

Assurance on Corporate Sustainability Reports



Global warming, climate change and pollution have raised serious concerns about organisations' sustainability. Since Industrial Revolution in 18th century; mammoth business entities through their activities have continuously been snatching away natural virginity, polluting environment and degrading socio-economic norms. Triple bottom line model of sustainability report takes care of organisational contribution to Planet, People and Profit. In 2004, International Federation of Accountants (IFAC) defined Sustainability Reporting as “a process in which a practitioner expresses a conclusion designed to engage the degree of confidence that intended users can have about the evaluation or measurement of a subject matter that is the responsibility of a party, other than the intended users or practitioner, against criteria”. Assurance on corporate sustainability report increases the level of transparency, authenticity, fairness and acceptability of the published reports. This article provides an insight into assurance on sustainability report and how it is going to be a promising professional opportunity for accountants worldwide.

'Sustainability' was coined from sustainable development. Brundtland Commission (1987) defined sustainable development as that form of development which "meets the needs of the present without compromising the ability of future generations to meet their own needs". Although the word as used in Sustainability Reports has little relation with the planetary 'Sustainability' in true Brundtland's sense, the report, however, allows one to assess the impact that a company has on the environment and on society as well as its economic performance. Therefore, the reports try to embrace economic, social and environmental strategies that contribute to long term organisational success.

Sustainability Report (SR)

A sustainability report refers to a single, consolidated disclosure that provides a reasonable and balanced presentation of performance over a fixed time period (Global Reporting Initiative, 2006). Such reports may include quantitative and qualitative information on their financial/ economic, social/ethical and environmental performance in a balanced way.



CA. Debraj Gupta* Anandaraj Saha **

(*The author is a member of the Institute. **The author is a CA Final student. They can be reached at eboard@icai.org)

Since 1990s, after the publication of Brundtland's Report, corporate entities have been using 'sustainability report' as an umbrella term for all the non-financial reports comprising triple bottom line (TBL), sustainability, corporate social responsibility (CSR), stand-alone environmental, health and safety, social community and citizenship reports and combination of these (KPMG 2002, 2005).

Assurance on Sustainability Report- An Insight

Over the recent years there has been an inexhaustible interest in the auditing of corporate sustainability reports. "Assurance" is increasingly being used for referring to this kind of audits, because they cannot offer the same level of assurance provided by the financial audits. Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of a Reporting Organisation's subject matter, such as the Reports and the organisation's underlying systems, processes and competence that underpin its performance. It includes the communication of the results of this evaluation to provide credibility to the subject matter for its users (AccountAbility 1000 Standard, 2003). In 2004, International Federation of Accountants (IFAC) defined it as "a process in which a practitioner expresses a conclusion designed to engage the degree of confidence that intended users can have about the evaluation or measurement of a subject matter that is the responsibility of a party, other than the intended users or practitioner, against criteria". Since there are no mandatory standards to be followed while reporting and assuring, verification of SR is nothing but an assurance given by an assurance provider.

Key Assurance Elements

■ Existence of Three Party Relationship

- (i) *Accountable/Responsible Party*: They disclose information to intended users for exhibiting corporate social responsibility.
- (ii) *Assurance Provider*: Person or organisation who provides independent assurance is called assurance provider. Neither the accountable party nor stakeholders can be an assurance provider. Because he should be independent of responsible party and should exhibit highest standards of ethical and professional integrity achieved through long experience and training.
- (iii) *Stakeholders/key intended Users*: They are the real users of this report which has diverse audiences. Stakeholders are the persons or organisations who influence or are influenced by the activities of the entity.

■ Appropriate Subject Matters and Scope

Subject matters are subject of assurance. They may comprise data, systems, processes and behaviour. Triple bottom line (TBL) reporting which encompasses economic, environmental and social information is the most accepted form of SR. Its scope includes subsidiary or

group companies, divisions, units, types, categories and details of diverse quantitative and qualitative information, etc. Scope of the subject matters is appropriate when it complies with suitable reporting criteria, reported continuously without any omission. Subject matter has to be identifiable, capable of consistent evaluation or measurement against suitable criteria and in a form that can be subject to procedures for gathering evidence to support that evaluation or measurement (IFAC, 2004).

■ Assessment Criteria

Criteria are the standards or benchmark used to evaluate or measure the subject matters of sustainability information and to announce assurance conclusion by the assurance provider. In financial accounting, financial data or transactions are recognised, measured, presented and disclosed with the help of established criteria such as International Financial Reporting Standards (IFRSs) or other Generally Accepted Accounting Principles (GAAPs). But there has been a lack of such internationally or generally accepted criteria for SR. The most widely accepted international, multi-stakeholders standards are first provided by GRI in 1999. While GRI has provided criteria based on TBL, others have concentrated on social and environmental aspects (e.g. Social Accountability 8000) or only environmental aspects (e.g. Public Environmental Reporting Initiative or PERI). Criteria should satisfy the following essential qualities:

- **Relevance** means to assist stakeholders to make decisions and reach conclusions.
- **Reliability** facilitates rational and consistent evaluation.
- **Completeness** addresses all factors related to triple bottom line that affect conclusion reached for each engagement.
- **Neutrality** facilitates to reach unbiased conclusion.
- **Understandability** indicates that criteria should be understandable to three parties involved in the process, facilitates to reach clear and comprehensive conclusion.

■ Collection of Evidence

The assurance provider should *obtain sufficient and appropriate evidence* on which to base his conclusion. Sufficiency is the measure of quantity of evidence. Appropriateness is the measure of quality (relevance and reliability) of evidence. While obtaining evidence, he should consider the cost and usefulness of obtaining evidence and information. However, the expenses or difficulty involved should not be a valid plea for omitting an evidence gathering procedure unless it is impractical. The *reliability of evidence* is affected by source (internal or external), nature (written, oral, and electronic), process, circumstances in which it is obtained including controls over their preparation and maintenance. He should obtain *additional evidence* to resolve inconsistency in the

sources or nature of evidence. He should also exercise professional skepticism at the time of assessing sufficiency and appropriateness of evidence.

He is required to judge the *materiality* of specific engagement and assess the relative materiality of quantitative and qualitative factors. *Risk*, which has a positive correlation with the sufficiency and appropriateness of evidence, is another important factor. Assurance risk is the possibility that assurance provider reaches inappropriate conclusion when sustainability report is materially misstated. Just like financial audit there are three types of risk, viz. inherent risk, control risk and detection risk. For reasonable assurance, the assurance provider reduces assurance risk to an acceptably low level. However, he expresses a limited assurance conclusion when the risk is acceptable but higher than that is required for reasonable assurance.

■ **Assurance Report**

It consists of statements from assurance provider and his conclusion. Upon completion of assurance engagement, conclusion should be made available to diverse stakeholders through properly formulated assurance report.

Assurance Provider/Assurer:

In India, Companies Act, 1956 gives exclusive powers to Chartered Accountants (CAs) to conduct statutory financial audit of companies. Preparation of SR and its assurance is not mandatory. However, professional accountants like CAs possess enormous skills and experiences in the field of finance, management and corporate governance. They can also prove their supremacy and expertise in the assurance of environmental and social aspects if they acquire proper knowledge, training and experience. Study made by Deegan, Shelly and Cooper in 2003 revealed the following relative market share of different categories of assurance providers for corporate SR:

Country	Percentage of Companies			No. of reporting organisation Surveyed
	Accountants	Environmental Consultants	Others	
Europe (excluding UK)	59.60	19.20	21.20	52
UK	22.90	54.20	22.90	48
Japan	37.50	6.30	56.30	16
Australia	16.70	40.00	43.30	30
Total	36.30	33.60	30.10	146

Another study conducted by Dr. B.K. Basu of Calcutta University in 2003 relating to environmental assurance provider revealed that 55 per cent of population opined in favour of independent audit firm against 45 per cent for multi-disciplinary teams.

Worldwide there is strong backing for accounting professionals for undertaking such type of assignments.

However, such assurance should be conducted by multidisciplinary team comprising experts from finance, accounting, auditing environment science, sociology, engineering and technology, etc. for greater efficiency and effectiveness.

Assurance Approaches

Mainly three approaches are followed worldwide. They are:

- **Structured/ Accounting Approach-** It is inspired by financial audit process and mainly concentrates on collection of evidence, risk perception or analysis of assurance provider. Under this, engaging company provides report to assurance provider who conducts independent assurance/review by applying well-developed standards/guidelines and provides his report based on collection of evidence and objective assessment of risk involved in that engagement. The main criticisms are that it places more emphasis on accuracy of quantitative data and robustness of the accounting systems. Moreover, the assurance has failed to provide reasonable level of confidence to stakeholders and relevance of information disclosed. In India ITC Ltd. followed this approach in 2009-2010.
- **Social Audit Approach-** Social audit is a broad term in which an independent third party report is given without any report from the appointing company. A committee of external experts is formed and they uptake dialogues of external stakeholders with/without cooperation from the company. Sometimes company provides report on which the auditor comments or stakeholders such as NGOs play the role of assurance provider. Main criticisms are that there is lack of perceived neutrality of the assurance function and conflict of interest among the stakeholders. Tata Company follows such approach.
- **Consultancy Approach-** Consultancies do not have a uniform approach. Here the appointing company is benefited by the assistance from external experts. Employees of the company together with expert team conduct the assurance process. The main criticism is that instead of assurance they recommend the features of performance. Royal Dutch Shell Energy followed such approach in 2007.

Standards of Assurance

The organisations generally use the following international standards relating to assurance on SR.

1. International Standard on Assurance Engagements (ISAE) 3000-

ISAE 3000- Assurance Engagement Other Than Audit or Reviews of Historical Financial Information was developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). It is used by the assurance providers of sustainability reports to guide

their assurance engagements.

2. AA 1000 Assurance Standard (AA 1000 AS), 2008-

The AA 1000 assurance Standard was launched in 2002 by UK-based AccountAbility. It was specifically designed to be consistent with assessment criteria developed by the GRI guidelines. AA 1000 AccountAbility Principles Standard (AA 1000 APS) 2008 is used by organisations to develop an accountable and strategic response to sustainability including reporting.

3. The Social Accountability 8000 Standard (SA 8000 ®)

It is a global work-place standard launched in 1997 that covers key labour rights such as working hours, forced labour and discrimination and crucially certifies compliance through independent accredited auditors. It is based on the core conventions of International Labour Organisation (ILO), the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. The third issue of SA 8000 ® was released in 2008. By June, 2009, SA 8000 had certified nearly 2,010 facilities in 64 countries representing 66 industries and 11,19,145 employees.

The other international standards are ISO 14010 (provides guidelines for environmental auditing- general principles) and ISO 14011 (Audit procedures and auditing of environmental Management Systems). In addition to these, organisations in different countries are also required to comply with different mandatory and voluntary standards, codes and regulations, etc. relating to environmental and social, ethical aspects of business.

Levels of Assurance

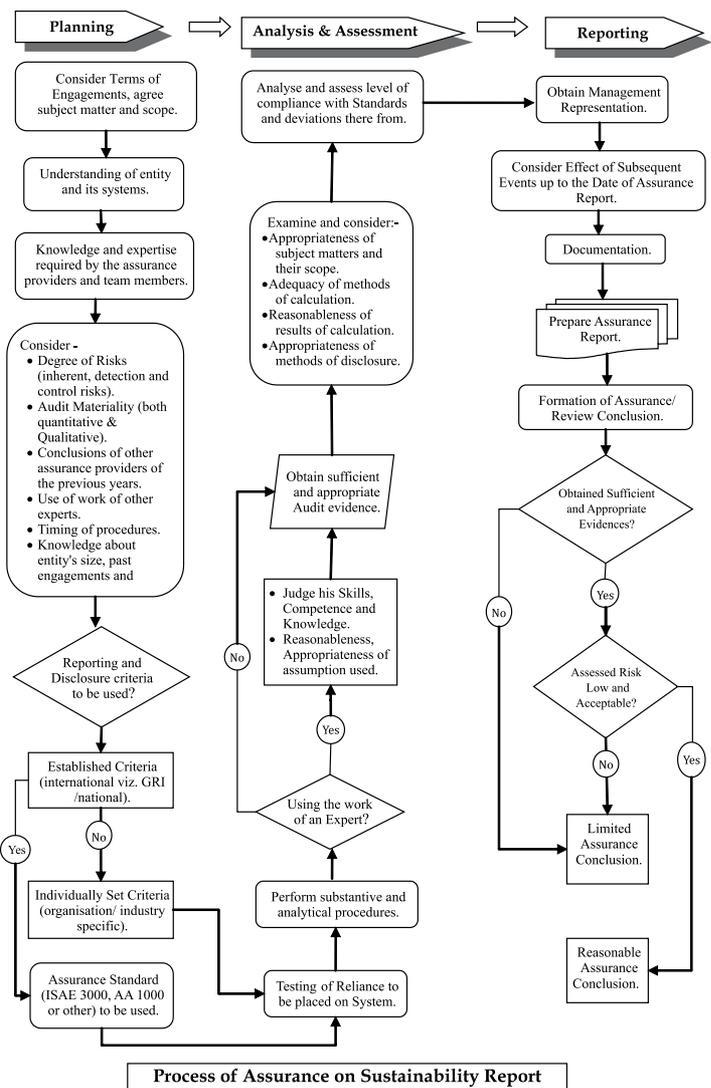
The assurance conclusion may be of the following types:

- **Reasonable Assurance** is provided when assurance providers judge assurance risk (inherent, detection and control risk) to be low. They should either attach conditions or not assign reasonable assurance for lack of sufficient and appropriate evidence. It is similar to a financial statement audit and results in a positive expression of conclusion in their sustainability assurance reports. For example, "In our opinion, ... Ltd's sustainability report is presented fairly in accordance with.....(Standards) Guidelines"
- **Limited Assurance** is assigned if they judge assurance risk to be higher than that for reasonable assurance, provided the risk is acceptable if they use negative expression in their reports. It is provided based on the

conclusion that they will not be able to obtain sufficient and appropriate evidence to assign reasonable assurance. It is similar to financial statement review and results in a negative expression of conclusion. For example, "Based on the procedures described in our report, nothing has come to our attention that causes us to believe Ltd's sustainability report is not fairly presented in accordance with ...(Standards) Guidelines".

Assurance Process

The process followed for assurance on SR is generally same like financial audit. The following diagram shows the process:



Joint Assignment

In case of joint assignment of large entities there should be a clear separation of duties and responsibilities. The report may be signed by both assurers and report should

clearly indicate the fact. In this respect International Standard of Auditing (ISA) 299 on joint auditors may be referred to.

Using the Work of an Expert

In collection and evaluation of evidence, the assurer and the expert should, on a combine basis, possess adequate skills and knowledge regarding the subject matters and criteria to determine that sufficient and appropriate evidence has been obtained. In assessing the sufficiency and appropriateness of evidence, the assurer should evaluate expert’s competence, reasonableness of assumptions, methods used including the source of data. ISA 620 provides guidance in this aspect.

Subsequent Events and Assurance

Subsequent events are the events which occur between the date of SR and assurance report. They may affect the sustainability information and assurance report. Therefore, assurance provider is required to evaluate the possibility and impact of the events on the SR and his report. If such events significantly affect the information provided in SR and conclusions of assurance provider, he must consider that they are appropriately disclosed in SR and considered in his report.

Content of Independent Assurance Report

Assurance report generally has two parts- statements in assurance report and conclusion. It may include the following:

- Title to the Report- Specifically state that it is an independent assurance report.
- Addressee
- Brief description of engagement and identification of subject matters
- Preparation or assessment criteria- Whether internally generated/based on national codes, regulations/ international criteria (G3 guidelines of GRI).
- A description of significant, inherent limitations associated with evaluation and measurement of the subject matter against the criteria
- Statement disclosing responsible party, responsibilities of responsible party and practitioner
- Statement disclosing standards under which engagement was performed
- Identification of the report users and the purpose of report
- Practitioner’s conclusion- Unqualified, qualified, adverse and disclaimer of opinion
- Report date
- Name of the assurance provider, Firm Name (with Registration No.) and place of issue.

Global Trends of Sustainability Reporting- Emerging Opportunities for CAs

Social and environmental reporting was still considered

to be in fancy just a few decades ago, although its history can be traced back to the 1970s. There has been a clear increase in percentage of the large 100 companies in a number of countries publishing environmental or sustainability report. It was 12 per cent in 1993, 17 per cent in 1996, and 24 per cent in 1999. International Surveys of Corporate Responsibility Reporting 2005 and 2008 by a leading global firm show the following exciting global trends:

	% of Companies					
	2002		2005		2008	
	G 250	N 100	G 250	N 100	G 250	N100
Standalone Sustainability/ Corporate Responsibility Report	45	23	52	33	79	45
Combined with Annual Report	-	-	12	8	8	9

United Nations Global Compact (UNGC) and Accenture CEO Survey 2010 shows the following:

- 93 per cent of CEOs believe that sustainability issues will be critical to the future success of their business.
- 58 per cent of CEOs identify consumers as the most important stakeholder groups that will impact the way they manage societal expectations and employees were second with 45 per cent.
- 91 per cent of CEOs report that they will employ new technologies to address sustainability issues over the next five years.
- 96 per cent of them believe that sustainability issues should be fully integrated into the strategy and operations of a company.

Joint research survey of AICPA, CIMA and CICA (December 2010) shows that among large companies, 29 per cent include sustainability information in their

United Nations Global Compact (UNGC) and Accenture CEO Survey 2010 shows that 93 per cent of CEOs believe that sustainability issues will be critical to the future success of their business. 58 per cent of CEOs identify consumers as the most important stakeholder groups that will impact the way they manage societal expectations and employees were second with 45 per cent. 91 per cent of CEOs report that they will employ new technologies to address sustainability issues over the next five years. 96 per cent of them believe that sustainability issues should be fully integrated into the strategy and operations of a company.

The numbers of organisations taking care of triple bottom line of sustainability and issuing reports assured by professional accountants are increasing gradually. However, there are some hindrances such as perceived high cost, no clear cut format, lack of global standards, secrecy and unwillingness, etc. In public sector, Navratnas and others such as, ONGC, SIDBI, Hindustan Paper Mills Ltd etc. are contributing their best efforts towards sustainable development. ☺☺

annual reports, 17 per cent publish separate sustainability reports and 13 per cent do both. Among small and medium sized (SME) companies these are 6 per cent, 8 per cent and 2 per cent respectively. Therefore, independent assurance of SR is going to be budding professional opportunities for accounting professionals like Indian CAs. According to GRI, as on 15th February, 2011 more than 1100 in 2008, 1400 in 2009 and 1700 in 2010 organisations published sustainability reports worldwide. All these show that there has been a growing trend among the corporate entities

globally to include and report sustainability into their agenda. In India there are many organisations which publish such reports assured by auditors. In the coming years the number of companies seeking independent assurance of their SR will obviously increase.

Conclusion

The numbers of organisations taking care of triple bottom line of sustainability and issuing reports assured by professional accountants are increasing gradually. However, there are some hindrances such as perceived high cost, no clear cut format, lack of global standards, secrecy and unwillingness, etc. In public sector, Navratnas and others such as, ONGC, SIDBI, Hindustan Paper Mills Ltd etc. are contributing their best efforts towards sustainable development. Recently the Accounting Research Foundation (ARF) of the Institute of Chartered Accountants of India (ICAI) has taken up a project to formulate a comprehensive standard on sustainability reporting. In near future, it is highly expected that more and more companies will be disclosing their sustainability performances and get their reports assured by independent third party. ■