

Functions of Third Party Verifications of Environmental Reports

Research Fellow, Kansai Research Center,
Institute for Global Environmental Strategies
Certified Public Accountant Eriko Nashioka

Email : nashioka@iges.or.jp

Graduate School of Business Administration, Kobe University
Professor Katsuhiko Kokubu

1. Introduction

Along with the growing influence of the environmental factor on business management, there has been an increase in the number of companies which compile environmental reports. According to the Survey on Environmentally-friendly Corporate Behavior¹ carried out annually by the Ministry of the Environment, there has been a rapid rise in the number of companies compiling and publishing environmental reports: 197 in 1998, 270 in 1999, 430 in 2000, and 579 in 2001. In recent years there has been heightened environmental awareness in terms of public opinion, and companies' environmental behavior is becoming more and more important. This trend is likely to continue in from now on.

The information contained in an environmental report is a record of a company's action targets and results relating to environmental conservation as well as the environmental impact its business activity gives. Such information is published externally and used in business evaluations, for example, for eco-funds or ranking companies. Although environmental reports are compiled and published independently, the reliability of the information is important for company outsiders who use the information published.

One increasingly popular method of securing the reliability of the information is for the compiler of an environmental report to request the opinion of a third party and to attach this as a third party statement. Nevertheless, not only do the functions

¹ The Ministry of the Environment's Survey on Environmentally-friendly Corporate Behavior took as its objects companies listed on the first and second sections of the Tokyo Stock Exchange, the Osaka Securities Exchange, and the Nagoya Stock Exchange (2544 companies) and unlisted companies and business sites employing 500 people or more (3726 companies)

required of third party statements differ widely, but they are not necessarily clearly defined. Moreover, since the first third party statement in Japan was published in 1998, there has not been any detailed fact-finding investigation into practices concerning third party statements. This study will therefore analyze almost all the third party statements published in Japan during the four years from 1998 to 2001, define and categorize their functions, and consider what form third party verifications of environmental reports, if they are to have an information guarantee function, should take.

2. Contents of Third Party Statements on Environmental Reports

The practice of providing third party opinions about environmental reports appeared in Europe in the latter half of the 1990s, and has gradually become more widespread in Japan too, along with the vogue for environmental reporting. However, opinions range widely, from those which certify the contents of a report to expressions of merely personal views, and this trend still exists unchanged.

Under these circumstances, various organs connected with environmental reporting (administrative organs, professional bodies – especially accounting organizations) have started to express their views on third party statements about environmental reports and to issue guidelines. In this study, the authors hope to review the contents of third party statements about environmental reports on the basis of draft proposals and guidelines by the main organs in Japan as a preliminary step to an inquiry into trends in this country.

In Europe, it is the accounting profession which has been most positively involved in giving third party opinions on environmental reports, and Japan too is no exception. The Management Research Inquiry Committee of the Japanese Institute of Certified Public Accountants presented their Environmental Report Assurance Guidelines (draft)² in July 2000 and then a year later in July 2001 they published their “Environmental Report Assurance Guidelines (draft) (interim report).”³ These are not final reports, but studies carried out by certified public accountants with experience in guaranteeing the reliability of the information in financial reports, relating to how to provide assurance on the information in environmental reports, amid the expanding need for such assurances, as one way of dealing with the diversity of information whose reliability should be assured.

² *JICPA Journal*, October 2000

³ *JICPA Journal*, November 2001

The need for third party verifications of environmental reports may be summarized as follows. On the question of whether or not the information contained in an environmental report reflects the truth, it is difficult for environmental information users to confirm this directly for themselves, while if individual users did attempt to do so, the cost would be astronomical. In addition, since the reliability of the information needs to be guaranteed socially, if people confirmed reliability on an individual basis, the social value of the environmental report itself might lower, and it might fail to fulfill its original role of information disclosure. This is why the need arose for third parties, independent of businesses, to verify the reliability of the information and announce the results.

Nevertheless, in the current situation, where there are no criteria for what is included in environmental reporting, the contents of “environmental assurances” vary widely and how they should be regarded is far from clear. Since such a situation also risks confusing readers, there is a need for guidelines relating to assurance procedures implemented, the extent of their implementation, and methods for determining what should be assured, as a premise to announcing conclusions in “environmental assurances.” The draft guidelines state that third party verifications of environmental reports should be identical in character to financial audits carried out by certified public accountants. However, assurance criteria and contents may be taken as being different from those for financial audits.

In February 2002, the Japanese Institute of Certified Public Accountants published a draft proposal on criteria, entitled, “Certification Service Standards (draft),”⁴ which was intended to become the comprehensive guidelines for assurance engagements. Within the proposal, assurance engagements were broadly divided, according to the difference in assurance standards, into engagements corresponding to auditing and engagements corresponding to reviewing. Both types of engagement assume that there are differences in verification procedures and methods of asserting conclusions. In other words, an auditing engagement refers to the implementation of wide-ranging procedures relating to the object to be certified, and while not providing assurance on an absolute standard, does provide assurance on a high standard. A reviewing engagement, on the other hand, does not implement such wide-ranging procedures as auditing, but assures readers that sufficient and appropriate evidence is available to keep risk below a medium level. The conclusion about medium level guarantees is expressed in the form of a negative assurance which states, “No item was

⁴ *JICPA Journal*, February 2000

recognized which gave cause to believe that in important points the object to be certified did not conform to the criteria provided.”

In addition to these two types of assurance engagement, there is also one based on an agreement between the person in charge and the certified public accountant. This is called an “agreed-upon procedures engagement,” where the facts discovered are reported on the basis of procedures agreed beforehand with the person entrusted to draw up the report. This is an extremely limited type of engagement which provides a negative assurance only within an agreed range. Since no criteria of compilation or assurance exist for assurance engagements relating to third party verifications of environmental reports, such engagements can be interpreted as not equivalent to auditing engagements, but as engagements equivalent to reviews or agreed-upon procedures engagements. For this reason, we can say that the level of assurance is medium or lower.

According to Yoshimi (2001), “Third party (review) reports by Japanese audit corporations substantially follow the audit reports for accounting audits. It is clear that audit corporations are making third party review reports according to their experience in accounting audits.” (page 84) Despite this, his analysis is that “the word ‘review’ is used; the word ‘audit’ is not. Sometimes there is even a description which emphasizes that reviewing is not auditing.” Yoshimi concludes that “these reports rank as one among several environmental services provided.” (page 84)

Next, let us look at the place of third party opinions within environmental reporting guidelines.

Environmental reporting guidelines also mention third party opinions. In Japan the following environmental reporting guidelines are available : “Environmental Reporting Guidelines (FY 2002 version)—Guidance for Publishing Environmental Reports —” (February 2001, Ministry of the Environment) and “Environmental Reporting Guidelines 2001—With Focus on Stakeholders,” (June 2001, Ministry of Economy, Trade and Industry). These guidelines discuss third party opinions as a means of promoting reliability.

The “Environmental Reporting Guidelines (2000 version) by the Ministry of the Environment, states in “(4) Third Party Reviews” in “3. Systems for Promoting Reliability of Environmental Reporting,” “To enhance reliability of reporting, businesses may receive review or statement from an independent and neutral party, with respect to the reliability and comprehensiveness of the reporting.” According to this section, currently-existing third party reviews include: (1) screening for “accuracy of information” in environmental reporting, (2) screening for “comprehensiveness of

contents” of environmental reports, (3) screening for “appropriateness of measures” actually being implemented and (4) screening for compliance with legal requirements, and these screening procedures are being carried out both separately and in combination. It is pointed out that the significance and contents of such reviews, differences among expectations about the degree of assurance, the problem of costs and benefits, problems relating to the qualification of the reviewer and the object of review are taken as important topics for future debate in order to promote the “reliability of third party reviews.”

“1. Third Party Statements” in “V. Environmental Reporting and Tools” in the METI’s “Environmental Reporting Guidelines 2001” notes that third party opinions are compiled as statements about the results of verifying and evaluating environmental reporting according to procedures established by some third party organization or individual. The contents of such statements can be broadly divided into the following four categories: (1) evaluation and verification of completeness, (2) evaluation and verification of accuracy, (3) evaluation and verification of environmental performance achieved, (4) evaluation and verification of a combination of the above three elements. Nevertheless, it is also indicated that in reality, since “the objects (completeness, accuracy, environmental performance achieved) of third party evaluation procedures differ, and since in addition evaluation and verification measures differ according to the body giving the opinion, there is a considerable distance between the contents of different statements.”

Furthermore, the Ministry of the Environment issued a survey summarizing the third party statement situation in “6. Third Party Reviews on Environmental Reporting” in the “2001 Report of the Study Group on Environmental Reporting Promotion Policy.” This report sets out questions about third party statements in the MOE’s questionnaire, “Survey on Environmentally-friendly Corporate Behavior,” gathers opinions from companies which do not include third party statements, not only to investigate the current situation but also find problem points relating to third party statements seen from the point of view of the compilers of environmental reports. In the report, efforts in this direction are called in general “third party reviews” while what is mentioned in an environmental report in connection with such efforts is called a “third party statement.” Third party reviews are broadly divided into two categories: those carried out by audit corporations (including affiliates) which review and guarantee the accuracy of the information in environmental reports, and those carried out by academics, environmental consultants, or environmental NGOs, which evaluate the appropriateness of a particular enterprise’s attempts to deal with the

environment. The contents of the questionnaire were not categorized, but problems mentioned in connection with the former category were failure to meet users' expectations about reviews, and difficulty of understanding the problem for a particular business about the environment even if it receives a third party review. The second category gave rise to some anxiety that although the range and procedures for these reviews were unclear, their inclusion in environmental reports might give readers the mistaken impression that a particular company was doing well to tackle the environment.

From the discussion so far it is clear that there exist two types of third party opinion on environmental reporting, namely: (1) statements which provide some sort of assurance of what is mentioned in an environmental report, (2) statements which summarize the contents of an environmental report and evaluate the environmental performance of the business which issued it. In this study the former will be called "third party verifications" (sometimes abbreviated to "verifications") and the latter "third party opinions" (sometimes abbreviated to "opinions") and on the basis of these categories, the current state of third party statements on environmental reporting among Japanese businesses will be analyzed.

3. Third Party Statements on Environmental Reports in Japan

3.1 Overall trends and special features of different industrial sectors

Third party statements about environmental reports from 1998 to 2001 were gathered, divided into two categories "third party verifications" and "third party opinions" and analyzed.⁵ Overall trends are shown in Table 1.

⁵ The analysis was based on the questionnaire about environmental report publication among listed companies carried out by the Institute for Global Environmental Strategies as well as on reports collected. To this was added information obtained by corporations such as audit firms. The organizations surveyed were almost all listed companies although some companies traded over the counter, and local government bodies were also included.

Table 1 Categorization by function and statement provider

(unit: company)

State- ment Provider	Audit Corporation Group				Other				Total			
	Verifica- tions only	opinions only	both	total	Verifica- tions only	opinion s only	both	total	Verifica- tions only	opinion s only	both	total
1998	1	0	0	1	0	0	0	0	1	0	0	1
1999	7*	0	0	7	0	3*	0	3	7	3	0	10
2000	28*	2	1	31	1	21*	0	22	29	23	1	53
2001	33	1*	6	40	2	31*	0	33	35	32	6	73

* In case that two opinion statements, by an auditing group and some other body are attached (one company in 1999, two companies in 2000, one company in 2001, making a total of four companies) each is recorded independently. **A detailed breakdown of Table 1 is shown in Table 1-1 and Table 1-2 at the end of this paper.**

The first third party statement on environmental reporting in in Japan was the statement, classified as a verification, appended to Toyota Motor Corp's 1998 environmental report by Tohmatsu Environmental Research Institute Ltd. As shown in Table 1, the number of third party statements is steadily rising. In 2000, both verifications and opinions showed a sharp increase. In 2001, there were six additional verifications and nine additional opinions, and that year also saw an increase in the number of statements which included both verifications and opinions. Statements recorded as "both" in Table 1 refer to those where the third party verification and the third party opinion came from the same statement provider.

A small number of reports include two statements, one a verification and one an opinion, by different providers. The first to do this was Kirin Brewery Co., Ltd. in 1999, but thereafter this company attached only a verification by Asahi & Co. Sekisui Chemicals, which in 2000 attached opinions by both Ohta Showa Environmental Management and Quality Research Institute Ltd. (now Shin Nihon Environmental Management and Quality Research Institute Ltd.) and the Wild Bird Society of Japan, in 2001 provided only a verification by Ohta Showa Environmental Management and Quality Research Institute and then in 2002 only one opinion by the Wild Bird Society of Japan. As far as assurances by an organization other than an audit corporation are concerned, Environmental Control Center Co., Ltd., which provides an auditors' statement, also attached, in both 2000 and 2001, a third party verification by Ohta Showa Environmental Management and Quality Research Institute. There are also several examples of inclusion of opinions by more than one statement provider although these are counted as one in Table 1.

Table 2 shows these statements according to industrial category. From this table a rapid increase in third party opinions in the retail industry and in the electric equipment industry is apparent. Since these are downstream industries directly

connected with consumers, it seems that many of the environmental reports they compile are intended to be read by general consumers. For this reason, when businesses in these categories decided to provide their environmental reports with greater reliability for readers, they opted for opinions which emphasize evaluations and comments easily understood by anyone rather than assurances with great significance for professionals who use the information in environmental reporting to carry out business analyses.

Third party verifications increased among such industrial sectors as chemicals, petroleum and coal, and pharmaceuticals. Since these industrial sectors deal in raw materials, most of the products are not sold directly to consumers whereas there is a lot of inter-company trading. It seems likely therefore that unlike in the retail industry, businesses in this sector place emphasis on reliability of information in environmental reports, on assumption that readers are professionals in business evaluation.

3.2 Third Party Verifications by Audit Corporation Groups

Next is a detailed analysis of those statements which concern third party verifications. The analysis has been done on two groups of statement providers: a group of audit corporations, including audit corporations and their subsidiaries, and a group of other statement providers. **Table 3** summarizes verifications by the audit corporation group which account for a majority of verification statements.

Four large audit corporations and their subsidiaries carry out third party verifications. Statements by the audit corporation group are set out in the same way as financial audit reports and use the short form. This notwithstanding, the wording and contents are fairly distinctive for each corporation. Points which the statements of all the four corporations have in common are that the statement is addressed to senior management, that it is signed by the verifying statement provider, and that it is divided into three sections, namely: (1) purpose and scope (2) procedures, (3) results. In all these points, the statements are identical in form to auditors' reports in financial auditing. Moreover, the text of these statements contains many specialized auditing terms and for this reason they are undoubtedly hard for non-professionals to understand.

(1) Statement Providers

In seven cases, the audit corporation responsible for financial auditing was not an corporation responsible for third party verifications of environmental reporting (Table

4).

Moreover, in some cases, financial auditing was performed in the name of the parent audit firm and the environmental report was verified in the name of their subsidiary. In the Chuo Audit Corp. Group, usually the Chuo Sustainability Research Institute carries out verifications of environmental reports, but only for Sony Corp., PricewaterhouseCoopers undertakes verification of Sony Social & Environmental Report for the worldwide Sony group under the signature of PricewaterhouseCoopers as a world-famous audit firm, on behalf of Chuo.

Table 4 Companies for which financial auditing and third party verification are carried out by different audit corporation groups

Company Name	Environmental Report Verification	Financial Audit	Year of Report
Toyota Motor	Tohmatsu	Chuo Aoyama	1998 - 2001
Nisseki Mitsubishi	Tohmatsu	Shin Nihon	1999 - 2001
Pickles Corporation	Tohmatsu	Kokusai Daiichi	1999 - 2000
Taisei Corp.	Chuo Aoyama	Asahi	1999 - 2001
Fuji Photo Film	Chuo Aoyama	Shin Nihon	2001
Dainippon Printing	Shin Nihon	Meiji	2000 - 2001
Toyota Automatic Loom Works	Shin Nihon	Chuo Aoyama	2001

NB: The names of audit corporations listed here are their present names.

In the Shin Nihon Audit Corporation Group, usually their Shin Nihon Environmental Management and Quality Research Institute carries out verifications of environmental reports but for Dainippon Printing (DNP), the group's audit corporation (Shin Nihon & Co.) performs verification of DNP environmental reports. Because Shin Nihon & Co. is not in charge of Dainippon Printing's financial audit, it has no vested interests in Dainippon Printing. The Shin Nihon Environmental Management and Quality Research Institute, on the other hand, does collaboration work with Dainippon Printing so the question of vested interests would arise. The verification was carried out by Shin Nihon & Co. in consideration of third party neutrality. This fact is closely related to the problem of the independence of third party verifications as assurance engagements. Nevertheless, there are also cases where an audit corporation group name (for example, Tohmatsu Audit Corporation Group) appears below the name of the affiliate on the third party statement so that readers regard the audit corporation and the affiliate as identical. In view of these circumstances and the fact that virtually all businesses entrust their financial audits and their environmental report verifications to the same audit corporation group, there will have to be further debate in future

about the problem of the independence of the bodies which verify environmental reports.

(2) Titles of Third Party Statements

Most statements of third party verifications, as many as 24 out of 39 companies in 2001, are presented as “reviews.” The next most frequent title is “Third Party Statement,” (nine companies). Although it is audit corporation groups who perform these assurance engagements, the term “audit” was not used in any case. Although it is apparent from the form and the wording of the statement that the assurance engagement by the audit corporation group is based on experience in financial auditing, as Yoshimi (2001) points out, the fact that the term “audit” is not used suggests that, “at present, from the point of view of audit corporations, third party reviews are undoubtedly just one aspect of their consulting business” (page 84). Certainly, it appears that third party verifications have still not attained the verification level implied by the term “audit.” Still, it is to be expected that third party verifications themselves, which have a short history of only four years, will evolve in future with the increase in the actual number of verifications.

(3) Number and Title of Signatories

Except the statements by the Tohmatsu Group, all third party verification statements were each signed by one statement provider. Only the Tomatsu Group provided joint signatures by a certified public accountant and an ISO Management Systems auditor. In addition, as far as titles are concerned, the Asahi and the Chuo Aoyama audit corporation groups used names which were presumably those of certified public accountants, while the Shin Nihon Audit Corporate Group alone used only the title of the responsible official. It is therefore apparent that verifications are carried out by certified public accountants in the case of virtually all statements.

(4) Verification Purpose

An investigation into stated purposes of verifications revealed that the term “consistency” was most frequently used. Table 4 also includes cases which could be regarded as guaranteeing “consistency” from the wording used in the paragraphs describing verification results. A verification of “completeness” could be read from the verification “results” paragraphs of the Tohmatsu Environmental Management and Quality Research Institute statements in 1998 and 1999, but thereafter there has been no mention of completeness. On the contrary, there are numerous cases of statements

which state specifically that they do not guarantee either accuracy or completeness. In general, there is a remarkable trend towards variation depending on the corporation.

(5) Scope of Verification

In this subject too, there is a marked trend towards variation depending on the corporation. Many statements specifically mention a limitation on the scope of verification in connection with verification purpose. The scope varies according to the contents of the contract with the client company. Asahi & Co., for example, limits their scope to “environmental performance indicators and environmental accounting indicators mentioned in the environmental report” and explains that their procedures involve verification of methods of acquiring and totaling the data which form the basis for environmental reporting and verification of the accuracy of the company’s basic data and calculations.

Similarly, the Shin Nihon Audit Corporation Group, which provides a detailed description of the scope, verifies the collection process and totaling method for data relating to environmental performance data and environmental costs mentioned in the environmental report and the accuracy of checks and calculations for the materials which form the basis for environmental reporting, and related materials, and confirms consistency in the descriptive information contained in the environmental report.

On the other hand, while the Chuo Aoyama Audit Corporation Group sometimes limits the scope in the same way as the above two corporations, in the majority of cases they state that they verify all the information contained in the report, and that they verify the reliability of the processes for collecting environmental information for the compilation of the report and of those relating to reporting as well as the accuracy of the information contained in the report.

The Tohmatsu Group does not specify any particular scope and mentions only that they express their opinion on the collection process, totaling method, and the information contained in the environmental report.

(6) Procedures

An overwhelming majority of companies, 31 to be precise, used “agreed-upon procedures.” “Agreed-upon” can be considered in two ways. One is the sense in which the company being verified agrees to the prescribed procedures of an audit corporation group. The other means that the statement has been compiled according to procedures agreed separately for each company. As far as the contents of

“agreed-upon procedures” are concerned, the three corporations except the Shin Nihon Audit Corporate Group publish an outline on their web sites. From a reading of the outline, its expression can be taken to mean that an individual company has agreed to procedures suggested by a specific audit corporation to suit the verification purpose, since unlike audits of financial statements where compilation and auditing criteria are clearly shown, no compilation or verification criteria for the whole environmental report audit industry exist for third party verifications of environmental reports.

The Chuo Aoyama Audit Corporation Group is the only corporation which does not use the term “agreed-upon procedures,” but it is unlikely that the procedures which they as an audit corporation group actually used differ to any great extent from their financial auditing procedures. Consequently, despite some differences, it may be presumed that all audit corporation groups implement procedures developed by adopting the procedures for financial audits. Procedures will vary depending on the purpose of verification, assurance level, and time and money spent on the verification which are required by the compiler of the environmental report,. This point is not however obvious from the wording used in the statements.

(7) Results

There were 27 companies which included two opinions, one to the effect that the procedures agreed were implemented and as a result it was found that there was **not** any particular problem in the information disclosed in the report, and another that there were no material modifications which should be made. This is wording which becomes the reference point for looking at verification levels and, from the assurance engagement criteria stated above, can be presumed to show a middle-level assurance.

3.3 Third Party Verifications by Non-Audit Corporation Groups

This section will discuss third party verifications where the statement provider is a body other than an audit corporation group. Such cases are few, a total of three companies in 2000 and 2001 and of these, two involved verifications by boards of auditors of companies. Strictly speaking, such internal auditors do not correspond to independent third parties. However, for two years in a row, Environmental Control Center Co., Ltd. has attached a statement by the board of auditors and a third party verification statement by the Shin Nihon Environmental Management and Quality Research Institute and it can be seen that these follow the format of financial auditing. Fuji Xerox, on the other hand, attached only a statement by their board of auditors. Both companies mentioned the standpoint on which these verifications were based,

namely that environmental report verification, or guaranteeing a company's environmental performance and results, was within the range of the auditors' engagement.

3.4 Third Party Opinions

In contrast to third party verifications, NPO/NGOs account for approximately one third of third party opinion providers and, therefore, are the principal providers of opinion-type third party statements (see [Table 5](#)). Next in terms of frequency are opinions by external auditors and the environmental audit committee of the company concerned. No expression appears particularly often in titles, which vary according to the point of view of the provider of the opinion and the contents of the evaluation. Opinions range widely in content, depending on the title, from impressions on reading the environmental report to evaluations which inquire into the environmental performance of the company, from summaries outlining the ISO's periodic reviews, to hopes about a company's future environmental performance. The form taken includes collections of comments from a number of different points of view and outlines of group discussions.

There has also been an increase in cases where an audit corporation group gives their opinion at the same time as carrying out a third party verification of environmental reporting (these fall into the "both" category under the group of audit corporations in Table 1). Following the third party verification statement in the short form, points noticed in the course of the verification are noted freely as opinions. The comments given in this way are drawn up as management letters addressed to the person who requested the verification and it seems likely that the environmental report's compiler (person who requested the verification) asked for these to be included in the body of the report in response to readers' requests.

4. Functions of Third Party Statements and Issues

The function of those third party statements which, according to this analysis, may be classified as third party verifications, is to guarantee of the information contained in environmental reporting, and in particular the accuracy, completeness and consistency of numerical data. This is the basic sine qua non which enables outsiders to use these numerical data to analyze and evaluate the company concerned. In third party

verifications, as in third party statements on financial reports, the verifying statement provider is not asked to evaluate the information being verified, but only to state his opinion on divergences from the facts.

However, the role played by statements classified as third party opinions is that of commenting on and evaluating the contents of environmental reporting, or making a comment on a company's environmental performance itself. Such opinions are established on the premise that the information contained in environmental reports can be trusted as reflecting the actual situation and constitute evaluations made under this given condition.

Taking financial auditing as an example, the compiler of financial statements requests an audit corporation, which acts as the third party, to perform an audit, and this guarantees the accuracy, completeness and consistency of the numerical data contained in the financial report. At this time the auditors, in principle, do not express opinions relating to their own evaluation of the contents of the financial statements, such as whether the company is in the red or in the black, or whether or not the business decisions it made were appropriate. These opinions are expressed by the analyst who analyzes the company using the verified, published financial report. Many ordinary investors make investments on the basis of company evaluations made by these analysts. If environmental reporting is substituted for financial reporting then the verification carried out by an audit corporation (group) corresponds to the financial audit while the opinions expressed by NPOs correspond to the analyst's analysis. Both verifications and opinions are necessary, but obviously, because of the very different functions they are required to fulfill, they must not be confused.

Again, short-form financial audit reports use set phrases and are written in a kind of code where complicated meanings are contained in a small number of words. While this presents no problem in the case of financial reports, which have to be read by professionals, such as analysts, who can understand this code, the readers of third party verifications of environmental reports include many non-professionals. This means that the meaning of text written in the short form is incomprehensible and there are frequent requests for more reader-friendly expressions in opinions. Nevertheless, it is important to remember that opinions are premised on the fact that the reliability of the information is assured.

In this situation, moves are now afoot to simplify the wording used by the compilers of verification statements and to give more weight to supplementary opinions. For example, as can be observed from the statement published by the Chuo Sustainability Research Institute in 2000, it seems likely that cases where opinions are

given following the paragraphs of short-form assurance are on the increase in response to the request of clients, namely environmental report compilers. The third party statement issued by the Tohmatsu Environmental Research Institute in 2000 was the first statement issued by an audit corporation group to contain only “opinions.” From 2002, Tohmatsu commenced a service whereby they express their opinion (they themselves use the term “comments”) at low cost without any assurance engagement. This is for the sake of clients who want an opinion only since third party statements which do provide an assurance engagement cost a lot of money and are too sophisticated. (examples : Yoshinoya, INAX).

The Shin Nihon Environmental Management and Quality Research Institute, on the other hand, proposes a new form of assurance known as a “proposition verifying system” in their statement published in 2002 (Dainippon Printing). In this system, propositions agreed with the client are determined for the points they intends to emphasize in their environmental report and a description assuring the accuracy of information for each such proposition is given within the environmental report. They attach conventional statements at the end of environmental reports, which concern general opinions. These opinions were normally passed to the client, but not recorded in environmental reports.

According to the authors’ aural investigation, all audit corporation groups, at the same time as they carry out their assurance engagement, also pass proposals and suggestions for improvement to the client at the end of the engagement. From now on the trend is likely to be for environmental report compilers, in response to readers’ needs, to opt to record these proposals and suggestions for improvement from the audit corporation in the environmental report as “opinions,” while audit corporations will also respond to this type of demand.

The latest trends in these three corporations suggests a move away from the original short-form type of third party verification statement based on the audit report format in financial reports and an increase in expressions of opinion. Abandoning short-form third party statements where a great deal of meaning was compressed into short forms and the text followed a pattern like a kind of code may complicate judgments about the assurance level from the professional point of view. For this reason, in long-form third party statements where opinions are in the majority and which vary in wording among individual statements likely to increase in the future, how to grasp the contents and level of the assurance is going to be a major issue. The existence of a trend to place more importance on the general public as readers of environmental reports than on professionals probably lies in the background and this

trend is no doubt closely related to the fact that the number of businesses which compile environmental reports with third party statements attached is increasing among industries with a high degree of direct contact with consumers, such as the retail and electric equipment industries.

Again, with an increase from now on in cases where “verifications” and “opinions” are recorded by the same organ on the same document, it will become more important than ever for readers to make a sharp distinction between verifications and opinions.

4. Conclusion

This study's fact-finding inquiry revealed that there are third party statement engagements with different functions and that this feature is on an upward trend. Even in third party verifications which assure the reliability of information it is clear that the contents and the level of the assurance vary considerably. In the present situation, where no compilation or assurance criteria for environmental reports exist, conditions are not ripe for third party verifications to fulfill properly the functions required of them. Moreover, although third party statements are on the increase overall, looked at according to function, the increase is more marked in the case of opinions rather than verifications, while there is also a greater number of reports which include both verifications and opinions.

When considering future developments in third party statements about environmental reports, it will be important to take into account the needs of the people using the information. In discussions up till now about environmental reporting assurance criteria led by bodies of accountants, there has been a tendency for the needs of information users to be considered by analogy with financial audits. However, just as environmental reporting and financial reporting are different, it is only natural that the functions of third party statements attached to these should also be different. The fact that “third party opinions” have recently shown an even greater increase than “third party verifications” can be taken as one manifestation of this.

Third party statements seem to be an effective means of enhancing the reliability or credibility of environmental reports, and ensuring their usefulness, but their different functions should be properly understood and not mixed up, and efforts should be made to match them to the needs of information users.

References

Ministry of the Environment (2001): *Environmental Reporting Guidelines* (Ministry

of the Environment).

Study Group on Environmental Reporting Promotion Policy (2002): *2001 Report of the Commission on Environmental Reporting Promotion Policy* (Ministry of the Environment).

Ministry of the Economy, Trade and Industry (2001): *Environmental Reporting Guidelines 2001 –with Focus on Stakeholders–* (Ministry of the Economy, Trade and Industry).

Katsuhiko Kokubu and Eriko Nashioka (2000): “Methods of Assuring Reliability” Katsuhiko Kokubu et al. ed.: *The Theory and Practice of Environmental Reporting* (The Energy Conservation Center, Japan).

The Japanese Institute of Certified Public Accountants (2000): “Environmental Report Guarantee Guidelines (draft)” *JICPA Journal* No. 543

The Japanese Institute of Certified Public Accountants (2001): “Environmental Report Guarantee Guidelines (draft)” (mid-term report) *JICPA Journal* No. 556

Hiroshi Yoshimi (2001): “The Extension of Audit Area and the Restriction of Audit Concept – A View from Environmental Audit”, *Accounting* Vol.160 No. 4.

Note : Anyone wishing to quote from this study should kindly apply to the authors.

Table 1 Categorization by Function and Statement Provider (detailed)

Statement Provider - Audit Corporation Group	Audit Corporations				Subsidiaries				Total			
	verifications only	opinions only	both (verifications & opinions)	subtotal	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	total
FY1998	0	0	0	0	1	0	0	1	1	0	0	1
FY1999	3	0	0	3	4	0	0	4	7*	0	0	7
FY2000	13	0	0	13	15	2	1	18	28*	2	1	31
FY2001	17	0	2	19	16	1	4	21	33	1*	6	40

Statement Provider - Non-Audit Corporation Group	Professor				Consultant				NPO, NGO, Foundation, etc.			
	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal
FY1998	0	0	0	0	0	0	0	0	0	0	0	0
FY1999	0	1	0	1	0	1	0	1	0	0	0	0
FY2000	0	1	0	1	0	1	0	1	0	8	0	8
FY2001	0	2	0	2	0	1	0	1	0	12	0	12

Statement Provider - Non-Audit Corporation Group	ISO Auditor				Attorney at Law				Outside Auditor, Audit Commissioner			
	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal
FY1998	0	0	0	0	0	0	0	0	0	0	0	0
FY1999	0	0	0	0	0	0	0	0	0	1	0	1
FY2000	0	1	0	1	0	1	0	1	0	4	0	4
FY2001	0	3	0	3	0	0	0	0	0	7	0	7

Statement Provider - Non-Audit Corporation Group	(In-house) Auditor				Executive in Charge of the Environment				Panel (round-table discussion etc.)			
	Verifications only	Opinions only	both	subtotal	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal
FY1998	0	0	0	0	0	0	0	0	0	0	0	0
FY1999	0	0	0	0	0	0	0	0	0	0	0	0
FY2000	1	1	0	2	0	2	0	2	0	2	0	2
FY2001	2	1	0	3	0	1	0	1	0	4	0	4

Statement Provider - Non-Audit Corporation Group	Total			
	verifications only	opinions only	both	total
FY1998	0	0	0	0
FY1999	0	3*	0	3
FY2000	1	21*	0	22
FY2001	2	31*	0	33

* In case that two or more opinion statements, each is recorded independently.

Table 2 Statements by Industrial Category

Industrial Category	FY1998									
	Audit Corporation Group				Non-Audit Corporation Group				Total	
	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal		
Other Products	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0
Foods	0	0	0	0	0	0	0	0	0	0
Pulp, paper and textiles	0	0	0	0	0	0	0	0	0	0
Chemicals, petoroelium,	0	0	0	0	0	0	0	0	0	0
Glass, cement, concrete,	0	0	0	0	0	0	0	0	0	0
Nonferrous metals &	0	0	0	0	0	0	0	0	0	0
Transportation equipment	1	0	0	1	0	0	0	0	0	1
Electric equipment	0	0	0	0	0	0	0	0	0	0
Retail & wholesale	0	0	0	0	0	0	0	0	0	0
Land/air transportation,	0	0	0	0	0	0	0	0	0	0
Electricity and gas	0	0	0	0	0	0	0	0	0	0
Local government bodies	0	0	0	0	0	0	0	0	0	0

Industrial Category	FY1999									
	Audit Corporation Group				Non-Audit Corporation Group				total	
	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal		
Other Products	0	0	0	0	0	0	0	0	0	0
Construction	2	0	0	2	0	0	0	0	0	2
Foods	1	0	0	1	0	2	0	2	2	3
Pulp, paper and textiles	1	0	0	1	0	0	0	0	0	1
Chemicals, petoroelium,	0	0	0	0	0	0	0	0	0	0
Glass, cement, concrete,	0	0	0	0	0	0	0	0	0	0
Nonferrous metals &	0	0	0	0	0	0	0	0	0	0
Transportation equipment	1	0	0	1	0	0	0	0	0	1
Electric equipment	1	0	0	1	0	0	0	0	0	1
Retail & wholesale	0	0	0	0	0	0	0	0	0	0
Land/air transportation,	0	0	0	0	0	0	0	0	0	0
Electricity and gas	1	0	0	1	0	0	0	0	0	1
Local government bodies	0	0	0	0	0	1	0	1	1	1

Industrial Category	FY2000									
	Audit Corporation Group				Non-Audit Corporation Group				total	
	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal		
Other Products	2	0	0	2	0	0	0	0	0	2
Construction	3	0	0	3	0	0	0	0	0	3
Foods	5	0	0	5	0	1	0	1	1	6
Pulp, paper and textiles	1	0	0	1	0	0	0	0	0	1
Chemicals, petoroelium,	3	0	0	3	0	1	0	1	1	4
Glass, cement, concrete,	0	1	0	1	0	2	0	2	2	3
Nonferrous metals &	2	0	0	2	0	0	0	0	0	2
Transportation equipment	2	0	0	2	0	0	0	0	0	2
Electric equipment	3	0	0	3	0	1	0	1	1	4
Retail & wholesale	2	1	1	4	0	8	0	8	8	12
Land/air transportation,	3	0	0	3	1	2	0	3	3	6
Electricity and gas	1	0	0	1	0	2	0	2	2	3
Local government bodies	0	0	0	0	0	1	0	1	1	1

Industrial Category	FY2001									
	Audit Corporation Group				Non-Audit Corporation Group				total	
	verifications only	opinions only	both	subtotal	verifications only	opinions only	both	subtotal		
Other Products	3	0	1	4	1	1	0	2	2	6
Construction	2	0	1	3	0	0	0	0	0	3
Foods	4	0	0	4	0	2	0	2	2	6
Pulp, paper and textiles	1	0	0	1	0	0	0	0	0	1
Chemicals, petoroelium,	8	0	1	9	0	0	0	0	0	9
Glass, cement, concrete,	0	0	0	0	0	2	0	2	2	2
Nonferrous metals &	2	0	0	2	0	0	0	0	0	2
Transportation equipment	3	0	0	3	0	0	0	0	0	3
Electric equipment	3	0	1	4	0	6	0	6	6	10
Retail & wholesale	2	0	2	4	0	12	0	12	12	16
Land/air transportation,	5	0	0	5	1	3	0	4	4	9
Electricity and gas	1	0	0	1	0	4	0	4	4	5
Local government bodies	0	0	0	0	0	1	0	1	1	1

Table 3 Details of verification engagements (Audit corporation group only)			1998	1999	2000	2001
		total	1	7	31	40
		opinions only	0	0	2	1
This table concerns		verifications	1	7	29	39
Statement provider	1	audit corporation	0	3	13	19
	2	subsidiary	1	4	16	20
		total	1	7	29	39
Title	1	third party statements	1	6	7	9
	2	verifications (<i>kensho</i>)	0	1	4	5
	3	certifications (<i>ninsho</i>)	0	0	0	0
	4	reviews (<i>shinsa</i>)	0	0	17	24
	5	opinions (<i>shoken</i>)	0	0	1	1
	6	comments (<i>iken</i>)	0	0	0	0
	7	messages (<i>yosete</i>)	0	0	0	0
	8	others	0	0	0	0
		total	1	7	29	39
Addressed to	1	CEO	1	7	28	38
	2	executive in charge of environment	0	0	1	1
		total	1	7	29	39
No. of signatories	1	1	0	4	19	28
	2	2	1	3	9	9
	3	3	0	0	1	2
		total	1	7	29	39
Title of signatories	1	CPA	0	3	20	27
	2	ISO auditor	0	0	0	0
	3	title only (no signature)	0	2	5	7
	4	other	0	0	0	0
	5	both 1 and 2	1	2	4	5
		total	1	7	29	39
Verification purpose ("Mark all that apply")	1	reliability	0	1	11	23
	2	accuracy	0	0	0	4
	3	completeness	0	1	2	0
	4	consistency	1	6	25	26
	5	others	1	3	12	8
	x 2	accuracy NOT verified	0	0	15	23
	x 2	completeness NOT verified	0	0	17	29
Scope of verification	1	all information in environmental reporting	0	1	4	6
	2	environmental accounting only	0	1	1	0
	3	limited	0	4	17	25
	4	other	1	1	7	8
		total	1	7	29	39
Procedures	1	agreed-upon procedures	1	6	23	31
	2	statement provider program, etc.	0	0	1	6
	3	other	0	1	5	2
		total	1	7	29	39
Results	1	procedures implemented; no particular problem found	1	7	9	11
	2	no material modifications to be made	0	0	1	1
	3	both 1 and 2	0	0	19	27
		total	1	7	29	39

Table 5 Details of engagements concerning opinions						
			FY1998	FY1999	FY2000	FY2001
	a	Audit corporation group	0	0	2	1
	β	Non-audit corporation group	0	3	21	31
This table concerns		total (third party opinions)	0	3	23	32
Statement provider	1	audit corporation	0	0	0	0
	2	subsidiary of an audit corporation	0	0	2	1
	3	professor	0	1	1	2
	4	consultant	0	1	1	1
	5	NPOs, NGOs, foundations	0	0	8	12
	6	ISO auditor	0	0	1	3
	9	attorney at law	0	0	1	0
	8	outside auditor or auditing commissioner	0	1	4	7
	7	(in-house) auditor	0	0	1	1
	10	executive in charge of the environment	0	0	2	1
	11	panel (round-table discussion etc.)	0	0	2	4
		total	0	3	23	32
Title	1	third party statements	0	1	3	6
	2	verifications (<i>kensho</i>)	0	0	0	0
	3	certifications (<i>ninsho</i>)	0	0	0	0
	4	reviews (<i>shinsa</i>)	0	0	2	0
	5	opinions (<i>shoken</i>)	0	0	5	3
	6	comments (<i>iken</i>)	0	0	0	0
	7	messages (<i>yosete</i>)	0	0	0	2
	8	others	0	1	7	13
	9	audit reports, audit statements	0	0	0	3
	10	auditor's opinions	0	0	3	1
	11	ISO periodic audit reports	0	0	1	3
	12	impressions (<i>kanso</i>)	0	0	1	0
	13	no title	0	1	1	1
		total	0	3	23	32