



## THE ISSUES OF ASSURANCE ON SUSTAINABILITY REPORTING

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### Abstract

*At present, the external assurance of sustainability reporting should be the last link in the corporate reporting process but it is just a voluntary matter from companies. This article presents the issue of external assurance in case of company sustainability reporting. Although, international organizations, such as the IIRC or GRI, have been involved in this process, so far, there is no clear-cut approach to external sustainability reporting. Moreover, there is a question of combined insurance for integrated reports that would help increase the credibility of these types of reports. External insurance remains at the discretion of companies, but in the future it must become mandatory to increase the credibility and quality of corporate reporting.*

**Keyword:** sustainability, assurance, sustainability reporting, integrated reporting.

**JEL Classification:** M41, M49

### I. Introduction

Sustainability is a whole process of changing the short-term vision of sustainability in sustainable performance, taking into account ethical, social, environmental, governance goals, not just financial ones. Sustainability of the business

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focuses on creating long-term value for shareholders but also for other stakeholders, such as customers, employees, suppliers, local community, creditors, natural environment, etc.

Sustainability reporting has evolved rapidly and is currently the most commonly used sustainability standard is now G4 from GRI-Global Reporting Initiative- alongside the IIRC-International Integrated Reporting Council- Framework on integrated reporting, the SASB sustainability standards or other CRS -Corporate Social Responsibility- related standards (EMAS - Management Scheme environment and auditing) and the reporting of non-financial information such as Directive 95/2014 / EU on non-financial information and diversity information by certain businesses and large groups. Moreover, those certifications received by organizations through the adoption of International Organization for Standardization (ISO) standards to promote compliance with ISO 14000 in environmental management, reporting and auditing, ISO 9000 on product quality improvement and ISO 26000 - social responsibility of organizations gives credibility to the eyes of the stakeholders (ISO, 2018).

Sustainability standards that are used in practice are voluntary, predefined procedures that assess and communicate the company's sustainable performance. Also, assurance of sustainability reports is left for the companies to decide if it's important for their reports.

## **II. The assurance of sustainability reporting**

Business sustainability is a process of achieving sustainable economic performance to create value for shareholders, while protecting the interests of all other stakeholders by focusing on sustainable non-financial performance (Rezaee, 2018: 3).

The issue is symbolic adoption and implementation of sustainability standards, as well as the external assurance of sustainability and integrated reporting which is not mandatory, although there are standards in the field such as ISAE 3000 (on Non-Auditing Independent Assurance), SA 8000 (on social aspects of an organization), AA1000AS (assurance on a set of performance-related principles), or G4 (on the role of external assurance for reports). Thus, external assurance remains at the discretion of organizations if they consider external assurance to bring them added value.

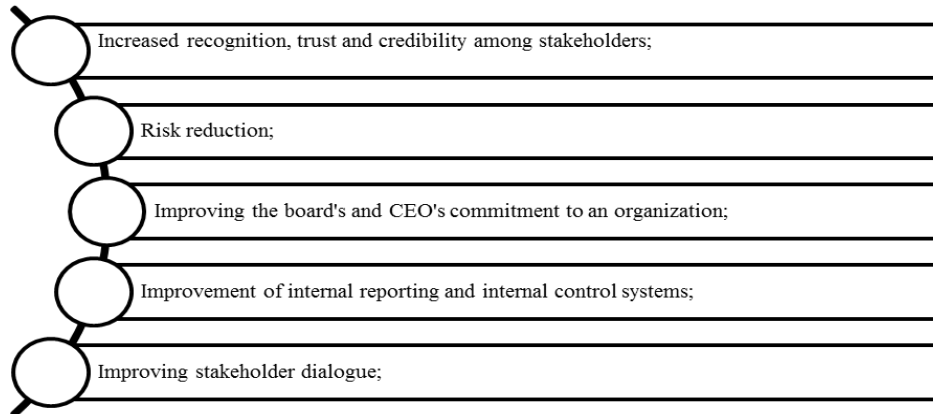
However, for integrated reports, we can not talk about integrated external assurance. Currently, for companies that have adopted Integrated Reporting and develops integrated reports under the IIRC framework, there is no integrated form of assurance of the report. In most cases, financial reporting and outsourcing of the sustainability part of



the report, in particular compliance with the G4 standard, but not compliance with the IIRC integrated reporting framework are included separately.

Figure 1 shows the benefits of external assurance found in various publications.

**Figure 1-** The benefits of external assurance



Source: adaption after GRI (2013)

In the literature, there have been many issues related to expressing an audit opinion on integrated reports, as also stated by Eccles (Oprișor, 2015: 91):

- Must develop a comprehensive set of standards for measuring and reporting non-financial items, with government support such as accounting standards;
- Developing a methodology for ensuring non-financial elements;
- Integrate standards and methodologies related to the level of non-financial and financial information so that to build the true image of organizations' sustainability.

Therefore, the issue of auditing non-financial information and more than the need to integrate a form of assurance that includes non-financial and financial information is at the forefront. From my point of view, such as the concept of integrated thinking has been adopted by organizations in the conduct of business and informative reporting, so this concept must also be adopted in the field of IR assurance.

### III. The international organizations involved in assurance process

A first step in this direction was made by the IIRC, which in 2013 organized an advisory framework with various stakeholder categories, of which 259 responded to the question "If it is necessary to ensure the entire IR (integrated report) or only certain



elements of the report?" (IIRC, 2013). The analysis of responses shows that the majority of respondents agree with the need to provide integrated reports (only 6.2% of respondents do not agree that it is necessary to get assurance on the integrated report, first because it was too early on the integrated reporting journey). However, when it comes to ensuring the entire integrated report or on some components of the report, most stakeholders prefer independent assurance of the entire integrated ratio of 59.1% (Simnett et al., 2016: 271-273). The main motivation would increase the credibility of information to a greater extent and concepts such as materialization and connectivity that require consideration of the entire report. In July 2014, the IIRC drafted two debating papers: "Integrated Reporting Enhancement: An Introduction to Discussion" and "Integrated Reporting: Problem Exploration" through which the Council's position on external assurance is highlighted, namely IIRC it is not and will not be a key player in this area, although it encourages external assurance and other methods that lead to the credibility of integrated reporting. In 2015, the IIRC published a response document summarizing significant issues raised in the debate on the debate documents. Responding to the question "What priority should be given to assurance?", 84.1% of respondents agreed that assurance must be on the first place or to be consistent with the reporting stages, the needs of the entities rapporteurs and the importance of other mechanisms to increase credibility. The IIRC Response Document expresses the view that the journey to Integrated Assurance can not be made by a single traveler (Simnett et al., 2016: 271-276).

Where is the call from the IIRC to the involvement of other organizations in the integrated assurance procedure, such as organizations that develop assurance standards, companies applying IR, professional organizations providing accounting and auditing services. From my point of view, the involvement of many actors in the field would speed up the adoption of integrated reporting by companies, as it would increase the credibility of integrated reporting.

GRI is one of the organization that addressed the issue of external sustainability, but only recommends its use and does not mandate it. GRI defines external assurance as the activities leading to increased confidence in the quality of the report and the information it contains (GRI, 2013: 5).

The IAASB- International Auditing and Assurance standards Board- is one of the organizations that has shown interest in this subject since 2015 and the KING III Report introduces the notion of combined assurance that involves collaboration between management, internal and external insurers in order to diminish the differences and maximize assurance benefits (Simnett et al., 2016: 281).



However, since 2014, no clear methodology or IR provisioning mechanism has been developed, as advocated by several specialists in the literature, such as Eccles, who suggest that "the value of integrated reporting is maximized when accompanied of integrated assurance, "and Ridehalgh asserts that" there must be only one assurance for one report " (Simnett et al., 2016: 275).

Also, the IR framework developed by the IIRC identifies a number of mechanisms to ensure the reliability of IRs, such as internal control and reporting process, stakeholders involvement, internal audit but also interdependent external assurance (Simnett & Huggins, 2015: 7; Maroun, 2018: 13).

One of the difficulties of understanding IR is the principle of information connectivity, because integrated reporting means more than combining the financial and sustainability reports, but ensuring a relationship of interdependence and determination among them. That is why I consider that the integrated external assurance is a plus for credibility of the integrated reports among all the stakeholders.

#### **IV. Conclusion**

Of course, the whole process of integrated external assurance is not simple, with many problems in practice, such as costs, perhaps that the reason why IIRC only encourages IR assurance, but I think it is absolutely necessary to increase the credibility of IR that should not only become marketing tools for big companies.

One of the issues of sustainability is the external assurance of information, being primarily voluntary. Even if companies include separate financial statements in their reports and external reporting of the sustainability part of the report is not sufficient for integrated reporting. Only one report needs a single external assurance for both types of informations. The objectivity, credibility, reliability, transparency and usefulness of information in an IR are important features for all stakeholder categories, so external assurance plays an important role in an organization's work and more in the process of integrated reporting. I believe that integrated external insurance must be mandatory for both categories of information, especially as regards the connectivity of information in an integrated report. Although steps have been taken to date, they have not yet materialized in a universal set of standards on integrated insurance. IIRC and GRI, together with other organizations, have been involved in this area and we hope that this issue will be clarified and regulated in the future. Mandatory reporting of sustainable performance information and its assurance can bring more uniformity and consistency into integrated reporting.



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