Sustainability Auditing and Reporting: The Canadian Experience

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ABSTRACT. This paper reviews the experience of 174 of Canada’s largest 1500 public and private sector corporations which have begun to incorporate sustainable development management and reporting as part of their operations. Answers are provided to three main questions: Why have they implemented this initiative? What progress has been made in terms of sustainability audit practice – frequency, focus, organization of the audit team –, internal communication, and external reporting? And where has, and will the leadership for the sustainability audit movement come from as why? Sustainable development auditing and reporting in Canada is voluntary. Practice varies from an elementary level to a sophisticated integrated assessment of social, environmental, labour, sourcing and trading, and governance issues. The depth of practice and experience in this area depends on several factors, including: corporate commitment, the degree of public perception of sector-wide environmental issues, exposure to legal liability, and the extent of dialogue and transparency associated with the auditing process. Differences of opinion about accounting and auditing standards as well as whether all, or parts of, audits should be independent are explored. The sources of data used for this paper include the EthicScan Corporate 1500 DataBase, The Corporate Ethics Monitor, various reports prepared by EthicScan Canada, and the consultancies of both authors.

Introduction

Sustainability auditing, reporting and decision-making reflects the growing realization that it is desirable and necessary for organizations to understand the costs and benefits of their operations upon stakeholders. This involves an examination of the full life-cycle consequences of products and services upon not only the natural environment but also regional, national and global economies, ecosystems and prospects.

In this paper, sustainability auditing is defined as involving three essential characteristics: (a) measurable standards are employed to assess environmental management and performance and link them to other standards or factors; (b) use of a trained audit team; and (c) the organization releases a progress report, either internally to the Board of Directors, externally to the public, or both. As Canadian organizations have gained more experience thinking about the implications of sustainable economy, sustainability auditing has acquired additional characteristics including: (d) independence of the audit team; (e) regular scheduling of the audit to address all sites and operations; and (f) public release of the information.

In Canada, sustainability auditing has evolved sufficiently to enable the classification of activity into the three stages identified in Table I. These stages are not mutually exclusive but rather reflect the evolving character of, and consciousness toward, environmentalism and eco-responsibility in the second half of the twentieth century.
Why is sustainability auditing being done?

The majority of Canadian organizations do not audit their environmental performance. Those that do tend to be larger, distributed across many sectors, notably natural resource-based, and found in the private rather than public sector. There are some who produce a report for internal management purposes. Within this group is a smaller sub-set of those who review sustainability in terms of environmental management and performance, and link the environment to other social, labour and ethical factors.

In the EthicScan Corporate 1500 Database, many companies are found who undertake sustainability auditing as defined above and issue sustainable development reports. These organizations belong to one or more of four categories. They: (a) are in a sector that has made a practice of doing such reporting; (b) have a significant public affairs and/or environmental function and thus possess the resources to audit; (c) have a demonstrable public commitment to sustainability; and/or (d) are ones whose products and services are seen to have a publicly-recognized environmental impact.

While these categories imply several motivating factors for undertaking sustainability auditing, the range of stimuli is quite complex, and may differ from what organizations actually state as their rationale for action. Our observation suggests that the following are significant in raising the interest of Canadian executives in sustainability auditing:

- government regulation and resulting legal liability (company fines of up to $1 million/day as well as personal fines and possibly jail for executives are contemplated in the Canadian Environmental Protection Act of 1988) for environmental malfeasance which can be reduced by having an environmental program as a “due diligence defence”;
- negative public reaction to environmental disasters causing diminution of profits and restrictions on operations,
- industry association programs calling for support from all members and where non-