14TH INTERNATIONAL ANTI-CORRUPTION CONFERENCE 2010

Long WORKSHOP REPORT FORM

Number and title of workshop: WS # 4.8, Can Corporate Public Reporting be Credible and Drive Change

Coordinators: Peter Wilkinson, Transparency International

Date and time: 12 November 2010, 17:30 – 19:30

Moderator: Ronald E. Berenbeim, Senior Fellow, The Conference Board

Rapporteur: Bronwyn Best, TI-Canada

Panellists (Name, institution, title)

Alan Knight, Senior Fellow, AccountAbility

Georg Kell, Executive Director, UN Global Compact

Jacques Marnewicke, Head of Group Compliance, Sanlam

Jermyn Brooks, Chair, Business Advisory Board, Transparency International

Jo Iwasaki, Technical Manager, Assurance, Audit & Assurance Faculty, Institute of Chartered Accountants in England and Wales

Summary

Transparency is a first line defence against corruption, supporting good governance, accountability and reputation. It enables stakeholders to access corporate policies and processes and to initiate discussion and questioning. Public reporting, a formalised dimension of transparency, is important for countering corruption as it drives change, informs stakeholders about matters of importance to them, can enhance reputation and assist in deterring corrupt approaches. However, Transparency International's research shows that most large companies have a long way to go in reporting adequately on their anti-corruption measures. Further, the financial crisis and continuing corporate scandals related to bribery and corruption have diminished public trust in corporate behaviour and their communications and reporting. There is growing demand by investors, civil society and other stakeholders for reliable materials disclosures by companies across the corporate, governance, financial and sustainability areas. This workshop examined current progress and trends in reporting, looking at the frameworks and standards offered to companies for reporting and specifically anti-corruption developments in mandatory, integrated and continuous reporting, and how credibility can be provided to corporate reporting on anti-corruption through assurance. In addition, the workshop was an opportunity to present the newly released public consultation draft *TI Framework for Voluntary Independent Assurance of Corporate Anti-bribery Programmes*.

Summary of presentations

Alan Knight noted how many more corporate public reporting reports there are and how they have grown exponentially from 1992, where there were anywhere from 12 to 20, to 2009, when there were 3,600. This significant growth had continued, even through the financial crisis. However, there were, according to Yale University, approximately 63,000 multi-national enterprises (MNEs) globally, and 3,600 reporting companies still represented a small proportion. In addition, MNEs were not a big part of the national registry of any country. Small and medium enterprises (SMEs), in fact, represented 90-95% of the corporations in most countries, and they were not represented in the 3,600, and they did not produce public reports. The result was that there was not really that much in the way of corporate public reporting. The most credible framework to report against was considered to be that of the Global Reporting Initiative (GRI), which provides principles for reporting and guidance for standard disclosure. Nonetheless, it is not comprehensive. In addition, of the 3,600 reports, only 40%, 1,600 companies, reported against the GRI. Of these 1,600, only 500 companies, one-third, used external assurance and when looking at the scope of the assurance, it was not using credible standards and using only one or two data sets. However, there were positive developments, on the horizon: One was the Integrated Reporting for a Sustainable Strategy, which provided for a connection between financial and non-financial reporting. Other public reporting mechanisms included the AA 1000 Sustainable Assurance Standard, the Prince of Wales International Auditing and Assurance Standards Board (IAASB) and the King III in South Africa. Recently, integrated reporting had begun to take off. On 2 August 2010, the GRI announced the creation of the International Integrated Reporting Committee (IIRC). The IIRC had been created as a response to the need for a clear, concise, comparable and comprehensive integrated reporting framework, to be structured around an organisation's strategic objectives, its business model and governance, and which would integrate both financial and non-financial information, allowing for interconnections amongst environmental, social, governance and financial factors. Issues that needed to be considered by the IIRC included the relationship between voluntary and mandatory mechanisms and dilution of financial reporting by non-financial reporting. So far, only 22 integrated reports had been identified but the number is growing.

Jacques Marnewicke reviewed the King III Code on Governance Principles, which became effective in South Africa, in March 2010 and covers all listed companies. Analysts and investors were no longer interested in just financial reporting; they were asking for information about how Sanlam handled issues like corruption. Sanlam's investors required integrated reporting. He noted that the Code had in its favour substance over form, the integration of sustainability in business reporting, the reporting of how money was spent not just how much money, and the distinction between verification and assurance. Verification just confirms the facts while assurance is about the integrity of processes. Someone had said that the quality of reports is determined by the quality of its authors. All companies listed on the Johannesburg Stock Exchange must implement the Code in their first financial year, after March 2010. Sanlam had elected to implement integrated reporting with a pilot report for the fiscal year ending 31 December 2010. The company had always had a sustainability function, but the challenge was to integrate all the reports to come up with financial, sustainable reporting, i.e., how to put it all together.

Jo Iwasaki reviewed anti-bribery programmes and assurance, looking first at what assurance means and where we find ourselves now, with regard to assurance. She noted that assurance is part of a larger process, where one first establishes internal reports and then brings in external experts to see if they say the same thing, thus establishing credibility of the organization. One then looks at what the purpose is of assurance, who wants it and why, and if there is any standard against which one can measure oneself. At this time, there was no reporting standard developed specifically for anti-bribery. Timing, with regard to reports, is very important. If management approaches the need for assurance too early, i.e., getting external experts involved too early, it is possible that the credibility of a firm can be damaged.

Management may want to have advice from assurers about setting up their systems but in such cases this means the loss of independence of the assurer.

Accountants report on what's there. They can't predict the future. A good format to use is the Prince of Wales International Auditing and Assurance Standards. One needs to have a good Code of Ethics in place. With regard to assurance reporting, one needs to develop a third-party relationship, identify the subject matter, have criteria that are sufficient and appropriate, have supportive evidence, and, finally, a written assurance report. One can benefit by following the IAASB framework. Management, as well as other stakeholders, need to be engaged to provide a full assurance report. To have a consistent framework means one will have a reliable report.

Jermyn Brooks noted that companies can say just about anything about what they are doing. This results in the public being sceptical. Jermyn provided the history behind the development of the *TI Framework for Voluntary Independent Assurance of Corporate Anti-Bribery Programmes.* While TI had developed the Business Principles for Countering Bribery, it needed to team up with the accounting profession to go beyond the Principles. TI had worked with the six largest accounting networks and the World Economic Forum (WEF) to develop the Framework. Altogether, the process had taken three years. One of the challenges had been to determine against what to benchmark. The goal was to create a framework which would allow for assurance of anti-bribery systems, resulting in determining whether a company really is what it says it is. The desire was to mirror non-financial reporting from the viewpoint of anti-bribery. The public consultation on the *Framework* was launched in early October 2010 and extended to the end of December. The responses would be collected in early January, prior to the WEF Davos meeting. Jermyn encouraged all present at the workshop to be part of the consultation process. Jermyn noted that business ethics is nowhere near as risky as a plane crash!

Georg Kell spoke with reference to the Global Compact's experience on reporting and particularly in relation to the 10th Principle against Corruption. He began with saying that we have to be frank, we are a long way from achieving our aims for reporting. We talk to each other a lot but often miss what we're here to do. When it comes to anti-corruption, we have a long way to go to have a transformative impact. According to his sources, there were 82,000 MNEs, in the world and a million SMEs. Only 1% of the MNEs had been sensitised. If we want change we have to think of scale. We need to win over thousands and thousands more actors in the market. We need a strong case to convince many more CEOs of the importance of corporate public reporting. He believed that TI was well positioned to carry this out though it is often said that civil society does not have the technical competence. For the Global Compact, a big problem is that signatories do not see a case for reporting through the Communication on Progress, the annual process of reporting by signatories. Lots of participants were being lost because of the slow progress on reporting and 50% of them were opting out, as the burden of disclosure was too high compared to the benefits. Once there is more demand for corporate public reporting, however, more of it will happen. Regulatory requirements for compliance, such as the new UK anti-bribery Act, will be a big help. Disclosure is on the rise and increasing in importance. To produce good companies requires dedicated leadership, dedicated employees, and a demanding civil society. Supply chain guidance is another entry point. Georg noted that the biggest innovations come from the emerging markets. They understand the sustainability imperative. . SMEs have a reduced perception of the importance of reports, because they have less of an impact on the market and not external funders. This makes the detection of corruption more difficult. Thus, reporting is an important driver of change and we should go for scale and also quality. However, anti-corruption is one of the most complex issues to report on. We must keep on making the case for transparency and reporting in general.

Main Outputs

There is growth in corporate public reporting, but still a long way to go. Only 3,600 companies reported against the GRI Sustainability Reporting Framework, in 2009, out of a potential

82,000 multi-national enterprises; almost none of world's approximately one million SMEs report. Of these 3,600, only 500 had obtained assurance and that assurance was often not credible nor did it cover much. Substance over form; money: how it's spent, not just how much; integration of sustainability in business reporting; distinction between verification and assurance – these are all important, when reporting. The challenge is to integrate all the countries to come up with financial and sustainability reporting and how to put them together. There are no specific anti-bribery reporting standards established, as of yet. A company has to develop sufficient information before a report can be produced. Doing work too early could lead to a qualified opinion, i.e., one that is unsatisfactory to the company. There needs to be an increase in the number of reports, but the business case for reporting has yet to be established. There has to be a political will for integrated reporting. The UN Global Compact was losing about 50% of its members, due to the burden of reporting. The UK Anti-bribery Act has great potential to give impetus to anti-corruption reporting. Reporting is an important driver of change for the supply chain. The biggest innovations are coming from the emerging markets. One size fits all, top-down regulations are non-starters, making mandatory requirements difficult.

Recommendations, Follow-up Actions

Workshop participants are to be sent the consultation draft of the *TI Framework for Voluntary Independent Assurance of Corporate Anti-Bribery Programmes* by the workshop organisers and are encouraged to provide comments by the close of the consultation period of 31 Dec. 2010.

Highlights

"In order to have a consistent framework, we need reliable reporting."

"Companies can say just about anything with regard to what they are doing."

"When it comes to anti-corruption, we have a long way to go to have a transformative impact."

"Anti-corruption is a low-hanging fruit for reporting."

"Disclosure is on the rise. It is increasing in importance."

"Many other actors need to play a role. TI is well positioned to bring them together."

"We should make more specific linkages with the investor community."

"The biggest innovations are coming from the emerging markets."

"Anti-corruption is one of the most complex issues to report on."

"Bribery is not about process but about people….Reporting on this is very difficult."

"We have to keep on making the case for transparency and reporting in general."

"For many companies ethics and compliance and anti-corruption are risk tolerance issues. Priority attention goes to the problems for which the company has the lowest risk tolerance. Risk tolerance is determined by a formula in which exposure and severity, if the problem occurs, are factored to determine the level of risk tolerance. For an example, an airline company or manufacturer would have a much lower risk tolerance (zero?) for a plane crash than it would have for a bribery incident."