

Analysis of the Quality of Assurance Statements on Corporate Sustainability Reports on the Stock Exchanges of Several Countries in the World in 2020-2022

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ABSTRACT

While sustainability reporting has experienced notable advancements in recent years, a discernible gap persists between the progress in reporting practices and the corresponding assurance measures. This paper emphasizes the degree to which the contents of sustainability assurance statements align with the essential elements mandated by the ISAE 3000 and AA1000AS assurance standards. A content analysis was performed for the assurance statements of twenty-four (24) public listed companies listed on 24 different exchanges over a three-year span from 2020 to 2022. This analysis employed a quantitative approach involving scoring to assess the alignment of the content with the requirements of the assurance standards. The research instrument used were based on the minimal content elements of ISAE 3000 and AA1000 AS and developed by previous studies. The results of this study describe variability in the quality of assurance statements based on assurance standards, assurance provider, country of origin, industry sector, and content element. This research contributes to the existing literature in sustainability assurance through content analysis offering a nuanced global perspective through a large sample size and utilizing a streamlined research instrument derived from previous studies, enhancing the precision and conciseness of the analysis.

Keywords: AA1000AS, Assurance Statement, Content Analysis, ISAE 3000, Scoring, Quality

INTRODUCTION

As the trend of increasing sustainability reporting continues, as confirmed by studies such as Guo and Yang (2014), investors, regulators, and policymakers are increasingly focusing on the crucial role of assurance in ensuring high-quality reporting. Assurance statements play a pivotal role for users of sustainability reports by providing assurance that the information contained in these reports is credible and can be relied upon for decisions related to the sustainability aspects of the company. Sustainability reports lacking an assurance statement may be perceived as lacking credibility, and users may question the accuracy, completeness, or relevance of the information provided. Other studies such as Meiden and Silaban (2023) shed insight on the measurement of environmental performance in accordance with ESG.

Two gaps in expectations arise when it comes to ensuring the accuracy of sustainability reports. The first pertains to stakeholder complaints, requiring the company's commitment to the sustainability report's quality, implicitly linked to the assurance statement's quality. The second is associated with the emergence of institutional rules related to AA1000AS and ISAE 3000, leading to market demand pressure on assurance statements. Companies committed to these rules must respond accordingly. According to the Asia Pacific Sustainability Counts II Report released by PwC, while 88% of companies disclosed sustainability risks or opportunities in their corporate sustainability reports in 2022, only 49% obtained external assurance on these reports in the same year (PwC, 2023).

In their research, O'Dwyer and Owen (2005) conducted a thorough analysis of assurance statements found in sustainability reports of companies. They discovered that assurers who are consultants tend to employ a more evaluative approach, suggesting a heightened level of assurance. However, the focus on assisting the company's strategic direction may potentially compromise their independence. Similarly, Ball et al. (2000) found that accountant assurers are more closely associated with independence compared to environmental consultants.

A study conducted by Perego and Kolk (2012) investigated how multinational companies adopt and put into practice third-party assurance for their sustainability reports. The study revealed that country-level factors significantly influence sustainability assurance. Stricter laws on social and environmental reporting in certain countries increase regulatory pressure, acting as a strong coercive mechanism. This finding contrasts with prior research by Perego (2009), which suggested that high-quality audit firms can play a more substantial governance function in less stringent legal contexts when contrasted with more stringent legal environments.

Meanwhile, research conducted by A del Mar Alonso-Almeida et al. (2014) found the highest GRI adoption in the financial and energy sectors. This suggests that high external influence might enhance the quality of assurance statements, aligning with legitimacy theory. Additionally, Simoni et al. (2020) observed that companies' decisions to provide assurance on their sustainability reports are driven by the need to uphold positive connections with stakeholders.

Furthermore, research conducted by Jangu et al. (2013) revealed variability in assurance statements using only 10 content elements. This denser set of content elements is made possible through the application of clustering, as proposed by (Daub 2007). This approach allows the reduction of the content used as a research instrument from 24 elements, as seen in the study by Ardi and Meiden (2023), to 10.

This research aims to perform a content analysis to evaluate the standard of assurance practices on a global scale. Despite the inherent limitation of a sample drawn from 24 countries, each represented by a single company, the goal is to provide insights that contribute to a more comprehensive understanding of international sustainability assurance practices.

LITERATURE REVIEW

Agency Theory

Agency theory is a derivative of the theory that studies contract design to motivate rational agents when acting for the principal when the agent has interests that are opposite to the principal Scott (2020). According to Eisenhardt (1989), agency theory is based on subject assumptions related to people, organizations, and information. Agency theory posits that organizational control relies on the notion that the division between ownership and management may result in the risk of overlooking the shareholders' preferences (Lumapow, 2018). Jensen and Meckling (1996) describe agency relationship as an agreement wherein one or more individuals (principals) delegate certain decision-making authority to another individual (agent). To minimize conflicts of interest and information asymmetry, principals need to conduct monitoring such as requiring agents to provide accurate and transparent reports on company performance. One of the reports that tries to present comprehensive assessment about the company's performance both financial and non-financial is an integrated report. There were 5 integrated reports and 3 annual reports out of 72 sustainability reports sampled in this study.

Stakeholder Theory

The conventional interpretation of stakeholders, as put forth by Freeman and Reed (1983), encompasses any discernible group or individual capable of impacting or being affected by the accomplishment of organizational goals. The stakeholder theory aligns seamlessly with the practice of sustainability reporting, as it involves the company communicating its diverse social, environmental, and economic responsibilities to all parties with an interest in the company.

Legitimacy Theory

Legitimacy theory is an approach to organization management focused on the welfare of the community and its environment (Sunarsih et al., 2019). The legitimacy theory asserts that an organization's survival depends on maintaining legitimacy by aligning its activities with societal boundaries and norms. Research by Guthrie et al. (2007) suggest that Corporate Social Responsibility (CSR) is likely to be integrated into modern corporate reporting, offering additional insights into companies' voluntary disclosure. To enhance stakeholder trust in the credibility of sustainability reports and uphold corporate legitimacy, companies can engage external assurance statement providers, as proposed by Perego and Kolk (2012).

Expectation Gap

Liggio (1975) first introduced expectation gap in the literature and went on to elaborate it as "the difference between the level of performance expected as envisaged by independent accountants and by users of financial statements". Cohen (1978) on auditor responsibility broadened this definition by examining whether there exists a disparity between the public's expectations or requirements and what the auditor is capable of and should reasonably be anticipated to accomplish.

The literature study conducted by Deepal and Jayamaha (2022) compared various definitions of the audit expectation gap (AEG) and proposed a simpler definition of “the difference between what society as a whole expects auditors to do and what auditors actually do when performing audit practices”.

Sustainability Reporting

According to Global Reporting (2021), sustainability reporting involves a reporting procedure wherein the organization identifies its material topics by prioritizing the most significant impacts and outcomes, subsequently disclosing information to the public regarding these impacts. The United Nations defines sustainability as meeting current needs without jeopardizing the ability of future generations to meet their own needs.

Assurance Statement

With respect to sustainability reports, ‘assurance’ means independent third-party assurance of the management of the disclosures and statements in the annual sustainability report. The report assurance process is commonly referred to as an assurance engagement. There are two categories of assurance engagements determined by the extent of assurance a practitioner can provide: reasonable assurance engagement and limited assurance engagement.

AA1000AS & ISAE 3000

AA1000AS provides principles-based guidance grounded in the AA1000 accountability principles, including inclusivity, materiality, responsiveness, and impact (Accountability.org, 2020). ISAE 3000 outlines requirements, applications, and additional explanatory content specific to assurance engagements with both reasonable and limited assurance. ISAE 3000 acts as a guidance and can be modified and supplemented as needed based on the specifics of the engagement (IAASB, 2013).

RESEARCH METHOD

The assurance statements used as the object of research came from various parts of the world, represented by 24 countries, each of which is represented by one company preparing a sustainability report, and spread across six industrial sectors during the 2020-2022 research period. The study uses a content analysis method with a quantitative approach with scoring. Content analysis draws replicable and valid conclusions from text (or other meaningful entities) within its contextual usage, as outlined by Krippendorff (2018). The type of content analysis used in this study is descriptive content analysis which does not test a hypothesis but rather describes the aspects and characteristics of a message. This research adopts the 10 assurance statement content elements developed by Janggu et al. (2013) as a research instrument namely: (1) Report Title; (2) Identification of addressee of the report; (3) Recognition of intended users of the report; (4) Recognition of the entity responsible for the assurance report; (5) Clarification of the scope and objectives; (6) Identification of the criteria used for assessing evidence and drawing conclusions; (7) Description of the standards governing the assurance engagement; (8) Thorough description of the nature, timing and extent of assurance procedures; (9) Expression of assurance provider’s conclusion or opinion; and (10) Identification of assurance engagement limitations.

In order to get the data needed for this study, the data-collecting approach for this research employs an archival method to collect secondary data. Data on assurance statements on sustainability reports were obtained by accessing each company’s website and downloading the company’s sustainability report. After downloading, an examination was carried out to find out whether the sustainability report had been issued an assurance statement from an external party or not. Judgement sampling was used to

select the subjects for this study. As Sekaran and Bougie (2016) stated, judgement sampling involves selecting subjects who are most favorable or in the best position to provide the required information. In this study, it means selecting companies that issues complete sustainability reports that have assurance statements. This criterion needs to be met consistently for the research period spanning 2020 to 2022 for a company to be selected as a sample.

The assurance statements analyzed by the researcher will be evaluated together with the research instruments previously discussed. Each assurance statement will be separated into certain segments that are matched with content elements that are in accordance with the research instrument. Furthermore, scoring is carried out on each assurance statement segment that has been paired with content elements using a quality measurement tool developed by previous research namely Raar (2002). The assurance statements were systematically categorized by standard, provider, country, sector, and content element. Within each category, the maximum score served as a benchmark. Individual scores were then normalized as percentages, creating a quality proxy for diverse comparative analysis. Results, derived from a descriptive content analysis, are presented narratively. Eschewing hypothesis testing, this study provides detailed findings and contextualizes results by connecting them to prior studies, offering insights into observed variability. The discussion integrates stakeholder, legitimacy, and expectation gap theories, providing potential explanations for identified patterns.

RESULTS

Quality of Assurance Statement Based on Assurance Provider and Standard

Assurance providers issuing statements under the AA1000AS standard exhibit higher statement quality overall. The average quality score for assurance statements using AA1000AS was 90% and 78% for ISAE 3000. Compliance levels vary, with the highest at 91% for IBIS ESG Consulting Africa (Pty) Ltd and the lowest at 88% for the Korean Standards Association and Korea Productivity Centre. For statements under ISAE 3000, the highest is 90% for Price Waterhouse Coopers, and the lowest is 57% for Lloyd Register Quality Assurance Ltd.

Quality of Assurance Statement Based on Country of Origin

The researcher has ranked each country based on statement quality. The countries with the highest compliance rate are Singapore (93%) and Switzerland (93%) while the countries with the lowest compliance rate are Thailand (57%) and Japan (56%).

Quality of Assurance Statement Based on Industry Sector

The assurance statements in this study came from 6 different sectors namely consumer goods, energy, fashion retail, financials, industrials, metal, and mineral mining. The metal and mineral mining industry sector has the highest compliance rate at 72%, followed by fashion retail 68%, financials 62%, energy 58%, consumer goods 56%, and industrials 49%.

Quality of Assurance Statement Based on Content Element

In terms of the clarity of report title, the term "assurance" is used by almost all of the assurance statements (98.61%) in the sample with the exception of one "Memorandum of Independent Review" issued by Deloitte on Canacol Energy's 2020 sustainability report. In terms of the addressee of the assurance statement, 60% of assurance statements using the AA1000AS standard and 90% of assurance statements using the ISAE3000 standard included the addressee.

In terms of scope and objectives, only 57% of assurance statements using AA1000AS and 52% of assurance statements using ISAE3000 specifies the scope and objectives of the assurance engagement. In terms of the conclusion or opinion provided by the assurance provider, 70% of assurance statements using the AA1000AS standard and only 56% of assurance statements using the ISAE 3000 standard included this content in the assurance statements.

DISCUSSION

Quality of Assurance Statement Based on Assurance Provider and Standard

The study reveals variations in assurance statement quality between ISAE 3000 and AA1000AS, with AA1000AS statements exhibiting slightly higher quality. This difference may be attributed to the distinct approaches of assurers associated with each standard. In general, accountant assurers commonly employ ISAE 3000, characterized by a prudent and restricted approach, providing a lower level of assurance. On the other hand, consultants often prefer AA1000AS. O'Dwyer and Owen (2005) observed in their study that accountants typically offer a lower level of assurance, prioritizing caution, while consultants, taking a more evaluative approach, generally provide a higher level of assurance. Stakeholder theory could elucidate that shareholders play a central role in selecting the provider.

Quality of Assurance Statement Based on Country of Origin

The variation in assurance statement quality across countries found in this study might be caused by different external factors. Legitimacy theory suggests institutional factors might have an impact on assurance decisions. Simoni et al. (2020) discovered that businesses in nations less concerned about environmental issues demonstrate greater uniformity in their adoption of sustainability reporting (SR) assurance, in contrast to those in countries with a higher environmental sensitivity.

Quality of Assurance Statement Based on Industry Sector

The variation in assurance statement quality across industries may be explained by the different adoption pattern found in different industries highlighted by research such as A del Mar Alonso-Almeida et al. (2014) which found certain sectors to have a higher adoption of GRI standard. In line with legitimacy theory, certain drivers, such as environmental and market conditions or external pressures may cause differences in the sustainability assurance practices between industry sectors.

Quality of Assurance Statement Based on Content Element

For the report title, the common use of the term "assurance" may be interpreted as the appropriate term used in the context of assurance statements. Janggu et al. (2013) asserts that "assurance" is a more fitting term than "verification" or "audit" as it accurately describes an evaluation method using specific principles and standards to assess an organization's quality, underlying systems, processes, and competencies. Terms such as "verification", on the other hand, might mislead the reader into expecting more assurance than there actually is creating an expectation gap. For the addressee of the assurance statement, the variability found particularly between assurance statements under ISAE 3000 and AA1000AS might be caused by several reasons. One of the reasons is in line with previous study by O'Dwyer and Owen (2005) which is higher expectation of responsibility if the assurance statement is intended for external stakeholders. This is because different stakeholders have different core powers according to stakeholder theory. Concerning scope and objectives, various assurance engagements tend to define distinct goals. Typically, it is the responsibility of the assurer, to establish the scope, purpose, and objectives of the assurance engagement. ISAE 3000 mandates assurance providers to determine if sufficient and appropriate evidence

supports the conclusions in the assurance statement. This flexibility arises from the lack of regulation for sustainability and CSR reports, allowing reporting organizations to decide whether assurance covers the entire report or a specific section according to Janggu et al. (2013). Agency theory suggest that there might be a conflict of interest if the agent or the company becomes involved in determination of the scope and objectives due to the lack of regulation. In terms of the conclusion or opinion provided by the assurance provider, the findings of this study show variability in the wording of assurance statement conclusions. In terms of wording, no assurance statement used the term “true and fair” in its conclusion. In addition, the use of terms such as “fairly stated” (4.17%), “appropriate” (15.28%), “fair representation” (1.39%), “reliable” (4.17%) and “accurate” (4.17%) may be ambiguous to the reader. Such ambiguity was also found by Janggu et al. (2013) and this might suggest an effort by the assurance provider to avoid creating an expectation gap.

CONCLUSION

This paper emphasizes the quality of assurance statements based on their compliance with key elements of the assurance standard ISAE 3000 and AA1000AS. A content analysis was performed of the assurance statements of twenty-four (24) public listed companies listed on 24 different exchanges over a three-year span from 2020 to 2022. The findings from the study describe variability in the quality of assurance statements based on assurance standards, assurance provider, country of origin, industry sector, and content element. Assurance statements under the standard AA1000AS appear to have a higher quality than those under ISAE 3000. Previous studies suggest that one potential explanation is the distinct approaches used by the assurance provider using each standard where AA1000AS is commonly used among consultants and hence takes a more evaluative approach than their accountant counterparts. Furthermore, notable variability in assurance statement quality is observed based on the assurance provider, country of origin, industry sector, and content element. The variability found between the quality of assurance statements from different country of origin and industry sectors may be indicative of the effect of institutional and external pressures on sustainability assurance practices. The variability found in content elements is also explored. For example, the titles of assurance statements show variability but the majority of titles seem to include the term “assurance” because it is more appropriate. Variability in the addressee of the assurance statements may reflect an effort to manage expectations or responsibilities towards specific stakeholders. Consistent with the findings by Janggu et al. (2013), this study found variability in the scope and objectives of the assurance statements which may be caused by the lack of regulation for assurance statements. Conclusions of the assurance statement also varied considerably in their quality and wording.

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DECLARATION OF CONFLICTING INTERESTS

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