AccountAbility

AccountAbility 1000 (AA1000) framework

Standards, guidelines and professional qualification

Exposure draft - November 1999

The Institute of Social and Ethical AccountAbility
Thrale House, 44-46 Southwark Street, London, SE1 1UN, United Kingdom
Telephone: +44 (0) 207-407-7370; Facsimile: +44 (0) 207-407-7388
Website: www.accountability.org.uk; E-mail: secretariat@accountability.org.uk

November 1999

AA1000 has been developed to improve the accountability and overall performance of organisations by increasing quality in social and ethical accounting, auditing and reporting.

The Institute has facilitated the development of AA1000 through work with hundreds of individuals and organisations worldwide from business, government, and civil society.

Recent years have witnessed increased pressures on organisations to demonstrate social and ethical performance and accountability. Organisations have innovated in their responses to stakeholders' aspirations, including the adoption of various approaches to social and ethical - and more recently sustainability - accounting, auditing and reporting. Such practices are rapidly deepening and extending to other parts of the business community and other organisations.

There has been a growing concern over the difficulty of assessing and ensuring the quality of these practices. Civil society organisations, the media and opinion leaders are challenging their inclusivity, completeness and meaning. Adopting organisations are increasingly questioning their usefulness in strengthening their ability to measure, manage and improve performance and to effectively demonstrate this performance. Concerns are also emerging as to the competencies and objectivity of those offering services in this area.

These concerns have led to a growing number of standards and guidelines. Specialised frameworks such as GRI and SA8000 have helped to create 'islands of clarity' in key areas. ***AA1000*** is a contribution to the further clarification of what constitutes good practice in accountability and performance management. It has been designed as a 'foundation standard' and offers a common currency of principles and processes that underpin and therefore provide reassurance about specialised standards. ***AA1000*** is also designed to function as a stand-alone quality system and process. The suite of applications that make up the ***AA1000 Framework*** provides the basis for professional training and for the specialised application of the core standard.

We are proud to present the progress achieved to date, and we look forward to your contribution to its further development. Please do–contribute to its further

evolution through dialogue and use[1].

Yours sincerely,

Simon Zadek,
Chair, Institute of Social and Ethical AccountAbility

Preface

This document includes the complete AA1000 Framework (standard, guidelines and professional qualification) as it stands in November 1999. An overview of the framework is available in a separate document entitled: 'AA1000: Overview of standard and its applications.'

Development

AA1000 has been developed by the Institute, overseen and approved by its Council, which includes representatives and expertise from various constituencies and regions.

The development process has included extensive consultation with the Institute's international membership including its Corporate Leadership Network[2], and through events held in association with collaborative institutions and networks in Australia, continental Europe, India, Nordic Countries, South Africa, the United Kingdom and the United States.

The development of the AA1000 framework has drawn from best practice in social and ethical accounting, auditing and reporting, as identified in the practice of adopters and service providers, the analysis of academics and civil society organisations, and existing accountability standards.

The Institute is grateful for the support of all those individuals and organisations that have contributed to the development of AA1000, and would wish to thank in particular Arthur D Little Ltd, Bureau Veritas Quality International (BVQI), the Department for International Development, KPMG, MacArthur Foundation, New Economics Foundation, SGS International Certification Services and Arthur D Little.

Next steps and commitments

The Institute's approach embraces a user-driven philosophy. AA1000 must be tried, tested, and further developed for it to have value now and in the future. Over the coming years, the Institute will intensify its engagement with users from all sectors and constituencies in order to assess operational usefulness and required adjustments in the light of experience and evolving needs. A particular focus will be on whether and how AA1000:

- Supports more effective stakeholder engagement.
- Contributes to specialised standards, guidelines and tools.
- Is effective in diverse operating environments internationally and across different sectors.

- Can build synergy with emerging approaches to intellectual capital and knowledge management.
- Links to strategic and operational planning tools and quality models such as the Balanced Scorecard and the Business Excellence Model.

- Contributes to building accountability in public sector and civil society organisations as well as within the business community.
- Demonstrably enhances overall performance.

The Institute is conscious of the fact that **by design** the AA1000 already incorporates key elements of the approaches adopted by many leading companies and standards initiatives. A bounded piloting programme is therefore not seen as the most effective or cost-efficient route to secure the necessary experiment, dialogue and learning. Instead, the Institute intends to pursue the following routes in developing AA1000:

- Member-based testing, workshops, learning networks and surveys.
- Continued contribution to, and learning from, the development of specialised standards.
- Further encouragement and development of chapters and associated organisations internationally, particularly in the Southern hemisphere.
- Learning through the professional training embedded in the overall AA1000 Framework.
- Consolidation and extension of an integrated research programme.
- Web-based dialogue.
- Ad hoc learning through the many networks and initiatives in which the Institute participates.

Through these routes, **the Institute commits to**:

- Making regular, publicly available progress reports.
- Publishing research on tests and developments of AA1000.
- Enhancing and extending the set of tools in the AA1000 Framework.
- Issuing specialised guidelines, for example relevant to particular business sectors, and to

public sector and non-profit organisations.

- Regular upgrades of the professional training based on published feedback on trials.
- Re-issuing an enhanced AA1000 Framework during 2001.

In addition, **the Institute commits to** further strengthening its inclusive and transparent approach through continued innovation of its own multi-constituency, member-based governance systems and processes. It aspires to nurturing a profession and associated standards and institutions that reflect the principles of accountability and performance that it seeks to advocate and enhance in others.

Contents

	Page
1 Executive Summary	**6**
The foundation standard	
2 AccountAbility 1000 (AA1000)	**14**
Principles	**16**
Process standards	**19**
The guidelines:	
3 Auditing and quality assurance - guidelines for the social and ethical auditor	**43**
4 Integrating AA1000	**60**
5 Stakeholder engagement	**84**
6 Accountability assessment	**89**
7 First steps	**96**

The professional qualification:

8 Professional qualification - competence and qualification requirements for social and ethical accountants and auditors 102

Appendices:

A Glossary of terms **117**

B The Institute of Social and Ethical AccountAbility **126**

1 Executive Summary

1.1 AccountAbility 1000 – The foundation standard

Introduction

AccountAbility 1000 (AA1000) is an **accountability** standard, focused on securing the quality of **social and ethical** accounting, auditing and reporting.

It is a **foundation** standard, and as such can be used in two ways:

a) As a common currency to underpin the quality of specialised accountability standards, existing and emergent.

b) As a stand-alone system and process for managing and communicating social and ethical accountability and performance.

Accountability standards and guidelines

Recent years have witnessed a proliferation of standards and guidelines to support and measure accountability and performance. These include process standards and substantive performance standards, standards focused on a single-issue or encompassing a variety of issues, and mandatory and voluntary standards.

The processes and issues covered by these standards include stakeholder dialogue and social and ethical reporting, organisational culture, fair trade and ethical trade, working conditions, human resource management and training, environmental and animal protection, community development and human rights. Some of the more notable examples are the:

Australian Criminal Code Act, Caux Round Table Principles for Business, CERES Principles, EMAS, Ethical Trading Initiative, Forest Stewardship Council, Global Reporting Initiative, Global Sullivan Principles, Humane Cosmetics Standard, ICFTU Basic Code of Labour Practice, Investors in People, ICC Business Charter for Sustainable Development, ISO 14001, OHSAS18001, PERI Reporting Guidelines, Social Accountability 8000 (SA8000), South African Government Employment Equity Act, Sunshine Corporate Reporting, and the US Government Federal Sentencing Guidelines.

AA1000 comprises **principles** (the characteristics of a quality process) and a set of **process standards**. The process standards cover the following stages:

a) Planning.

b) Accounting.

c) Auditing and reporting.

d) Embedding.

e) Stakeholder engagement.

The principles and process standards are underpinned by the principle of accountability to stakeholders.

Accountability and performance

The AA1000 process standards link the definition and embedding of an organisation's values to the development of performance targets and to the assessment and communication of organisational performance. By this process, focused around the organisation's engagement with stakeholders, AA1000 ties social and ethical issues into the organisation's strategic management and operations.

AA1000 aims to **support organisational learning and overall performance – social and ethical, environmental and economic - and hence organisations' contribution towards a path of sustainable development.**

It seeks to achieve its aim through **improving the quality of social and ethical accounting, auditing and reporting**.

What is social and ethical?

The terms ethical and social have a number of theoretical and practical traditions in organisational accountability. For some, ethical (or ethics) refers to an organisation's systems and the behaviour of individuals within the organisation, whereas social refers to the impacts of the organisation's behaviour on its stakeholders, both internal and external. For others, ethical embraces both the systems and individual behaviour within an organisation, and the impacts of the systems and behaviour – on stakeholders, on the environment, on the economy, etc.

AA1000 recognises these different traditions. It combines the terms **social and ethical** to refer to the systems and individual behaviour within an organisation **and** to the **direct and indirect** impact of an organisation's activities on stakeholders.

Social and ethical issues (relating to systems, behaviour and impacts) are defined by an organisation's values and aims, through the influence of the interests and expectations of its stakeholders, and by societal norms and expectations.

Building performance not compliance

The Institute recognises and advocates the need for experimentation and innovation in embedding the management of (and accountability for) social and ethical issues in organisations' strategies and operations. It furthermore recognises that any useful standard at this

stage must stimulate innovation above an agreed quality floor, rather than encouraging the development of a more rigid compliance-oriented culture.

Therefore in the first instance, the Institute has taken the decision not to position AA1000 as a certifiable standard. Rather, its design is intended to encourage innovation around key quality principles, which at this stage it considers a more effective approach in taking forward individual adopting organisations and the field as a whole.

AA1000 does, however, incorporate an auditing standard through which organisations will provide assurance to stakeholders as to the quality of their social and ethical accounting, auditing and reporting. This assurance is one basis of effective engagement between organisations and stakeholders, and hence supports organisations' strategic management and operations.

Stakeholders: leadership and engagement

An organisation's stakeholders are **those groups who affect and/or are affected by the organisation and its activities**.

These may include, but are not limited to: owners, trustees, employees and trade unions, customers, members, business partners, suppliers, competitors, government and regulators, the electorate, non-governmental-organisations (NGOs) / not-for-profit organisations, pressure groups and influencers, and local and international communities.

There is growing recognition by organisations that some stakeholders possess significant influence over them:

a) More information is publicly available on the activity of organisations and the impact of these activities on employees, shareholders, society, the environment and the economy.

b) Stakeholders demand higher standards of behaviour from organisations.

c) The legitimacy of these demands is more widely recognised by government, regulators and civil society.

At the same time, organisations recognise the conflicts of interest they have with stakeholders, and the lack of consensus between and within stakeholder groups.

This is a dilemma that AA1000 seeks to address. It does not provide a prescriptive framework for the resolution of conflicts, but it does provide a process for organisations to begin to address them through engaging with stakeholders to find common ground and build trust.

This process of engagement with stakeholders is at the heart of AA1000. Engagement is not about organisations abdicating responsibilities for their activities, but rather **using leadership to build relationships with stakeholders**, and hence improving their overall performance.

1.2 AccountAbility 1000 – Applications of the foundation standard

Introduction

AA1000 is focused on improving the overall performance of adopting organisations.

It therefore supports improvements in financial performance and the long-term value of the organisation to shareholders and other owners. It does this by supporting improvements in other dimensions of performance, particularly social and ethical but also indirectly environmental and economic performance.

Improving performance

There are a variety of dimensions in which AA1000 can be used to improve organisational accountability and performance. The following is not a complete list, but illustrates the possible applications of AA1000 to the benefit of an organisation and its stakeholders:

Measurement – The AA1000 standard outlines a process by which key performance indicators are identified by an organisation through engagement with its stakeholders. The organisation and its stakeholders are brought together to work towards **a common understanding of what matters** about performance.

Quality management – By measuring, communicating and obtaining feedback on its social and ethical performance an organisation will be better placed to understand and **respond to the needs and aspirations of its stakeholders**, and to manage these alongside (and as part of) its objectives and targets.

Recruitment and retention of employees – By clarifying its values and reporting on its performance, an organisation can **improve the recruitment** of high quality employees. The **loyalty of existing employees** will also be supported by evidence of commitment to building a better organisation and by the development of programmes to improve training and others aspects of employee welfare. The corollary of this improved loyalty to the organisation should be increased productivity.

External stakeholder engagement – AA1000 can play a key role in building an organisation's relationships with its external stakeholders. Consumers, suppliers and wider society are able to see how an organisation's behaviour matches their aspirations, and are better positioned to articulate their opinions. An organisation, in turn, will have more sensitive and accurate information on which to base decisions, and a **climate of increased trust** in which to implement them.

Partnership – AA1000 can support the **deepening of value-based relations** along an organisation's supply chain and in other partnership processes. Its adoption represents a commitment by an organisation to working together with partners to achieve genuine and standardised good practice in relationships.

Risk management – AA1000 can be integral to a framework for internal control to enable an organisation to identify, evaluate and better **manage the risks** arising from its impacts on and relationships with its stakeholders. These may include risks to reputation and brand, and from customer and employee liability suits.

Investors – AA1000 can play a critical role in satisfying the increasingly complex demands for information from investors. For most investors, clear and verifiable information about social and ethical performance and stakeholder perceptions and expectations provides a valuable reference point for **assessing the quality of management and the market positioning of an organisation**. In addition, the significant growth of 'ethical funds' is generating information requirements that AA1000 can assist a company in providing in a cost-effective manner.

Governance – AA1000 can play a key role in supporting an organisation's governance. The standard feeds into the organisation's control process by which it ensures the **alignment of its values and strategy with its behaviour and the outcomes of its activities**.

Government and regulatory relations – The adoption of AA1000 can play a part in encouraging governments to **acknowledge the self-regulating processes that organisations are following** to improve accountability and performance. As a reflection of practical and useful best practice, AA1000 may also help to ensure that any future regulation in the field is viable and meaningful.

Training – AA1000 facilitates the **training and**

the identification of qualified and experienced service providers. Trained social and ethical accountants and auditors will help an organisation, from inside or outside, to improve its accountability and performance.

Using AA1000

AA1000 therefore has a variety of benefits to organisations and their stakeholders. In addition, it is of benefit to standards developers and to service providers. The benefits to each user group is summarised in the box below.

AA1000 and its users

Adopting organisations can use AA1000 directly in developing their practices, or can use it as a basis for assessing other available specialised standards.

Stakeholders, including civil society organisations and direct stakeholders (internal and external to the organisation), can use AA1000 to assess and hence to comment on the quality of an adopter's approach to social and ethical accounting, auditing and reporting.

Service providers can use AA1000 as a recognised benchmark against which to develop and provide services, and as a means of acquiring competencies and communicating this to potential clients.

Standards developers can use AA1000 as a reference point for their specialised standard, and for communicating the underlying qualities of their standard.

AA1000 is designed to **encompass the needs and requirements of adopters from all types of** organisation. These include:

a) **Large and small** organisations.

b) **Single site** organisations, and **multi-site, multi-national** organisations.

c) **Public, private** and **non-profit** organisations.

The nature of the organisation adopting AA1000 affects its approach to the application of the standards. For example, a single-site organisation may apply the AA1000 standards by:

a) Developing a single social and ethical accounting, auditing and reporting framework.

b) Distributing a single audited report on all aspects of the organisation's operations to its (predominantly local) stakeholders.

In contrast, a large multi- site, multi-national

organisation may apply the AA1000 standards by:

a) Driving down responsibility for the measurement and improvement of social and ethical performance to site-level.

b) Reporting in summary form at group-level the overall activities and performance of the organisation, incorporating the indicators reported in the organisation's strategic management system.

c) Reporting at site-level the aspects of the organisation's social and ethical performance relevant to local stakeholders.

d) Using a mixture of auditing methodologies to reflect the assurance required by stakeholders at group-level and at site-level.

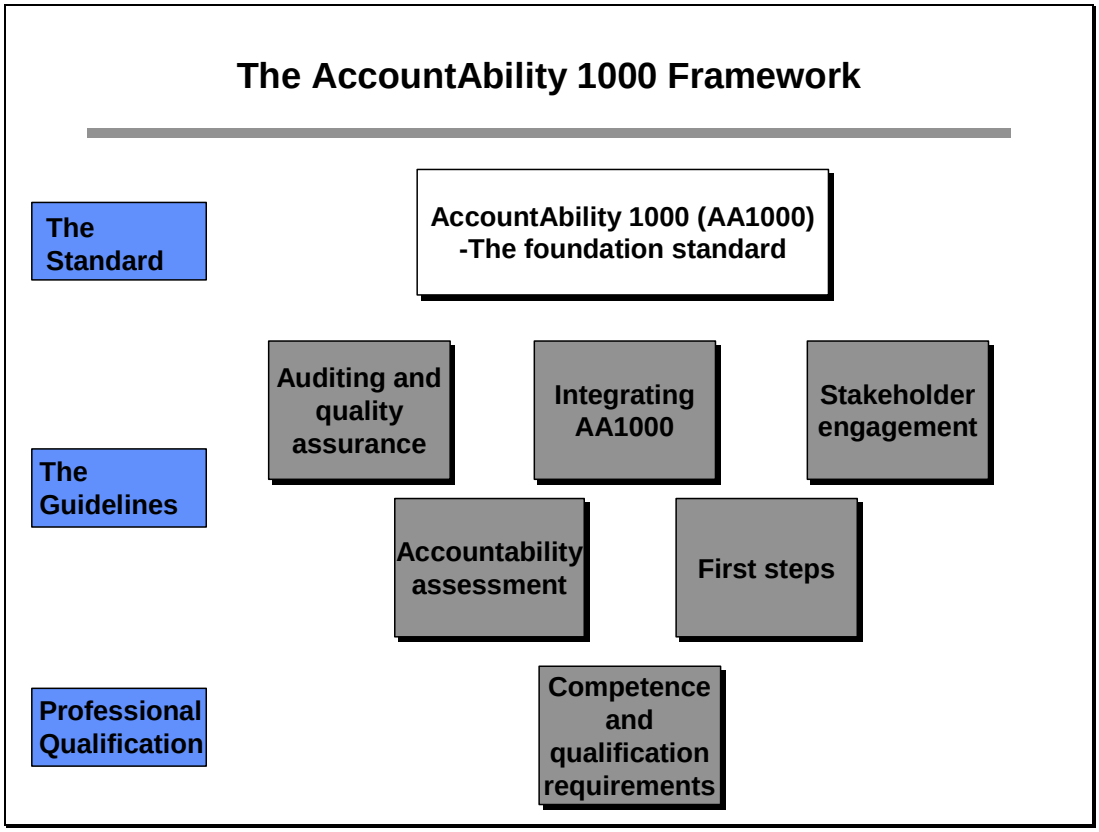
As practice develops, guidelines will be required to support the interpretation and implementation of AA1000 that recognise the diverse requirements of different organisation types, in different sectors and regions.

1.3 The AccountAbility 1000 framework

Introduction

AA1000 is supported by a set of **guidelines** and a **professional** qualification as illustrated in figure 1, and outlined beneath. The guidelines and professional qualification do not form part of the AA1000 standard, but provide guidance to different user groups in the application and understanding of AA1000. Together, the standard, the guidelines and the professional qualification are referred to as the **AA1000 framework**.

Figure 1 – The AccountAbility 1000 Framework



Auditing and quality assurance

AA1000 incorporates an auditing standard that defines an audit process for the adopting organisation. The **auditing and quality assurance** guidelines support the AA1000 audit process by outlining principles and a framework for the conduct of a social and ethical audit. The framework covers a process from agreeing the terms of engagement through to reporting. The guidelines recognise that AA1000 does not address or answer definitively a number of auditing issues for which standardisation may prove useful.

Integrating AA1000

AA1000 is designed to integrate quality as expressed in accountability standards and other management tools, and also to operate as a stand-alone system for social and ethical accounting, auditing and reporting. To reflect the different needs of users of AA1000, the AA1000 **integrating** guidelines illustrate the relationship between AA1000 and other standards and tools, and hence explain

the two ways in which AA1000 can be understood and used.

Adopters of other standards can use the integrating guidelines to understand how their existing practices fit in with AA1000, standards developers can use the guidelines to position their standards, and service providers and other stakeholders can use them to better understand organisations' practices and performance. At the same time, the integrating guidelines illustrate the possible role of other standards and tools in supporting a stand-alone process (as defined by AA1000).

Stakeholder engagement

Engagement with stakeholders is at the heart of AA1000. Engagement is not about organisations abdicating responsibilities for their activities, but rather using leadership to build relationships with stakeholders, and hence improving accountability and performance.

The stakeholder engagement guidelines begin to explain how organisations and stakeholders can ensure quality in the consultation and dialogue that takes place between them. They outline the aims of engagement and describe a number of methods and techniques to support these aims.

Accountability assessment

Organisations' communications with stakeholders must be understood by their stakeholders and be meaningful to them. AA1000 does not prescribe a specific format, style or media for the reporting (written and verbal communication) of social and ethical performance. This will allow innovation to flourish, but stakeholders' task in understanding the quality of reports may become increasingly difficult. Based on the AA1000 principles and process standards, the **accountability assessment** guidelines help stakeholders to understand the components included in a report, and the quality of this inclusion.

First steps

AA1000 recognises that organisations may adopt a stepped approach to addressing their accountability, and will use AA1000 as a model to aspire to over time. The AA1000 framework includes a brief discussion of how different approaches to social and ethical accounting, auditing and reporting can be understood in terms of a model of development towards accountability. It also suggests a set of **first steps**, and considerations for the

organisation at each step.

Professional qualification

The AA1000 framework also incorporates **professional qualification** guidelines linked to a training and professional development programme. This element is designed both for service providers and the staff of those adopting organisations that practice social and ethical accounting, auditing and reporting. Social and ethical accountants and auditors will be trained in AA1000 and other accountability standards (social and ethical, environmental and financial) as well as social and ethical management issues more generally.

The qualification of social and ethical accountants and auditors does not exclude the role of non-qualified persons in promoting the accountability of organisations. The new profession that the Institute is building will include social and ethical accountants and auditors, but also those working in a variety of fields committed to the values of social and ethical accountability.

---

1. Further information on AA1000 can be obtained from the Institute of Social and Ethical AccountAbility. Comments are welcome at 'feedback@accountability.org.uk'.

2. The Institute's Corporate Leadership Network includes the following organisations: British Telecom, Diageo, Origin, Shell, South African Breweries.

2 AA1000 – The foundation standard

2.1 Introduction

Social and ethical accounting, auditing and reporting

2.1.1 AA1000 is an accountability standard, focused on securing the quality of social and ethical accounting, auditing and reporting. It comprises principles and a set of process standards.

2.1.2 The AA1000 process can support an organisation's strategic management and operations, by assisting it to:

a) Align its systems and activities with its values.

b) Learn about the impacts of its systems and activities, including stakeholder perceptions of these impacts.

c) Serve as a part of a framework for internal control to enable the organisation to identify, evaluate and better manage the risks arising from its impacts on and relationships with its stakeholders.

d) Meet the legitimate interest of stakeholders in information about the social and ethical impact of the organisation's activities and its decision-making processes.

e) Build competitive advantage through the projection of a defined stance on social and ethical issues.

Accountability

2.1.3 **To account** for something is to explain or justify the acts, omissions, risks and dependencies for which one is responsible to people with a legitimate interest.

2.1.4 To discharge its **accountability**, an organisation will account for its acts, omissions, risks and dependencies. However, in addition to this accounting requirement of transparency, accountability also entails a broader obligation of responsiveness and compliance (see points a) to c) and figure 2):

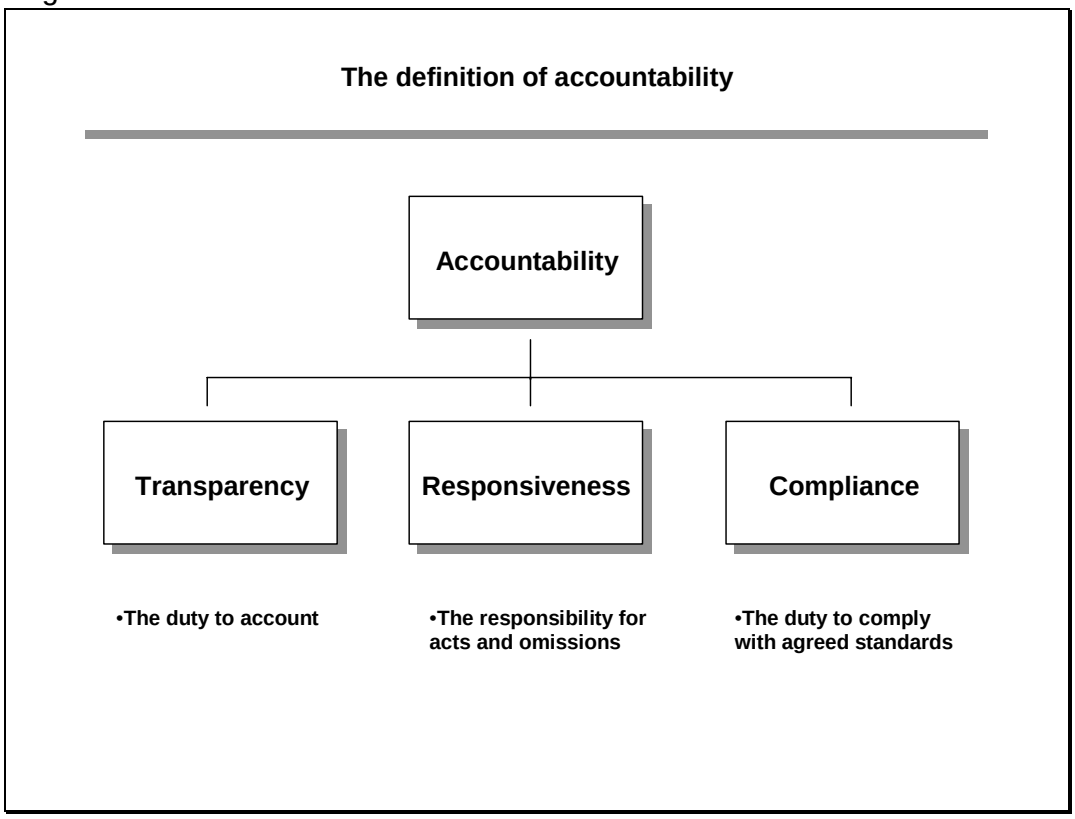
a) **Transparency** concerns the duty to account to those with a legitimate interest – the stakeholders in the organisation.

b) **Responsiveness** concerns the responsibility

of the organisation for its acts and omissions, including the processes of decision-making and the results of these decisions. Responsiveness entails a responsibility to develop the organisation's processes and targets to support the continuous improvement of the organisation's performance.

c) **Compliance** concerns the duty to comply with agreed standards regarding both organisational policies and practices, and the reporting of policies and performance.

Figure 2



Users and their information needs

2.1.5 The users of social and ethical accounts and reports (written and verbal communications) include the adopting organisation and its stakeholders.

2.1.6 Its stakeholders are **those groups who affect and / or are affected by the organisation and its activities**. These may include, but are not limited to: owners, trustees, employees and trade unions, customers, members, business partners, suppliers, competitors, government and regulators,

the electorate, non-governmental-organisations (NGOs) / not-for-profit organisations, pressure groups and influencers, and local and international communities.

2.1.7 The **information needs and performance expectations of stakeholders are reflected in a wide variety of issues**. These may include, but are not limited to: the organisation's values and governance, its regulations and controls, its operations, the impact of its products / services and investments, its impact on other species and the environment, human rights issues, labour and working conditions issues, and supply chain issues.

2.1.8 The **aspirations of stakeholders** in their interplay with the organisation **cannot be fully anticipated prior to the accounting, auditing and reporting process**. One of the key aims of the process is to discover and respond to these aspirations through engagement with the stakeholders.

ii) Principles

Introduction

2.2.1 The AA1000 principles identify characteristics of a quality process. These principles can be used in designing and managing an organisation's social and ethical accounting, auditing and reporting process, and may also be used in assessing the quality of its process.

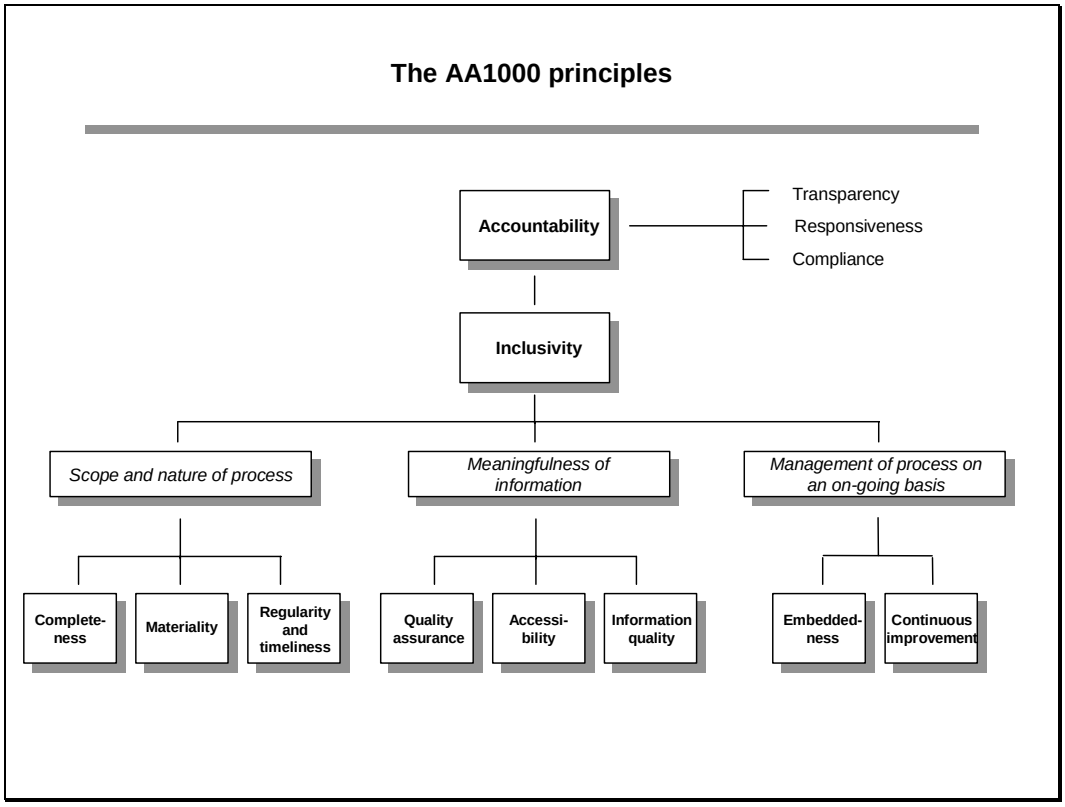
2.2.2 The hierarchy of the AA1000 principles is as follows (and as illustrated in figure 3):

a) A quality process of social and ethical accounting, auditing and reporting is governed by the principle of **accountability** (as defined in 2.1.3-4),

b) Organisational accountability is directly addressed by the **inclusivity** of the social and ethical accounting, auditing and reporting process. Inclusivity defines an organisation's accountability as an accountability to all stakeholder groups.

c) Inclusivity is supported by, and infuses the operational meaning of, the remaining AA1000 principles. These can be divided into three broad groups, relating to: the scope and nature of the organisation's process; the meaningfulness of information; and the management of the process on an ongoing basis.

Figure 3



The principle of inclusivity

2.2.3 **Inclusivity** - concerns the reflection at all stages of the social and ethical accounting, auditing and reporting process over time of the aspirations and needs of all stakeholder groups - those groups who affect and / or are affected by the organisation and its activities. Stakeholder views are obtained through an engagement process that allows them to be expressed without fear or restriction. Inclusivity requires the consideration of 'voiceless' stakeholders including future generations and the environment.

Principles relating to the scope and nature of the organisation's process

2.2.4 **Completeness** - concerns the unbiased inclusion in the accounting processes over time of all appropriate areas of activity relating to the organisation's social and ethical performance. In addition, there is clear externally audited disclosure of what is included and what is excluded and the reasons for any such exclusion. The organisation should be prudent in ensuring that adverse impacts of its activities are not downplayed, and that uncertain impacts are not

prematurely documented and reported as certain.

2.2.5 **Materiality** - concerns the need to include significant information that is likely to affect one or more stakeholder groups and their assessment of the organisation's social and ethical performance. The complexity of defining materiality for social and ethical issues demands inclusive processes of stakeholder engagement (including an analysis of stakeholder needs) to assess the significance of information.

2.2.6 **Regularity and Timeliness -** concerns the need for regular, systematic and timely action of the social and ethical accounting, auditing and reporting process to support the decision making of the organisation and its stakeholders. The process is a repeated one, but does not have to be an annual exercise, or if annual it need not follow existing reporting cycles.

Principles relating to the meaningfulness of information

2.27 **Quality assurance -** concerns the audit of an organisation's process by an independent and competent third party (auditor) or parties. The audit is concerned with building credibility (and providing assurance) in the process with all stakeholder groups, and hence developing meaningful stakeholder engagement. The audit process(es) may include a variety of methods, but must always consider the accuracy / validity of the organisation's reporting and its supporting information systems, the organisation's compliance with legislation and other standards, and the inclusivity and completeness of the process.

2.2.8 **Accessibility** - concerns appropriate and effective communication to the organisation's stakeholders of its social and ethical accounting, auditing and reporting process and its performance. The organisation communicates through **social and ethical report(s),** including written and verbal communications**, and externally prepared audit report(s)**. Accessibility implies that each stakeholder group can easily and cheaply access the material communicated.

2.2.9 **Information Quality**

a) **Comparability** - concerns the ability to compare information on the organisation's performance with previous periods, performance targets, or external benchmarks drawn from other

organisations, statutory regulation or non-statutory norms. External benchmarks are selected for their accuracy, relevance and legitimacy to the organisation and to different stakeholder groups. If the indicators chosen (to measure performance) by an organisation and its stakeholders are unique to the organisation, comparability of performance with other organisations may not be possible or necessary.

b) **Reliability** - concerns the characteristic that allows the organisation and its stakeholders to depend on the information provided by the social and ethical accounting and reporting to be free from significant error or bias. To ensure reliability, information should be presented in accordance with the reality of the information and not just its legal form. In addition, information should be presented neutrally, and the organisation should be prudent in the inclusion of information and the description of the organisation's position.

c) **Relevance** - concerns the usefulness of information to the organisation and its stakeholders as a means of building knowledge and forming opinions, and as assistance to decision making. Engagement with stakeholders is an essential part of identifying the relevance of information

d) **Understandability** - concerns the comprehensibility of information to the organisation and its stakeholders, including issues of language, style and format. Technical and scientific terms should be explained within organisation's reporting.

Principles relating to the management of the process on an ongoing basis

2.2.10 **Embeddedness** – or systems integration, concerns making the social and ethical accounting, auditing and reporting processes part of the organisation's operations, systems and policy making, and not treated as a one-off exercise to produce a social and ethical report. Together with the principle of continuous improvement, embeddedness is concerned with the knowledge and learning of the organisation, in terms of individuals within the organisation and the organisation's systems.

2.2.11 **Continuous improvement** - concerns recognised and externally audited steps taken to improve performance in response to the results of the social and ethical accounting, auditing and reporting process. It is a process that assesses

progress, reports performance, and sets targets for the future. The principle of continuous improvement also refers to the need for continual development of the accounting, auditing and reporting process itself within the organisation. Together with the principle of embeddedness, continuous improvement is concerned with the knowledge and learning of the organisation, in terms of individuals within the organisation and the organisation's systems.

2.3 Process standards

Introduction

2.3.1 AA1000 is a process standard, not a substantive performance standard. That is, it specifies processes that an organisation should follow to account for its performance, and not the levels of performance the organisation should achieve.

2.3.2 It is a dynamic model for a process of continuous improvement, each cycle of which has five main categories of action. The process model is broadly linear, but stages frequently operate in parallel, and earlier stages may have to be repeated. The stages are described below and illustrated in figure 4. Throughout the AA1000 standard, '**the process**' refers to an organisation's process of social and ethical accounting, auditing and reporting.

a) The organisation commits to the process, and defines and reviews its values and social and ethical objectives and targets (*Planning).*

b) The scope of the process is defined, information is collated and analysed, and performance targets and improvement plans are developed *(Accounting).*

c) A report(s) (**written or verbal communication**) on the organisation's systems and performance is prepared, the process (including the social and ethical reporting) is externally audited, the report(s) is made accessible to stakeholders, and stakeholder feedback is obtained *(Auditing and Reporting).*

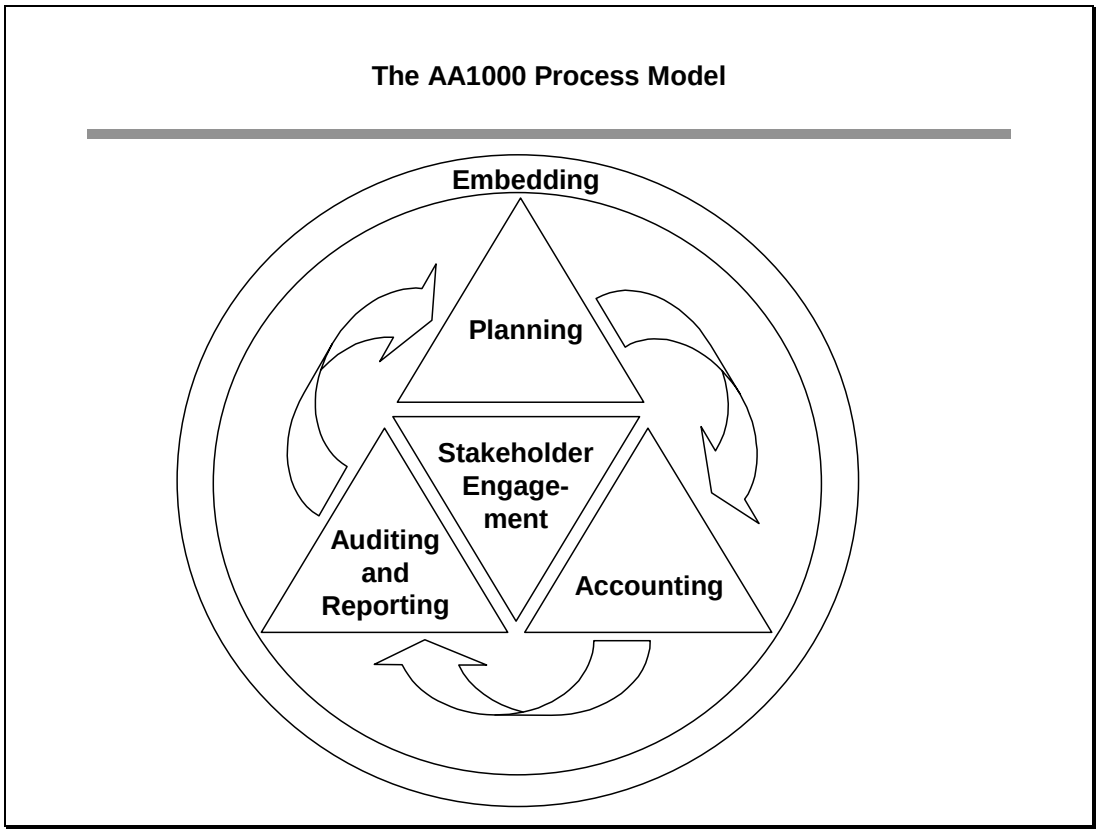
d) To support each of these stages, structures and systems are developed to strengthen the accounting, auditing and reporting process and to integrate it into the organisation's activities *(Embedding)*.

e) Each process stage (from a) to d)) is permeated by the organisation's engagement with its stakeholders (*Stakeholder engagement*).

2.3.3 During these stages, the organisation begins planning for the next cycle of the process incorporating the experience from previous cycles.

2.3.4 Within this broad process model, the Institute's process standards identify a set of steps that an organisation should follow to help satisfy the AA1000 quality principles. The process steps are summarised in table 1.

Figure 4



Status of the standards

2.3.5 The AA1000 process standards are set out (from page 23) together with guidance that assists in their interpretation. This guidance also identifies the relationship between the standards and the underlying social and ethical accounting, auditing and reporting principles.

2.3.6 The Institute recognises that organisations may adopt a stepped approach to building

accountability, and will use AA1000 as **a model to aspire to** over time.

2.3.7 It is recognised that a variety of different approaches to the AA1000 processes, for example towards stakeholder engagement, will address the quality requirements identified by the process standards, and that **different approaches will be more appropriate in different organisation types and geographies**.

2.3.8 Where there is a potential conflict between alternative process steps, an organisation should refer to the principles to resolve the conflict. Where there appears to be or there is a conflict of principles, the organisation should make its decision to support a long-term goal of accountability, and disclose this in its social and ethical report(s).

Table 1 – The AA1000 Process Model

The AA1000 Process Model
Planning
(P)rocess1 **Establish commitment and governance procedures**
The organisation commits itself to the process of social and ethical accounting, auditing and reporting, and to the role of stakeholders within this process. It defines governance procedures to ensure the inclusion of stakeholders in the process.
P2 **Identify stakeholders**
The organisation identifies its stakeholders and characterises its relationship with each group of them.
P3 **Define / review values**
The organisation defines or reviews its current mission and values.
Accounting
P4 **Identify issues**
The organisation identifies issues through engagement with its stakeholders regarding its activities and social and ethical performance.
P5 **Determine process scope**
The organisation determines, based on engagement with its stakeholders, the scope of the current process in terms of the stakeholders, geographical locations, operating units and issues to be included, and identifies how it plans to account

for the excluded stakeholders, operations, locations or issues in future cycles. It identifies the timing of the current cycle. The organisation also identifies the audit method(s), the audit scope, and the auditor(s) to provide a high level of quality assurance to all its stakeholders.

P6 **Identify indicators**

The organisation identifies social and ethical indicators through engagement with its stakeholders. The indicators reflect the organisation’s performance in relation to: its values and objectives; the values and aspirations of its stakeholders, as determined through a process of consultation with each group of them; and wider societal norms and expectations.

P7 **Collect information**

The organisation collects information about its performance in respect of the identified indicators. The organisation engages with stakeholders in the design of the collection methods, which allow stakeholders to accurately and fully express their aspirations and needs.

P8 **Analyse information, set targets and develop improvement plan**

From the information collected, the organisation:

a) Evaluates its performance against values, objectives and targets previously set.

b) Uses this evaluation and engagement with stakeholders to develop or revise objectives and targets for the future, with a focus on improving performance.

Auditing and reporting

P9 **Prepare report(s)**

The organisation prepares a social and ethical report (written or verbal communication) or reports relating to the process undertaken in a specified period. The report(s) clearly and without bias explains the process and demonstrates how the organisation's performance relates to its values, objectives and targets. It includes information about its performance measured against its key social and ethical performance targets. The organisation provides comparative information for previous period(s) to help stakeholders understand the current performance in the context of prior period trends and in the context of external benchmarks, if available.

P10 **Audit report(s)**

The organisation arranges and supports the external audit of the process, including the social and ethical report(s). Support is provided to the auditor throughout the planning and accounting processes as appropriate.

P11 **Communicate report(s) and obtain feedback**

The organisation communicates information on the process and the social and ethical performance of the organisation to all stakeholder groups. This includes making accessible to all stakeholder groups the social and ethical report(s) together with the independent audit opinion(s). The organisation actively seeks feedback from its stakeholder groups in order to further develop its process.

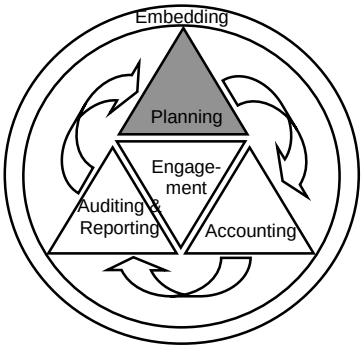
Embedding

P12 **Establish and embed systems**

The organisation establishes systems to support the process, and the on-going achievement of its objectives and targets in line with its values. Systems include those to implement and maintain values, to

manage the collection and documentation of information and to perform the internal audit / review of the process.

AA1000 – The process standards



Establish commitment and governance procedures

P1 The organisation commits itself to the process of social and ethical accounting, auditing and reporting, and to the role of stakeholders within this process. It defines governance procedures to ensure the inclusion of stakeholders in the social and ethical accounting, auditing and reporting process.

P1.1 The organisation is guided in its commitment to the process and its choice of governance structure by the principle of inclusivity, and hence it reflects the aspirations and needs of all stakeholder groups through the entire process.

P1.2 The 'organisation' refers to the legal entity that assumes responsibility for the process.

P1.3 Stakeholders are defined as those individuals or groups of individuals who affect and / or are affected by an organisation or its activities.

P1.4 The governing body of the organisation (e.g. its board) is ultimately responsible for the conduct of the process. The individual processes may, however, be performed by a variety of members of the organisation (including trustees, board, management and employees) and by external advisers and auditors.

P1.5 The governing body of the organisation makes a commitment to involving stakeholders in the process. The role of stakeholders in the process (and the relationship of this role to the overall process, including the organisation's decision-making processes) is clearly communicated to them.

P1.6 The inclusion of stakeholder interests in the process may be addressed in a variety of ways. These may include, but are not limited to:

a) Engagement with stakeholders (see all AA1000

process standards, but especially 7.2-7.6).

b) Formal inclusion of representatives of stakeholders on the governing body or a governing committee responsible for, inter alia, the process.

c) Formal representation of stakeholder groups on an audit panel (see AA1000 process standard 10). An audit panel refers to a panel of advisors who are publicly recognised as either representatives of key stakeholders or experts in the field of social and ethical accountability more generally.

d) Stakeholders employed as auditors of the process, including the social and ethical report(s) (see AA1000 process standard 10).

Identify stakeholders

P2 The organisation identifies its stakeholders and characterises its relationship with each group of them.

P2.1 The identification of all stakeholder groups is a key part of ensuring the inclusivity of the process of social and ethical accounting, auditing and reporting.

P2.2 The organisation's stakeholder groups may include, but are not limited to: owners, trustees, employees (e.g. managers, staff and trade unions), customers, members (e.g. of cooperative, mutual or friendly societies), suppliers and other partners, competitors, government and regulators, the electorate (e.g. for public sector bodies), NGO / not for profit organisations, pressure groups and influencers, and local and international communities.

P2.3 The organisation may categorise its stakeholder groups in various ways, for example, internal and external, primary and secondary, direct, representative and intermediary, or local and

international.

P2.4 Whichever categorisation (if any) is used, the organisation prepares a complete list of its stakeholder groups.

P2.5 For each stakeholder group, the organisation describes its relationship with the group, and its aims and policies regarding the relationship. The dimensions of the relationships will differ for each stakeholder group, and may vary over time. They may include, but are not limited to the:

a) Length of relationship.

b) Nature of relationship.

i) Type of organisation (e.g. supplier, customer).

ii) Number / size of members of stakeholder groups.

iii) Frequency of contact.

c) Key events/history of relationship.

d) Organisation's perceptions of relationship and expectations from it.

e) Stakeholders' perceptions of relationship and expectations from it.

P2.6 The on-going process of stakeholder engagement will assist the organisation in the examination and / or revision of its stated relationship with each stakeholder group.

Define / review values

P3 The organisation defines or reviews its current mission and values.

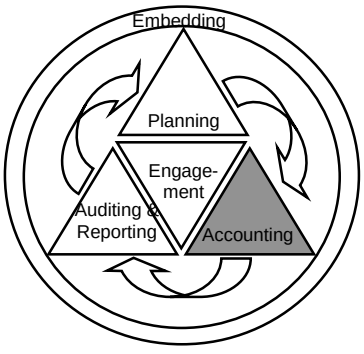
P3.1 The organisation examines and develops its values on an on-going (regular and timely) basis. The process of inclusive stakeholder engagement (throughout the process) is central to the development of the organisation's values.

P3.2 The organisation's current mission and values provide a framework for the process. They are a basis for understanding the aims and activities of the organisation, and provide a base against which the organisation's performance is assessed.

P3.3 The organisation reviews its current mission and values, and formalises them in a statement or statements available to all stakeholders.

P3.4 The techniques adopted to engage with stakeholders vary depending on the organisation and the scope of the engagement (see AA1000 process standards 7.2-7.6).

P3.5 In a first cycle of the process, the organisation reviews its existing objectives and targets for social and ethical performance, and examines the consistency of its targets with its mission and values. In all cycles the organisation's objectives and targets are reviewed as part of the accounting and reporting stages of the process (see AA1000 process standards 8 and 11).



Identify issues

P4 The organisation identifies issues through engagement with its stakeholders regarding its activities and social and ethical performance.

P4.1 The organisation is guided by the principles of inclusivity, completeness and materiality

in identifying issues.

P4.2 The identification of issues relevant to each stakeholder group assists the analysis and understanding of the organisation's activities and performance. The organisation identifies issues and case studies that address aspects of selected issues.

P4.3 The issues may reflect broad themes important to the organisation and its stakeholders, or may be narrowly defined. They may be drawn from the following categories, but are not limited to them: the organisation's values and governance, regulation and controls, the organisation's operational practices including its marketing, its accountability, human rights issues, labour and working conditions, the organisation's supply chain, its product, service and investment impact, its impacts on other species and its impact on the environment.

P4.4 The issues are examined to assess the likely impact of the organisation's activities on the organisation and its stakeholders. This assessment includes a process of engagement with stakeholders. The engagement accurately and fully obtains stakeholder views in an atmosphere without fear or restriction (see AA1000 process standards 7.2-7.6).

Determine process scope

P5 The organisation determines, based on engagement with its stakeholders, the scope of the current process in terms of the stakeholders, geographical locations, operating units and issues to be included, and identifies how it plans to account for any excluded stakeholders, operations, locations or issues in future cycles. It identifies the timing of the current cycle. The organisation also identifies the audit method(s), the audit scope and the auditor(s) to provide a high level of quality assurance to all its stakeholders.

P5.1 The organisation is guided by the principles of inclusivity, completeness and materiality in determining the scope of the process.

Stakeholders, locations and operations scope

P5.2 The organisation is accountable to all its stakeholder groups, and for its activities in all geographic locations and operating units. However, for reasons of time or financial constraints, the organisation may choose not to include all stakeholders, locations or operations in any cycle of the process. If a shortlist of stakeholder groups, locations or operations is identified for a cycle, the selection criteria are documented, and communicated together with a list of excluded stakeholders, locations and units, and plans for future inclusion in the process.

P5.3 If the exclusion of a particular location or operation is likely to have a material impact on the understanding of the operations and locations included, the relationship between the information included and excluded is documented and communicated in the social and ethical report(s).

P5.4 If the organisation has subsidiaries or joint ventures outside the accounting entity the exclusion of which would have a material impact on the understanding of the organisation’s overall activities, it documents these and communicates them in the social and ethical report(s).

Issues scope

P5.5 In order to provide a complete and inclusive account it is necessary to account for all issues that are likely to have a material impact on the

organisation’s stakeholders.

P5.6 The rationale and processes of selecting issues for the process, and the relevance of the issues to particular stakeholder groups are documented to allow internal and external auditing. In addition, to demonstrate inclusivity and the completeness of issues identified, the social and ethical report(s) may include stakeholder comments on the selection of issues (see AA1000 process standard 9).

P5.7 The organisation identifies any changes to the scope from any previous cycle. Such changes are documented as part of the accounting process and communicated in the social and ethical report(s).

Audit scope

P5.8 The social and ethical audit provides quality assurance to stakeholders concerning the process (including social and ethical reporting). The organisation selects the audit method, the audit scope and the auditor(s) to provide an overall high level of assurance to all of its stakeholders (see AA1000 process standard 10).

P5.9 The scope of the audit may include the accuracy/validity of data and supporting systems, compliance to the requirements of social and ethical standards and guidelines, and the completeness and inclusivity of the process, including the social and ethical report(s). It may also include suggestions to the organisation regarding areas for improvement in the process and social and ethical performance (see AA1000 process standard 10).

P5.10 The scope of the audit is documented by the organisation. A description of this scope forms part of the audit report of the social and ethical auditor.

Timing

P5.11 Each cycle of the process should be completed on a regular and timely basis. It is recognised that the accounting, auditing cycle may not match other reporting cycles, but the rationale for the time period chosen is documented to allow internal and external auditing.

Identify indicators

P6 The organisation identifies social and ethical indicators through engagement with its stakeholders. The indicators reflect the organisation's performance in relation to: its values and objectives; the values and aspirations of its stakeholders, as determined through a process of consultation with each group of them; and wider societal norms and expectations.

P6.1 The organisation's choice of indicators to measure its social and ethical performance is based on the principles of inclusivity, completeness, materiality and information quality (comparability, reliability, relevance and understandability).

P6.2 Indicators are pieces of qualitative or quantitative data that provide information on the performance of the organisation.

P6.3 The organisation's choice of indicators reflects a three-tier approach covering its values, the values of its stakeholders and wider societal values.

a) The first tier of values to be reflected in the indicators is based on the organisation's statement of mission and values, and the standards, codes and guidelines to which the organisation subscribes.

b) The choice of indicators also reflects stakeholders' views of the organisation's performance against its values and in respect of the specific needs and aspirations of stakeholders. Stakeholder views are obtained through an inclusive process of stakeholder engagement (see AA1000 process standards 7.2-7.6). Following the initial definition of indicators, the organisation will refine these and reconcile conflicting opinions through further engagement with stakeholders.

c) The third tier of values reflected in the indicators is based on benchmarks established in societies that are part of the process scope. These may be evident in legal statute or from the evidence of stakeholders. The organisation includes indicators for its performance against its legal requirements for performance and disclosure.

P6.4 Within these tiers, the organisation selects indicators that reflect both its processes and the outcomes of its activities. Outcomes may include the output of an activity, and / or its impact.

P6.5 Indicators selected are sufficient to provide coverage of the defined scope of the process including stakeholders, geographies, operations and issues.

P6.6 For the second and third tiers of values, the organisation may choose not to pursue the measurement of all the indicators identified by stakeholders. Indicators may be suggested for issues outside the direct or indirect power of influence of the organisation; the number and nature of the indicators may exceed resource boundaries; and the number of indicators may weaken the clarity of communication. Where the organisation limits the number of indicators suggested by stakeholders, it engages stakeholders in a process of prioritisation.

P6.7 Indicators may be selected individually or as a group to address a specific issue.

P6.8 The rationale and processes of identifying indicators are documented to support internal and external auditing.

Collect information

P7 The organisation collects information about its performance in respect of the identified indicators. The organisation engages with stakeholders in the design of the collection methods, which allow stakeholders to accurately and fully express their aspirations and needs.

P7.1 Information about the organisation's performance is available from both:

a) The organisation's management information systems, which are embedded in the organisation (see AA1000 process standards 12.8-12.11).

b) Engagement with stakeholders. The role of stakeholders in the collection of information reflects the AA1000 principles, including completeness, inclusivity and materiality.

P7.2 A variety of methods of engagement may be used by organisations. These may include, but are not limited to:

a) One-to-one interviews, face-to-face and distance.

b) Group interviews.

c) Focus groups.

d) Workshops and seminars.

e) Public meetings.

f) Questionnaires – face-to-face, by letter, telephone, internet, or other techniques.

P7.3 The methods adopted to engage with stakeholders vary depending on the nature and size of the organisation and the scope of the engagement – the stakeholders included, the complexity and nature of the issues covered and the geographic location.

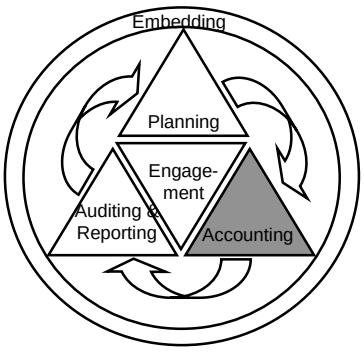
P7.4 The choice of method will also be affected by the capacity of the organisation – in terms of financial resources, staff resources and management systems - and by the capacity of its stakeholders.

P7.5 The organisation may use sampling techniques for its data collection processes. The samples are

robust, and ensure that a representative spread of each stakeholder category within the process scope is included. In defining samples, the organisation is aware of key diversity issues, which may include but are not limited to: the gender, race, age, disabilities and culture of the samples.

P7.6 Regardless of the method chosen, the stakeholders are encouraged and helped to understand the process (see AA1000 process standard 1.5) and to provide information. The organisation also involves stakeholders in the design of the questions to be addressed in the processes of information gathering.

P7.7 The rationale and processes of data collection are documented to enable internal and external auditing of their appropriateness. For the audit of stakeholder engagement processes, the organisation allows the auditor to examine documentation and to attend dialogues, unless this raises conflict with other principles of accountability or issues of sensitivity for stakeholders. These conflicts are discussed with the auditor.



Analyse information, set targets and develop improvement plan

P8 From the information collected, the organisation:

a) Evaluates its performance against values, objectives and targets previously set.

b) Uses this evaluation and engagement with stakeholders to develop or revise objectives and targets for the future, with a focus on improving performance.

P8.1 To interpret the information collected and evaluate performance, the social and ethical accounting approach links the organisation's performance to its stated values, objectives and targets, incorporating an analysis of the organisation's activities and the key issues identified by stakeholders.

P8.2 The emphasis and weighting given to particular findings in the evaluation of the social and ethical performance is a matter of judgement. In making judgements the organisation seeks to ensure that a balanced, unbiased view of the organisation's performance is made and that it reflects the principles of inclusivity and completeness.

P8.3 The organisation identifies changes to improve its social and ethical performance in the future. It develops a plan for the implementation of these changes including objectives, targets and prioritised actions. The organisation may also reflect on the need for changes to its values and its methods of embedding these within the organisation, including its processes of social and ethical accounting, auditing and reporting.

P8.4 In defining or reviewing its objectives and targets, the organisation considers the legal requirements it faces concerning social and ethical issues. It develops its targets to be consistent with its mission and values.

P8.5 The organisation's objectives and targets reflect the issues and activities over which the organisation has control or can expect to have an influence.

P8.6 The targets reflect the principle of continuous improvement in performance vis-à-vis its social and ethical mission, values and objectives. Where possible, the organisation's targets are measurable.

—

P8.7 The organisation's development of targets includes the consideration of any comments of the external auditor regarding future performance targets (see AA1000 process standard 10).

P8.8 Where possible, the organisation consults stakeholders on the development of targets and priorities prior to the preparation and publication of the social and ethical report(s). Where consultation does not take place prior to publication, the organisation revises its objectives and targets on the basis of engagement with all stakeholder groups after publication (see AA1000 process standard 11).

P8.9 The engagement with stakeholders includes consideration of the issues covered by the organisation's objectives and targets, the indicators used to measure performance, and the selection of the objectives and targets.

Prepare report(s)

P9 The organisation prepares a social and ethical report (written or verbal communication) or reports relating to the process undertaken in a specified period. The report(s) clearly and minimising bias, explains the process and demonstrates how the organisation's performance relates to its values, objectives and targets. It includes information about its performance measured against its key social and ethical performance targets. The organisation provides comparative information for previous period(s) to help stakeholders understand the current performance in the context of prior period trends and in the context of external benchmarks, if available.

—

P9.1 The content of the report reflects the AA1000 principles, and is inclusive, complete, material, comparable, reliable, relevant and understandable. In defining the structure of the social and ethical report the organisation is guided by the principles of information quality.

P9.2 A social and ethical report is a written document or other communication prepared to reflect the social and ethical performance of the organisation relating to its values, objectives and targets.

P9.3 The format of the report will reflect the information requirements of the organisation's stakeholders (see also AA1000 process standard 11).

P9.4 The organisation may produce more than one social and ethical report (in any accounting period) to address the information needs of different stakeholder groups. Where more than one social and ethical report is produced, each report should clearly indicate its relationship to the other social and ethical reports produced by the organisation for relevant accounting period(s).

P9.5 The social and ethical report(s) should indicate the accounting entity(s) covered by the report(s) and any significant variations from entities covered in the previous period. It includes information relating to the relevant period as well as material developments, if any, that may have occurred from the end of the period to the date of issue of the statement.

P9.6 The report(s) also includes:

a) **Descriptive information**, including a statement of the organisation's:

i) Mission and values.

ii) Governance procedures including the role of stakeholders.

iii) Structures and processes for dealing with social and ethical issues.

iv) Methodology adopted for process, including the scope of the exercise and the reasons for the exclusion of any activities, locations, stakeholders or issues from the process

cycle.

v) Plans for future cycles of the process.

b) **Performance information**, which includes information on the organisation's performance against the three tiers of indicators identified. This includes:

i) Information on the organisation's performance against its mission and values, and information on its performance against standards, codes and guidelines to which it subscribes.

ii) Information on stakeholder identified indicators (including stakeholder commentary on the organisation's performance in relation to stakeholder values) for the current cycle and also comparative data for previous periods of account, if appropriate.

iii) Information reflecting societal benchmarks - these include indicators for the organisation's performance against legal requirements for performance and disclosure.

P9.7 To reflect the principles of information quality, the report(s) may be segmented by the organisation's values and objectives, by its issues, by its indicator categories, by key themes, by its stakeholders, or by other appropriate methods.

P9.8 If the organisation has completed a cycle of the process previously, including a social and ethical report(s), it engages with its stakeholders on the structure, format and content of the social and ethical report(s) being written.

P9.9 The social and ethical report(s) make clear where issues and indicators are outside the power of influence of the organisation, or where the organisation is operating in partnership to affect the indicators.

P9.10 The social and ethical report(s) may also include:

a) Stakeholder commentary on the organisation's selection of issues, indicators and social and ethical auditor(s).

b) Commentary attributed to specific stakeholders on

the organisation's performance against its values and on salient issues relating to the interplay between the organisation and the stakeholder group.

c) An indication of any links with financial and environmental information. The statement should seek, where possible, to integrate information on social and ethical performance with environmental and financial performance data where this enables a better understanding of the particular issues or the organisation's decision-making processes.

P9.11 Depending on the information being reported, it may be appropriate for the organisation to provide comparative information for more than one previous period, so that its performance over time can be judged. Where comparative information is not available, the reasons for this are clearly explained in the report.

Audit report(s)

P10 The organisation arranges and supports the independent external audit of the process, including the social and ethical report(s). Support is provided to the auditor(s) throughout the planning and accounting processes as appropriate.

Audit responsibilities and audit opinion

P10.1 Social and ethical auditing encompasses a variety of methods through which an organisation develops understanding of its processes and performance, builds credibility in its reporting, and hence provides quality assurance to itself and its stakeholders. This credibility is the basis of effective engagement with stakeholders.

—

P10.2 An independent social and ethical auditor is a person or an organisation who is and can be seen to be independent of the organisation being audited and is in a position to challenge and question the organisation's approach. (See section 3 for guidelines for the ethical behaviour of the social and ethical auditor, and for the conduct and output of the audit.)

P10.3 The organisation appoints an independent external auditor or auditors to audit the process (including the social and ethical report(s)) according to the scope of the audit defined by the organisation (see AA1000 process standard 5.8-5.9) and to provide assurance as to the quality of the process. The organisation selects an auditor(s) that possesses legitimacy with its stakeholders. The auditor(s) liaise with the organisation to refine the audit method and scope to address the level of assurance identified by the organisation.

P10.4 The independent social and ethical auditor(s) is appointed from the outset of the scoping process, so that they can observe the planning of the accounting, auditing and reporting process and its execution.

P10.5 The auditor(s) is responsible for the conduct of the social and ethical audit and the production of a social and ethical audit report, including audit opinion. The audit does not relieve the governing body of the organisation of its responsibilities for the overall process.

P10.6 The auditor alone is responsible for writing the social and ethical audit report. Where the organisation has sought advice, either from a stakeholder panel or other experts, the auditor remains responsible for the social and ethical audit report.

P10.7 The nature of the audit report will reflect the method and scope of the audit and the auditor(s) degree of confidence in their opinion based on the quality of available information.

P10.8 The audit report(s) includes commentary that enables the organisation and its stakeholders to understand:

a) The scope of the audit.

b) The relevant professional qualifications of the social and ethical auditor(s).

c) The opinion of the auditor(s) regarding the quality of the process and report(s), and the

assurance that these provide. The opinion may include different levels of assurance for different parts of the process and report(s).

P10.9 The overall judgement of the external auditor(s) may be expressed in a variety of forms of audit opinion. For some audits, the assurance given by the audit opinion may be 'absolute' in terms of the absence / presence or correctness / incorrectness of a piece of information; for other methods the assurance may be qualitative, indicating high, medium or low performance, areas for improvement, and / or predicted future progress.

P10.10 The audit report(s) may also include suggestions to the organisation regarding areas for improvement in its process and social and ethical performance.

P10.11 The auditor(s) sign and date the audit report(s) following approval by the governing body of the organisation. The audit opinion includes assessment of events occurring up to the date that the opinion is expressed. The audit report is addressed to the governing body of the organisation.

Audit process and quality assurance

P10.12 The external audit methods aim to provide an overall high level of quality assurance to the organisation and its stakeholders (see process standard 5.8). This assurance encompasses:

a) The **external auditor's assurance**, based on confidence in the sufficiency and appropriateness of information audited (see AA1000 process standards 10.13-10.18).

b) The **assurance provided to stakeholders**, based on the external auditor's assurance (as above), on the scope of the social and ethical audit, and on the legitimacy of the auditors(s) to each stakeholder group (see AA1000 process standards 10.19-10.20).

P10.13 'Sufficiency' is the measure of the quantity of audit evidence and refers to the extent of the audit procedures performed. 'Appropriateness' is the measure of quality or reliability of audit evidence and refers to the nature and timing of the audit procedures performed and the

accounting, auditing and reporting process.

P10.14 The sufficiency and appropriateness of information is dependent on the subject matter / scope of the audit, the audit method(s), and the nature of the process.

P10.15 The **subject matter** of the audit may include quantitative and qualitative descriptive and performance information, information systems, and the processes of social and ethical accounting and reporting. In particular, the external audit addresses the AA1000 principles by assessing the following scope (see points 10.15 a to d). The auditor may derive different levels of confidence from each aspect of the scope:

a) Accuracy/validity of data and supporting information systems.

b) Compliance to the requirements of social and ethical standards and guidelines.

c) Inclusivity of the process and social and ethical report(s).

d) Completeness of the process, including the social and ethical report(s). A 'completeness' audit may consider the completeness of a report within a limited scope (e.g. one region of the organisation's operations), or may cover a full scope (i.e. all the organisation's values, issues, stakeholders, geographies and operations).

P10.16 The external **audit methods** used to address the subject matter / scope may include, but are not limited to:

a) 'Traditional' financial audit methods.

b) Surveys of stakeholder opinion.

e) 'Expert' commentary / review.

d) Stakeholder panels (to advise the organisation or the lead auditor).

The auditor may derive different levels of confidence from each audit method.

P10.17 For each audit method, the external auditor(s) may be supported by the work of the organisation's internal review / audit (see AA1000 process standard 12), and by other audit processes, such as the external certification of social and ethical

performance and / or management systems (e.g ISO standards, SA8000).

P10.18 The auditor(s) level of confidence will also be affected by the **nature of the process**. Factors that may be relevant include, but are not limited to:

a) The experience gained by the auditor during previous audits and the auditor's knowledge of the organisation's sector of operations.

b) The nature of the process adopted by the organisation, and the extent to which it is embedded in the management information systems, in particular,

c) The values of the organisation and their embeddedness in the organisation's systems.

P10.19 In addition to the auditor's assurance, quality assurance to stakeholders is supported by the scope of the audit and the legitimacy of the auditor(s) to each stakeholder group. Quality assurance will be increased the greater the scope (see AA1000 process standard 10.16) of the audit process.

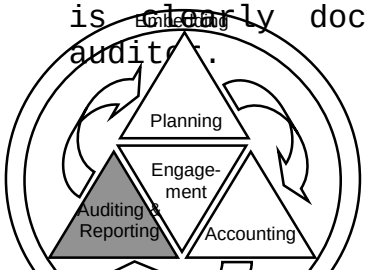
P10.20 The legitimacy of an auditor will vary by stakeholder group, and will depend, in part, on the audit scope addressed by the auditor. The following factors will also be relevant in determining the legitimacy of the social and ethical auditor

a) The qualifications of the auditor - see section 3 (audit guidelines) and section 8 (professional qualification).

b) The ethical principles associated with the audit qualification - see section 3 (audit guidelines).

c) The nature of the auditing organisation - size, type of organisation, experience, geographic focus, etc.

P10.21 The organisation may choose to use more than one auditor in order to build the credibility of its process. The organisation's choice reflects the legitimacy and expertise that different auditors possess with regard to different geographies, stakeholders or issues. Where the organisation's audit method includes the use of more than one social and ethical auditor, the role of each auditor is clearly documented and identified to each auditor.



Communicate report(s) and obtain feedback

P11 The organisation communicates information on the process and social and ethical performance of the organisation to all stakeholder groups. This includes making accessible to all stakeholder groups the social and ethical report(s) together with the independent audit opinion(s). The organisation actively seeks feedback from its stakeholder groups in order to further develop its process.

P11.1 The manner in which the social and ethical report(s) (including the social and ethical audit report) and other information on the organisation's process and social and ethical performance is communicated is important to meet the principles of accessibility and information quality.

P11.2 The report(s) also form part of the inclusive engagement process with stakeholders. Stakeholder feedback on the report(s) is facilitated by the organisation. To address the principle of continuous improvement, the feedback includes consideration of methods to improve the organisation's process as well as its social and ethical performance.

P11.3 The organisation makes a commitment to stakeholders to report upon the stakeholder feedback in future reporting periods, and to address the comments in future cycles of the process.

P11.4 The main audience for the report(s) are the organisation's stakeholders, although other parties may be interested. The document is accessible to all stakeholders. Accessibility is concerned with the media through which the report(s) are distributed and the cost of accessing the report(s).

P11.5 The report(s) and other communications should be logically structured and written and / or presented in a manner understandable to all stakeholder groups, although individual communications ay be targeted to specific stakeholder groups. Understandability includes issues of language, style and format. Technical and scientific terms are explained within the report.

Establish and embed systems

P12 The organisation establishes systems to support the process, and the on-going achievement of its objectives and targets in line with its values. Systems include those to implement and maintain values, to manage the collection and documentation of information and to perform the internal audit / review of the process.

P12.1 The process, in current and future cycles, is supported through the development of systems to embed it in the organisation. These systems address the implementation of values, the collection of data and documentation, and internal review / audit. Together, the systems support the continuous improvement of the process and the organisation's social and ethical performance.

Implement and Maintain Values

P12.2 The organisation establishes systems to implement the organisation's values, and to ensure its activities are aligned with these values.

P12.3 The organisation's mission and values statement(s) are made available to all stakeholders (see AA1000 process standard 3.3), and the role of stakeholders in the process is clearly communicated to them (see AA1000 process standard 1.5).

P12.4 The organisation demonstrates a commitment to

its values:

a) The roles and responsibilities of the board for social and ethical issues are clearly defined. These include the responsibility to ensure the implementation of the values throughout the organisation.

b) Core operating processes incorporate consideration of the organisation's values, objectives and targets. These may include, but are not limited to, the organisation's strategic planning, budgeting and investment planning processes.

c) The organisation may incorporate best practice in a code of conduct.

P12.5 The organisation supports adherence to its values. This may be achieved through the following (and other) methods:

a) Incorporating the organisation's values in employee hiring, job descriptions and reviews.

b) Training programmes including continuous learning.

c) Reward and sanction procedures related to social and ethical behaviour and performance.

d) Mechanisms to allow employees to address conflicts of interest or ethical dilemmas.

e) Recourse mechanisms for employees and partners such as confidential help-lines and other whistle-blowing mechanisms.

f) Ensuring employees and other relevant stakeholders are aware of and understand the programmes, procedures, etc, listed in points 12.5 b) to e).

P12.6 The organisation makes its employees aware of mechanisms that address ethical dilemmas and that offer recourse to sanctions. It makes access to these facilities easily and freely available.

P12.7 The organisation develops other systems / controls as required to enhance the likelihood that its objectives and targets will be achieved. These may include systems that are:

a) Directive – to cause or encourage a desirable event to occur.

b) Detective – to detect and correct undesirable events that have occurred.

c) Preventive – to monitor, predict and deter

undesirable events from occurring.

Establish data collection and documentation systems

P12.8 The organisation develops systems for information collection and documentation to facilitate the continual monitoring of the organisation's social and ethical performance. This includes the management of the organisation's engagement with stakeholders throughout the process.

P12.9 The systems are developed to incorporate the geographic locations, operating units, issues and indicators identified as part of the process scope (see AA1000 process standards 4 and 5).

P12.10 Information on the process and social and ethical performance is documented efficiently to allow easy examination by internal and external auditors. The documentation includes, but is not limited to:

a) Information on the organisation's mission, values, objectives, targets and social and ethical performance.

b) Processes to identify stakeholders, and examine the organisation's relationship with them.

c) Processes to define and implement the organisation's values.

d) Processes to identify the scope of the process including stakeholders, geographical locations and business units,

e) Processes to identify social and ethical issues and indicators.

f) Processes to collect and analyse social and ethical information.

P12.11 Where possible the organisation seeks to integrate management information systems for social and ethical performance with its systems for financial and environmental performance (and with other operating systems in all functions) so that each area and the linkages between each area can be considered simultaneously.

Establish internal review/audit process

P12.12 The organisation develops an internal review / audit system to examine the adequacy of systems to

provide reasonable assurance that:

a) The organisation’s objectives and targets are met efficiently and effectively, and where targets are not met that the reasons for this are examined.

b) The objectives and targets reflect the values of the organisation.

c) The process is developed for future cycles.

P12.13 The internal review / audit process considers:

a) Systems to implement and maintain values.

b) Systems to collect and document information.

P12.14 The internal review / audit process may also consider:

a) The reliability of information.

b) Compliance with laws, standards and guidelines.

c) The inclusivity and completeness of the process.

d) The achievement of objectives and targets.

e) The economy and efficiency of the use of resources.

3 Auditing and quality assurance – guidelines for the social and ethical auditor

3.1 Introduction

Social and ethical auditing has been embraced in a variety of forms by organisations that have produced social and ethical reports. These have included auditing processes based on financial auditing practices (reporting a 'true & fair' view), but also innovative methods of providing quality assurance.

A variety of terms have been used to describe these processes, including **verification, certification, assurance and auditing**. In this document, 'auditing' refers to all assessment processes where the social and ethical accounting, auditing and reporting process, including the social and ethical report(s), are examined by an independent body in order to provide assurance to the organisation and stakeholders as to the quality of the process and report(s).

The AA1000 foundation standard covers both internal audit (AA1000 process standard 12) and external audit (AA1000 process standard 10) processes. Both types of process are key to an organisation discharging its accountability.

The internal audit provides assurance to the organisation as to the quality of the social and ethical accounting, auditing and reporting process and the organisation's social and ethical performance. It also provides support to the process of external audit.

The external audit process and report **provide assurance to the organisation and its stakeholders** as to the quality of the social and ethical accounting, auditing and reporting process, and build credibility in the reporting of the organisation's social and ethical performance. This **credibility is one basis of effective engagement** with the organisation's stakeholders, and of a common understanding of the organisation's performance.

The AA1000 framework's audit guidelines support the practice of the social and ethical audit on two levels:

a) The guidelines outline principles for the conduct of the social and ethical auditor.

b) The guidelines describe a framework for the

social and ethical audit process, from agreeing the terms of engagement through to reporting. This framework does not form part of the AA1000 process standard, and should be understood as guidance to support social and ethical auditors in the conduct of the audit.

3.2 Development of the guidelines

The Institute recognises that the practice of social and ethical auditing is in its infancy. **A number of key process issues remain** which are not addressed (or answered definitively) by the AA1000 foundation standard, but **for which standardisation may prove useful** in building the credibility of reporting.

The Institute will work with other organisations in developing the audit guidelines into an audit standard. The issues to be considered will include:

a) The scope of the audit process.

b) The role (and relationships) of single and multiple auditors.

c) The content, format and language of the audit report and audit opinion, including the concept of 'going concern' and qualified audit opinions.

d) The levels of assurance conveyed by audit reports.

e) The links between AA1000 and IFAC ISAs.

f) The quality control of auditors' work.

3.3 Guidelines for the social and ethical audit

Social and ethical audit - principles

The principles governing a social and ethical audit apply to the behaviour of all social and ethical auditors, internal and external, irrespective of which audit

method(s) is used as part of a specific SEAAR process.

The principles are detailed further in the (currently unpublished) ISEA paper: The Code of Conduct for Members of the ISEA. Further details regarding the requirement for professional competence are detailed in section 8 of the AA1000 framework –Professional Qualification.

Integrity - Auditors act with integrity in all professional and business relationships. Integrity implies not merely honesty, but also fair dealing and truthfulness.

Objectivity and independence – Auditors demonstrate objectivity and independence - a state of mind, being a combination of impartiality, intellectual honesty and a freedom from conflicts of interest.

To demonstrate independence and objectivity, auditors manage the following potential threats:

a) The self-interest threat - this could arise, for example, from a direct or indirect financial or other interest in the organisation or from fear of losing a client.

b) The self-review threat - this could arise if auditors were involved in reviewing work performed in another capacity, e.g. as a social and ethical accountant.

c) The advocacy threat - this could arise if auditors became advocates for the client or a particular stakeholder group and take a proactive stance on their behalf.

d) The familiarity or trust threat – this could arise if auditors became over-influenced by the governing body or management, or a particular stakeholder group, and are too positively or negatively biased with respect to their interests. Alternatively auditors may become too trusting of management representations so as to be insufficiently rigorous in their examination.

e) The intimidation threat – this could arise if auditors became intimidated by dominating personalities or other pressures from directors or management of the client.

Professional competence - Auditors perform the audit with competence and diligence. Auditors have a

continuing duty to maintain professional knowledge and skill at the level necessary to provide a professional service based on up to date developments in practice, legislation and techniques. The AA1000 requirements for professional training, experience and continuing professional development are defined in section 8 – Professional Qualification.

In addition, auditors do not accept or perform work that they are not competent to undertake unless appropriate advice and assistance is obtained to enable the auditor to carry out the work.

Professional behaviour – Auditors are courteous and considerate in the performance of the audit and refrain from conduct that may bring discredit to the profession. Professional behaviour also incorporates the following characteristics in the performance of the audit.

a) **Rigour** - Auditors approach their work with thoroughness and with an attitude of professional scepticism. They critically assess the information and explanations obtained in the course of their work and such additional evidence that they consider necessary for the purposes of their audit.

b) **Judgement** - Auditors exercise judgement in deciding the nature, extent and timing of their work and in deciding whether the information in the social and ethical report(s) is materially misstated or misleading.

c) **Significance -** Auditors consider the relative significance or importance of a particular issue in the context of the social and ethical report, in deciding whether its inclusion or exclusion would convey a misleading impression of the organisation's activities and its performance to the organisation's stakeholders.

d) **Clear communication** – Auditors' reports contain a clear expression of their opinion together with relevant information necessary for the users of the statement to understand the opinion.

Confidentiality – Auditors respect the confidentiality of information acquired during the audit and do not use or disclose such information without proper and specific authority, unless there is a legal or professional right or duty to disclose.

Due care to stakeholders - Auditors plan and perform

the audit with due care and consideration of stakeholders interests. Auditors consider, in particular, foreseeable threats to their psychological well-being, health, values or dignity.

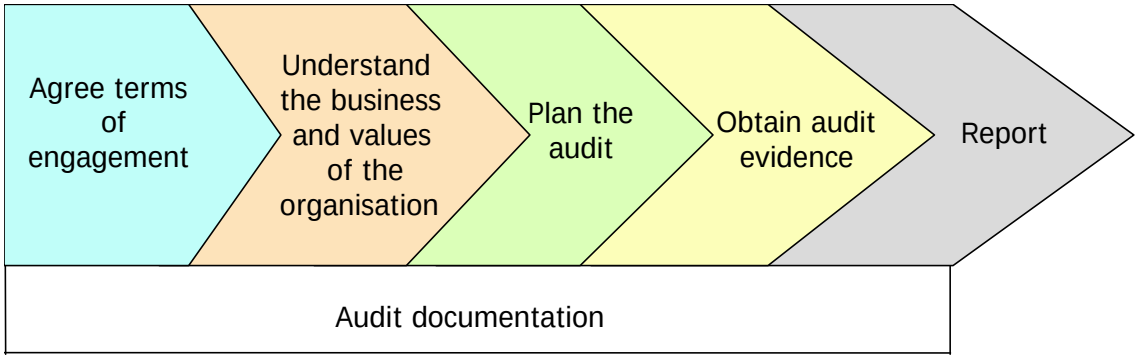
3.4 Social and ethical audit– process guidelines

The following guidelines describe a process framework for a social and ethical audit. The guidelines are applicable for an audit whose scope includes the verification of data and systems, compliance with standards and guidelines, and / or the completeness and inclusivity of the social and ethical accounting, auditing and reporting process.

The guidelines assist the auditor in the planning and performance of a social and ethical audit. They do not, however, provide detailed guidance on the information that is required to provide different levels of assurance for accuracy / validity, compliance, completeness and inclusivity. This remains the judgement of the auditor who will publish the basis of the conclusions as part of the audit report (see AA1000 process standard 11).

The guidelines are not intended to replace guidance to auditors on the conduct of an audit process defined by other professional accountancy bodies. They should rather operate alongside these, supporting in particular those social and ethical auditors that are not members of existing professional accounting organisations.

At all stages of the guidelines, the term ‘audit’ refers to the social and ethical audit.



Accept engagement and agree terms

(G)uideline1

The auditor and the client agree on the terms of the audit engagement, which should be recorded in writing, normally in an engagement letter. Auditors regularly review the terms of the engagement, and if necessary update them in writing. Auditors ensure that the engagement letter documents and confirms their acceptance of the appointment, and includes a summary of the responsibilities of the directors / senior management of the organisation being audited, the scope of the engagement, the method of auditing and the form of the report and opinion.

G1.1 The terms of the engagement are normally agreed in an engagement letter and their acceptance by the client is normally evidenced by the signature of an appropriate person representing the client.

G1.2 Although the precise form and content of engagement letters varies for each engagement, the typical contents of an engagement letter for an audit would include:

a) Objective of the audit.

b) Responsibility for the preparation of the social and ethical report.

c) Scope of the audit.

d) Audit methodology and work programme.

e) Form of report and opinion expected to be issued.

f) Agreed level of access to records and information, whether on paper or electronic media, required in connection with the audit.

g) Confirmation of acceptance of terms of the engagement by the client.

G1.3 The following may also be included:

a) Description of other advice or reports to be provided.

b) Basis of fees and arrangements for billing.

c) Arrangements for liaison with specialists.

d) Arrangements for liaison with internal audit.

e) Procedure where the client has a complaint about the service.

Understand the business and values of the organisation

G2 Auditors obtain knowledge of the activities of the organisation sufficient to enable them to identify and understand the events and organisational practices that may have a significant effect on the social and ethical accounting, auditing and reporting process including the social and ethical report(s).

G2.1 Knowledge of the organisation's activities is used by the auditors in, for example, assessing the appropriateness of the issues and indicators chosen by the organisation, determining the nature, timing and extent of audit procedures and considering the consistency and reliability of the social and ethical report as a whole when completing the audit.

G2.2 The auditor's level of knowledge for an engagement normally includes a general knowledge of the economy, the industry and the environment within which the organisation operates, and a more particular knowledge of how the organisation operates. The level of knowledge required by auditors is less than that possessed by the directors.

G2.3 The extent to which auditors need to document their knowledge of the organisation depends upon its complexity and the number of persons who will be engaged on the audit, as well as the need to cover possible departure, illness or incapacity of key members of the audit team. Auditors prepare such documentation to a level sufficient to permit proper planning of the audit.

G2.4 Prior to acceptance of an engagement, auditors obtain a preliminary knowledge of the organisation sector and of the ownership, directors, management and operations of the organisation to be audited, sufficient to enable them to consider their ability and willingness to undertake the audit.

G2.5 Following acceptance of an engagement, auditors obtain further and more detailed knowledge and information sufficient to enable them to plan the audit and develop an effective audit approach.

G2.6 To the extent practicable, the auditors obtain the required knowledge at the start of the engagement. However, obtaining the required knowledge of the organisation sector is a continuous and cumulative process of gathering and assessing the

information and relating the resulting knowledge to audit evidence and information at all stages of the audit. Further information obtained as the audit progresses enables auditors to update and augment that knowledge, and may require them to reassess it.

G3 The auditors obtain and document an understanding of the organisation's values and their embeddedness (integration) in the organisation sufficient to determine their audit approach.

G3.1 The organisation's values are reflected in the attitude and actions of the directors, senior management and employees in respect of the social and ethical impact of the organisation's activities. Auditors should consider the directors' or management's philosophy and operating style, their integrity and competence, and the organisation culture which influences people in the performance of their day-to-day activities. The embeddedness of the organisation's values has a direct influence on how the social and ethical impact of its activities is judged. These also influence the nature, extent and timing of the audit work undertaken. Weakly integrated values can have serious implications for the audit and may lead the auditor to question closely the explanations obtained during the course of the audit and, if necessary, seek alternative forms of evidence.

Sources of knowledge (for guidelines 2 and 3)

G3.2 Auditors can obtain a knowledge of the industry

and the organisation from a number of sources, for example:

a) Previous experience with the organisation and its sector.

b) Visits to the organisation’s premises and facilities.

c) Discussion with people within the organisation (for example directors, senior management, internal auditors and employees).

d) Discussion with other advisors who have provided services to the organisation or within the sector.

e) Discussion with knowledgeable people outside the organisation (for example, industry and social issues experts).

f) Publications related to the sector (for example government statistics, surveys, texts, trade journals, reports prepared by banks and securities dealers, press).

g) Legislation and regulations that significantly affect the organisation.

h) Documents produced by the organisation (for example minutes of meetings, values statements, material sent to stakeholders, promotional literature, prior years’ annual and financial reports, internal management reports, interim financial reports, management policy manuals, job descriptions, marketing and sales plans).

i) Literature giving sector-specific guidance.

Using the knowledge (for guidelines 2 and 3)

G3.3 Knowledge of the organisation’s activities and values helps auditors to plan and perform the audit effectively and efficiently, and enables auditors to make judgements about the appropriateness of the:

a) Identification of stakeholders.

b) Scope of the SEAAR process especially its inclusivity and completeness.

—

c) Accountability issues and performance indicators chosen.

d) Social and ethical accounting, auditing and reporting processes adopted by the organisation.

Plan the audit

G4 Auditors plan the audit work so as to perform the audit in an effective manner.

G4.1 Planning entails the development of a general strategy and a detailed approach to the nature, timing and extent of the audit procedures. Planning is necessary for audits of organisations of all sizes, but will vary according to the size of the organisation and the complexity of the audit. For smaller or less complex engagements, planning may be carried out at a meeting with directors or senior management of an organisation. For larger entities it is likely to be a longer, more formal process.

G4.2 The auditors may need to discuss elements of the overall audit plan and certain audit procedures with the organisation's management and staff, and with any audit committee, to improve the effectiveness of the audit and to co-ordinate audit procedures with work of the organisation's personnel, including internal auditors. The overall audit plan and the detailed audit procedures to be performed, however, remain the auditor's responsibility. When such discussions occur, care is required not to compromise the independence and validity of the audit.

G5 Auditors develop and document an overall audit plan describing the expected scope and conduct of the audit.

G5.1 The amount of detail in the record of the overall audit plan should be sufficient to guide the development of the detailed audit procedures to be performed. However, the precise form and content of the overall audit plan, and the formality with which it considers matters affecting the scope of the audit and the audit work to be undertaken, vary depending on the size of the organisation, the complexity of the audit, the need for members of the audit team to be briefed and the specific methodology and technology the auditors use.

G5.2 In developing the nature, timing and extent of the planned audit procedures, auditors consider the organisation's values, its monitoring and information systems and the accounting, auditing and reporting process to be adopted by the client. For example if the organisation is planning engagement with key stakeholders at focus groups, it may be useful, although not always essential, for the auditor to plan to observe proceedings at a selection of focus groups. In other situations, the auditor may engage directly with stakeholders.

G5.3 The documentation may take the form of an audit programme which sets out the planned audit procedures including matters such as the audit objectives, the technique to be adopted, the timing of the work, and the sample size and basis of selection, if relevant. It serves as a set of instructions to the audit team and as a means to control and record the proper execution of the work. The level of detail in the audit programme depends on the complexity of the audit, the extent of other documentation and the experience of the members of the audit team.

G6 The audit work plan is reviewed and, if necessary, revised during the course of the audit.

G6.1 Changes in conditions, or unexpected results of audit procedures, may require changes to the overall audit plan or the planned audit procedures. Such changes are not made without reasonable justification, and are documented.

Obtain audit evidence

G7 Auditors obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base their audit report.

G7.1 The auditor's degree of confidence depends on the sufficiency and appropriateness of audit evidence. These aspects are interrelated. Sufficiency is the measure of the quantity of audit evidence and refers to the extent of the audit procedures performed. Appropriateness is the measure of quality or reliability of audit evidence and refers to the nature and timing of the audit procedures performed, and the nature of the SEAAR process (see AA1000 process standard 10).

—

Techniques to obtain audit evidence

G7.2 Auditors obtain audit evidence by one or more of the following procedures:

a) **Inspection** consists of examining records, documents etc. Inspection of records and documents provides audit evidence of varying degrees of reliability depending on their nature and source and the effectiveness of internal controls over their processing. Three major categories of documentary audit evidence, listed in ascending order of reliability as audit evidence, are evidence:

(i) Created and held by the organisation.

(ii) Created by third parties and held by the organisation.

(iii) Created and provided to auditors by third parties.

b) **Observation** consists of looking at a process or procedure being performed by others, for example the observation by auditors of the running of a focus group discussion by the organisation's staff.

c) **Enquiry** consists of seeking information of knowledgeable persons inside or outside the organisation. Enquiries may range from formal written enquiries addressed to third parties to informal oral enquiries addressed to persons inside the organisation. Responses to enquiries may provide the auditors with information not previously possessed or with corroborative audit evidence. Enquiries may focus on understanding stakeholder perceptions of the organisation's social and ethical performance, and / or the accounting, auditing and reporting process.

d) **Confirmation** consists of making enquiries to

corroborate information contained in the organisation’s accounting records. Auditors may, for example, seek direct confirmation from individual stakeholders about some of their comments.

e) **Computation** consists of checking the accuracy of source documents and the organisation’s records or performing independent checks of information and statistics shown in the report,

f) **Analytical procedures** consist of the analysis of relevant ratios and trends of relevant indicators, deriving from the same period, or between comparable information deriving from different periods or different entities, to identify consistencies and predicted patterns or significant fluctuations and unexpected relationships.

G7.3 The choice of such procedures depends on the auditor's judgement and the audit objective. For example:

Illustrative audit objectives	**Suggested techniques**
To check whether the issues and indicators included in the questionnaires were developed in collaboration with relevant stakeholders.	**Enquiry** about attendees at focus group to consider whether representatives from each category of relevant stakeholders were involved, and that the representatives were genuinely representative and chosen by the group that they represent. **Inspection** of records of comments made at the focus group to ensure these are reflected in the questionnaire.
To check whether the questionnaire / interview responses have been summarised accurately.	**Enquiry and observation** of the process of summarising responses to evaluate its accuracy, especially if performed by an independent market research agency. **Inspection** of some source documents, if considered necessary

To check whether interviews / focus groups are conducted properly and capture all relevant information.	**Enquiry** about the qualifications / experience of person conducting focus groups. **Inspection** of tapes or notes summarising the interview / focus group discussion.
To review the patterns of change in the adherence to a specific social and ethical policy.	**Analytical procedures** reviewing indicators over a period of time.

Relying on the work of an expert

G8 When relying on advice from an expert(s), the auditor obtains sufficient appropriate audit evidence that such advice is appropriate for the purposes of the audit.

G8.1 Given the complexity of measurements, the different spheres of activity and the scope of the social and ethical accounts, it may be appropriate for the auditor to seek advice on issues from an expert or a panel of experts (see AA1000 process standard 1.6c).

G8.2 The expert or panel of experts may identify areas where the social and ethical report is incomplete or inconsistent with their knowledge and understanding of the field and advise the auditor accordingly. However the expert(s) are not responsible for the contents of the audit report: the auditors have sole responsibility for their report.

G9 When planning to use the work of an expert the auditors assess the objectivity and professional qualifications, experience and resources of the expert.

G9.1 Normally, this involves considering the expert's:

a) Professional certification or licensing by, or membership of, an appropriate professional

body.

b) Experience and reputation in the field in which the auditors are seeking audit evidence.

G9.2 The risk that an expert's objectivity is impaired increases when the expert is:

a) Employed by the organisation.

b) Related in some other manner to the organisation, for example by being financially dependent upon, or having an investment in, the organisation.

G9.3 If the auditors are concerned about the competence or objectivity of the expert they may discuss their reservations with management or the directors and consider whether sufficient appropriate audit evidence can be obtained. They may undertake additional audit procedures or seek evidence from another expert. If unable to obtain sufficient appropriate audit evidence, they consider the implications for their report.

Reporting

Reporting on the social and ethical accounting, auditing and reporting process

G10 An auditor's report on the social and ethical accounting, auditing and reporting process contains a clear expression of opinion regarding the quality of the process, based on review and assessment of the conclusions drawn from evidence obtained in the course of the audit.

G10.1 The audit report contextualises the assurance by describing the scope and method of the audit, and the relevant professional qualifications of the auditor (see AA1000 process standard 10).

Date and signature of the auditor's report

G11(a) Auditors do not express an opinion on the

social and ethical report(s) until it has been approved by the governing body, and the auditors have considered all necessary available evidence.

G11(b) The date of an auditor's report on an organisation's social and ethical report(s) is the date on which the auditors signed their report expressing an opinion on those statements.

G11.1 The report may be signed in the name of the auditor's firm, the personal name of auditor, or both, as appropriate. To assist identification, the report normally includes the location of the auditor's office. Where appropriate, their qualification and status as Institute accredited social and ethical auditor is also stated.

G11.2 Dating the auditor's report informs the reader that the auditors have considered the effect on the social and ethical report(s), of events or transactions of which they are aware which occurred up to that date.

G11.3 The auditor signs the audit report only after it has been approved by the governing body of the organisation and the auditors have completed their assessment of all the evidence they consider necessary for their opinion. This assessment includes events occurring up to the date the opinion is expressed.

G11.4 The date of the auditor's report is, therefore, the date which follows:

a) Receipt of the social and ethical report(s) and any accompanying documents in the form approved by the directors for release.

b) Review of all documents which they are required to consider in addition to the social and ethical report(s) which may accompany it.

c) Completion of all procedures necessary to form an opinion on the social and ethical report(s) (and any other opinions required by law or regulation) including a review of any subsequent events.

G11.5 The auditors sign their report expressing an opinion on the social and ethical report(s) for distribution with these report(s).

G11.6 The form of the social and ethical report approved by the governing body, and considered by the

auditors when signing a report expressing their opinion, may be in the form of final drafts from which printed documents will be prepared. Subsequent production of printed copies of the social and ethical report and auditor's report does not constitute the creation of a new document. Copies of the report produced for circulation to stakeholders may therefore reproduce a printed version of the auditor's signature showing the date of actual signature.

Reporting to management

G12 Auditors consider the matters that have come to their attention during the audit and whether they should be included in a report to the governing body or management.

G12.1 The principal purposes of reports to the governing body or management are for auditors to communicate points that have come to their attention during the audit. These may include suggestions for the improvement of:

a) The design and operation of the social and ethical accounting, auditing and reporting system.

b) Other management information systems.

G13 When significant weaknesses in the social and ethical accounting, auditing and reporting process are identified during the audit, the auditor reports them in writing to the governing body, the audit committee or an appropriate level of management on a timely basis.

G13.1 A significant weakness in the accounting process is a condition that may result in a significant misstatement in the social and ethical report(s). If the governing body or management have detected a significant weakness and, in the view of the auditor, have taken appropriate corrective action, the auditor does not need to report to the governing body or management on the matter. In these circumstances they normally document the considerations that resulted in their conclusion that no report to directors or management in respect of this matter is needed.

G13.2 Usually, significant weaknesses in the social and ethical accounting, auditing and reporting process are communicated to the governing body or management in a written report issued by the auditors. In

some circumstances it may be appropriate for the relevant matters to be raised orally with the governing body or management, followed by a file note circulated to those attending the meeting to provide a record of the auditor's observations and any responses of the governing body or management.

G13.3 When no significant weaknesses in the social and ethical accounting, auditing and reporting process are identified during the audit, the auditor may choose not to issue a report to the governing body or management. When the auditor does not intend to issue a report to the governing body or management they may consider it appropriate to inform them that no report is to be issued and that there may well be some unreported weaknesses.

G13.4 In any report to the governing body or management, auditors explain that the report is not a comprehensive statement of all weaknesses that exist or of all improvements that may be made, but that it documents only those matters that have come to their attention as a result of the audit procedures performed. Auditors may wish to refer to their audit approach in the report to the governing body or management, particularly the work undertaken on the social and ethical accounting, auditing and reporting and management information systems, to help the governing body or management appreciate the nature, timing and extent of the audit procedures which have resulted in the identification of the matters included in the report.

G13.5 To be effective, a report to the governing body or management is best made as soon as possible after completion of the audit procedures giving rise to comment. Where the audit work is performed on more than one visit, it is often appropriate to report to the governing body or management after the visit during which the matter arose, but making clear that the overall audit work is only partially complete and further matters may still arise.

G13.6 Normally, auditors ask for a reply to the points raised in a report to the governing body or management, indicating the actions that the

governing body or management intend to take as a result of the comments made in the report.

G13.7 Where significant matters raised in previous reports to the governing body or management have not been dealt with effectively, the auditors enquire why appropriate action has not been taken. If they consider that a point is still significant, consideration is given to repeating the point in the current report. This avoids the risk that they give an impression that they are satisfied that the weakness has been corrected or is no longer significant. Similarly, they may wish to reinforce a point previously raised by internal audit.

Third parties interested in reports to the governing body or management

G13.8 Any report to the governing body or management is a confidential communication. If the governing body or management want to provide a copy of a report to a third party they require the prior consent of the auditors in writing.

G13.9 Thus auditors ordinarily state in their report to the governing body or management that:

a) The report has been prepared for the sole use of the organisation.

b) It must not be disclosed to a third party, or quoted or referred to, without the written consent of the auditors.

c) No responsibility is assumed by the auditors to any other person.

Working papers and documentation

G14 Auditors document in their working papers matters that are important in supporting their report.

G14.1 Working papers are the material that auditors prepare or obtain and retain in connection with the performance of the audit. Working papers may be in the form of data stored on paper, film, electronic media or other media.

G14.2 Working papers are the record of:

a) The planning and performance of the audit.

b) The supervision and review of the audit work.

c) The audit evidence resulting from the audit work performed which the auditors consider necessary and

on which they have relied to support their report.

G15 Working papers record the auditor's planning, the nature, timing and extent of the auditing procedures performed, and the conclusions drawn from the evidence obtained. Auditors record in their working papers their reasoning on all significant matters that require the exercise of judgement and their conclusions thereon.

G15.1 The extent of working papers is a matter of professional judgement since it is neither necessary nor practical to document every matter auditors consider. Auditors base their judgement as to the extent of working papers upon what would be necessary to provide an experienced auditor, with no previous connection with the audit, with an understanding of the work performed and the basis of the decisions taken. However, even then, that experienced auditor may only be able to obtain a comprehensive understanding of all aspects of the audit by discussing them with the auditors who performed the work.

G15.2 The form and content of working papers are affected by matters such as:

a) The nature of the engagement.

b) The form of the auditor's report.

c) The nature and complexity of the organisation's activities.

d) The organisation's social and ethical accounting, auditing and reporting process, and management information systems.

e) The needs in the particular circumstances for direction, supervision and review of the work of members of the audit team.

f) The specific methodology and technology the auditors use.

G15.3 Working papers are designed and organised to meet the auditor's needs and the circumstances for each individual audit. The use of standardised working

papers (for example checklists, specimen letters, standard organisation of working papers) may improve the efficiency with which such working papers are prepared and reviewed. While they facilitate the delegation of work and provide a means to control its quality, it is never appropriate to follow mechanically a standard approach to the conduct and documentation of the audit without regard to the need to exercise professional judgement.

4 Integrating AA1000

4.1 Introduction

AA1000 is an accountability standard, focused on securing quality in social and ethical accounting, auditing and reporting.

It is a foundation standard, and as such can be used in two ways: as a common currency to underpin the quality of specialised accountability standards, existing and emergent; and as a stand-alone system and process for managing and communicating social and ethical accountability and performance.

The integrating guidelines illustrate the relationship between AA1000 and other standards according to the two ways in which AA1000 can be understood and used. The guidelines can also illustrate links with other management tools (such as balanced scorecards and business excellence models) and with practice as it emerges in different regions (e.g. the social balance in southern Europe) and organisations.

Users of the integrating guidelines

The integrating guidelines are designed to help all four main user groups of AA1000:

a) **Adopters** of other standards and performance measurement tools can use this section to understand how their existing practices fit in with the AA1000 model of accountability (see sections 4.4). The integrating guidelines also identify how adopters of AA1000 as a stand-alone system can use other standards and tools for support (see section 4.5).

b) By providing an explanation of key standards and management tools, the integrating guidelines provide **stakeholders** with an understanding of organisations' declarations of policy or of compliance with regard to these standards.

c) **Service providers** can use the guidelines to understand and position the role of different standards and management tools, and to understand how these may support AA1000 as a stand-alone system.

d) The integrating guidelines provide some **standards developers** with a simplified positioning of their standards within an overall framework of social and ethical accountability (see sections

4.4). The developers of other standards can use the model identified as a means to position their standard within this framework.

The guidelines have three main sections. They:

a) Introduce a selection of accountability standards and management tools.

b) Examine key standards and management tools against different dimensions of AA1000, including processes and issues.

c) Identify how a number of standards and management tools may be used to support AA1000 where organisations use AA1000 as their stand-alone system to build accountability.

4.2 Development of the guidelines

The Institute will continue to work with other organisations in the development of specialised accountability standards. The integrating guidelines will incorporate these and other standards as they are developed to maintain AA1000's role as a common currency underpinning quality.

The guidelines will also be developed with the publication of a database of standards set against the AA1000 **principles**, **process standards** and **key issues of concern to stakeholders**.

4.3 Standards and management tools

Accountability standards

Recent years have witnessed a proliferation of standards and guidelines to support and measure accountability and performance. These include process standards and substantive standards, standards focused on a single-issue or encompassing a variety of issues, and mandatory and voluntary standards.

The processes and issues covered by these standards include stakeholder dialogue and social and ethical reporting, organisational culture, fair trade and

ethical trade, working conditions, human resource management and training, environmental and animal protection, community development and human rights.

The accountability standards analysed in these guidelines include documents with a variety of titles. These include International Protocols, International Treaties, International Conventions, Declarations, Codes, Principles, Charters, Statements, Agenda, Guidelines as well as standards

The common feature of the standards is a **statement of suggested behaviour or action** of organisations (in the public, private and non-profit sectors) relating to social and ethical issues. Many organisations have developed internal standards (e.g. codes of conduct), but the standards considered here refer to the actions and behaviour of organisations external to the standard developer.

The list of standards considered is not exhaustive. But the list covers the processes of accounting, auditing and reporting, and reflects the social, ethical and environmental issues that have been of major concern in recent years, e.g. working conditions in supply chains, corporate governance and environmental protection, including the protection of other species

Management tools

AA1000 can also be used to help understand the variety of other tools used by organisations to address accountability and performance issues. These include:

a) Performance measurement tools focused on social and ethical issues, such as:

   i) Arthur D Little – The Accountable Business.

   ii) BruceNaughtonWade - Corporate Community Involvement Index.

   iii) Business in the Community - Principles of Corporate Community Investment.

   iv) Business in the Environment – Index of Corporate Environmental Engagement.

   v) London Benchmarking Group - community involvement template - measuring

performance in corporate community investment.

vi) New Economics Foundation - Quality Scoring Framework – measuring the social and ethical accountability of organisations.

vii) PricewaterhouseCoopers – Reputation Assurance.

viii) Prince of Wales Business Leaders' Forum – SVA[2]

b) Management tools focused on the broader aims of the organisation, but incorporating a concern for social and ethical issues and processes of accountability. Notable examples include:

i) Balanced scorecards.

ii) Business excellence models.

4.4 The integrating guidelines – AA1000 as a common currency

Accountability standards

AA1000 can be used as a foundation through which the processes and issues that are addressed by other accountability standards can be understood.

The analysis in this section indicates the relationship between eleven key standards, the **process steps** of AA1000 and key **stakeholder issues**. A detailed analysis of each of the standards can be identified in the (currently unpublished) ISEA document: The Scope of AccountAbility. This analysis covers a number of other facets of each standard, including the geographic, sectoral and organisation-type focus, as well as the relationship with the AA1000 principles.

The eleven standards are summarised below, and then illustrated in figures 5 to 15. The analysis is illustrative, not absolute:

a) The shading in figures 5-15 indicates the process focus and stakeholder focus of the standards. It **does not imply that all aspects of an AA1000 process or all issues of concern to stakeholders are covered** by one or more standard. Similarly, the **absence of shading does not imply that** (one or more of) **the standards make no comment on an aspect, rather that it is not its main focus**.

b) To fully identify the issues of interest to different stakeholders is a complex process

requiring engagement with the stakeholders.

Summary of the standards

The Global Reporting Initiative's (GRI) **Sustainability Reporting Guidelines** have been developed through multi-stakeholder dialogue. The guidelines are closely aligned to AA1000, but focus on a specific piece of the SEAAR process – reporting. GRI aims to cover a full range of social and ethical issues, as well as environmental and economic issues, although these are currently at different stages of development (see figure 5).

The Council on Economic Priorities Accreditation Agency's (CEPAA) **Social Accountability 8000 (SA 8000**) is a standard focused on workplace conditions in supply chains. SA 8000 has close links with much of the AA1000 process, including: the definition of policy, the monitoring of activities and results, the verification of conformance, the communication of procedures, and the development of management systems. SA8000 was developed (and is subject to continuous improvement) through consensus-based stakeholder dialogue, and it includes a process of stakeholder governance. But it does not include stakeholder engagement as a core part of the accounting process (see figure 6).

The **International Standard Organisation's** (ISO) standards focus on the development and certification of management systems. They incorporate processes of Policy, Planning, Implementation & Operation, Checking & Corrective Action, Management Review with an overall focus on continuous improvement. Communication is a key element of ISO standards, but there is little emphasis on dialogue with stakeholders. One part of the ISO series, **ISO14001**, addresses many of the AA1000 processes, but with a specific focus on environmental issues (see figure 7).

Investors in People UK's (IIP-UK) standard, **Investors in People**, is a standard designed to continuously improve organisational performance through its people. It has a number of processes in common with AA1000: a focus on the training and development of all employees is defined by the planning of goals and targets, the identification and review of needs and the evaluation of impacts; the embedding of training and development processes in the organisation, and the certification (or not) of the organisation as achieving the IIP standard. However, communication is limited to internal stakeholders and is largely top-down (see figure 8).

The **Forest Stewardship Council** standard is a certifiable standard with defined requirements for planning, defining objectives and the means to achieve them. It is focused

on the environmental impact of forest management, but also on the impact on local communities and workers and the economic viability of forest use (see figure 9).

The membership commitment of the **Fair Trade Federation** is focused on management processes and fair trade issues. Finances, policies and business practices are open to external monitoring and public reporting. Fair trade issues are understood broadly, and include living wages for workers, support for worker owned and cooperative organisations, consumer education, respect for cultural identity, and environmental sustainability (see figure 10).

The **Ethical Trading Initiative** (ETI) is a partnership of companies, unions and NGOs. The ETI's **Base Code** is focused on a set of defined labour issues. Processes of accounting and embedding are defined by the requirement of members that suppliers meet agreed standards, and that performance is measured, transparent, and ultimately a precondition to further business. Members produce annual reports on progress against the code, and an annual summary report is produced by ETI (see figure 11).

The **Caux Round Table** is a group of business leaders. The Round Table's **Principles for Business** is a standard against which business behaviour can be measured. Although transparency is recognised as important, the focus is on issues rather than processes of accountability. The issues considered include labour issues, avoidance of illicit operations, fair competition, quality product/service, contribution to social advancement worldwide, stability in supplier relationships, wealth creation, support for trade systems and sustainable development (see figure 12).

The **Humane Cosmetics Standard** was developed by an international coalition of animal protection groups to reduce the number of animals used in cosmetic safety testing. To address this issue, the standards outlines processes for defining and embedding company policy, monitoring performance, and the independent assessment of monitoring systems. Reporting is limited, but the organisations that satisfy the standard may badge their products as compliant with the standard (see figure 13).

The **US Government Federal Sentencing Guidelines** are focused on the promotion of legal compliance (embedding) by organisations, rather than the definition of what

the organisation’s policies (issues) should be. The guidelines define a set of themes that may support organisation compliance with standards and procedures. These include high-level oversight, auditing and monitoring, communication and training, enforcing standards through discipline and responding appropriately to offences (see figure 14). Similarly, the 1995 Australian Criminal Code Act (commencing in March 2000) establishes a framework for assessing the guilt or innocence of corporations when being prosecuted under Commonwealth laws. Under the act, proof can be established by demonstrating that the company had a corporate culture (including attitudes, policies, rules and codes of conduct) that caused the breach or failed to create an appropriate culture.

The **South African Government Employment Equity Act** defines detailed procedures of planning, information collection and analysis, public reporting and stakeholder engagement. In addition a series of processes are defined to embed in organisations the means to achieve the goals of the employment equity act: the prohibition of unfair discrimination and the implementation of affirmative action measures (see figure 15).

Figure 5 (see attachment)

Figure 6 (see attachment)

Figure 7 (see attachment)

Figure 8 (see attachment)

Figure 9 (see attachment)

Figure 10 (see attachment)

Figure 11 (see attachment)

Figure 12 (see attachment)

Figure 13 (see attachment)

Figure 14 (see attachment)

Figure 15 (see attachment)

Management tools

The linkages between management tools and AA1000 can also be illustrated by the integrating guidelines.

The guidelines do not provide a detailed explanation of how in practice an organisation can either:

a) Reflect more fully the principles and processes of AA1000 into its existing management tools.

b) Use an adapted management tool to support its accounting, auditing and reporting processes.

It does, however, indicate the strong links these tools have to AA1000, and the opportunities for their adaptation to incorporate the concerns of AA1000.

The **balanced scorecard**, originally defined by Kaplan and Norton, is a strategic management tool that creates a system of linked objectives, measures, targets and initiatives. The scorecard focuses (in order of priority) on the shareholder, customer, internal process, and learning & growth requirements of the organisation to support its mission and strategy. The scorecard's principal focus is therefore on financial issues, although other issues may be relevant in so far as they impact the financial perspective. Similarly, the scorecard focuses directly on a limited number of stakeholders (shareholders and customers), but may focus on others indirectly (e.g. through the learning & growth of employees). The functioning of the scorecard also implies the management of a number of internal processes closely related to the AA1000 process model (e.g. the definition of values and the collection of data), but these do not include external auditing or reporting to (non-shareholder) stakeholders (see figure 16).

The **business excellence model**, developed by the European Foundation for Quality Management, defines a framework for the continuous improvement of business performance. The definition of business performance includes 'enablers' of performance (Leadership, People Management, Policy & Strategy, Resources and Processes), and the 'results' (People Satisfaction, Customer Satisfaction, Impact on Society and Business Results). The model therefore addresses issues of organisational ethics/governance, and social and ethical impacts as well as financial performance. The business excellence model explicitly and implicitly covers many of the AA1000 processes, but

with limited stakeholder engagement, external auditing or reporting (see figure 17).

Figure 16 (see attachment)

Figure 17 (see attachment)

4.5 The integrating guidelines – AA1000 as a stand-alone system

Section 4.4 identified how standards and management tools can be understood in terms of the common currency of AA1000.

For organisations using AA1000 as a stand-alone system, its accountability processes may still be supported by the use of other standards and management tools. Figures 18-21 illustrate with examples the standards and management tools that may be used at each stage of the AA1000 process.

Figure 18 (see attachment)

Figure 19 (see attachment)

Figure 20 (see attachment)

Figure 21 (see attachment)

5) Stakeholder engagement

5.1 Introduction

There is growing recognition by organisations that some stakeholders possess significant influence over them:

a) More information is publicly available on the activity of organisations and the impact of these activities on employees, shareholders, society, the environment and the economy.

b) Stakeholders demand higher standards of behaviour from organisations.

c) The legitimacy of these demands is more widely recognised by government, regulators and civil society.

At the same time, organisations recognise the conflicts of interest they have with stakeholders, and the lack of consensus between and within stakeholder groups.

This is a dilemma that AA1000 seeks to address. It does not provide a prescriptive framework for the resolution of these dilemmas. However, it does provide a process for the organisation to begin to address them through engaging with stakeholders to find common ground and build trust.

This process of engagement with stakeholders is at the heart of AA1000. Engagement is not about an organisation abdicating responsibilities for its activities, but rather using leadership to build relationships with stakeholders, and hence improving the organisation's accountability and performance.

But how can organisations and stakeholders ensure quality in the consultation and dialogue that takes place between them? The guidelines begin to answer this question by outlining good practice in engagement.

The guidelines have three elements. They:

a) Define the aims of stakeholder engagement in the context of AA1000.

b) Describe a number of methods of stakeholder engagement.

c) Describe techniques and provide advice to support the good practice of the methods defined above.

Development of the guidelines

The stakeholder engagement guidelines are designed for

all main user groups of AA1000. Adopting organisations, stakeholders and service providers can each use the guidelines to understand the aims of engagement, and to examine the methods and techniques that may be used to support these aims. Standards developers can also use the guidelines as the basis for their own specialised engagement guidelines. These may include, for example, guidelines for:

a) Engagement on different issues, e.g. environmental and social issues.

b) Engagement in different countries and cultures, and with different genders and races.

c) Engagement in crisis situations.

d) Engagement with internal and external stakeholders.

e) Engagement by different organisation types, e.g. large and small, public, private and non-profit, and in different sectors of operation.

f) Audit of engagement processes.

5.3 Aims of stakeholder engagement

As part of the AA1000 process, stakeholder engagement is focused on improving the accountability and performance of the organisation.

The AA1000 definition of accountability is an accountability of organisations to their stakeholders. The nature of this accountability is defined by the organisation’s engagement with its stakeholders.

Stakeholder engagement can also be at the heart of a virtuous circle of performance improvement. Meaningful engagement with stakeholders can:

a) **Anticipate and manage conflicts.**

b) Improve **decision-making** from management, employees, investors and other external stakeholders.

c) Build **consensus** amongst diverse views.

d) Create stakeholder **identification** with the outcomes of the organisation’s activities.

e) Build **trust** in the organisation.

These five factors are key to improving financial performance, for example, through the improved recruitment and retention of employees, or the increased

sophistication of risk management systems. They are also key to improving the organisation's performance on other measures in a manner that satisfies the aspirations of the organisation's stakeholders. If the engagement improves stakeholder satisfaction, this will also play a role in supporting the long-term financial performance of the organisation.

But what does it mean to have meaningful engagement? At a high level, it requires that the organisation is **accountable** (transparent, responsive and compliant), and in particular that its leadership makes decisions based on an **accurate and full understanding** of stakeholder aspirations and needs. To achieve this, engagement needs to:

a) Allow stakeholders to assist in the identification of other stakeholders.

b) Ensure that stakeholders trust the social and ethical accountant (internal or external) that is collecting and processing the findings of the engagement.

c) Be a dialogue, not a one-way information feed.

d) Be between parties with sufficient preparation and briefing to make well-informed decisions.

e) Involve stakeholders in defining the terms of the engagement. The terms will include, but are not limited to the issues covered, the methods and techniques of engagement used, the questions asked, the means of analysing responses to questions and the stakeholder feedback process.

f) Allow stakeholders to voice their views without restriction and without fear of penalty or discipline. However, stakeholders must be aware that if their opinions are taken seriously and acted upon, this will have consequences upon them and other stakeholder groups.

g) Include a public disclosure and feedback process that offers other stakeholders information that is valuable in assessing the engagement and allows them to comment upon it.

5.4 Methods of stakeholder engagement

A variety of methods of engagement can be used by

organisations. These include, but are not limited to (see AA1000 process standard 7.2):

a) One-to-one interviews, face-to-face and distance.

b) Group interviews.

c) Focus groups.

d) Workshops and seminars.

e) Public meetings.

f) Questionnaires – face-to-face, by letter, telephone, internet or other techniques.

The appropriate method for each process of stakeholder engagement will depend on the nature and size of the organisation and the scope of the engagement – the stakeholders included, the complexity and nature of the issues covered and the geographic location.

The choice of method will also be affected by the capacity of the organisation – in terms of financial resources, staff resources and management systems – and by the capacity of its stakeholders. **A key element of stakeholder engagement therefore lies in the organisation's definition and building of its own capacities and the capacities of its stakeholders**.

5.5 Techniques of stakeholder engagement

The techniques of stakeholder engagement are designed and implemented to support the aim of the engagement process – accountability, including the accurate and full understanding of stakeholder aspirations and needs.

Accountability

a) The organisation may use **sampling** techniques for engagement with stakeholders. Samples are statistically robust, and ensure that a representative spread of each stakeholder group within the accounting, auditing and reporting scope is included. In defining samples, the organisation is aware of key diversity issues, which may include but are not limited to: the gender, race, age, disabilities and culture of the samples (see AA1000 process standard 7.5).

b) The organisation should ensure the independence and objectivity of the social and ethical accountant (internal or external) that is collecting and

processing the results of the engagement.

c) The rationale and processes of stakeholder engagement are documented to facilitate internal and external audit. The auditor may examine documentation or attend dialogues, unless this raises conflict with other AA1000 principles or issues of sensitivity for stakeholders (see AA1000 process standard 7.7).

d) Stakeholders are encouraged to comment upon engagement processes and to recommend improvements.

Accurate and full expression of aspirations and needs

e) Stakeholders are encouraged to understand the context of stakeholder engagement in the overall social and ethical accounting, auditing and reporting process (see AA1000 process standard 1.5).

f) Stakeholders are involved in the design of questions to be addressed in the stakeholder engagement process (see AA1000 process standard 7.6) and the format of the engagement.

g) Genuine differences between stakeholders and the organisation and between stakeholder groups are acknowledged. Stakeholder views are listened to and noted. Points may be challenged, but are not dismissed.

h) Confidentiality is ensured where it is desired by stakeholders.

i) Stakeholders are briefed by the organisation to ensure that opinions and decisions are well-informed.

j) Questionnaires are designed to be understandable and easy to complete. Space is provided to allow the free expression of views. For employee surveys, employees should be allowed sufficient official time to complete responses.

k) Communication tools are used that address issues of cultural, racial, gender or educational bias.

l) Quieter stakeholders are drawn out and allowed time to express their views.

m) Leading questions are avoided.

n) Avoid stakeholder fatigue through innovative methods

of engagement.

6 Accountability assessment

6.1 Introduction

AA1000 has been developed to improve organisational accountability and performance by increasing quality in social and ethical accounting, auditing and reporting. It will only achieve this if adopting organisations' communications and contacts with stakeholders are:

a) **Understood** by stakeholders.

b) **Meaningful** to stakeholders.

Stakeholders will assess organisations' performance across a range of formal and informal communications. Social and ethical reporting (including written and verbal communications) will therefore only cover part of an organisation's relationship with its stakeholders, and it will only be part of the way in which an organisation communicates with them.

At the same time, innovation in social and ethical reporting presents stakeholders with a confusing range of methods and media of report presentation. The accountability assessment guidelines are designed to assist stakeholders in assessing formal reports, and hence to draw meaning from them.

The accountability assessment guidelines are based on the AA1000 principles and process standards. As such, they do not provide a definitive guide to the format or contents of social and ethical reports, and do not define social and ethical performance indicators or targets for organisations. In addition, they do not provide a method of calculating an accountability score for a report.

However, the guidelines can assist stakeholders in making a qualitative assessment of **the inclusion of information in a report and its meaning**. They help stakeholders to:

a) Understand an organisation's positioning of their relationship with the stakeholder.

b) Understand the accountability of a reporting organisation.

c) Compare social and ethical reporting across individual organisations and between sectors, regions and types of organisation.

The assessment toolkit enables assessment in the following categories:

a) Descriptive information.

b)	Performance information.
c)	Methods of stakeholder engagement.
d)	Audit report.
e)	Overall assessment.

6.2 Development of the guidelines

The guidelines will be developed to incorporate experience in the assessment of performance, in particular as the use of different reporting media develop and as organisations' reporting cycles become more flexible. This will include the experience from the ISEA / ACCA Social Reporting Awards (SRA).

6.3 Using the guidelines

The reader of a social and ethical report can use the guidelines to understand the different components that may be included in a report. **To make a fuller assessment, the reader will consider a report as a whole**, as well as its coverage of individual components.

The reader should use the guidelines to consider both:

a) The inclusion of individual components in the report.

b) The **quality of inclusion** of components (see table 4).

The assessment of the quality of inclusion should be made in the context of the AA1000 principles. These principles support the overarching principle of **accountability,** and are as follows: inclusivity, completeness, materiality, regularity and timeliness, accessibility, quality assurance, information quality, embeddedness, and continuous improvement (see section 2.2).

The importance of each principle in defining quality will vary across the report components. For example, the principles of information quality will be particularly important in an assessment of the report's mission and values. In contrast, the assessment of methods of stakeholder inclusion will be concerned with information quality, but this may be less important than assessing the quality of engagement processes, in particular their inclusivity.

In the table, '**the process**' refers to an organisation's

process of social and ethical accounting, auditing and reporting.

Table 2 – Accountability assessment guidelines – reporting assessment

a) Descriptive Information

Component of report	**Inclusion of component?**	**Quality of inclusion?**
Statement of **accounting entity** (‘organisation’), including relationship of organisation to subsidiaries and joint ventures		
Statement of **relationship** of report **to other social and ethical reports** and communications		
Statement of organisation’s **mission and values**		
Statement of organisation’s **objectives and targets**		
Link between mission and values, and objectives and targets		
Statement of organisation’s **governance procedures**, including role of stakeholders		
Statement of organisation’s **systems** for dealing with social and ethical issues		
Statement of the process methodology – **scope of exercise**		
Statement of the process methodology – **stakeholder inclusion**		
Statement of the process methodology – **operating units and geographies**		

Statement of the process methodology – **future process plans**, and reasons for incompleteness of report		

Table 2 (cont) – Accountability assessment guidelines – reporting assessment

b) Performance Information

Component of report	**Inclusion of component?**	**Quality of inclusion?**
Indicators of **compliance** with statute, codes of conduct and other commitments		
Indicators of social and ethical performance – **vis-à-vis organisation mission and values**		
Indicators of social and ethical performance – **vis-à-vis stakeholder concerns**		
Indicators of social and ethical performance – **vis-à-vis societal benchmarks**		
Statement of social and ethical performance and **targets – historic and current**		
Statement of social and ethical performance and **targets – future**		
Statement of **prioritisation of targets**		

Table 2 (cont) – Accountability assessment guidelines – reporting assessment

c) Methods of Stakeholder Engagement

Component of report	**Inclusion of component?**	**Quality of inclusion?**
Stakeholder commentary on social and ethical performance		
Stakeholder commentary on the process		
Survey of stakeholder views		
Evidence of **stakeholder participation** in the process **– in definition of values**		
Evidence of **stakeholder participation** in the process **– in definition of objectives and targets**		
Evidence of **stakeholder participation** in the process **– in identification of issues**		
Evidence of **stakeholder participation** in the process **– in identification of indicators**		
Process for **stakeholder feedback** on report		

Table 2 (cont) – Accountability assessment guidelines – reporting assessment

d) Audit report(s)

Component of report	**Inclusion of component?**	**Quality of inclusion?**
Audit report – statement of **scope and subject matter of audit**		
Audit report – legitimacy of auditor(s), including statement of **professional qualifications** of auditor(s)		
Audit report – scope includes **compliance and accuracy/validity** of data and systems		
Audit report – scope includes meaningfulness of report – **completeness and inclusivity**		
Audit report – auditor(s) opinion of level of assurance		

Table 2 (cont) – Accountability assessment guidelines – reporting assessment

e) Overall assessment

Component of report	**Inclusion of component?**	**Quality of inclusion?**
Linkage of social and ethical, environmental and financial / economic performance information		
Completeness of report and the process – organisation values, geographies, operating units, issues	n/a	
Inclusivity of report and the process – stakeholders' roles in the process including report	n/a	
Materiality of report and the process	n/a	
Regularity and Timeliness of report and the process	n/a	
Accessibility of report – media used and cost of report	n/a	
Quality Assurance of report and the process – level of assurance, legitimacy of auditor(s), and scope of audit	n/a	
Comparability of report – past performance and external benchmarks	n/a	
Relevance of report	n/a	
Reliability of report – realistic presentation, neutral presentation and prudence	n/a	
Understandability of report – format, language, style	n/a	
Embeddedness of the process	n/a	

Continuous Improvement of the process and social and ethical performance	n/a	

7 First steps

7.1 Introduction

Organisations have adopted **a variety of approaches to social and ethical accounting, auditing and reporting**. Each approach has a different balance in terms of the issues on which it is focused, and the processes by which the organisation measures, communicates and develops its values, processes, objectives and targets. These methods include:

a) Developing internal codes of conduct and auditing compliance with codes.

b) Reporting costs and benefits of activities to key constituencies and stakeholders.

c) Measuring the financial costs and benefits of 'social and ethical' activities.

d) External and internal rating of performance against benchmarks and indicators.

e) Stakeholder-based valuation, linked to the valuation of intangible assets.

f) Reporting compliance to legislation and other standards and guidelines to which the organisation has committed itself.

g) Assessing systems and processes to implement and develop the organisation's values.

h) Accounting, auditing and reporting the behaviour of individuals within the organisation, and the impacts of the organisation's activities (social and ethical, environmental and / or economic) on stakeholders.

i) Developing and assessing the organisation's dialogue with stakeholders.

The alternative methods (and the extent to which they have been pursued) reflect **a number of dimensions of organisations' identities**. Among the more important dimensions include:

a) The nature of the organisation:

   i) Public, private or non-profit.

   ii) Large or small.

   iii) National or international.

iv) Nature of mission and values.

b) The driver of the organisation's adoption of social and ethical accounting, auditing and reporting:

i) Aim to explain aims and performance of the organisation, and to discharge accountability to stakeholders.

ii) Aim to develop competitive advantage through defined social and ethical stance.

iii) Response to public pressures – actual or potential.

iv) Aim to realise and develop the values of the organisation.

v) Aim to improve management of organisation through developed understanding of values and intentions of internal and external stakeholders.

c) The legal requirements and societal norms of the regions within which the organisation operates.

d) The level of development of existing environmental accounting and reporting systems.

e) The existence of other programmes (mandatory or voluntary) regarding the management of social and ethical issues, (e.g. Best Value in UK local government).

f) Key stakeholders in the organisation, and their demands.

i) Levels of trust in the organisation.

ii) Legitimacy of the auditors.

g) Cost pressures.

h) Uncertainty about costs and benefits of the process.

The AA1000 foundation standard recognises that organisations may adopt a stepped approach to building accountability, and will use AA1000 as a model to aspire to over time.

Within the context of the AA1000 standards, these 'first step' guidelines

a) Briefly discuss how different approaches to social and ethical accounting, auditing and

reporting can be understood in terms of **a model of development towards accountability**.

b) Suggest a set of first steps (and considerations at each step) towards starting a social and ethical accounting, auditing and reporting process.

7.2 Development of the guidelines

The first step guidelines will be developed to incorporate experience from those organisations addressing social and ethical accounting, auditing and reporting for the first time, in particular those addressing it through the perspective of AA1000.

7.3 Developing accountability

Three aspects of any approach to social and ethical accounting, auditing and reporting can be examined to understand its level of development. The higher the level of stakeholder involvement, the greater the scope and regularity of the process, and the more complete the stages of AA1000 completed, the further the organisation progresses towards discharging its accountability. The approaches identified in the introduction can be assessed against this simple matrix. To develop its accountability, an organisation may address both the quantity and sophistication of methods used on each dimension.

7.4 First steps

An organisation considering a process of social and ethical accounting, auditing and reporting may address the following steps (see figure 22):

a) Formalise its reasons for (and against) beginning the process (‘Defining Aims’).

b) Understand its capability to achieve aims (‘Defining Capacity’).

If it chooses to proceed the organisation may:

c) Outline the nature of the process to be adopted, including the processes to be followed and issues covered (‘Outlining Scope).

d) Build its resources to match the aims of the

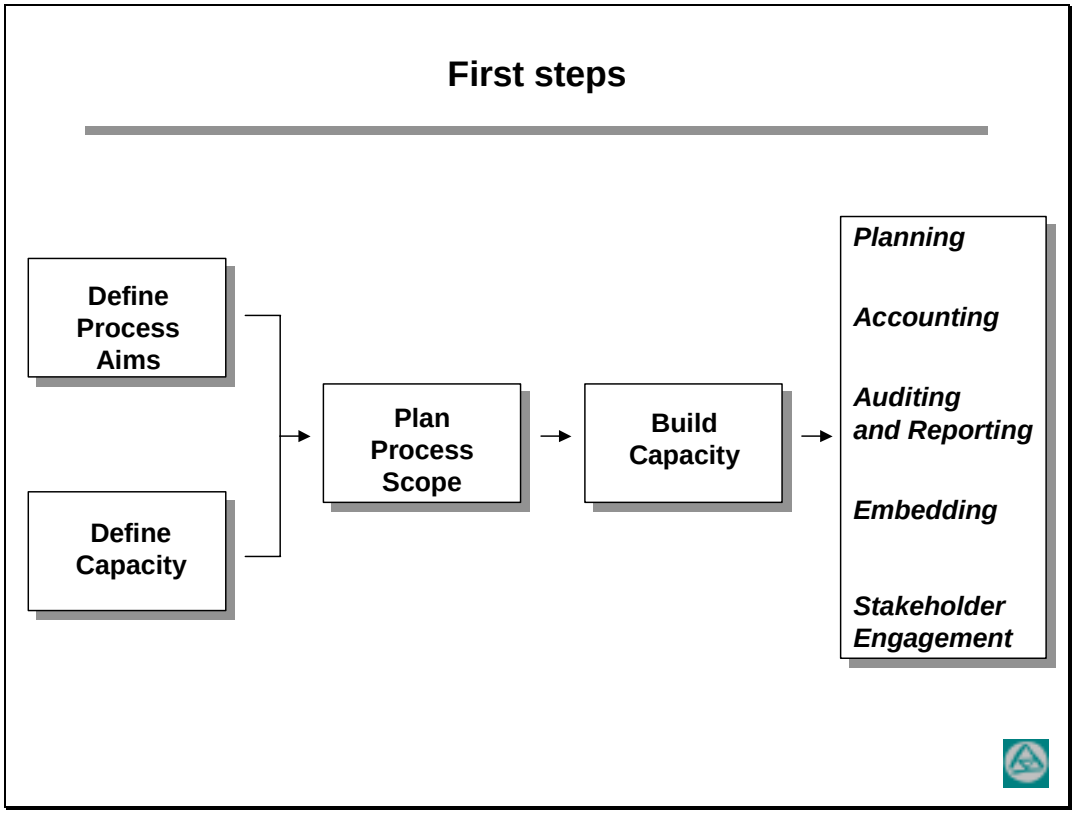
project (‘Building Capacity’).

This final stage of **building capacity is central to the success of the process**.

These stages begin to cover some aspects of the ‘Planning’ and ‘Embedding’ stages of the AA1000 process. Some organisations have used these first steps as a scoping exercise in which the aims of the project, etc, are clarified before investing significant resources in a full process. Others, however, have incorporated these first steps within the full accounting, auditing and reporting process.

In this section, ‘**the process**’ refers to an organisation’s process of social and ethical accounting, auditing and reporting.

Figure 22



a) Defining aims

An organisation may address the following considerations (amongst others) in defining its aims from the social and ethical accounting, auditing and reporting process.

a) To address specific stakeholder concerns.

b) To pre-empt stakeholder or public criticism.

c) To discharge accountability.

d) To help build a sustainable organisation.

e) To better understand stakeholder aspirations and needs from their relationship with the organisation.

f) To build a common understanding with stakeholders of the aims and values of the organisation.

g) To improve long-term financial performance.

h) To build relationships with specific stakeholder groups.

An organisation's aims are likely to be complex, and understanding the relative balance of each factor will help define the accountability processes the organisation will choose, as well as the scope of the process (see point c – Outlining scope).

b) Defining capacity

In measuring its capacity to achieve its aims, the organisation may consider, inter alia, its:

a) Financial resources.

b) Staff resources:

   i) Numbers.

   ii) Experience in relevant fields, e.g. environmental accounting, stakeholder engagement.

c) Stakeholder resources and capabilities.

d) Existing management systems, including strategic tools, measurement systems and data collection systems.

e) Applicability of existing systems, (e.g. management scorecards), to the social and ethical accounting, auditing and reporting process.

f) Leadership capabilities.

g) Relationships with each stakeholder group (see AA1000 process standard 2.6).

c) Outlining scope

With an understanding of its aims and capacity, an organisation may consider the relationship between these aims and the options of different accounting, auditing and reporting processes. These options (suggested by the list below) include different alternatives for the process steps and the scope of the process.

a) Will the process include a social and ethical audit(s)?

b) If so, what sort of audit process(es)?

   i) What is the scope of the audit?

   ii) Who is the auditor(s)?

c) Will the process include a social and ethical report(s)?

d) If so, what sort of report?

   i) What is the audience of the report?

   ii) What reporting media are used?

   iii) What is the scope of the report?

e) What is the scope of the accounting process?

i) Stakeholders.

ii) Geographies.

iii) Operating units.

iv) Issues.

f) What are the key areas in this scope to focus on in the process?

g) What sort of indicators will we use for measurement?

i) Input, output and outcome

ii) Qualitative and quantitative.

h) What methods and techniques of stakeholder engagement will be used?

i) What will be the role of other standards and guidelines?

i) Defining / implementing values.

ii) Developing systems.

iii) Defining issues / indicators.

iv) Defining reporting formats / content.

v) Certifying processes and performance.

j) What internal systems are required for the process?

k) What is the timetable for the process?

i) Start date.

ii) Key stages.

iii) Key outputs.

l) What are the plans for future cycles of the process?

d) Building capacity

In order to build capacity the organisation will reflect on the definition of the process. It should consider, inter alia, the following requirements:

a) Building commitment amongst governing body for the process.

b) Definition of roles and responsibilities for management of the process.

c) Creation of project champions.

d) Identification of gaps in skills.

e) Where gaps exist, identification and hire of

external support for key steps of the process.

f) Building and implementation of training programmes for its employees.

g) Building knowledge and capabilities of stakeholders.

8 Professional qualification: competence and qualification requirements for social and ethical accountants and auditors

8.1 Introduction

The creation of a body of professionally trained and qualified social and ethical accountants and auditors is central to the development of organisational accountability: to translate organisations' interest in accountability issues into **quality processes** of social and ethical accounting, auditing and reporting; and to build the credibility of social and ethical auditing by **enhancing the legitimacy of auditors**.

The AA1000 framework addresses this need with a **professional qualification linked to a training and professional development programme**: The 'competence and qualification requirements for social and ethical accountants and auditors.'

The qualified social and ethical accountants and auditors will be trained in AA1000 and other accountability standards (social and ethical, environmental and financial) as well as social and ethical management issues more generally. The professional qualification programme will not train **qualified auditors to certify organisations as AA1000 compliant**. Qualified auditors will, however, be competent to assess the quality of accounting, auditing and reporting processes with reference to AA1000 and other social and ethical accountability standards.

The competence and qualification requirements are **designed both for service providers** (providing consultancy and auditing services) **and the staff of those adopting organisations that practice social and ethical accounting, auditing and reporting**.

The qualification of social and ethical accountants and auditors does not exclude the role of non-qualified persons in promoting the accountability of organisations. The **new profession** that the Institute is building will include social and ethical accountants and auditors, but also those working in a variety of fields committed to the values of social and ethical accountability.

The professional qualification comprises:

a) The competencies and knowledge areas required of social and ethical accountants and auditors - see Basic requirements (Section PQ1.1).

b) The professional training content necessary to support candidates in meeting these requirements, and to maintain and develop their ability to perform professionally - see Training requirements (Section PQ1.2), for which exemptions may be allowed (Section PQ2) and Continuing professional development (Section PQ3).

c) The type and level of experience necessary for sound professional performance in these areas – see Audit experience (Section PQ4).

8.2 The development of the professional qualification

The Institute recognises the need to develop the professional qualification guidelines into a qualification standard. This development will draw on emerging best practice in social and ethical accounting, auditing and reporting, and experience from the Institute's training programme for social and ethical accountants and auditors.

The development of the programme will consider, inter alia:

a) Requirements for training, continuing professional development, and practical experience.

b) Exemptions through work experience and prior training.

A number of key related issues are defined in the (currently unpublished) Institute papers: 'The Membership Structure of the ISEA' and the 'Code of Conduct for

Members of the ISEA.' These include:

a) Procedures for the accreditation of training providers.

b) Procedures for the examination of the training modules.

c) Procedures by which exemptions may be granted for specific requirements defined in this paper.

d) Appeals procedures where qualification (and membership of the Institute) is not granted.

e) Procedures for the refinement of the competence and qualification requirements (including continuing professional development) defined in this paper.

f) Opportunities for the development of specialist streams of knowledge.

8.3 The basis of the professional qualification

The disciplines of social and ethical accounting and auditing are in their infancy. Much can be gained, however, by drawing upon established practice in financial accounting and auditing, environmental auditing, quality management, aspects of human resource management and corporate citizenship, as well as from ethics academics and consultants. The link to environmental auditing is key, since environmental and social business issues are often considered together, and both require assessment of performance in areas that are not easy to quantify.

This document therefore proposes requirements that can be aligned, in many respects, to the requirements for environmental auditors set out in ISO14012.

At the same time, the principles and values underpinning social and ethical accounting and auditing are broader than for environmental or financial disciplines alone, and must be considered in the course of training.

Because the practice of social and ethical accounting, auditing and reporting is at an early stage of development, it is unrealistic to suppose that many individuals will exhibit the required experience across the breadth of subject matter involved. Acceptable evidence of professional ability is likely to be biased towards training, rather than field experience, for

some time to come. However, the Institute will review the appropriate balance of expertise vs. training at regular intervals after implementation of these requirements.

Provision is made for a range of exemptions from training requirements, reflecting the skills which professionals from a variety of backgrounds are likely to bring social and ethical accounting, auditing and reporting. The requirements are framed in such a way as to encourage accomplished professionals from financial, environmental, health and safety and other spheres to broaden their skill base to embrace the social and ethical dimensions of organisations.

8.4 The professional qualification

PQ1 Education, training and basic skills

PQ1.1 Basic requirements

Social and ethical accountants and auditors should have a sound basic education, though a degree or equivalent is not essential. They should be able to demonstrate:

a) A sound command of language in spoken and written form. For a particular assignment, the Institute's member code of conduct obliges accountants and auditors to have an adequate knowledge of the language/culture of the organisation (including its stakeholders) within which they are working.

b) Communication skills adequate to make clear presentations of findings to an organisation's management, its employees, and other specialists.

c) An ability to listen and extract information in an unbiased way from individuals and groups of various levels of seniority.

d) A basic, balanced understanding of the role of different organisations in society, sufficient to identify likely areas where social and ethical issues might be expected to arise.

PQ1.2 Training

Introduction

The training requirements comprise eight modules covering five main areas:

a) An understanding of the social and ethical dimensions of organisations – including the concepts of individual and organisational accountability, of sustainable development and of stakeholders; and an understanding of issues relating to diversity and equal opportunity.

b) An understanding of financial, environmental, and social and ethical aspects of organisations - including key issues, legislation, management systems, and standards and guidelines.

c) An understanding of governance and leadership issues - including the role of stakeholders.

d) An understanding of audit and quality assurance issues – including the purpose of auditing, alternative audit methodologies for providing

quality assurance to the organisation and stakeholders, and the application of knowledge from other modules.

e) How to do it – including practical guidance and training in the processes of social and ethical accounting, auditing and reporting.

The qualification guidelines identify the aims for each module. The bold lettering (within the aims) highlights the nature of educational achievement that is required for each module.

The elements of content that should be included in the training and examination are also defined for each module.

Requirements

To satisfy the training requirements, social and ethical accountants and auditors must pass examinations (or have an attestation of satisfactory performance) in each module that follows in this section, subject to exemptions noted in section 2. It is also a requirement that practitioners attend formal training for Modules B and G ("How to do it 1 and 2"), and actively participate in these sessions where appropriate. It is preferable for students to receive formal training for the other modules, but this is not a requirement.

In assessing whether specific courses and training programmes meet the requirements given, the Institute will – at least for an interim period – judge whether the broad aim and content of the course 'fits', without necessarily requiring 100% coverage. Conformance gaps will, during the interim period, be covered by supplementary material prepared by the Institute or nominated members.

Tuition

The desired content is set out in modular form, and it is suggested that courses reflect this modular structure. A suggested sequencing is shown in figure 23, but this is not mandatory.

The modules may be taught in a classroom setting, by distance learning, or by on-the-job tasks. Where possible, group discussion is recommended as a training method, in particular for modules A, B and G.

Study Time

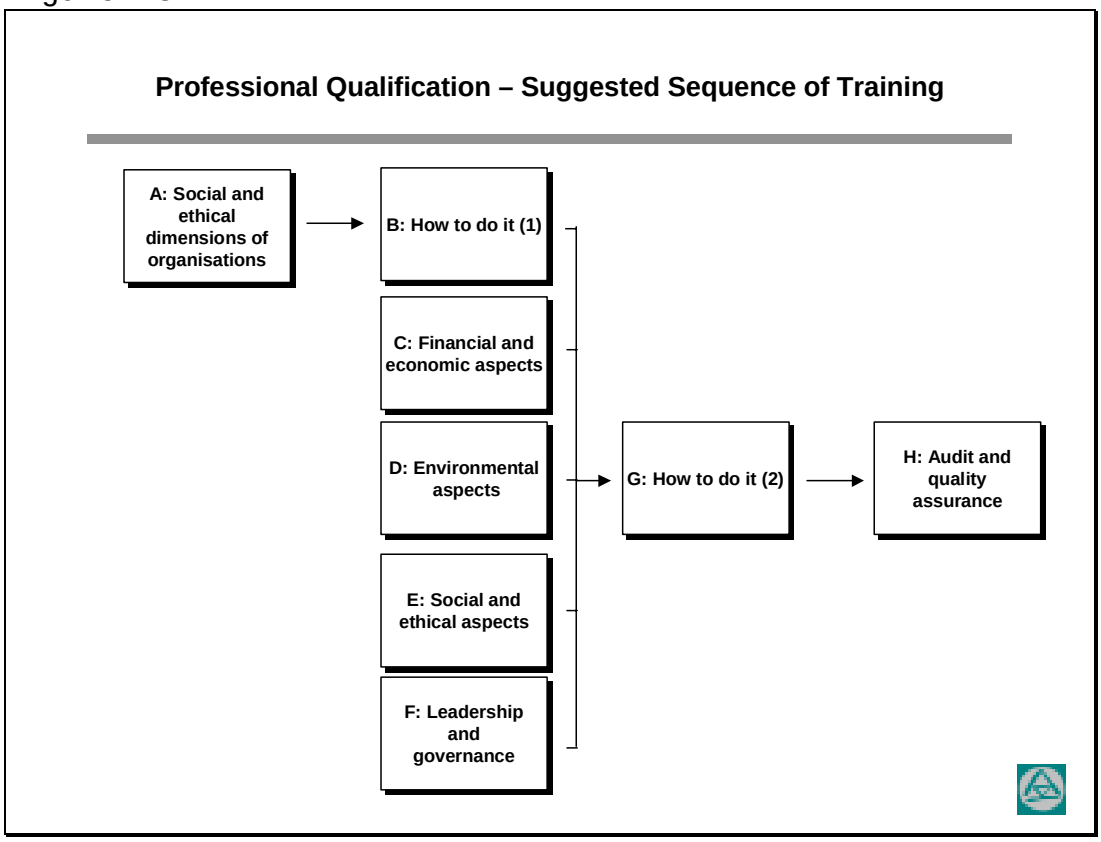
The **minimum duration** of the modules is estimated below.

Total study time is expected to be 100 - 120 hours. This is based on estimated face-to-face or class contact hours. The amount of additional private study time will be dependent on the student's ability and study patterns. As a guideline, it should at least equal the number of tuition hours. For those studying by distance learning, total study time is estimated to lie between 2 and 3 times the face-to-face hours.

- Module B: 25 – 30 hours
- Module G: 17 – 20 hours
- Other modules: 9-11 hours each

The modules may be combined into longer courses if appropriate. They may also be studied by distance learning.

Figure 23



Module A: Social and ethical dimensions of organisations

Aim: to **understand** the basic principles of organisational social and ethical and accountability, its connection with sustainable development, and the concept of stakeholders and their expectations.

a) Social and ethical issues and 'crises' as a challenge to organisations.

b) Ethical decision making.

c) Origins of organisational responsibility and accountability – ethical, philosophical, religious, cultural, the stewardship principle; and the link between individual accountability and organisational accountability.

d) Organisational responsibility and irresponsibility in the development of business and industry.

e) Organisational responsibility as viewed in different cultures – Asian, Anglo-Saxon, 'social market', etc.

f) Gender, race, age, ethnicity and disability issues in organisations; cultural difference between regions.

g) The concept of sustainable development, and the relevance of accountability to it.

h) Models of organisations in organisational theory and in different cultures.

i) The concept of stakeholders, the ethics and values of stakeholders, and their expectations from organisations.

j) The rights of stakeholders (including shareholders, employees and communities) in different countries, as provided by legislation and regulation.

k) The positive and negative impacts of stakeholder expectations and social, ethical and environmental issues on organisations.

l) Evidence for the benefits and costs to organisations of social and ethical accountability, including the linkage of social and ethical issues to financial performance.

Module B: How to do it (1)

Aim: to acquire and **be able to apply** a working knowledge of how to embark upon a social and ethical accounting, auditing and reporting exercise, recognise relevant issues, and identify and engage with stakeholders using appropriate tools and methods; and to apply principles of good practice and professional ethics.

a) Good practice principles of social and ethical accounting, auditing and reporting (introducing a coherent model covering the key aspects of good practice).

b) Organisational processes for managing social and ethical accountability, including AA1000 process standards.

c) Critical analysis of case study examples in social and ethical accounting, auditing and reporting from real organisations.

d) Identifying key stakeholders and priority issues; stakeholder - issue mapping.

e) The purposes of stakeholder engagement, including the development of organisational values and the identification of issues and indicators.

f) Building capacity for engaging with stakeholders and building stakeholder capacity for engaging with the organisation and other stakeholders.

g) Methods of engagement with stakeholders – specialist methodologies to address issues of gender, race, age, disability, ethnicity and culture.

h) Simulation / role-play exercise in stakeholder dialogue.

i) Reporting back to stakeholders (feeding back on progress and demonstrating responsiveness to stakeholder views).

j) Management of dilemmas, e.g. personal privacy and the public right to know.

k) Public affairs and communications activities, and their limitations.

l) Professional ethics for social and ethical accountants and auditors.

Module C: Financial aspects

Aim: to acquire a basic **understanding** of the main principles of financial management, sufficient to appreciate their relevance to social and ethical accounting, auditing and reporting and to enable co-operation with financial accountants and auditors.

a) Basic principles of financial accounting.

b) Key performance indicators.

c) Accounting procedures in companies.

d) What an auditor does.

e) Financial malpractice and its control.

f) Responsibilities to shareholders.

g) Financial aspects of corporate citizenship or organisations' charitable activity.

h) Differences between countries / regions (this should cover the country/ies in which the participants work, and also give an appreciation of wider international differences, especially in relation to multinationals with operations or suppliers in different countries).

Module D: Environmental aspects

Aim: to acquire a basic **understanding** of the main principles of environmental and health & safety management and auditing, sufficient to appreciate their relevance

to social and ethical accounting and to enable co-operation with environment and health, & safety specialists.

a) Health, safety and environmental issues as financial issues, including human health and traditional health & safety issues – potential costs and benefits.

b) Summary of main health, safety & environment legislative issues.

c) Basic facts of ecological sustainability and the prioritisation of ecological impacts – related standards, e.g. The Natural Step.

d) Environmental / health, safety & environment management systems, including dialogue as tool for issue-prioritisation.

e) The major standards – e.g. ISO14001, EMAS, BS8800, OHSAS18001 – and codes of practice –e.g. CERES principles, ICC Business Charter for Sustainable Development.

f) Environment or health & safety as a case study: from a peripheral issue to a central part of how companies do business.

g) Differences between countries / regions (see note in Module C on this point).

Module E: Social and ethical aspects

Aim: to develop a working **understanding** of major social and ethical issues and different approaches to social and ethical accounting, auditing and reporting, including the relevance of appropriate standards.

a) Summary of main relevant legislative issues – internal stakeholders, e.g. equality, gender, race and training legislation and codes of practice.

b) Summary of main relevant legislative issues - external stakeholders.

c) Summary of main social and ethical issues in different sectors, regions and organisation types – internal and external stakeholders.

d) Learning and growth of internal stakeholders; the measurement of intangible assets.

e) Listening to internal and external stakeholders.

f) Managing community relations programmes.

g) Measuring and valuing corporate citizenship and other charitable activities.

h) Embedding organisational values, including internal codes of conduct, and links to emerging standards – e.g. Ethical Trading Initiative.

i) Current and emerging social and ethical accountability standards, e.g. AA1000, ILO Conventions, Universal Declaration of Human Rights, Global Reporting Initiative, SA8000, Investors in People, Equal Opportunities Quality Framework, etc (depending on country).

j) Differences between countries / regions (see note in Module C on this point).

Module F: Leadership and governance

Aim: to **understand** the role and function of governance and leadership structures and processes, and to be able to assess how far these meet the requirements of social and ethical accountability.

a) The role of Boards – private, public and non-profit organisations.

b) Legal requirements and codes of good practice.

c) Directors' and trustees responsibilities – executive and non-executive.

d) Boards and the wider stakeholder community – the inclusion of stakeholders (legal and social and ethical requirements).

e) Methods of leadership – command & control and empowerment leadership.

f) Reputation management.

g) Differences between countries / regions (see note in Module C on this point).

Module G: How to do it (2)

Aim: to acquire and **be able to apply** a working knowledge of measurement processes and tools, the selection and use of indicators and metrics, and data handling, in the context of a systematic management approach; and to

acquire the **ability to advise** senior management on the use of such tools and indicators.

a) Systematic management of social and ethical issues; how to measure continuous improvement in performance.

b) Management systems – comparison with finance, quality, health and safety.

c) Indicators and metrics; methods and criteria for their selection.

d) Leading and lagging indicators, input / output / outcome indicators, process indicators.

e) Compiling a good set of indicators – achieving balance.

f) Performance measurement frameworks / scorecards.

g) Integrating economic, environmental and social management and measurement.

h) Basic statistical requirements (e.g. appropriate sample sizes, response levels to surveys).

i) Collating and analysing data – the need for ‘reality checks.’

j) Presenting and reporting the findings (e.g. in published company reports and web sites); Methods and best practice in data presentation.

k) Legal constraints on data collection and reporting.

Module H: Audit and quality assurance

Aim: to **understand** the role of the social and ethical auditor as distinct from that of the social and ethical accountant and **be able to apply knowledge** from other Modules in the conduct of an audit; and to understand the purpose, scope and main methods of verification.

a) The purpose of social and ethical auditing – internal and external auditing; quality assurance, accountability and organisation management.

b) The role and form of audit reports and opinions.

c) The subject matter / scope of social and ethical auditing – accuracy/validity, compliance, inclusivity and completeness.

d) Social and ethical audit methods, including stakeholder surveys, expert commentary, stakeholder audit panels and 'traditional' data and systems auditing.

e) The legitimacy of the social and ethical auditor – qualifications, experience and the inclusion of stakeholders in the audit process.

f) Comparison with financial and environmental audit methods.

g) Social and ethical principles for the auditor.

h) Good practice processes for the conduct of social and ethical audit – planning, evidence, documentation, etc.

Social accountants should possess a basic understanding of verification practices. Those wishing to practise in social accounting but not auditing will <u>not</u> therefore be exempt from these requirements.

PQ2 Work experience and Exemptions

Social and ethical accountants and auditors should receive credit for demonstrable experience in some or all of the following areas.

Group 1 – Environmental

a) Environmental impact assessment and / or remediation.

b) Design and / or operation of environmental or quality management systems and procedures (these need not necessarily conform to international standards such as ISO 14000 or EMAS, but if they do not, the practitioner should demonstrate a knowledge of the principles of at least one of the major international standards, and of the basic facts of ecological sustainability).

c) Environmental or health, safety & environmental management as a practising manager, or as a main activity within a consulting role.

Group 2 – Financial

a) Financial auditing or accounting procedures.

b) Managing charitable donations or the financial aspects of corporate citizenship programmes, or assessing the results of such programmes.

c) Managing relations with major shareholders, investors and / or trustees.

Those social and ethical accountants and auditors exhibiting adequate experience in one of the above groups may be exempted from the corresponding training modules. However, it will be recommended that they undertake a short adaptation module covering the specific application of the relevant professional skills to social and ethical auditing and accounting.

A minimum of two years' professional experience in relevant professional jobs (e.g. as a health, safety and environmental manager for Group 1, or as a financial auditor for Group 2) shall be taken as evidence meeting the requirements of the appropriate experience class, and as grounds for exemption from further formal training requirements in the relevant areas. These are:

Experience in:	*Group 1*	*Group 2*
Exempt from modules:	D	C

In exceptional cases, these and other exemptions may be granted on other grounds, if the individuals concerned can show evidence of understanding of the relevant subject matter. In the early stages of the Institute's development, additional exemptions may be made for existing members and for those who have already completed the Institute's training courses. The basis for these and other exemptions is defined in the document: the Membership Structure of the ISEA.

Experience in the following areas will also be helpful to social and ethical accountants and auditors:

Stakeholder relations

a) Directing, managing and /or implementing community relations programmes, or non-financial aspects of corporate citizenship programmes.

b) Consultancy in the above areas.

c) Research and consultancy in business and organisation ethics.

d) Research in social and ethical accounting, auditing and reporting, and its applicability in different organisational, regional and cultural contexts.

e) Overseeing the management of auditing procedures covering social, ethical and environmental impacts of organisations.

f) Engaging with civil society stakeholders.

g) Public affairs and communications activities.

h) Application in practice of skills in human resource management, anthropology or sociology.

i) Consultancy in human resource management or communications.

PQ3 Continuing professional development

Practitioners are expected to maintain a record of continuing professional development in the field of social and ethical accounting, auditing and reporting, with tangible evidence of qualifications, courses studied, etc., and to be able to show how they maintain an awareness of developments in the subject. This will be accomplished by formal training, conference attendance, participation in seminars with professional colleagues, and / or other means.

The current requirement is limited to the maintenance of a record of relevant experience. The record will define:

a) Time and detail of formal education.

b) Time and detail of reading.

c) Time and detail of experience.

The Institute will maintain the CPD record for each member.

PQ4 Accountant and Auditor training experience

In addition to the subject matter training set out above in Section PQ1, social and ethical accountants and auditors should undertake training in the conduct of accounting and auditing, together with on-the-job experience under the guidance of an experienced accountant or auditor. Experience in conducting environmental audits (to the extent prescribed by ISO14012) or financial audits will be sufficient to meet this requirement.
In the absence of such experience, the on-the-job training for auditors should consist of at least six days of auditing work divided between at least two distinct audit assignments, and it should have taken place within a two year elapsed period.

Lead auditors should have participated in at least nine days auditing, covering at least three distinct assignments, within a three year period.

The Institute’s CPD requirements (defined in Section PQ3) describe the experience requirements of social and ethical accountants and auditors on an ongoing basis.

8 Appendices

A Glossary of Terms

A.1 Introduction

The diversity of techniques in social and ethical accounting, auditing and reporting is reflected in the terminology used to describe them.

AA1000 has been developed through an inclusive process to clarify the understanding of quality in social and ethical accounting, auditing and reporting. The language and terminology used to define or describe quality has a key role in this clarification.

Best practice in social and ethical accounting, auditing and reporting will continue to emerge over the coming years. The glossary (like the foundation standard) should be stable enough to allow a common understanding of the key concepts of accountability to develop, while flexible enough to incorporate new techniques in supporting this quality. The glossary covers terms used in the AA1000 framework, but also a number of other terms common to the field of accountability.

The glossary is developed from the paper prepared for the Institute of Social and Ethical AccountAbility by the New Economics Foundation – 'Social and Ethical Accounting, Auditing and Reporting – Concepts, Terminology & Glossary'. It also draws from the FEE Position Paper on the Audit of Environmental Reports, 1998.

A.2 The Glossary

Accessibility

Quality principle: Concerns appropriate and effective communication to the organisation's stakeholders of the organisation's social and ethical accounting, auditing and reporting process and its performance. The organisation communicates through a social and ethical report(s), including written and verbal communications, and externally prepared audit report(s). Accessibility implies that each stakeholder group can easily and cheaply access the material communicated.

Account

A set of records of an organisation's actions or transactions relating to a specific stakeholder, e.g.retained earnings account, customer complaints file, results of stakeholder consultation.

To account for something is to explain or justify the acts and omissions for which one is responsible to people with a legitimate interest.

Accountability

The duty to account. To account for something is to explain or justify the acts and omissions for which one is responsible to people with a legitimate interest. To discharge its accountability, an organisation will account for its acts and omissions. However, in addition to this accounting requirement of 'transparency', accountability also implies a broader obligation of responsiveness and disclosure. It therefore includes

a) **Transparency** concerns the duty to account to those with a legitimate interest – the stakeholders in the organisation.

b) **Responsiveness** concerns the responsibility of the organisation for its acts and omissions, including the processes of decision-making and the results consequent to these decisions. Responsiveness entails a responsibility to develop the organisation's processes and targets to support the continual improvement of the organisation's performance.

c) **Compliance** concerns the duty to comply to legal requirements, regarding both organisational policies and the reporting of policies and performance.

Accountable

To be accountable is to be liable to be called to account.

Accounting

The systematic development, tracking and analysis of information about the social, ethical, environmental and economic affairs of an organisation for the benefit of one or more of its stakeholders.

Accreditation

The process of certifying that an auditor meets professional standards of competence.

Assurance

Assurance refers to the satisfaction of one party (a stakeholder or an auditor) as to the reliability of an assertion being made by another party (the organisation or its auditors). To provide such assurance, an auditor may assess the evidence collected as a result of procedures conducted and express an opinion. The degree of satisfaction achieved and, therefore the level of assurance that may be provided, is determined by the procedures performed and their results.

Audit

An examination and investigation of the records, statements, systems and procedures of an organisation together with its stated claims for performance. This is typically undertaken with a view to providing assurance as to the quality and meaningfulness (e.g. accuracy, validity, compliance, inclusivity, completeness) and other aspects of the claimed performance of the organisation.

Audit report

A testimony produced by an external auditor regarding the quality and meaningfulness of an organisation’s records, statements, systems and procedures as well as stated claims for performance. The report may also include an opinion on areas for improvement and predicted future progress.

Audit evidence

Audit evidence is the information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence will comprise source documents and records underlying the Report and corroborating information from other sources.

Audit sampling

Audit sampling involves the application of audit

procedures to less than 100% of the items within an audit area to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population.

Audit report

Any communication made by an auditor on a matter on which their opinion has been sought and within their terms of reference, e.g. external verification (or verifier's) statement, internal report on management systems.

Audit boundary

The boundary between the set of stakeholders and stakeholder issues which are included for consideration within a given audit cycle and those excluded.

Auditing

The process of conducting an audit.

Auditor

The person, or organisation, which conducts an audit, typically certified by a professional body or licensed under statute. The auditor may be internal (i.e. employed by the organisation) or external (i.e. unconnected with the organisation).

Benchmark

A measurable variable used as a baseline or reference in evaluating the performance of an organisation. Benchmarks may be drawn from internal experience, the experience of other organisations or from legal requirements, and are often used to gauge changes in performance over time.

Book-keeping

The recording and summarising of records in accordance with agreed procedures. This is the means by which information is routinely collected about performance. The term 'record-keeping' is also used.

Capital

The accumulated products of processes by means of which the processes of production may themselves be continued. Capital may be embodied in financial or financially-valued physical resources (e.g. shares or physical plant and machinery), environmental resources (e.g. bio-diverse eco-systems), social resources (e.g. institutions) or human knowledge.

Certification

A systematic, documented process by which an accredited person assesses if a system (e.g. a quality or environmental management system) complies with required criteria.

Code (of ethics)

A chart of behaviours, duties and rights defining the social, ethical, environmental or financial responsibility of the organisation, its employees and / or other stakeholders. An 'auditable code' is one defined with sufficient precision to enable compliance with it to be formally assessed and audited.

Comparability

Quality principle: Concerns the ability to compare information on the organisation's performance with previous periods or external benchmarks drawn from other organisations, statutory regulation or non-statutory norms. External benchmarks are selected for their accuracy, relevance and legitimacy to the organisation and to different stakeholder groups. If the indicators chosen (to measure performance) by an organisation and its stakeholders are unique to the organisation, comparability of performance with other organisations may not be possible or necessary.

Comparatives

Comparatives are corresponding items of information for the preceding reporting period, or periods, presented for comparative purposes.

Corresponding information is often included as part of the current period report, and is intended to be read in relation to the information relating to the current period. It is an integral part of the current period report intended to be read only in relation to the current period information and not as a complete report capable of standing alone.

Completeness

Quality principle: Concerns the unbiased inclusion in the accounting processes over time of all appropriate areas of activity relating to the organisation's social and ethical performance. In addition, there is clear externally audited disclosure of what is included and what is excluded and the reasons for any such exclusion. The organisation should be prudent in ensuring that

adverse impacts of its activities are not downplayed, and that uncertain impacts are not prematurely documented and reported as certain.

Compliance

The agreement of behaviour by an organisation or individual with a prescribed code.

Confidentiality

Social and ethical audit principle: Auditors respect the confidentiality of information acquired during the audit and do not use or disclose such information without proper and specific authority, unless there is a legal or professional right or duty to disclose.

Continuous improvement

Quality principle: concerns recognised and externally audited steps taken to improve performance in response to the results of the social and ethical accounting, auditing and reporting process. It is a process that assesses progress, reports performance, and sets targets for the future. The principle of continuous improvement also refers to the need for continual development of the accounting, auditing and reporting process itself within the organisation. Together with the principle of embeddedness, continuous improvement is concerned with the knowledge and learning of the organisation, in terms of individuals within the organisation and the organisation's systems.

Due care to stakeholders

Social and ethical audit principle: Auditors perform the audit with due care and consideration of stakeholders' interests. Auditors consider, in particular, foreseeable threats to their psychological well-being, health, values or dignity.

Embeddedness

Quality principle: Embeddedness or systems integration, concerns making the social and ethical accounting, auditing and reporting processes part of the organisation's operations, systems and policy making, and not treated as a one-off exercise to produce a social and ethical report. Together with the principle of continuous improvement, embeddedness is concerned with the knowledge and learning of the organisation, in terms of individuals within the organisation and the organisation's systems.

Engagement

The process of seeking stakeholder views on their relationship with an organisation in a way that

may be realistically be expected to elicit them.

External auditor

A person or organisation (conducting an audit) which is ‘unconnected’ or independent of the organisation being audited - i.e. not employed by or sharing any material interest with the organisation.

Focus group

One of the methods of engagement of stakeholders to explore specific stakeholder needs and values and to allow views and concerns to be expressed and discussed.

Governance (also referred to as corporate governance when applied to a company)

The system by which organisations are directed and controlled.

Inclusivity

Quality principle: Concerns the reflection at all stages of the social and ethical accounting, auditing and reporting process of the views and needs of all stakeholder groups - those groups who affect and / or are affected by the organisation and its activities. Stakeholder views are accurately and fully obtained through an engagement process that allows them to be expressed without fear or restriction. Inclusivity requires the consideration of ‘voiceless’ stakeholders including future generations and the environment.

Indicator

A piece of qualitative or quantitative information that provides a meaningful insight into a (broader) state of affairs, typically the performance of an organisation.

Information systems

The series of tasks, records and instruments of an entity by which data, including data on impacts and outcomes, are systematically generated, documented and processed for the purpose of providing information as requested, e.g. for decision making or accountability purposes.

Integrity

Social and ethical audit principle: Auditors act with integrity in all professional and business relationships. Integrity implies not merely honesty, but also fair dealing and truthfulness.

Internal auditor

A person employed within an organisation, or an internal department that conducts an audit. The internal auditor

is independent of the department being audited.

Internal audit

An audit conducted by an organisation upon itself.

Management report

Additional information given by an auditor, for example on shortcomings of the report that are not material, or on recommendations for improvements concerning the organisation of the entity. The addressee of the management letter is the client, usually the governing body.

Materiality

Quality principle: Concerns the need to include significant information that is likely to affect one or more stakeholder groups and their assessment of the organisation's social and ethical performance. The complexity of defining materiality for social and ethical issues demands inclusive processes of stakeholder engagement, including an analysis of stakeholder needs to assess the significance of information.

Objectivity and independence

Social and ethical audit principle: Auditors demonstrate objectivity and independence - a state of mind, being a combination of impartiality, intellectual honesty and a freedom from conflicts of interest.

Performance (social and ethical)

The impact of an organisation on its stakeholders, particularly in dimensions in which they hold it accountable. Social and ethical performance refers to the systems and individual behaviour within an organisation as well as to the direct and indirect impact of an organisation's activities on stakeholders.

Professional behaviour

Social and ethical audit principle: Auditors are courteous and considerate in the performance of the audit and refrain from conduct that may bring discredit to the profession.

Professional competence

Social and ethical audit principle: Auditors perform

the audit with competence and diligence. Auditors have a continuing duty to maintain professional knowledge and skill at the level necessary to provide a professional service based on up to date developments in practice, legislation and techniques. Auditors do not accept or perform work that they are not competent to undertake unless appropriate advice and assistance is obtained to enable the auditor to carry out the work.

Quality Assurance

Quality principle: Concerns the audit of an organisation's process by an independent and competent third party (auditor) or parties. The audit is concerned with building credibility (and providing assurance) in the process with all stakeholder groups, and hence developing meaningful stakeholder engagement. The audit process(es) may include a variety of methods, but must always consider the accuracy / validity of the reporting and supporting information systems, the organisation's compliance with legislation and other standards, and the inclusivity and completeness of the process.

Regularity and Timeliness

Quality principle: Concerns the need for regular, systematic and timely action of the social and ethical accounting, auditing and reporting process to support the decision making of the organisation and its stakeholders. It is a repeated process, but does not have to be an annual exercise, or if annual it need not follow existing accounting cycles.

Relevance

Quality principle: Concerns the usefulness of information to stakeholders as a means of building knowledge and forming opinions, and as assistance to decision making. Engagement with stakeholders is an essential part of identifying the relevance of information.

Reliability

Quality principle: Concerns the characteristic that allows stakeholders to depend on the information provided by the social and ethical accounting and reporting to be free from material error and bias. To ensure reliability, information should be presented in accordance with the reality of the information and not just its legal form. In addition, information should be presented neutrally, and the organisation should be prudent in the inclusion of

information and the description of the organisation's position.

Report

A written document or other communication prepared to reflect the performance of an organisation relating to its values, objectives and targets.

Reporting

The process of the production and dissemination of reports.

Social and ethical accounting, auditing and reporting (SEAAR)

A generic term for the variety of approaches to the measurement, assessment and communication of social and ethical performance.

Stakeholder

An individual or group of individuals who affect and / or are affected by an organisation and its activities. Some organisations describe their stakeholders as 'partners'.

Standard

A widely agreed set of procedures, practices and / or specifications. Standards vary across a number of dimensions, including process and substantive standards, mandatory and voluntary standards, and theoretical and best practice standards.

Sustainability

The capability of an organisation (or society) to continue its activities indefinitely, having taken due account of their impact on natural, social and human capitals.

Sustainable development

Economic development that is sustainable. A dynamic process that enables all people to realise their potential and to improve their quality of life in ways that simultaneously protect and enhance the Earth's life support systems.

According to the Brundtland Report, "Sustainable development is development that meets the needs of the present without compromising the ability of future generation to meet their needs."

Understandability

Quality principle. Concerns the comprehensibility of

information to stakeholders, including issues of language, style and format. Technical and scientific terms should be explained within the report(s).

Values (core)

Those values of the organisation which are defined within the organisation and which it attempts to realise. These are typically reflected in its mission statement or business principles and cover its relationship with those stakeholders critical to short-term viability.

B) The Institute of Social and Ethical AccountAbility

B.1 Introduction

The Institute was established in 1996 as **an international membership organisation**, based in the United Kingdom.

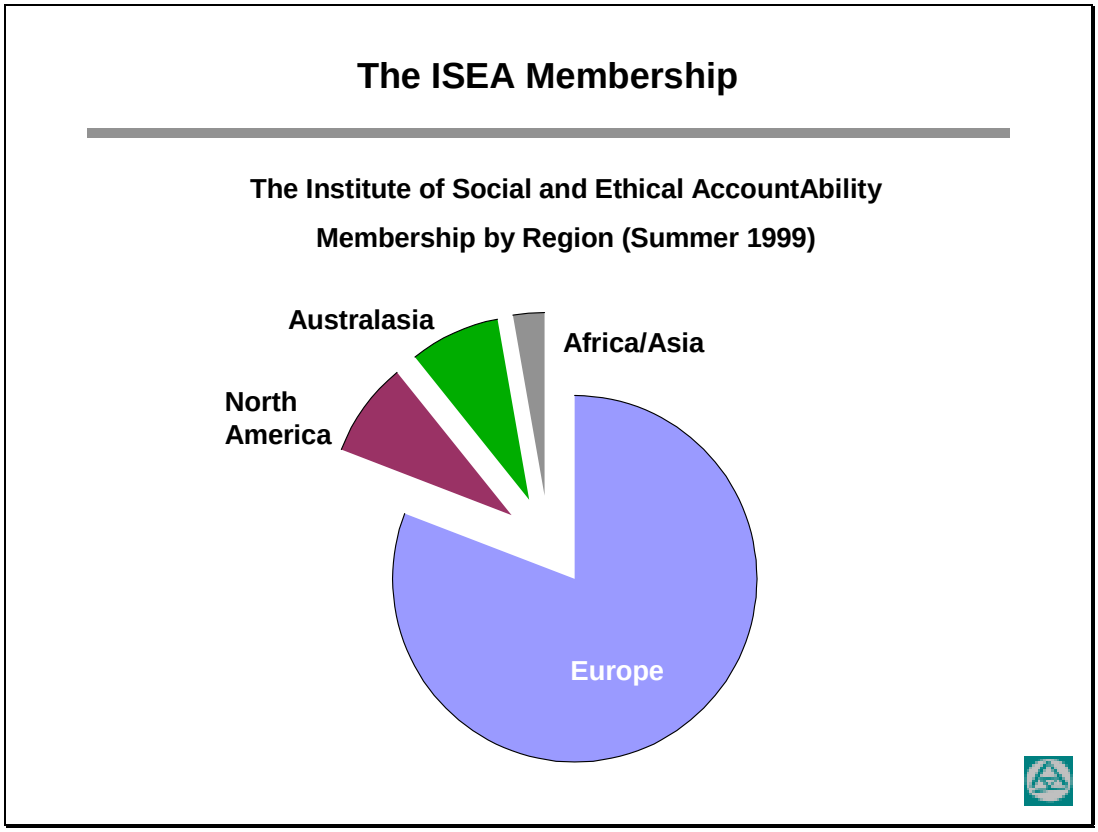
It is a professional body committed to **strengthening the social responsibility and the ethical behaviour** of the business community and non-profit organisations.

B.2 Membership and activities

The Institute operates as **a hub for individuals and organisations** interested in the field of accountability. In addition to its research programme, it provides information and advice, and creates the opportunities for members to meet to support their learning, and to share their concerns and experience.

The Institute's membership is international, representing the growing interest worldwide in the field of accountability (see figure 24). The Institute supports this movement through the development of a series of regionally based chapters.

Figure 24 – The membership of ISEA



The Institute's membership includes individuals and organisations. Organisational members include SMEs, large national and multinational companies, consultants and accountants, government departments, academics and civil society organisations. Each group is strongly represented in the Institute's membership and in its governing Council (see figures 25 and 26).

Figure 25 – The membership of ISEA

The ISEA Membership

The Institute of Social and Ethical AccountAbility

Organisation Membership by Type (Summer 1999)

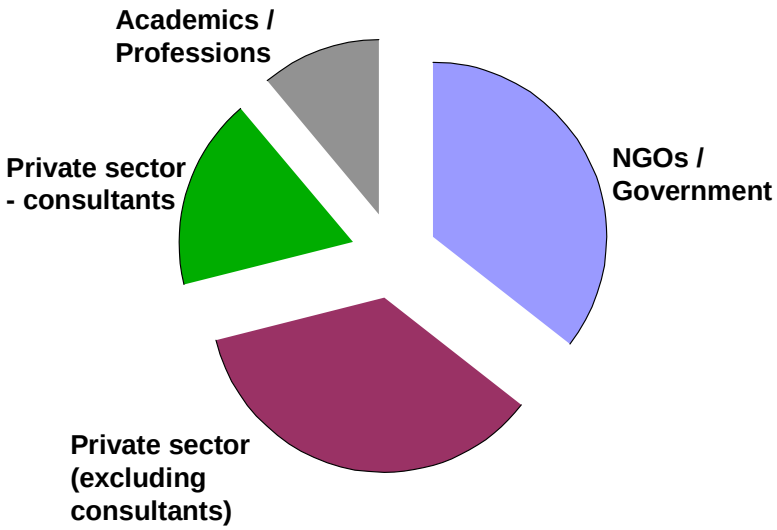


Figure 26 (see attachment)

[Back cover]

The Institute of Social and Ethical AccountAbility (ISEA) was founded in 1996 as an international membership organisation, based in the United Kingdom.

The Institute is a professional body committed to strengthening the social responsibility and the ethical behaviour of the business community and non-profit organisations.

The Institute addresses this mission by

promoting best practice social and ethical accounting, auditing and reporting (SEAAR), and

developing standards and accreditation procedures for professionals in the field.

Address