

# A Critical Evaluation of Assurance Statement on Corporate Social Responsibility and Sustainability Reporting in Malaysia

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**Abstract** In tandem with the evolution of reporting, it is timely that non-financial information such as corporate social responsibility (CSR) and sustainability reporting be verified by third-party through assurance practices. However, in Malaysia only a handful of CSR and sustainability reports are independently assured even though prior literature indicates that independent CSR assurance improves credibility of information. This paper highlights some issues surrounding an assurance practice through extensive content analyses of the assurance statements on CSR and sustainability reports of eight (8) public listed companies in Malaysia. Results of the study indicate that there are three main issues that need to be addressed; the lack of completeness of the verification statements, the need for competence and independence of the verifiers and finally the need to address specific stakeholders.

**Keywords** Sustainability, Corporate Social Responsibility, Assurance

## 1. Introduction

The evolution of a reporting company proved that it is now not limited to financial information but also to non-financial information. It has moved to include the reporting of a company's corporate social responsibility to inform the community of the company's responsibility and concern on issues related to social, environmental and human resources [1],[2]. Accompanying the growth in environmental and social reporting, is the rise in third party assurance provision concerning the content of the reports provided [3]. For example, nearly 40% of sustainability reports included external assurance in 2003 as compared to only 17% ten years previously [4] and the latest report by KPMG (KPMG 2011) revealed 46% of G250 companies and 38% of the N100 companies have used assurance statement as a strategy to increase the credibility of their corporate responsibility reports. The increasing trend in assurance provision is in response to stakeholder concerns about environmental, social and economic performance of businesses [5].

Given the recent increase in assurance practices worldwide especially in developed countries like UK,

Europe and Australia and the concern surrounding the veracity of such assurance practices, this study examines the assurance statements produced in a developing country such as Malaysia. The study undertake a critical analysis of the assurance statements on corporate social responsibility (CSR) and Sustainability reports of Malaysian companies that participated in the ACCA Malaysian Sustainability Reporting (MaSRA) Awards for the year 2010 that had independent assurance. The study examines the extent to which the contents of the assurance statements addressed key accountability focused elements in the International Federation of Accountants' (IFAC) International Standard on Assurance Engagement (ISAE3000), Global Reporting Initiatives (GRI-G3) and AccountAbility Assurance Standard (AA1000AS) assurance requirements.

## 2. Overview of Prior Research

Despite the increasing trend of assurance practices and the perceived positive impact of independent assurance, prior researchers have questioned the extent to which such assurance practice actually succeeds in enhancing the completeness and credibility of sustainability reports. For example, [5] highlighted three issues; first is the lack of completeness of the verification, next, the need for competence and independence of the verifiers and finally the quest for legitimacy of the companies engaging in the

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verification processes. Reference[6] further highlights on the lack of variability and transparency of the assurance statements. Reference[4] stresses on the continuing absence of stakeholder involvement in assurance practices and the reluctance of third party assurance to specify addressees in their assurance statements.

### 3. Research Method and Sample

This study focused on the content analysis of assurance statements by drawing on elements from the professional assurance statement criteria based on the GRI, AA1000AS and ISAE3000. The sample for this study includes eight (8) public listed companies that participated in the ACCA-MaSRA awards in 2010 who had their CSR and Sustainability reports independently assured. Of the eight, 6 or 75% were sustainability reports while two (or 25%) were CSR reports. A critical evaluation of the assurance reports were made based on three (3) criteria namely completeness of the assurance statements, competence and independence of the assurers and intended users of the report.

## 4. Results and Discussion

### 4.1. Use of Specific Assurance Standards

Table 1 presents the findings on the use of specific assurance standards. Findings indicate that six or 67% of assurance providers make specific reference to at least one of the three assurance standards.

**Table 1.** Reference to Specific Assurance Standard Used

Assurance Standards Reference	Total	Assurance Provider		
		Accountant	Consultant	Certification body
GRI-G3	6	0	6	0
ISAE 3000	6	1	5	0
AA1000AS	1	0	5	0

Table 1 indicates that five out of the six consultant's reports have taken the principles of independence of assurance in the GRI-G3 guideline and at the same time is mindful of the ISAE3000 and AA1000AS. Accountant assessor on the other hand makes specific references to only ISAE3000. Interestingly to note that the independent verification statement by certification body do not make any reference to any of the three standards as a basis of their opinion.

### 4.3. The Completeness of Assurance Statements

Findings of the study indicate that in only two instances (25% of sample) where the assurers offered some degree of consideration of completeness in the reports. The accountant assessor, in a statement of claims on responsibility and methodology section state that:

*"the accuracy and completeness of the sustainability*

*indicators are subject to inherent limitations given in their nature and methods for determining, calculating and estimating such data"*.

In considering completeness as a basis of opinion, only in one instance where one consultant assessor specifically mentioned that they have considered the principles of materiality, stakeholder inclusiveness, sustainability content and completeness in their balance.

Findings indicate that none of the assurers gave comment or opinion with regards to completeness. Instead, accountant assessor further claims that both the accuracy and completeness and the application of the evaluation criteria is the sole responsibility of the reporting entity and not the assurers.

### 4.4. Competence and Independence

On issues of independence, all assurance providers claim that they are all independent and are not involved in the preparation of any part of the report in the current or previous years. Typical statement made by most of the consultant is *"in the same reporting period we have not provided any other advisory or other work with (company's name) which may have been used in the report"*.

However, the independence of the certification body and the consultants in this study remain in question. In all 7 (87.5%) of the samples by consultants and certification body, the reports mentioned that they have provided advice on which data that is necessary and how it should be compiled. Such statements raised issues relating to the accuracy of data and information content in the report. For example, a report by the certification body state that:

*"During the verification, issues were raised relating to the accuracy of some of the data and statements contained in the report. As a result of the findings, the company has reviewed and revised the report. It can be confirmed that changes have been incorporated into the final version of the report to satisfactorily address the issues raised"*

The said statement seems to indicate that the assessor influence management to change their report so that it looks good and acceptable to readers. Study[3] commented that the inclusion of recommendation in the assurance statement reflects the assessor's effort in aiding clients corporate strategic direction which could potentially blurs their independence. Findings of the study also indicate that 7 (87.5%) of the assurance providers rated excellence A+ assurance level of compliance to GRI-G3 reports except the accountant assessor who gave a C+.

### 4.5. Addressing the Stakeholders

Findings from the study indicate that only two (25%) specify the addressee of the assurance statement and this was done exclusively by the accountant and the 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 the company's stakeholders. The consultant assurers on the other hand, are silent in all 6

(75%) of the sample despite the claim that they are experts in assurance engagement. This situation is in contrast with the audit practice in financial statement where the auditor specifically addresses the report to shareholders. The reluctance to address the assurance statement to specific stakeholders may imply that they are primarily providing 'value' to management. In addition, only one assurance statement provided statement explaining the objective of the report to stakeholders. This was exclusively on assurance statement by the certification body which state that:

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

On issue of responsibility, consistent with [3] the accountant assessor was far more likely to draw attention to the responsibilities of the report assurers and preparers than the consultants and the certification body. The accountant specifically mentioned that the preparer were not only responsible for the report but the accuracy and completeness of the report and the application of the evaluation criteria as well. For example, the accountant assurance report states that

*"(company name) Corporate Responsibility Committee is responsible for both the subject matter (accuracy and completeness) and the application of the evaluation criteria"*.

Interestingly, the findings of the study indicate that none of the assurers made specific statement that the responsibility of the assurance's report and opinion is the sole responsibility of the assurance provider as required by two of the international assurance standards; GRI and AA1000AS. Complicating the responsibility issues, all (6 or 75%) consultants' report included statement to qualify themselves from the responsibility. For example, one of the consultant assessor state that:

*'the assurance statement cannot guarantee the quality of social accounting and reporting process used by (company's name)'*.

Another consultant assessor qualify themselves in greater details as follows:

*"...this independent assurance statement should not be relied upon to detect all errors, omission or misstatements in the report, nor can it guarantee the quality of social accounting and reporting process."*

Such statements therefore question the quality of assurance statement provided.

Despite the fact that sustainability and corporate responsibility reports are steadily gaining momentum in Malaysia, the majority of these reports are still not independently reviewed or assured. It can be concluded that the assurance practices in Malaysia is still lacking in many ways such as the lack of completeness of the verification statements, the need for competence and independence of the verifiers and finally the need to address to specific stakeholders. Interpretation of the findings of this study should be made in light of the following limitations. First, the sustainability and corporate responsibility reports analysed in the study are relatively small (eight samples) due to the fact that assurance practices is in its infancy stage in Malaysia. Thus, comparative results made in this study may not be deemed appropriate.

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## 5. Conclusions