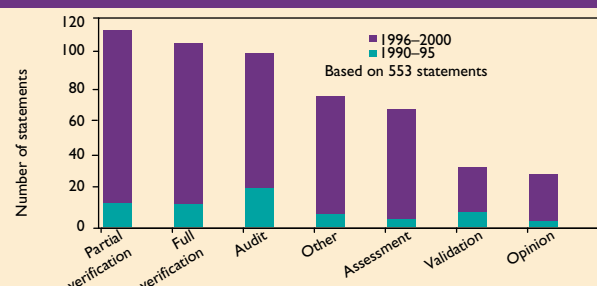
\* For the purposes of compiling statistics only countries and sectors with at least 10 reports have been included in the charts. EMAS (Eco-Management and Audit Scheme) reports are not included

### 3. Third-party statements per sector



Source: [www.corporate-register.com](http://www.corporate-register.com)

### 4. Type of third-party statements over time



Source: [www.corporate-register.com](http://www.corporate-register.com)