

The Assurance Services of Sustainability Reporting: Preliminary Evidence from a Developing Country

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Abstract

In response to the recent introduction of the Business Sustainability Initiatives by the Bursa Malaysia, more listed companies have voluntarily publishing sustainability reports, either stand-alone or integrated with their annual reports. Nevertheless, very little is known about whether these sustainability reports are audited and assured, like their mandatory financial reports, and the assurance practices involved. In this study, we first investigate the availability of assurance statement in sustainability reports issued by the Malaysian publicly listed companies. We then evaluate the content and informativeness of the assurance statements identified. We also ascertain the assurance processes and associated assertions in assurance services rendered on the preparation of the sustainability reports. Though preliminary, our study provides insightful evidence on the assurance practices on sustainability reporting in Malaysia, a developing economy.

Keywords

Sustainability reporting, assurance services, assurance reporting styles

Introduction

Recent years have witnessed an increasing number of companies, across the globe, reporting their business sustainability initiatives (see O'Dwyer and Owen, 2005; Simnett et al., 2009).¹ However, as concluded by Ballou et al. (2012), relatively little is known about the nature, extent, and effectiveness of sustainability initiatives being employed by organizations. One of the reasons leading to this deficiency is likely a lack of generally accepted standards for sustainability reporting and assurance.² Hence, it is sensible to believe that one way to improve the quality of sustainability reporting in communicating business sustainability initiatives is to have the reporting audited. In financial reporting, it is well-established that auditing and assurance services enhance the quality of the reporting.

Unlike financial statements, however, not all the sustainability reports are audited. For instance, Simnett et al. (2009) look at 2,113 sustainability reports published worldwide in 2002-2004. 31% of these sustainability reports contained independent assurance reports and 42% of these assurance reports were provided by members of the auditing profession. According to a recent worldwide survey, between 1997 and 2007 the average annual growth rate in assurance statements has been 20%, with a current proportion of assured reports settled at 25% (Corporateregister, 2008). From the 2005 KPMG survey of corporate responsibility reporting, it appears that one-third of the fortune global 250 companies adopt an assurance statement of their sustainability report (KPMG/UVA, 2005).

In Malaysia, Bursa Malaysia re-positioned the CSR framework, which was introduced in 2006, to an initiative of business sustainability, which supports stakeholder value creation, and emphasized that sustainability should be the main focus of every responsible company in 2010 (Bursa, 2013). Since then, many Malaysian PLCs started to involve in CSR activities and integrate sustainability initiatives into their businesses. Many of these PLCs have also been voluntarily reporting their CSR activities and business sustainability initiatives (especially so since 2006) either as an integrated part of their annual reports or as isolated sustainability reports (see Amran and Siti-Nabiha, 2009; Amran and Haniffa, 2011, ACCA Malaysia, 2011). In fact, the 2010 Asian Sustainability Rating places Malaysia as one of the leaders of sustainability disclosure among its companies in the region (ACCA, 2011).

Despite this leading position, the evidence of quality assurance among the sustainability reporting is lacking and assurance services do not seem to have added value to the reporting. For instance, in the study of Perego (2009), 12 of the 136 sample sustainability reports belong to Malaysian companies, of which two contained assurance statement. Sawani et al. (2010) study the sustainability reporting and assurance practices among the ACCA-MeSRA (Malaysian Environmental and Social Reporting Award) participants in 2007. They find that most of the information relating to sustainability disclosure reported is integrated in the annual report and with no assurance statement due to low level of awareness and the absence of legislative pressure to commission the practice.

The judges of the ACCA-MeSRA 2011, on the other hand, observe that more companies seek third-party assurance, as this provides for greater credibility and robustness of the reporting process.³ However, the judges also note that many assurance statements did not seem to add value to the reports, and that assurance statements appeared repetitive, rather than specifically addressing the individual company (ACCA, 2011).

We ask the following research questions:

1. What are the reporting guidelines and practices of sustainability reporting among the Malaysian companies?
2. Do sustainability reports contain assurance statements, e.g. audited and assured by an independent external party?
3. What is the nature of the information provided on the assurance process? Is a clear description of work undertaken offered, covering such issues as scope of the assurance exercise, etc?

³ The judges, however, have not reported how many more companies have assurance services for their published sustainability reports, as compared to the previous award exercise.

4. To what extent do statements address the core assurance principles of materiality, completeness and responsiveness emphasized in the assurance standard?
5. Is any assessment of underlying process and systems, reporting procedures and performance itself made, with weakness highlighted and recommendation commentary offered?
6. In what form are opinions stated? For example, do conclusions reached on the report address issues such as accuracy, completeness, reliability and balance?

First, we aim to investigate the availability of assurance statement in sustainability reports issued by the Malaysian publicly listed companies. We then evaluate the content and informativeness of the assurance statements identified. Last, but not least, we ascertain the assurance processes and associated assertions in assurance services rendered on the preparation of the sustainability reports.

For the financial year 2011, we identify 43 stand-alone sustainability reports or about 5% of the 857 listed companies on Bursa Malaysia.⁴ 14 of these SR were prepared in accordance with GRI and one used GRI together with a specific industry standard. The remaining SR, which made up to 62.8% of the total stand-alone SR generally reported their corporate social responsibility activities using mostly photos, other interesting illustrations and explanations of the sustainability activities conducted and amount of cost incurred. Overall we only identify eight assurance statements, among the 43 stand-alone sustainability reports published, provided by four providers. Out of the four assurance services providers, only one an accountant assessor and others are consultant assessors. Among these consultant assessors, two are reputable standards solution, certification and quality assessors; and one is a specialist in corporate social responsibility and sustainability responsibility investments. An internationally reputable consultant assessor provided a detailed description of its independence pertaining to the assurance services with its client. Other assessors, including the accountant assessor, either only briefly mentioned about their independence or indirectly stated their independence in the assurance services and their clients.

Based on our close examination of the assurance statements, the three consultant assessors were more likely to disclose details of past assurance experience, areas of expertise and relevant qualifications for undertaking the assurance exercise. The only accountant assessor neither discloses in any manner on the areas of their expertise nor experience in the engagement of its client. Although the eight assurance statements make some reference to the scope of the engagement exercise undertaken, only three out of the eight assurance reports provided clear and specific information on areas not reviewed or assessed. Information on the level of assurance provided and specific criteria employed is also provided in these assurance reports although these are from different assessors. From the level of assurance offered as observed in the eight assurance statements, it is clear that the lack of specific criteria, in terms of directly applicable assurance standards, is a major constraint in achieving a good and reasonable level of assurance.

The core principles of AccountAbility's AA 1000 Assurance Standard providing guidance to the assurance provider in reaching an opinion, those of materiality, completeness and responsiveness, are centrally concerned with issues of stakeholder engagement and inclusivity

⁴ Nevertheless, we identify 439 listed companies published integrated sustainability reports in their 2011 annual reports, which represent 51.2% of the total listed companies.

(O'Dwyer and Owen, 2005). Nevertheless, we find that these core principles have not been the central focus of the eight assurance statements despite the fact that some of the assurers stated some of these principles in their reports. We also find that all, except one, the assurance statements made no specific reference to suggested improvements in the organisation's underlying systems, management practices, reporting procedures or overall performance. The assurers are silent in this area, stopping only on the review methodology and procedures. It is also interesting to observe that there is an absence of the words *true and fair* as well as *fair and acceptable* in the accountant assurer's assurance statement which is a stark difference from how usually a financial assurance opinion would be worded by auditors.

Our study provides insightful evidence on the assurance practices on sustainability reporting in Malaysia, a developing economy. This evidence, though preliminary, is helpful for the consolidation of assurance service practices on voluntary reporting of sustainable business initiatives. The remainder of this paper is organised as follows. The next section discusses the literature relevant to assurance service in sustainability reporting and research methodology. The third and fourth sections present the findings and discussions. The final section contains the conclusions.

Literature Review

Scope of sustainability reporting

Despite their wide coverage, there exists no universally accepted definition of a corporate sustainability report (Roca and Searcy 2012). It is a general term used to describe a company's reporting on its economic, environmental and social performance. It can be synonymous with triple bottom line reporting, corporate responsibility reporting and sustainable development reporting but increasingly these terms are becoming more specific in meaning and therefore subsets of sustainability reporting (KPMG 2008). Daub (2007) defines a sustainability report as a report that must include "qualitative and quantitative information on the extent to which the company has managed to improve its economic, environmental and social effectiveness and efficiency in the reporting period and integrate these aspects in a sustainability management system." In a similar vein, the World Business Council for Sustainable Development (WBCSD 2002) defines sustainable development reports as "public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions."

The widespread of sustainability reporting these days especially among public listed corporations is driven by a growing awareness that sustainability related issues can materially affect a company's performance, demands from different stakeholders for increased levels of transparency and disclosure and the need for corporations to appropriately respond to current issues of sustainable development.

Not surprisingly, reporting of the environmental and social impacts of corporations has been increasing over the past two decades (Davis and Searcy 2010). There has been a shift from voluntary information disclosure by companies to demanded information, referred to as 'solicited' disclosures, which can be seen as a natural consequence of the growing pressures on corporations to be responsible (Van der Laan 2009). Many companies are already starting to recognize sustainability reporting as a business imperative, providing financial value and driving innovation (KPMG 2011). Hence, more and more companies publish sustainability

reports to maintain good perception among the public. 95% of the 250 largest companies in the world now report on their corporate responsibility activities. Corporate responsibility reporting has even become “virtually mandatory for most multinational companies, almost regardless of where they operate around the world.” (KPMG 2011)

In Malaysia, the involvement of the government and the Security Commission to promote sustainability reporting (SR) benefits will slowly increase the commitment of SR in Malaysian companies. A number of companies are actively involved in corporate social responsibilities (CSR) activities, especially in community involvement. Prathaban (2005) recorded that 65 companies registered on Bursa Malaysia contributed RM82.1 million to various charitable community programs. The telecommunication sector contributed RM19.6 million (23.87 percent of total donations), which was the highest amount. The banking and financial services sector was second highest with RM17.1 million (20.83 percent of total donation) followed by construction and property related companies which donated RM10.9 million (13.27 percent of total donations). The fourth highest were government-linked companies that gave a total of RM9.6 million (11.96 percent of total donations). Some companies in Malaysia are actively involved in sustainability reports, be it stand alone, integrated into annual reports or web based are typically released annually, usually three to six months after the end of the financial year.

Acceptable guidelines and best practices of sustainability reporting

From an international perspective, advances in sustainability reporting tend to be led by European companies and by non-governmental organizations, the latter being responsible for a range of voluntary guidelines, principles and codes of conduct that companies may embrace in shaping their sustainability disclosures (Perego and Kolk 2012). The Sustainability Reporting Guidelines has been an important driver in improving the quality of social and environmental reports in the international scene. Developed by the Global Reporting Initiative (GRI) which incorporates various stake holders' initiatives, the Guidelines provide a framework of principles and guidance, together with a list of disclosures and key performance indicators, for voluntary use by organizations in reporting their sustainability performance. A first version of the Guidelines was issued in 1999, and subsequently, the third version which showed significant changes over the years, was released in 2006 (GRI 2006). The latest sustainability reporting framework developed by GRI (G3 Guidelines) also contains recommendations for reporting companies in their approach to the external assurance of sustainability reports.

Whilst these guidelines are widely used in Malaysia and internationally, it should be recognized that the reporting is voluntary and that some aspects may not be relevant to a particular company or a company may have the choice of not to report against a particular aspect of the GRI guidelines. Indeed, the latest version of these guidelines, released in 2006, highlights the importance of dealing with those aspects and performance areas that reflect the company's significant economic, environmental and social impacts or that would greatly influence the level of perception and decisions of its stakeholders.

The GRI guidelines provide specific “Reporting principles and reporting guidance” to assist companies through decision making processes associated with the preparation of a sustainability report. For example, Reporting Principles described within the guidelines seek to assist companies to determine the topics and Indicators on which the company should report and ensure the quality and appropriate presentation of reported information (GRI 2006).

The other guidelines that are resulted from the development of other global initiatives such as the Equator Principles (project financing) and the International Council on Mining and Mineral (ICMM) Sustainable Development Principles, Public Environmental Reporting Initiative (PERI), Coalition for Environmentally Responsible Economics (CERES), the ICC Business Charter for Sustainability Development (ICC), the ACCA Sustainability Reporting Guidelines, International Petroleum Industry Environmental Conservation Association (IPIECA) and the Australian Guideline for Triple Bottom Line Reporting (G100) have proven valuable frameworks in addressing industry specific sustainability issues and in promoting common approaches. On the other hand, the United Nation's Global Compact which provides a reporting framework for business based on ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption (KPMG 2008).

Principles and framework on the assurance services of sustainability reporting

The essence of "assurance" is that the information provided by companies is deemed more credible if it has been subjected to an independent examination by external third parties (Deegan et al., 2006; Fargher and Gramling, 2003; Zadek et al., 2004). As discussed earlier, more recently reports combining economic, social/ethical and environmental performance have emerged and are often termed sustainability reports. This broadening focus in reporting has expanded the scope of traditional financial assurance engagements to include non-financial aspects as well (Beets and Souther 1999; Blair 2008). It is a growing trend that more multinational companies (MNC) seek external, third party expertise to verify the information included in sustainability, non-financial reports. The results of this mainly voluntary assessment or assurance are spelt out in a verification statement that reports the findings of the assurance provider.

According to a worldwide survey, which claims to profile 90-95% of all published reports, between 1997 and 2007 the average annual growth rate in assurance statements has been 20%, while 25% of sustainability reports was externally verified this way (Perego and Kolk 2012). It has been researched that 40% of the Fortune Global 250 companies had sought assurance of their sustainability report because they recognize that independent assurance provides confidence to both internal and external stakeholders about the credibility, reliability and relevance of reported data and performance information (KPMG 2008). This reflects a view of sustainability assurance services as a way to producing more transparency and consensus focusing on the purpose of business, creating an effective and constructive way for a dialogue with a firm's stakeholders (Perego and Kolk 2012).

An assurance engagement of this purpose would usually result in a written assurance statement which is typically published in the company's stand-alone sustainability report of which it includes a detailed management report on the findings and recommendations, strengths, weaknesses, areas of improvement and an insight into anticipated future events that require attention. The written assessment should also outline the terms of engagement, scope of work, assurance standards, issues of independence and the final assurance opinion.

There are a few commonly used assurance standards which are favoured by the MNCs. The Federation of European Accountants (FEE 2002, 2006) encouraged companies in the early phase of diffusion of sustainability standards to raise shareholder confidence by enhancing the credibility of their sustainability reporting with independent assurance. These claims are consistent with financial auditing practices indicating that voluntary, third-party verification

provides greater user confidence in reliability and accuracy of the information disclosed (Carey et al. 2000).

Regardless of the particular aim and types of stakeholders targeted, the need for enhanced credibility and reliability of sustainability reporting to both internal and external users has accelerated the development of relevant assurance standards (FEE 2004, 2006; Zadek and Raynard 2004; Manetti and Becatti 2009). In addition to the Sustainability Reporting Guidelines by GRI previously mentioned, there are also two international standards used by assurance providers specifically in the area of sustainable reports but designed for different objectives have taken a dominant role. The AA1000 Assurance Standard (AA1000AS) was developed by the London-based Institute of Social and Ethical Account Ability (more commonly known as Account Ability) and launched in March 2003 (Account Ability 2003a, b). AA1000 is a free, open-source set of principles that focuses on the learning aspects of addressing sustainability/CSR. The ISAE3000 standard (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”), published in 2003 by the International Auditing and Assurance Standards Board (IAASB 2003), is a standard which provides guidance in the form of basic principles and essential procedures for professional accountants on how to conduct non-financial assurance engagements.

The GRI Guidelines, AA1000AS and ISAE3000 standards do not directly substitute amongst themselves, as some assurers seem to reference them in different combinations in view of overlap in minimum content of assurance. Account Ability’s AA1000 standards are known for their unique focus on stakeholder accountability (Adam et.al 2004). O’Dwyer and Owen (2005) note that “of the three pieces of guidance, AA1000 most closely aligns itself with the stakeholder accountability perspective”. Assurance is not a mandatory requirement under the GRI guidelines but it is a recognized that auditability, which is one of the reporting principles in the guidance, is essential for underpinning a balanced and reasonable report. As for ISAE 3000, this is a generic standard based largely on traditional financial auditing standards and concepts (Corporate Register, 2008; IAASB, 2004). It addresses issues from a professional assurance providers’ perspective and pays attention to such matters as risk management and practice protection (IAASB, 2004).

Besides the many discussion and debates of the different standards and the voluntary nature of sustainability assurance, another aspect of the sustainability assurance market that deserves attention is the presence of different assurance providers. They include the traditional “Big Four” accounting firms, certification bodies, specialist consultants and non-governmental organizations (NGO), which vary in degree of technical expertise and credibility (Corporate Register 2008).

The diversity of standards, methodologies and practitioners in the sustainability assurance process further accentuates the growing academic awareness of the complexity of sustainable reporting institutional framework (Scalet and Kelly, 2010; Waddock, 2008).

Other relevant matters relevant to assurance services in sustainability reports

In the last few years, both academicians and practitioners have been in discussion on the best approach to report and verify non-financial information in the form of sustainability report, particularly of the public listed companies. The practical outcome of this complexity is that sustainability reporting assurance does not add credibility to sustainability report because

report readers “would often have great uncertainty in understanding how the assurance provider undertook the engagement, what they reviewed, and the meaning from the result of the assurance engagements (Deegan et al., 2006 pg 368).

It was argued by different groups of social and environmental accounting literature that the absence of established accounting standards reduces accountability to external audiences and stakeholders groups (Power 1997; Gray 2000; Dando and Swift 2003; O’Dwyer 2003; Adams 2004; Cooper and Owen 2007; Smith et al, 2011). Major concerns have been raised in empirical studies over critical aspects of sustainability assurance such as assesor independence in the verification assessment (Ball et al, 2000), fundamental inconsistencies in relation to the scope of assurance, criteria employed and levels of assurance provided (Manetti and Becatti 2009) and a striking noticeable absence of stakeholder participation during the assurance process (O’Dwyer and Owen 2005, 2007).

On the shores at national level, Malaysia, not many areas on sustainability assurance have been researched for the past five years. A preliminary study has been carried out on the development and evolution of sustainability reporting and assurance practices in Malaysia with the aim to identify the current practice and trend of reporting and the level of awareness on assurance on sustainability reporting in Malaysia (Sawani et al., 2010). Unfortunately, the study finds no assurance statements from the small sample of listed companies studied and only based on the interviews of respondents from this sample listed companies.

Research Methodology

As sustainability reporting practice is still in its infant stage among the listed companies in Malaysia, like many other developing markets, the number of assurance statements among the sustainability reports is expected to be rare. In fact, some listed companies have not embarked on sustainability reporting, even in the form of integrated reporting in their annual reports. Our targets are the Malaysian listed companies, which have responded or would be responding to the Bursa Malaysia’s call for a CSR framework in 2006 and/or a Business Sustainability initiative in 2010, and hence producing sustainability reporting. To identify the assurance service statement, if any, in the sustainability reports of these listed companies, we first go through the two formal communication channels which the companies would publish and release their sustainability report, either stand-alone or integrated in their annual reports. The two communication channels include listed companies’ websites for stand-alone sustainability reports, and the Bursa Malaysia website, which releases the listed companies’ annual reports for integrated sustainability reports.

For the financial year 2011, we identify 43 stand-alone sustainability reports from the 857 listed companies on Bursa Malaysia. This is indeed a small number i.e. about 5% of the total listed companies. Nevertheless, we identify 439 listed companies published integrated sustainability reports in their 2011 annual reports, which represent 51.2% of the total listed companies. As presented in Table 1, 15 companies in industrial products sector published stand-alone sustainability reports followed by companies in trading/services (10), consumer products (5) and construction (4) sectors. It is noted that only one out of the 84 companies in the properties sector and two out of the 41 companies in the plantation sector published stand-alone sustainability reports. Furthermore, all of the 29 companies in the technology sector have not published any stand-alone sustainability reports. Similarly, 135 companies in industrial

products sector published integrated sustainability reports followed by companies in trading/services (90), consumer products (69) and properties (46) sectors. Overall, however, we only identify eight assurance statements among the 43 stand-alone sustainability reports published i.e. three companies in trading/services sector and one each in finance, IPC, industrial products, construction and plantation sectors.

Table 1: Number of companies, sustainability reports and assurance statements

Sector	Number of				
	Listed companies	Stand-alone sustainability reports	%	Integrated sustainability reports	%
Closed end funds	1	0	0.0	0	0.0
Construction	45	4	8.9	23	51.1
Consumer Products	134	5	3.7	69	51.5
Finance	36	2	5.5	27	75.0
Hotels	4	2	50.0	1	75.0
Industrial Products	241	15	6.2	135	56.0
IPC	6	2	33.3	3	50.0
Mining	1	0	0.0	0	0.0
Plantation	41	2	4.9	22	53.6
Properties	84	1	2.1	46	54.7
REITs	16	0	0.0	5	31.2
SPAC	1	0	0.0	0	0.0
Technology	29	0	0.0	18	62.1
Trading/Services	218	10	4.6	90	41.3
Total	857	43	5.0	439	51.2

We carry out a close examination i.e. content analysis on the eight assurance statements identified. Specifically, we look for information and find evidence about the following:

- The profile of the assurance providers which have audited and provided assurance services to the identified sustainability reports.
- The degree of independence of the assurance provider from the reporting entities and the disclosure of this fact.
- The nature and information content of the assurance statements identified. This includes a clear description of work undertaken offered, covering such issues as scope of the assurance exercise, etc.
- The extent of the assurance statements in addressing the core assurance principles of materiality, completeness and responsiveness emphasized in the assurance standard.
- The assessment of underlying process and systems, reporting procedures and performance itself made, with weakness highlighted and recommendation commentary offered.
- The form of opinions and conclusions in addressing issues such as accuracy, completeness, reliability and balance.

Findings and Discussions

Sustainability reporting practices

We conduct close examination on the content of the 43 stand-alone sustainability reports in order to identify the sustainability reporting guidelines and practices adopted by these reporting entities.⁵ Table 2 summarises the sustainability reporting and practices identified. We observe that most of the public listed companies in Malaysia are still producing SR without adopting any internationally accepted guidelines (e.g. GRI). This large group of companies that made up to 62.8% of the total stand-alone SR generally reported their corporate social responsibility activities using mostly photos and other interesting illustrations for better understanding and easy reading of their users. There are also explanations of the activities conducted and amount of cost in the form of monetary value is usually reported for each activity. Majority companies from this group are reporting from the website of their companies, with a small percentage of them prepared the SR in a downloadable pdf format with a different theme annually. It is obvious that these companies are reporting solely in response to the CSR framework and sustainable business initiatives by the Bursa Malaysia for good practice of its listed companies.

Table 2: Sustainability reporting practices

Sustainability Reporting Guideline and format	Number of companies	%
Global Reporting Initiatives (GRI)	14	32.6
Other industry specific guidelines (with GRI)	1	2.3
ACCA Sustainable Reporting Guidelines (ACCA)	1	2.3
No specific guidelines	27	62.8
Total	43	100.0

Only 14 or 32.6% of the total 43 public listed companies as tabulated above are reporting in a separate stand-alone SR with clear guidelines based on the GRI. All of these reports are in downloadable pdf format and majority of them were entrants of the ACCA Malaysia Sustainability Reporting Award (MaSRA) 2011. Majority of the companies in this group has incorporated the GRI G.3 Content Index at the end of their SR to show how closely they had comply with the reporting requirements and style of this much favoured guidelines. The central motive of enclosing the GRI G.3 Content Index is to enable the users of the SR to identify the crucial areas which needs sufficient disclosures. It is a very detailed index which requires the company to highlight the profiles disclosed that includes areas such as strategy and analysis; organizational profile; report parameters; governance, commitments and engagements; economic; environmental and social. The only setback of this form of reporting is that there is no regulation requiring third party verification on these claims made by the company. From the data collected, it is also observed that ratings of the GRI (ranging from A+ to C+) are reported if the companies engaged an assurance provider for their SR.

There are a few interesting observations on companies adopting different international guidelines on their SR. This is notably highlighted in the SR of Petroliam Nasional Berhad or more famously known as PETRONAS in Malaysia. The company adopted both the GRI as well as the International Petroleum Industry Environmental Conservation Association (IPIECA) due the specific requirements of the oil and gas industry. However, it is observed that PETRONAS' disclosures are mainly focus on the IPIECA index guidelines and hence it has limited disclosures when the SR is compared against the GRI G.3 Content Index. Another company which adopted a guideline different from the GRI is YTL Corporation Berhad. The

company's SR reported that they adopted the ACCA Malaysia Sustainable Reporting Guidelines for Malaysian Companies and concurrently following the Bursa Malaysia Corporate Social Responsibility (CSR) Framework. Although YTL did not adopt the popular GRI reporting guideline, its report is very comprehensive and detailed covering numerous areas which runs up to 106 pages. We have also observed that all the companies which adopted a guideline in the SR have a designated sustainability reporting council or department to facilitate a comprehensive sustainability report.

Assurance providers and their independence

We find that out of the 43 stand-alone sustainability reports, only eight or 18.6% of the companies engaged in third-party assurance or verification from independent assurers. It is observed that there is no assurance statement included in the form of sustainability report which is integrated into the companies' annual reports. Table 3 presents the eight companies which engaged assurance services for their sustainability reports and their assurance service providers. The eight assurance statements are provided by four providers. Out of the four assurance services providers, only one an accountant assesor, which is PwC and others are consultant assurers. Among these consultant assurers, BSI and SIRIM are reputable standards solution, certification and quality assurers. OWW is a specialist in corporate social responsibility and sustainability responsibility investments.

Table 3: Reporting entities and assurance services providers

	Company	Sector	Assurance service provider
1	Kulim (Malaysia) Berhad	Plantation	British Standards Institution (BSI)
2	Telekom Malaysia Berhad	Trading/services	SIRIM QAS International (SIRIM)
3	Maxis Berhad	Trading/services	SIRIM QAS International (SIRIM)
4	Media Prima Berhad	Trading/services	SIRIM QAS International (SIRIM)
5	Malaysian Resources Corporation Berhad (MRCB)	Construction	SIRIM QAS International (SIRIM)
6	Digi.com Berhad	IPC	PriceWaterhouseCoopers (PwC)
7	Malayan Banking Berhad	Finance	OWW Consulting Sdn Bhd (OWW)
8	DRB HiCom Berhad	Industrial Products	OWW Consulting Sdn Bhd (OWW)

Out of the eight assurance statements, only one assurance provider which is the BSI offers a more detail and relevant description of their independence in the assurance work of their client, Kulim (Malaysia) Berhad. It is noted in this sentence: *The British Standard Institution (BSI) is independent to Kulim (Malaysia) Berhad and has no financial interest in the operation of Kulim (Malaysia) Berhad other than for the assessment and verification of the sustainability statements contained in this report.*

OWW has included a statement of independence, objectivity and capability at the end of the assurance reports for its clients. However, the degree of independence was not highlighted in detail as well and only a brief paragraph which is related to their independence was stated in this manner: *Our Code requires that all of our employees maintain high ethical standards and makes explicit reference to the independence and objectivity of our assurance and assessment engagements which we believe conform to emerging international best practice.*

In the assurance statement from the sustainability report of Digi.com Berhad, PwC makes no specific reference of its independence. However, PwC does include a statement about *to perform an independent limited assurance engagement* which indicates its independence, either currently or potentially, is less than complete. In the four assurance statements, SIRIM only briefly labelling its statements as being *independent* and are seemed deemed to suffice. No further details are given in relation to the independence with its clients i.e. Telekom, Maxis, Media Prima and MRCB.

Despite the fact that both PwC and SIRIM are reluctant to provide a statement of independence from the client company, it is easy to draw an inference of an arm's length relationship from the generally detailed description provided of the respective responsibilities of report preparer and assurator. This can be observed in the assurance statement of Maxis Bhd by SIRIM: *The information in the Sustainability Report is the responsibility of the management of Maxis. The objectivity and impartiality of this verification statement is assured as no member of the verification team and no other employee of SIRIM QAS International was involved in the preparation of any part of the Sustainability Report.*

Besides the point mentioned above, the assurance or verification exercise is prompted and carried out by the management rather than specific stakeholder groups, thus this enable the former to place restrictions on areas of performance and reporting upon which the assurance provider can bring to bear independence judgement.

Information content of the assurance process

Based on our close examination of the assurance statements, the three consultant assurers were more likely to disclose details of past assurance experience, areas of expertise and relevant qualifications for undertaking the assurance exercise. SIRIM and OWW disclosed details in the following vein. SIRIM on all assurance engagements mentioned their qualification in the manner noted as below: *...is a third party Conformity Assessment Body in Malaysia, with extensive expertise and experience in the provision of sustainability related assurance services.* In the case of OWW who is the assurator for Malayan Banking and DRB HiCom, the experience of the assurator was indicated as below: *...is a specialist in Corporate Social Responsibility (CSR) and Socially Responsible Investment (SRI).* OWW also mentioned in the statement its experience of conducting the assurance engagement for the second year for Malayan Banking. The only accountant assurator, PwC, neither discloses in any manner on the areas of their expertise nor experience in the engagement of its client.

Adding to information provision concerning the assurance process itself, four out of the eight assurance reports were termed as *assurance statement* rather than *verification statement* which only used by SIRIM in all of its engagements. Based on the report of the only accountant assurator, PwC it is especially noted that it did not employ the term *verification* in its report at all. Significantly, the accountant assurator was also far more likely to highlight in detail the respective responsibilities of report assurator and preparer than the consultant assurers. By contrast, the statements generated by the consultant assurers made no detailed reference to the responsibilities of the corporate management for report preparation although a brief sentence of *the information in the Sustainability Report is the responsibility of the management of...* has been observed in the statements issued by OWW and SIRIM. However it should be acknowledged that the responsibilities undertaken by the assurers are generally most clearly spelt out.

It is noteworthy to bring attention to the area where the FEE and GRI guidelines seem to be having little impact in the specification of an addressee for the assurance statement. In only one instance did this occur and this was exclusively by the accountant assessor, PwC. They identified the management of their client, which conforms to the GRI guidelines. In contrast, as observed in the reports of the consultant assessors, only one consultant assessor, SIRIM made a general statement of that the report is addressed to the management and stakeholders of their clients. This observation shows that the information provided gives a little of assurance to organizational stakeholders regarding the reliance they may place on the report contents. We can however contrast the situation here with financial reporting, the shareholders are commonly addressed in the audit report and it is also clearly addressed to the same constituency. This observation highlights that there are fundamental issues of corporate governance that needs attention in the realm of social, environmental and sustainability reporting that presently go somewhat unacknowledged.

Description of the work undertaken

Although the eight assurance statements make some reference to the scope of the engagement exercise undertaken, only three out of the eight assurance reports provided clear and specific information on areas not reviewed or assessed. Information on the level of assurance provided and specific criteria employed is also provided in these assurance reports although these are from different assessors. Except of SIRIM on their verification engagements, the rest of the assessors spelt out their level of assurance in the assurance exercises. Particularly in the engagement performed by PwC, it is indicated that there are limitations in the degree of assurance being offered. Thus, for instance in the PwC review of Digi.Com Bhd, it is clearly stated that: *In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.* Similar phrase can be found in OWW's work on Malayan Banking where it is noted that: *In each case verification was conducted through low level assurance via information provided by Malayan Banking.* The third assessor that specify their assurance level in their assurance engagement is BSI where it has indicated that its work is of moderate level assurance. No assurance level was highlighted by SIRIM in its engagements with its clients; however this particular consultant assessor is very specific on the limitation of their scope of review as subsequently discussed.

From the level of assurance offered as observed in the eight assurance statements, it is clear that the lack of specific criteria, in terms of directly applicable assurance standards, is a major constraint in achieving a good and reasonable level of assurance. The accountant assessor, PwC is the only assessor that indicated that a particular standard, ISAE 3000 *Assurance Engagement other than Audits or Reviews of Historical Financial Information* had provided the criteria employed in the assurance engagement. BSI indicated that it followed the AA1000 *Assurance Standard* (2008) in its moderate level assurance exercise and OWW only ambiguously reported in this fashion *...have also been mindful of the AA1000AS and the ISAE3000 although we have not been asked to apply these standards directly.* There was no mention of any specific standards employed by SIRIM in its engagement exercise for her clients.

Interestingly, however, none of the assessors commented in detail on the governance issues, reference is generally made to the need for the stakeholders' involvement in the sustainability reporting process.

Materiality, completeness and responsiveness

The core principles of AccountAbility's AA 1000 Assurance Standard providing guidance to the assurance provider in reaching an opinion, those of materiality, completeness and responsiveness, are centrally concerned with issues of stakeholder engagement and inclusivity (O'Dwyer and Owen, 2005). Hence, they are part of our examination to which assurance practice of the sustainability reports enhances accountability and transparency to organisational stakeholders.

Our examination shows that one of the eight assurance statements made a specific reference to materiality issue. BSI addressed the issue of materiality by stating that its client, Kulim (Malaysia) Bhd had taken into account materiality analysis that enables their stakeholders to make informed judgements about the company's management and performance. The assesor also provided a recommendation *to consider establishing a systematic process for identifying stakeholders and their concerns through participation from stakeholders besides management to address issues comprehensively*. There is no statement from the rest of the assessors in regards of materiality in terms of the issue concerning the stakeholders.

As far as completeness is concerned, we find that all the assurance providers, except SIRIM, offered some specific degree of assessment of the extent to which the client is able to identify and understand its own "sustainability performance". It is noted that the consultant assessors were more likely to offer comments in this area rather than the accountant assessor. There is however no specific statement made suggesting that all information was provided to enable stakeholders to make informed judgements. The most detailed comment regarding this area would be also from BSI which was highlighted in this manner: *This report reflects that Kulim (Malaysia) Berhad has continually made a commitment to its stakeholders, as there was participation of stakeholders in developing and achieving an accountable and strategic response to sustainability*.

PwC assurance report made a general statement in its scope of engagement that it had understood and inspected the documents regarding its client's sustainability strategy and stakeholder dialogue.

Turning to the issue of responsiveness, we find that only two out of the eight assurance statements have made evaluation of the extent to which the organisations had sought to identify stakeholder interests and concerns. Quite likely due to the fact that BSI employed the standard AA1000 in its engagement exercise, it is the only assessor who made detailed comment in this particular area. It commented that Kulim (Malaysia) Berhad has implemented practices to respond to the expectations and perceptions of its stakeholders. It is also observed that recommendation includes a continuous development on the responsiveness strategy for stakeholders and enhance the performance in information given to stakeholders.

On the other hand, OWW reported generally that *MAYBANK has processes in place for identifying, understanding and managing its environmental and social responsibilities and for capturing, understanding and responding to the views of its main stakeholders*. OWW mentioned briefly in its report that although GRI-G3 is used in its engagement exercise, it is mindful of the AA1000 as well which might be a contributing factor that the issue of responsiveness from MAYBANK's stakeholders are being reviewed in the engagement process.

Underlying processes and systems, reporting procedure and performance

Only one assurance statement made a specific reference to suggested improvements in the organisation's underlying systems, management practices, reporting procedures or overall performance. The rest of the assurers are silent in this area, stopping only on the review methodology and procedures. BSI, the only assurer who commented on the areas of improvement focused primarily on the inclusivity, materiality and responsiveness areas. This is largely influenced by the main assurance standard used by BSI. A typical example of BSI comments on the improvements of Kulim (Malaysia) Bhd's processes and systems in the area of materiality: *To consider establishing a systematic process for identifying stakeholders and their concerns through participation from stakeholders besides management to address issues comprehensively.*

Clearly, informed comment of this nature may be regarded as *adding value* for the users of the assurance statement. At the same time, however, unsurprisingly questions are raised as to whether integrating what is fundamentally a consultancy function with a separate "arm's length" assurance exercise compromises the integrity of the latter, particularly when no indication of fee levels for the respective commissions is disclosed.

Nature of assurance opinions offered

It is interesting to observe that there is an absence of the words *true and fair* as well as *fair and acceptable* in the accountant assurer's assurance statement which is a stark difference from how usually a financial assurance opinion would be worded by auditors. PwC in the assurance statement of Digi used words such as *limited assurance engagement* and added a disclaimer in the manner of *...we do not assume responsibility to any other person for the content of this report.* This tends to lead to the crucial issue of completeness of reporting being ignored in their opinions.

The opinion of other consultant assurers tend to portray a more re-assuring picture for the reports' readership with statements filled with words like *fair representation, moderate level assurance, fair and acceptable* and *provides a reasonable and balanced presentation.* It is clear that the consultant assurers are less inhibited in painting a more assured picture compare to the accountant assurer. From our examination, a greater level of assurance can be gleaned from the opinion of the consultant assurers which certainly offer more in terms of robustness and fullness of commentary. Whether this reporting in this vein can be fully justified would be easier to determine if details of fees paid for such assurance work is fully disclosed as is the case with the normal financial audit engagements.

Conclusion and Recommendations

Auditing and assurance services play a prominent role in developing and sustaining accountability in sustainability reporting. This holds true especially in the Western countries where sustainability reporting is beginning to play an integral role in a company's public reporting and disclosures. This paper follows closely to the research done by O'Dwyer and Owen 2005 and adopts it in the Malaysian context. However in Malaysia, the trend of engaging the service of an assurance provider for sustainability reporting is still not widely accepted as observed from the data collected. Local regulations by Bursa Malaysia may play an important factor in this phenomenon where assurance statement is not mandatory for the sustainability

report. In fact, the sustainability reporting itself is still reported by listed companies on a voluntarily basis. Also, like the citizens of other developing countries that have yet to come to grips with the reality that for every income per capita, there are other non-financial costs incurred, the Malaysian public has not been as critical as their more informed public in developed countries of the practices of their corporations and the impact that these have on the environment and the society (Amran and Siti Nabiha, 2009). There is still lack of real movement among the grass roots level to create pressure on these business entities to consider seriously on incorporating assurance exercise in their disclosure of environmental and social activities in their reports.

This paper clearly has its limitation due to the lack of popularity when it comes to employ assurance engagements in the sustainability reports of public listed companies in Malaysia. This study also only focuses mainly on the stand alone sustainability reports and lack of analysis of sustainability reports which are integrated into the annual reports. In addition, sustainability report which is directly adopted from the overseas parent company is also ignored because it is irrelevant to the Malaysian context. Further study should include more analysis on the guidelines adopted for the sustainability reporting which are fully integrated into the company's annual report.

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