The smart assurance index 2013

The state of sustainability assurance in the FTSE 350

Welcome to the 4th smart assurance index

Carbon Smart is pleased to present the results of its 4th report edition revealing the state of sustainability assurance in the FTSE 350, celebrating those companies who demonstrate commitment to transparency and accuracy in sustainability reporting by committing resources to robust third party assurance.

Less than 25% of the FTSE 350 have their sustainability data assured but with legislation coming into effect in September 2013 requiring all listed companies to declare their carbon emissions, the reporting landscape is altering.

The ever increasing scrutiny being placed on company reporting processes only makes this research more important. We hope the smart assurance index will guide companies to avoid the pitfalls and extract maximum business value from their sustainability reporting.

Ben Murray

Managing Director, Carbon Smart

"At British American Tobacco we feel assurance is essential for building credibility and trust with stakeholders as well as driving continual improvements internally. We are committed to leading developments to the practice, through sponsoring Carbon Smart's research to improve standards in this area".

"The non-financial reporting landscape is evolving with greater requirements on companies to provide robust, transparent and auditable data. Greenstone is committed to streamlining data management and ensuring greater confidence when reporting, enabling companies to focus on analysing the results and achieving real business benefits".

Introduction

As sustainability reporting matures, driven by government regulation, public demand and company values, the need for credible reported information becomes critical.

Sustainability assurance should testify that a sustainability report covers all issues that are important to stakeholders in a transparent manner and that the processes and data behind the report hold a degree of accuracy that renders them reliable.

Assurance statements should confirm sustainability reports are supported by sound reporting practices from the position of a trusted expert. Our reports to date have shown however that the discipline of assurance as presently practiced falls short of these requirements.

With little regulatory mandate to guide assurance, it has been referred to as the wild west of sustainability reporting. An array of statements have been produced with different methodologies and insufficient detail on the credentials of the provider, making it difficult for readers to compare and understand how well the engagement has been carried out.

For the past four years, Carbon Smart's independent research has sought to drive improvements in the use of sustainability assurance: Firstly, in consultation with an expert industry panel and a wide range of company stakeholders a set of fifteen criteria were developed that set out what best practice assurance for sustainability and carbon reporting should look like.

Secondly we identified all companies in the FTSE 350 with an assurance statement. Thirdly we developed a weighted scoring system to quantify how well each assurance statement met our criteria and developed the Smart Assurance Index to position companies against our benchmark.

Finally, we have used our findings to make recommendations for improvement for reporting companies and their assurance providers.

This year for the first time we have included a section on carbon intensity. We looked at the sustainability reports of the 64 companies in the FTSE 350 that have their carbon footprint data assured; we extracted their revenue and carbon footprint to calculate their carbon intensity.

Key findings

- CRH, the building materials group top this year's league table for the first time. Other top performing companies include BP who has significantly improved this year, British American Tobacco, Diageo and the Royal Bank of Scotland.
- International Personal Finance, Home Retail Group, TUI Travel and Travis Perkins are in our bottom grouping representing a step down for most of them.
- The uptake of assurance remains stagnant; the proportion of FTSE 350 companies undertaking it remaining below 25%.
- The quality of assurance is improving; two thirds of companies now produce an assurance statement that: is clear about disclosing the scope of the engagement; uses a recognised standard; specifies the level of assurance gained; and is transparent and free from jargon.
- Assurance statements are still lacking in many respects; notably in the credentials supplied relating to providers and in the way independence is addressed.
- In advance of regulation, businesses are starting to declare their own metrics for their carbon intensity – but there is little consensus in what the best metric to use is.
- The divergence in carbon intensity figures between organisations suggests that they are not using the same methodologies to define what is in and outside of scope, meaning that the figures are not comparable.

Who has done well?

CRH, the building materials group, have topped the league table for the first time knocking Vodafone off the top spot. British American Tobacco, Diageo and the Royal Bank of Scotland have all maintained their high rankings and BP has significantly improved this year joining the high performers by producing a statement that represents transparent and accountable reporting. All these statements illustrate:

- accordance with two assurance standards and the level of assurance achieved for different elements;
- clear detail on the scope of engagement and discussion around materiality;
- appropriately qualified independent third party providers;
- detail on site visits conducted;
- transparency and accessibility of language.

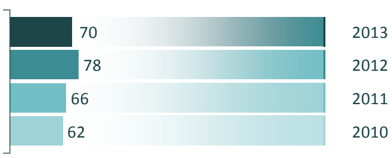
Who has work to do?

International Personal Finance, Home Retail Group, TUI Travel and Travis Perkins each produce an assurance statement in which the assurer failed to state their independence, or a conflict of interest was apparent. In addition, the assurance statement failed to clearly disclose most of the following:

- the subject matter under assurance;
- the competence and independence of the provider;
- details on the work conducted and;
- the level of assurance.

The benefit in assurance lies in the credibility and reliability it can provide to sustainability reporting. Yet without abiding by best practice standards and principles, and clearly communicating the work that has been carried out, the value of them is compromised.

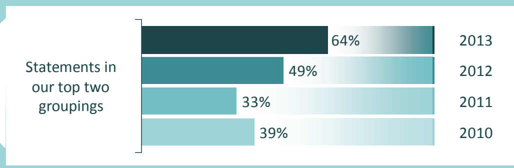
The uptake of assurance remains low amongst FTSE 350 companies



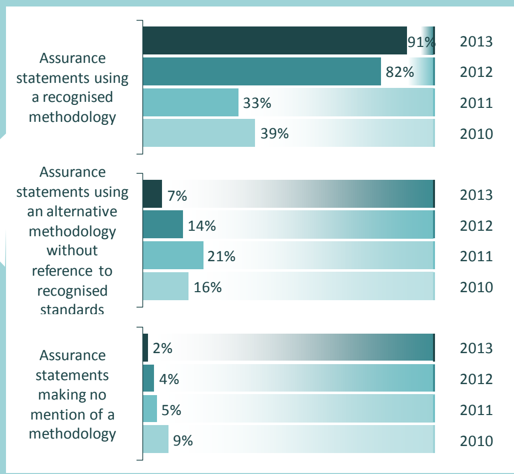
The uptake for the FTSE 350 as a whole remains below 25% (within that, 50% of the FTSE 100 undertake it).

The good news

The quality of assurance is improving. 64% of those companies using assurance now produce an assurance statement that is clear in a number of ways: about the scope of the engagement; in the language that it uses; about the standards followed and the level it has been conducted to. The proportion of clear statements has increased by 25% since the first research report.

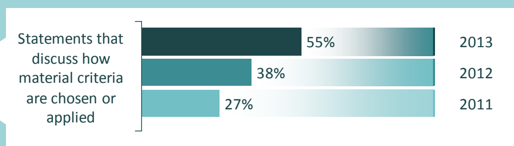


More assurance statements now use a recognised methodology. 91% of statements use a recognised standard such as ISAE 3000 or AA1000AS, at best stating accordance with it.



Now it is clear whether carbon is under the assurance scope. Statements haven't always been clear about whether carbon is assured despite it being the most commonplace (and arguably important) sustainability metric.

Statements are getting better at discussing how material criteria are chosen or applied. Given how important the identification and management of risks and opportunities is to the company's reporting process, this is an area of particular focus. It is worth noting that the number of statements that fail to discuss materiality remains high (45%).



View from the Advisory Panel

***Materiality** has been a key topic of conversation for the advisory panel over the last few years. It is therefore encouraging to see the number of statements discussing materiality increasing again, however the panel notes there remains a significant opportunity for the market to adopt this practice more widely.*

The bad news

Almost no assurance statements can claim that the assured content is accurate, reliable and free from misstatements. Only a 'limited level' of assurance is gained in the majority of cases (97%).

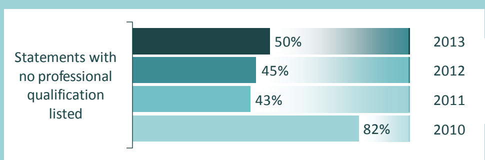
Limited/Moderate – the assurers have only carried out enough work to make statements about the report which are framed in a negative way.

Reasonable/High – The assurers have carried out enough work to be able to make statements about the report which are framed in a positive manner. With high level assurance, the risk of the conclusion being in error is very low

View from the Advisory Panel

*The **independence** of the assurance provider is fundamental in ensuring an unbiased and objective opinion is provided. The panel therefore finds it surprising that a fifth of assurance statements still do not declare their independence. The panel also notes that best practice includes providing a basis for the assurer's independence alongside its declaration.*

20% of statements cannot claim to be independent – either the declaration is insufficient or there is reason to believe they are not conducted by an independent body.



Half of statements list no professional qualifications of the assurance provider. The lack of regulation and array of approaches to assurance makes it all the more important for assurance providers to state their competence, knowledge and experience in the field.

280 companies in the FTSE 350 are still not seeking sustainability assurance.

Several companies with significant environmental impacts are not seeking assurance for the sustainability claims they are making. Amongst them are well known companies such as easyJet, Rolls Royce, Sainsbury's and companies in the petrochemical and basic material industries such as Antofagasta, Kazakhmys and Vedanta Resources.

Case studies

BARRATT DEVELOPMENTS PLC

Barratt Developments are the only company within the housebuilding sector listed as carrying out assurance of our sustainability reporting. Having always been conscious of best practice standards and aiming to meet those the GRI specifies, sustainability assurance has been part of every sustainability report process for Barratt.

Driven forward by performance on benchmarks and senior management engagement, Barratt has sought to evolve its approach at every opportunity. Four years ago Barratt was in the 3rd category out of a total of four on the Carbon Smart Assurance Index. Through seeking feedback and engaging with Carbon Smart, Barratt now classifies as a good performer. To provide an insight into what led to that rise requires mentioning a number of factors that reveals how Barratt operate as a business.

Management systems have been implemented to improve processes and checks that ensure Barratt remains a robust and transparent business. Externally certified safety, health and environmental management systems form part of this which have helped build our data up to withstand increasing external scrutiny.
Key focus on building relationships with stakeholders has improved communication channels throughout the business and having our data assured in greater depth has been part of that all important outcome. Assurance has also helped Barratt to remain ahead of regulatory requirements by feeling confident enough to report greenhouse gas emission data in our annual report one year in advance of the requirements missing.

sky

At Sky, we've been assuring our environment data since 2006. In 2012, as part of a wider review of the stakeholder value of our sustainability reporting, we recognised the need to expand the scope of our assurance to include a wider set of progress indicators. We felt we were missing an opportunity to let people know about the extent of our contribution, particularly in relation to our social impact.

The Carbon Smart framework for assessing assurance statements helped us understand the areas where we needed to improve and work with Deloitte, our assurers, to build that into our process.

While our more extensive approach provides important information to our sustainability stakeholders and increases our transparency as a business, we've also gained real value from the in-depth conversations we've had across Sky about what we're doing. In turn, this has helped us to refine our objectives and progress measures so that we can communicate the impact we're having more effectively.

Sustainability assurance index

Rating (% of total available scores)	Company	Industry	Ranking Position
Out in Front (100 – 72%)	CRH	Industrials	1
	British American Tobacco	Consumer Goods	2
	Diageo	Consumer Goods	3
	AstraZeneca	Health Care	4
	Essar Energy	Industrials	5
	Morrison (Wm) Supermarkets	Consumer Services	6
	Premier Farnell	Industrials	7
	African Barrick Gold	Basic Materials	8
	Marks & Spencer Group	Consumer Services	=9
	BP	Oil & Gas	=9
	Royal Bank Of Scotland Group	Financials	11
	Provident Financial	Financials	12
	Vodafone Group	Telecommunications	13
Front of the Pack (71-60%)	BHP Billiton	Basic Materials	14
	Lonmin	Basic Materials	15
	Reed Elsevier	Consumer Services	16
	Barclays	Financials	17
	British Sky Broadcasting Group	Consumer Services	18
	Cairn Energy	Oil & Gas	19
	Man Group	Financials	20
	GlaxoSmithKline	Health Care	21
	Aviva	Financials	22
	WH Smith	Consumer Services	23
	Unilever	Consumer Goods	=24
	Next	Consumer Services	=24
	Mondi	Basic Materials	26
	RSA Insurance Group	Financials	27
	Tullow Oil	Oil & Gas	=28
	Great Portland Estates	Financials	=28
	BG Group	Oil & Gas	30
	Balfour Beatty	Industrials	31
	SABMiller	Consumer Goods	=32
	Imperial Tobacco Group	Consumer Goods	=32
	Anglo American	Basic Materials	=32
	ENRC	Basic Materials	=32
	Morgan Advanced Materials	Industrials	=32
	BAE Systems	Industrials	=37
	Big Yellow Group	Financials	=37
	Barratt Developments	Consumer Goods	39
	Associated British Foods	Consumer Goods	=40
	Reckitt Benckiser Group	Consumer Goods	=40
	British Land Co	Financials	42

	UBM	Consumer Services	43
	Experian	Industrials	=44
	Amlin	Financials	=44
The Pack (59 -32%)	Kingfisher	Consumer Services	=46
	National Grid	Utilities	=46
	Premier Oil	Oil & Gas	48
	Centrica	Utilities	49
	Rio Tinto	Basic Materials	50
	HSBC Hldgs	Financials	=51
	Standard Chartered	Financials	=51
	Lloyds Banking Group	Financials	53
	FirstGroup	Consumer Services	54
	Land Securities Group	Financials	55
	Standard Life	Financials	=56
	Whitbread	Consumer Services	=56
	Go-Ahead Group	Consumer Services	58
	Intu Properties	Financials	59
	Glencore Xstrata	Basic Materials	60
	Royal Dutch Shell A	Oil & Gas	61
	BT Group	Telecommunications	62
	Amec	Oil & Gas	63
	Tesco	Consumer Services	64
	United Utilities Group	Utilities	65
	Carillion	Industrials	66
Back of the Pack (31 – 0%)	Travis Perkins	Industrials	67
	TUI Travel	Consumer Services	68
	Home Retail Group	Consumer Services	69
	International Personal Finance	Financials	70
Trailing the pack	280 companies in the FTSE 350 who do not have assurance statements.		

KEY	Significantly improved since last report
	Significantly regressed since last report

For a description of smart assurance index groupings please visit:
http://www.carbonsmart.co.uk/wp-content/uploads/2013/10/Groupings.pdf

Out in front	Leading companies (>72%) are those where the assurance statement was clear and described a comprehensive engagement.
Front of the pack	Good performers (60-71%) are those where the assurance statement was clear but demonstrated a limited engagement.
In the pack	Average companies (32-59%) are those where the assurance statement lacks clarity.
Back of the pack	Companies at the bottom of the league table (0-31%) are those that fail to meet independence requirements and do not clearly disclose the following: Scope of the content under assurance; the competence and independence of the provider; details on the work conducted; and the level of assurance.

Carbon assurance index

Carbon is one of the most readily quantifiable environmental metrics available, with standardised measurement and reporting guidelines, it is viewed as one of the core indicators of a company's environmental performance. Direct financial implications of carbon performance create an additional impetus to ensure accurate measurement. Of the 70 companies that have produced an assurance statement, 64 of them have clearly included carbon under the scope.

Those companies leading the carbon assurance index are not the same as those leading in sustainability assurance overall. CRH and AstraZeneca are the only two companies found in our top grouping on both indexes.

Rating (% of total available scores)	Company	Industry	Ranking Position
Out in Front (100 – 75%)	UBM	Consumer Services	1
	National Grid	Utilities	2
	BG Group	Oil & Gas	=3
	British Sky Broadcasting Group	Consumer Services	=3
	Next	Consumer Services	=3
	CRH	Industrials	6
	Investec	Financials	7
	AstraZeneca	Health Care	=8
	Aviva	Financials	=8
	GlaxoSmithKline	Health Care	=8
	Lonmin	Basic Materials	=8
	Tesco	Consumer Services	=8
Front of the Pack (74-60%)	British Land Co	Financials	=13
	BT Group	Telecommunications	=13
	Mondi	Basic Materials	=13
	Morrison (Wm) Supermarkets	Consumer Services	=13
	Premier Farnell	Industrials	=13
	Reed Elsevier	Consumer Services	=13
	Amlin	Financials	=19
	Anglo American	Basic Materials	=19
	BP	Oil & Gas	=19
	Cairn Energy	Oil & Gas	=19
	FirstGroup	Consumer Services	=19
	Lloyds Banking Group	Financials	=19
	African Barrick Gold	Basic Materials	=25
	Royal Dutch Shell A	Oil & Gas	=25
	Marks & Spencer Group	Consumer Services	=27
	Provident Financial	Financials	=27
	Reckitt Benckiser Group	Consumer Goods	=27
	Barclays	Financials	=30
	BHP Billiton	Basic Materials	=30

	HSBC Hldgs	Financials	=30
	Man Group	Financials	=30
	SABMiller	Consumer Goods	=30
	Standard Chartered	Financials	=30
	Standard Life	Financials	=30
	Unilever	Consumer Goods	=30
	Vodafone Group	Telecommunications	=30
	Glencore Xstrata	Basic Materials	=30
	WH Smith	Consumer Services	40
	Amec	Oil & Gas	=41
	Big Yellow Group	Financials	=41
	Centrica	Utilities	=41
	ENRC	Basic Materials	=41
	Experian	Industrials	=41
	Kingfisher	Consumer Services	=41
	Royal Bank Of Scotland Group	Financials	=41
	Diageo	Consumer Goods	=41
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	Imperial Tobacco Group	Consumer Goods	=49
	Land Securities Group	Financials	=49
	Intu Properties	Financials	=53
	Go-Ahead Group	Consumer Services	=53
	Morgan Advanced Materials	Industrials	=55
	Rio Tinto	Basic Materials	=55
	Essar Energy	Oil & Gas	=57
	Premier Oil	Oil & Gas	=57
	Travis Perkins	Industrials	=57
	Home Retail Group	Consumer Services	=60
	Whitbread	Consumer Services	=60
	Tullow Oil	Oil & Gas	62
	Barratt Developments	Consumer Goods	63
	British American Tobacco	Consumer Goods	64

For a description of smart assurance index groupings please visit:
http://www.carbonsmart.co.uk/wp-content/uploads/2013/10/Groupings.pdf

Out in front	Leading companies (>75%) are those where the coverage of carbon was well detailed, scopes 1-3 were assured and the statement described a comprehensive engagement.
Front of the pack	Good performers (60-74%) are those were at least scopes 1-2 were covered and the engagement was more limited.
The pack	Average companies (25-59%) are those where select scopes were assured or it was not possible to tell, where there was no level of assurance that was specific to carbon or there was no mention of application level.

Carbon Intensity

Sustainability reporting in the UK is coming under new regulations. From the end of September 2013 all UK registered companies, quoted on a main exchange, will have to report CO_2 emissions in their annual directors' report, with non-listed companies likely to have to follow suit. For many companies, this is the first time that this data will be in the public domain.

We looked at the sustainability reports of the 64 companies in the FTSE 350 that have their carbon footprint data assured; we extracted their revenue and carbon footprint to calculate their carbon intensity. Findings ranged from an organisation who seems to generate only 1 tonne of CO_2 per £m revenue, to another that generates over 18,000 tonnes.

Apples with apples?

The spread amongst some familiar high street brands leads one to wonder what they might be doing differently from one another.

	tCO_2 per £m revenue
WH Smith	41
Home Retail Group	51
Marks & Spencer Group	58
Next	60
Morrison (Wm) Supermarkets	71
Tesco	89

But the extent of the spread in the financial services sector begs the question whether these companies are all calculating their carbon footprint in the same way.

	tCO_2 per £m revenue
Standard Life	1
Amlin	4
Provident Financial	11
Lloyds Banking Group	16
HSBC Holdings	20
Royal Bank of Scotland Group	22
Standard Chartered	23
Barclays	31
Aviva	67

All of these businesses have had their carbon footprint independently assured, but this has not proven enough to achieve comparability of data.

Approaches clearly differ in what is in and out of the scope of a carbon footprint.

Which numbers do they think are important?

The regulations also require companies to declare their own carbon intensity metric: such as how much CO_2 they generate per square metre of floor area or staff member. Companies can choose their own metric, but they must declare one.

Of the 64 sustainability reports we looked at, 47% did not declare a metric – these businesses will need to choose one for their next report. 12% chose *tCO_2 per £ revenue* or equivalent, but 12% chose a measure of output instead of revenue, such as *per consumer, per thousand sales* or *per tonne of crude oil processed*. Some of the more unusual include WH Smith's *per pallet moved (for transport only)* and Vodafone's *per network node*. 7% used FTE, and 5% chose floor area.

What are the implications?

With mandatory reporting having come into force in September 2013, comparisons between intensities of businesses will become more commonplace. The business world should be prepared for the scrutiny but also for the opportunity that this presents in communicating to stakeholders what the key metrics are for their industry.

There is clearly no one-size-fits-all carbon intensity metric. However, there is great value in comparable companies using consistent metrics.

The regulations require that businesses declare the methodology they followed to calculate their footprint – this should introduce some much needed consistency in scope. But these are leading publically listed multinationals, who take their carbon footprints seriously enough to have them assured. If the data from these companies cannot be robustly compared, then carbon reporting has a long way to go before we can really tell who is doing well.

Conclusion

Our smart assurance index report has shown that the quality of sustainability assurance has improved but that there is a long way to go before it becomes an established part of the sustainability reporting process within FTSE 350 companies. The number of assurance statements that still fail to follow good practice compromise the ability of the service to provide additional transparency and reliability to the assured content. We believe the variation found in the quality of assurance statements is impacting on confidence levels and acting as a significant barrier to wider levels of uptake.

In the context of ever increasing public scrutiny and new regulatory standards demanding companies report certain sustainability metrics, the risks associated with reporting inaccurately are rising. Given assurance is carried out on a voluntary basis and is not regulated, the value assigned to it relies heavily on the way it is carried out. This means there is work to be done. Companies have to collaborate with their assurance providers to ensure assurance statements communicate clearly to those who are assessing companies' sustainability claims. Whilst professional qualifications aren't listed and the independence of the assurer is not explicitly declared, the value in seeking a third party is limited.

The wide array of approaches taken to produce assurance statements has created another problem to date – incomparability. The lack of accordance with recognised methodologies has meant it has not been possible to compare how the assurance process has been carried out consequently making it difficult to work out the degree of risk that has been removed in the process.

This year we have seen an increase in the number of statements using recognised standards which is encouraging, enabling greater comparisons and conclusions to be drawn between companies.

The importance in achieving consistency and comparability in sustainability reporting can be seen beyond assurance. The carbon intensity metrics companies have begun to report in response to new regulation coming into force on the 30th September 2013 has a significant degree of variation. To make it possible for company stakeholders to respond to information being reported, it is clear that much more consistency is going to be needed before it is possible to meaningfully compare companies' sustainability reporting.

A full breakdown of Carbon Smart's methodology and process for compiling the smart assurance index, can be found at: http://www.carbonsmart.co.uk/wp-content/uploads/2013/10/Methodology-and-Process.pdf

Acknowledgments

We would like to thank the following individuals and organisations for their assistance in making this project possible.

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About Carbon Smart

Carbon Smart has helped over 1,000 organisations achieve better business results by integrating sustainability into the way they work.

We provide clear, practical sustainability solutions that achieve tangible results for our clients, helping them win new business, manage risks and reduce costs.

There are three tiers of expertise that mark out the Carbon Smart approach to sustainability performance:

Engaging people- Changing working practices is an essential part of any sustainability strategy, but it can be difficult to achieve. We can provide you with the required tools to do this or design and manage your engagement programme for you.

Integrating operations- We work within an organisation, alongside its operational teams to enable tangible change to be achieved and quantified. We facilitate this through taking the time to understand departmental motivations and challenges, so that solutions are found which meet strategic business aims and have the greatest impact on sustainability performance.

Reporting performance- Our team of experts are adept at navigating tricky data challenges and producing clear reports that provide you with the benchmark you need to measure your progress. We are trusted advisors to a range of prestigious organisations and helped to create Defra's new online conversion factors tool.

This research has been developed by a specialist team of consultants and researchers:

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