

ASSURANCE

making reports more credible

ScottishPower has spent the last three years refining the way it assures its environmental and social reports. This has helped the company to improve the quality of its reporting, identified new issues that materially affect its business, and enhanced its standing among stakeholders

When you read a company's account of its social and environmental impacts and the steps being taken to limit them, how do you know it is true? This is not just a philosophical question. When a large company declares its profits, investors and other interested parties can have confidence that the underlying figures have been checked to an agreed, and legally required, professional audit standard. Companies' social and environmental reports, by contrast, offer no such reassurance. Companies are not required to produce them – and if a company chooses to, the report does not have to be audited.

As a result, non-financial reports have been challenged as lacking credibility. This is ironic, given that the reason most companies produce them is to build trust between themselves and the different parties with an interest in the company – investors, customers, employees, pressure groups and so on. To make their statements more credible, a growing number of companies – around a third of the UK's 100 largest listed companies at the last count – now include an assurance statement in their social and environmental reports. One of these is ScottishPower, the international energy company.

What marks out ScottishPower's latest *Environmental and social impact summary report*, which was published this autumn, is the effort the company has made to assure the information as accurate, relevant and complete – no small task for a document that covers operations serving more than 6.7 million customers on both sides of the Atlantic. The report is supported by extensive performance data available online – all of which has been included in the assurance process.

Jon Woodhead, director of csrnetwork, the consultancy which assures a number of corporate non-financial reports, among them ScottishPower's, says: 'The amount of commitment and effort on the part of a company to get one of these reports out is often overlooked by people with an interest in CSR reporting.' In the assurance statement that accompanies this year's report, Woodhead notes that 'the direct involvement of the executive team [of ScottishPower] has been particularly significant' in relating responsible business practice to the company's core business. This during a period when a lot of management time was consumed by the sale of the PacifiCorp business in the US and corporate restructuring.

Broadly speaking, ScottishPower's assurance process has two stages. Once the reporting team

the company

ScottishPower is an international energy company with electricity, gas and coal interests in the UK and the US. It has 16,000 employees and had a net operating profit of £1.197 billion (\$2.09bn) in the 2004/5 financial year. In May 2005 it announced its intention to sell PacifiCorp, one of its US businesses, to a US energy company. ScottishPower:

- was the largest developer of wind power in both the UK and the US in 2004/05. The company plans to invest £1bn in wind-energy schemes in the UK by 2010
- was awarded a record seven 'Big Ticks' for community programmes by the industry network Business in the Community
- was rated a best performer among 14 utilities companies assessed by the France-based socially responsible investment rating agency Vigeo
- improved its health and safety performance by 14 per cent on average over the year

■ in ScottishPower's assurance process, an internal audit team first gathers data on company operations such as the Dun Law windfarm near Edinburgh and the information collected is then checked by an external team of assessors



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has collated the data, which covers everything from greenhouse gas emissions from individual power stations to the number of hours of staff training given, an internal audit team formally verifies the information and checks any claims. Then csrnetwork's five-strong team, which is led by Woodhead, meets the managers responsible for the internal audit, reviews the processes used and carries out sample checks. The consultancy has no other contract with the company.

'The key feature of ScottishPower's assurance process is how the work we do as independent assurers of the report integrates with the company's own internal controls and processes,' explains Woodhead. 'Their internal audit team goes through the data forensically and we then check what they do. Assurance normally involves going through only a limited selection of the data, and you can hope only to achieve a sampling process. In this case, we test the robustness of the internal process itself.' In other words, the assurers check the checkers.

One of the main reasons why international companies rarely hire independent assurers to check all the details in their social and environmental reports is the expense of tracking down and verifying the source of thousands of pieces of dispersed data. ScottishPower's approach enables data to be verified to a high standard at reasonable cost.

As well as working in parallel with, but independently from, the internal audit team, csrnetwork this year met company staff, interviewed senior managers, attended meetings with stakeholders and made a number of site visits. All this is in line with the AA1000 Assurance standard, which is the industry benchmark for third parties assessing non-financial reports.

But assurance is not just about making sure the company has got its facts right. Arguably of equal importance is the opportunity to suggest, in a public assurance statement, how the company could improve its performance. csrnetwork recommends, among other things, that future reports describe ScottishPower's policies and strategies 'to address issues around the development of wind farms', and feature more discussion of how climate change, fuel poverty and other issues will affect the company's prospects.

This is the third year the company has had its non-financial report assured externally. Has the work made people think differently about what the company has to say about itself? Shannon Shoul, ScottishPower's group CSR manager, says: 'We started having our reports assured three years ago in response to requests from our stakeholders. This coincided with our decision to widen the range of

issues on which the company reports. Since then both internal and external audiences note higher credibility for our reports. We have also found areas for improvement, including the capture and management of information throughout the year and ensuring our reporting framework reflects the issues that are most important to our business. Our internal management and the process of reporting itself have also helped to highlight these issues.'

A further benefit is that the assurance process will make it easier for the company to comply with the UK's new Operating and Financial Review regulations, which require companies to report more fully on social and environmental matters. 'Our internal experience of reporting with a high level of assurance means we have gained experience in advance of the advent of mandatory reporting on material social, environmental and ethical matters,' says Shannon. 'It has been helpful to engage the relevant personnel throughout our businesses and key functions in advance of a requirement, so that we understand exactly how we identify and manage the most important issues.'

As more organizations begin reporting on their social and environmental impacts, it is becoming harder for individual companies to stand out from the crowd. The quality of assurance is therefore emerging as a key distinguishing factor. That puts ScottishPower in a good position. 'With three years of practice and refinement, holding ourselves to a higher standard, we are now more accustomed both to identifying issues and reporting on them,' says Shannon. 'Hopefully that puts us ahead of the pack. Going through an extensive internal audit process and external assurance bolsters the legitimacy of our reports and demonstrates our commitment to transparent reporting, rather than just telling a good story.'

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around a third of the UK's largest companies now include an assurance statement in their reports

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Social and environmental reports are designed to shed light on aspects of a company's activities and to build trust with stakeholders, but there is still a degree of scepticism among stakeholders, especially if reports are not independently verified. For some companies the cost and time has meant this falls into the 'too difficult' category. ScottishPower has taken a novel approach by arranging for an independent review of the verification work undertaken by its internal audit team, in addition to other checks made by the external assurers.

points to note:

- this approach builds on internal work and helps stress the importance of such reporting with all managers
- as a result of its activities, ScottishPower is well placed to develop its OFR statement from internal documents (externally verified) already in existence
- the internal/external approach is pragmatic given bottom line pressures and is one that many companies could emulate

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