

# Assurance of CSR and Sustainability Reports: Empirical Evidence from an Emerging Economy

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## Abstract

In tandem with the evolution of reporting, this paper highlights the extent to which the content of corporate social responsibility (CSR) and sustainability assurance reports in Malaysia addressed the key elements of the requirements of the ISAE3000 assurance standard. A content analysis of the assurance statements of eight (8) public-listed companies in Malaysia for the year 2010 revealed some areas of concern with regards to the assurance statements provided. The findings from the study revealed some variability in the assurance reports provided. However, in terms of the nature of work undertaken, the findings from the study revealed that Malaysian assurers performed well in all three validation processes; validation of data in the report, validation of data collection and in the validation of achievement targets. The findings also revealed that Malaysian assurance providers were engaging with the stakeholders during the assurance process.

**Keywords:** Assurance, Sustainability, Corporate Social Responsibility, Standard, Malaysia

## 1. Introduction

The evolution of corporate reporting proved that assurance of information is now not limited to financial matters but also to non-financial information. According to Altintas, Adiloglu, and Altintas (2007) and Daub (2007), the aim of corporate social responsibility (CSR) and sustainability reporting is to inform stakeholders about a company's environmental, social and economic performance. The CSR reporting trend today has moved forward where companies would like to avoid the perception that their CSR efforts are simply greenwash activities or as a public relation exercise (Ackers, 2009). This is evidenced by the rise in the assurance provision of reports by third parties (O'Dwyer & Owen, 2005). O'Dwyer & Owen, (2007) found that nearly 40% of sustainability reports included external assurance in 2003 compared to only 17%, ten years previously and the latest report by KPMG 2011 revealed that 46% of the G250<sup>37</sup> companies and 38% of the N100<sup>38</sup> companies have used assurance statement as a strategy to increase the credibility of their CSR reports. The increasing trend in assurance provision according to O'Dwyer and Owen (2005) is in response to stakeholders' concern about the environmental, social and economic performances.

As the number of companies issuing stand alone sustainability and CSR reports increases, and the number of stakeholders who value these reports perhaps also increases, there is a need for some form of independent assurance on these reports to ensure the credibility of information disclosed. Such certification has not been mandated by any national regulatory bodies, although sustainability and CSR reports are being made compulsory in several countries such as in Australia, France and in the UK. Many countries do not require independent verification, perhaps because external assurance adds significant cost to the company.

Given the recent increase in assurance practices worldwide especially in the developed countries such as UK, Europe and Australia, and in conjunction with the concern surrounding the veracity of such reports, this study aims to evaluate the assurance statement practices in emerging economies such as in Malaysia. Thus, the aim of this study is to analyse the assurance statements accompanying the sustainability and CSR reports in Malaysia for the year 2010, benchmarked against an international assurance standards i.e. the ISAE3000.

<sup>37</sup> N250 refer to the first 250 companies in the Global Fortune 500 with the highest annual turnover worldwide.

<sup>38</sup> The N100 companies is the top 100 global companies by turnover among the 16 lead industrialized countries (Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Holland, Norway, South Africa, Spain, Sweden, the UK and the US)

### 1.1 Key terms used in this paper

The focus of this paper is on assurance statements that accompany sustainability and/or CSR reports. In the area of sustainability and CSR reporting, there are a variety of terminologies used to label the work being undertaken by the external third party. For example, “audit”, “verification”, “validation” and “assurance”, are all terms used to describe similar activities. In some instances, the terms “verification” and “validation” appear to be used in the same context (perhaps wrongly) as assurance. However, more commonly “verification” implies that a process has been adopted whereby information provided by management is compared against some agreed criteria. Validation, on the other hand, explores whether reported information meets a particular need. For the purpose of this study, “validation” and “verification” are considered as a subset of “assurance”.

The term “assurance” may best be referred to as a process beyond “verification” and “validation” which increases the confidence users can have about a particular statement, report or claim. International Auditing and Assurance Standards Board (IAASB, 2004) defined assurance engagement as:

*“...in which a practitioner express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against certain criteria”.*

In addition, the term audit is most commonly used in relation to a comprehensive audit of financial statements. It is generally accepted that assurance service provided in relation to the sustainability and CSR reports do not provide the same level of assurance as is provided in a financial statement audit.

## 2. Background and Prior Literature

The increased in assurance provision is paralleled by the increased in so-called sustainability and CSR stand-alone reports worldwide. However, in a developing country like Malaysia, the assurance practice is fairly recent and is in its early stages of evolution. This increased is also evident with the involvement of professional organizations in providing direct and indirect guidance on assurance. The first international auditing standards’ procedure which is addressed to qualified auditors who wish to undertake external verifications of non-financial reports is the ‘*International Standard of Assurance Engagement (ISAE 3000)*’ that came into force on 1 January 2005. It was issued by the *International Auditing and Assurance Standard Board (IAASB)*, the issuing agency of the International Federation of Accountants (IFAC).

The second standard issued was in 2003 by a British not for profit organization, *The Institute of Social and Ethical Accountability (ISEA)* and is addressed to anyone who provides external verification services (Manetti & Becatti, 2009). Inspired by the ISAE3000 (Manetti & Becatti, 2009), other individual countries have also issued specific standards for auditing of sustainability reports such as Australia (Standards Australia, 2005), Sweden (FAR SRS, 2004), Germany (IDW, 2005), The Netherlands (NIVRA, 2005), France (CNCC, 2004), Italy (CNDC, 2006) and many more.

However, the findings from prior research questioned the extent to which assurance statements actually succeeded in enhancing the completeness and credibility of sustainability reports, (see for example studies by Deegan, Cooper, and Shelly (2006), Gillet (2012) and Janggu, Sawani, Darus, and Zain (2013)). Studies by both O’Dwyer and Owen (2005) and Deegan et al. (2006) pointed to the variability in the key assurance areas such as the level of assurance provided, the inclusion of addressee, the independence of assurors (Janggu et al., 2013), the use of standards, and the nature of assurance opinions offered. These variability, as concluded by Deegan et al. (2006) indicates that the ‘report readers would often have great uncertainty in understanding how the assurance provider undertook the engagement, what they actually reviewed and what was the meaning of their conclusion’.

It is in this context, that this study is conducted in order to gain a better understanding of the CSR assurance practices.

## 2. Method

As discussed in the preceding section, a company’s decision to have its sustainability and CSR reports verified is a rather recent phenomenon, and is voluntary in nature in Malaysia. The aim of this study is to explore this emerging subject matter and to examine the issues through an exploratory study. This study undertook a content analysis of eight (8) assurance statements accompanying the stand-alone sustainability and CSR reports of public-listed companies in Malaysia that participated in the ACCA’s Malaysian Sustainability and Reporting

Awards (MaSRA), for the year 2010. The analysis revolves on whether the CSR assurance statements in Malaysia complied with the key elements of the assurance statement as suggested by the ISAE3000 assurance standard. ISAE3000 assurance standard was used as a benchmark because it is the first international assurance standard issued and is widely used as reference for assurance practices worldwide. The following basic elements of the ISAE 3000 regarding external verification of non-financial reports were used in the analysis;

- Clarity of Report Title;
- Clear identification of addressee of the report;
- Clear identification of intended users of the report;
- Clear identification of party responsible for the assurance report;
- Clear articulation of scope and objectives;
- Clear identification of reporting criteria used in assessing evidence and reaching conclusions;
- Clear description of the standards employed to govern the assurance engagement;
- Clear description of the nature, timing and extent of assurance procedures employed;
- Clear statement of assurance provider’s conclusion or opinion; and
- Clear identification of any restrictions on the assurance engagement imposed by management.

This study also sought to investigate the variability (and potential ambiguity) of the wordings used within the conclusion to the assurance statements and whether assurance providers’ conclusion were of a ‘positive’ or ‘negative’ form and whether any qualifications were made within the conclusion. The potential implication of including words such as ‘limitations’, ‘areas for improvement’ and ‘recommendation’ towards the perceived independence of the assurance provider were also discussed.

### 3. Results and Discussion

Table 1 presents a summary of the analysis on the eight (8) companies under review. Of the eight (8) samples, four (50%) of the statements were classified as sustainability reports (SR), three (37.5%) were classified as CSR and Sustainability Risk Investment report (SRI) and one was classified as CSR report. The study also found that the assurance services in Malaysia were dominated by OWW consultant who prepared five (5) or 62.5% of the assurance statement, one each was prepared by Bureau Veritas (a consultant), PricewaterhouseCoopers (an accounting firm) and SIRIM (a certification body).

#### 3.1 Title of the Reports prepared by the Assurance Providers

In naming the report, the questions was whether the term “assurance” is preferable to “verification” and “audit” when it comes to labelling the work of the assurance provider. For the Malaysian companies (Table 1), there was a variety of terminology being used to label the statements being prepared by the assurance providers. In the sample, the most commonly used terminology was “assurance” statement (7 or 87.5%) and only one statement used the term “verification” (the certification body).

Table 1: Title and Type of Assurance Statement

<i>Companies</i>	<i>Title of assurance report</i>	<i>Type of report</i>	<i>Assurors</i>
Nestle (M) Bhd	Independent Assurance Report	CSR	PWC
Indah Water Consortium S/B	Independent Verification Statement	SR	SIRIM
UEM Environmental S/B	Assurance Statement	SR	Bureau Veritas
DRB Hicom Berhad	Assurance Statement	SR	Oww
Guinness Anchor Bhd	Assurance Statement	CSR & SRI	Oww
Malayan Banking Bhd	Assurance Statement	CSR & SRI	Oww
Media Prima Bhd	Assurance Statement	SR	Oww
Telekom Malaysia Bhd	Assurance Statement	CSR & SRI	Oww

The term “assurance” seemed to be more appropriate as compared to “verification” and “audit” because assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of an organisation’s subject matter and the underlying systems, processes and competencies that underpin its performance. Assurance includes the communication of the results of the evaluation to give the subject matter credibility to its users. Even though the term “verification” can be used in the title of the third party reports, whether the actual work being undertaken is appropriately reflected by the term “verification” is questionable. FEE (2002) considers that using the term “verification” could create an “expectation gap” in which a “user mistakenly assumes that there is more assurance than is actually present”.

When comparison was made against international practice, the most commonly used terminology in UK was “verification statement” while in Europe the term “auditor’s opinion” and the term “verification statement” was used. Deegan et al. (2006) found that out of a total of 100 assurance statements in UK and Europe, there were 43 different titles being used by assurance providers, implying that at an international level itself there were already variations in the terms used. It is interesting to note that accounting firms across the globe were inclined not to use the term “verification” in the title of the report, perhaps reflecting a more cautious approach. Deegan et al. (2006) also revealed that accounting firms in UK were also not inclined to use the term “audit” within the title of the statement as opposed to European samples, again emphasizing the international differences.

The results from Table 1 further revealed that, only two (2) or 25% of the samples (that was assured by an accountant and a certification body) clearly indicated that the report was an “Independent” report as required by ISAE3000. All six (75%) reports prepared by the consultants merely state the title as “Assurance Statement” which was deemed inappropriate according to ISAE3000 requirements.

In summary, the different terms used in the title of the report may cause confusion to readers who are comparing the statements being released by different assurance providers as different terms may convey different levels of “assurance” to readers. Therefore, some uniformity in the titles used would be useful.

### 3.2 Addressee of the Assurance Statements

ISAE3000 together with the Federation des Experts Comptables Europeans (FEE) and the Global Reporting Initiatives (GRI) guidelines emphasised the importance of nominating an addressee within the assurance statement. In Malaysia, only two (or 25% of the overall sample) complied with this requirement, and this was exclusively being done by the accounting and certification body assurers. The accountant specifically addressed the report to the directors of the company while the certification body makes reference of the report to company’s stakeholders. The consultant assurers on the other hand, were silent in all six (6) or 75% of the sample despite the claim that they were experts and were experienced in assurance engagement. This situation is in contrast with the audit practice for financial statements where the reports were prepared for shareholders and therefore were specifically addressed to them (shareholders) by the auditor. For this situation, O’Dwyer and Owen (2005) suggests that

*“there are fundamental issues of corporate governance to unpick in the realm of social, environmental and ‘sustainability’ reporting that presently go somewhat unacknowledged”.*

There could be various reasons for the variation in the addressee of assurance statements. One possibility might be the perceived expected responsibility would be higher if the statement was addressed to the external stakeholders rather than to management. In a similar note, O’Dwyer and Owen (2005) stated;

*“if the addressee are restricted to internal parties then an impression could easily be created that an internal assurance is simply being publicly made with limited consideration being given to the information demands and expectations of external stakeholders. That is, restricting addressees so as to exclude external stakeholders implies that very little or no engagement with external stakeholders occurred”.*

Similar situation was noted in Janggu et al. (2013) where only about 21 percent of the UK and 15 percent of the European samples identified an addressee. From a legal point of view, there could be legal implications of addressing different stakeholders. Whatever it is, there would possibly be some confusion for readers in comparing assurance statements that were addressed to different groups of stakeholders. However, it is beyond the scope of this paper to uncover this issue.

### 3.3 Objectives and Scope of Assurance Engagement

The objective of assurance engagement appears not to be specified by the assurance providers. The findings from the study revealed that only one assurance report provided a statement explaining the objective of the report to the stakeholders. This was exclusively made by the assurance statement on IWK Sdn Bhd assured by SIRIM (certification body) as;

*“The main objective of the verification process is to provide IWK and its stakeholders with an independent opinion on the accuracy of the information presented in the report”*

It seems that different objectives were agreed on in different engagements. It is generally up to the assurance provider, perhaps through consultation with its stakeholders to determine the scope, purpose and objectives of the assurance engagement. Accordingly, ISAE3000 only requires the practitioners or assurance providers to conclude whether sufficient appropriate evidence have been obtained to support the conclusion expressed in the assurance report. This is because sustainability and CSR reports and associated assurance statements are not regulated and it is generally up to the reporting organisation to decide whether the assurance should cover the whole report or specific sections of it. In this study, only the accountant assesor (PWC) provides clear and specific information assessed by giving the page number where the information could be found and provided clear details of the procedures carried out. The consultants' reports on the other hand, discussed the scope and the limitation of work in a 'negative' form in all seven (87.5%) of the reports. The statement was stated as follows; "excluded from the scope of our work is information relating to:

- *Statements of commitment or intention to undertake action in the future;*
- *Statements of opinion, belief or aspiration;*
- *Information in internal or external documents referred to in the report, except insofar as we have viewed existence as part of the assurance process"*
- *Our assurance does not extend to the information hyper linked from the report*

The inclusion of the above phrases in the assurance statement not only is confusing but seems to act as a 'disclaimer' claim avoiding them from responsibilities as assurance providers. In fact, the purpose of providing the scope of assurance is to avoid misunderstandings. Given the variability in the coverage, users of assurance reports should carefully review the statement to identify which part of the assurance report is covered by the assurance engagement. It is also crucial on the assurance provider to be clear about what aspects of the reports are covered.

#### 3.4 *Description and Nature of Work Undertaken*

ISAE3000 paragraph 49 requires assurance report to include a summary of the work performed. The purpose is to help the intended users understand the nature, timing and extent of evidence gathering procedures. In terms of the nature of work undertaken, five (5) aspects of the description and the nature of work undertaken were to be reviewed namely

- Validation processes;
- Validation of data in the report,
- Validation of data collection
- Validation of achievement targets and
- Stakeholders' engagements

Overall, the findings from the study revealed that Malaysian companies performed slightly better as compared to findings from previous studies in certain aspects of the nature of work undertaken (O'Dwyer and Owen, 2005; O'Dwyer and Owen, 2007). For example, all eight (8) or 100% of the assurers provided validation data in their reports as compared to findings by O'Dwyer and Owen (2007) who found only 97% of the assurers in UK provided validation data. The findings from the study also recorded all eight (8) or 100% of the assurers performed a validation of data collection system. However, an analysis of the assurance statement revealed that only three (3) or 37.5% of the assurers made site visits. The findings from O'Dwyer and Owen (2007) and O'Dwyer and Owen (2005) revealed higher site visits being made by UK and European companies where they reported a 48% and a 56% site visits respectively.

In terms of the validation of achievement targets, six (6) or 75% of the assurance providers provided such validation targets and all the assurance providers conducted interviews with the staff to facilitate the assurance engagement process. In addition, six (6) assurers or 75% conducted interviews with stakeholders. The findings by O'Dwyer and Owen (2005) and O'Dwyer and Owen (2007) in relation to these areas revealed lower percentages for the UK and European companies.

#### 3.5 *Level of Assurance and Nature of Assurance Opinion*

The findings on the level of assurance engagement indicated that the accountant assessor clearly address the level of assurance as 'limited assurance' while the consultants indicated their assurance as 'reasonable assurance' for all the six samples. This finding is consistent with O'Dwyer and Owen (2005), where accountant assurers were

more likely to spell out a clearer level of assurance as compared to their consultants counterpart. The certification body on the other hand did not address this issue.

ISAE3000 stated that for a reasonable assurance engagement, the conclusion should be expressed in a positive form while for limited assurance engagement the conclusion should be expressed in a negative form. It was observed that all of the assurance providers fully complied with this requirement.

In terms of assurance opinion, it was found that none of the report uses the term “true and fair” in their concluding remarks except for a consultant’s assurance report that stated ‘*The report provides a fair presentation of UEM’s sustainability reporting activity...*’. However, the remaining consultant assurance reports were more inclined to warn users against placing too much reliance on the reports as evidenced in all six or 75% of the sample. They included a statement as follows:

*“... the assurance statement should not be relied upon to detect all error, omissions or misstatement in the report, nor can it guarantee the quality of social accounting and reporting process”.*

The inclusion of such statements will confuse readers on the purpose of the assurance practice. In addition, the findings revealed that the wordings used in the conclusion of the assurance statement vary and were unclear. For example, terms used such as ‘fairly stated’, ‘acceptable’, ‘appropriate’, ‘fair representation’, ‘fair and balance’ ‘reliable and free’ and ‘accurate’ maybe ambiguous to the readers.

The results of the analysis further revealed that, except for the accountant provider, all seven (87.5%) of the assurance providers identified ‘areas for improvement’ and ‘recommendations’. These statements may give the impression that the assurance providers were trying to secure additional work (Deegan et al., 2006). O’Dwyer and Owen (2007) also commented that the inclusion of these phrases reflected the assurator’s effort in aiding clients’ corporate strategic direction which could potentially blurs their independence. Further research is therefore needed to justify the inclusion of such statements by the assurance providers.

#### 4. Conclusion

The main aim of this paper is to highlight the compliance of CSR assurance reports by Malaysian companies benchmarked against some key elements of the ISAE3000. A content analysis of the assurance reports of eight (8) public-listed companies that participated in the ACCA MaSRA award for the year 2010 was undertaken. Despite the claims made by the assurance providers (6 or 75% of the samples) that they are experienced and specializes in CSR and sustainability assurance services, the findings from the study revealed some areas of concerned with regards to the assurance statements provided. For example, even though the work undertaken by the assurers and the reports provided appear to be similar yet the titles of the assurance statement vary greatly. There is also variability in the addressee of the assurance report. Some reports did not clearly indicate that it was an assurance report and did not specify the addressee and the intended users of the reports. Consistent with the findings by Deegan et al. (2006), this study found that the objectives of the assurance work, the scope, the nature, the timing and the extent of the assurance procedures employed vary considerably, with many statements providing limited information. In terms of the nature of work undertaken, the findings revealed that Malaysian assurers performed well in all the validation processes; validation of data in the report, validation of data collection and validation of achievement targets. In addition, the stakeholders’ engagement in the assurance process in Malaysia was also found to be good. The results of the study revealed that most assurance providers indicated that reference was made to at least one reporting standard and the most common was the Global Reporting Initiatives (GRI) G3 Guidelines. However, there was great variability in the wording used throughout the report and in the conclusion. Such acts were clearly not in accordance with the requirements of ISAE3000. The inclusion of the recommendations and areas of improvements in the assurance report also could jeopardize the independence of the assurance providers. Overall, it can be concluded that the assurance statement in Malaysia have not fully complied with some elements of the requirements of ISAE3000 assurance standard.

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