



UNIVERSITA' DEGLI STUDI DI PADOVA

**DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI
"M. FANNO"**

**CORSO DI LAUREA MAGISTRALE IN
BUSINESS ADMINISTRATION**

TESI DI LAUREA

"CORPORATE SOCIAL RESPONSABILITY ASSURANCE"

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ANNO ACCADEMICO 2018 – 2019

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Firma dello studente

A handwritten signature in blue ink, appearing to read "Alberto Andena", written over a horizontal line.

Abstract

Corporate sustainability reporting is becoming more widespread with each passing year, and with that growth comes the need for companies to back up their sustainability claims.

In today's increasingly transparent world, companies may no longer report only financial performance to a limited group of shareholders. They have the responsibility to provide detailed reporting to a wide range of stakeholders.

This constructive and objective communication is most often done through a separate report on sustainable development or corporate social responsibility (CSR), or through integrating this information into the annual report.

To prevent these reports from being perceived as pure marketing tools, it is important to give them a quality label that demonstrates reliability, transparency and objectivity.

Although companies are not yet obliged to do so, more and more are requesting their audit certificates on their sustainability and CSR reporting, based on the new international guidelines for such auditing.

In order to better understand this emergent assurance market, I will provide background information on the factors associated with the decision to assure the sustainability reports and the process through which the assurance report is done. Sustainability is a topic that receives a lot of attention in Europe and where most companies can report voluntarily.

The assurance can be defined as a process which aims to increase the stakeholders' trust on reports and performance data. This process verifies the reports quality through international standards.

Independent assurance improves the credibility of corporate social responsibility (CSR) disclosures by providing stakeholders with confidence about the veracity of CSR disclosures and attempts to ameliorate the risk of unscrupulous companies dishonestly reporting their CSR performance.

A professional accountant assesses sustainability information provided by the client and gives an independent opinion on the outcome. An assurance service should build trust in the client's sustainability information.

To do this, a professional accountant's assessment needs to be independent from management which is responsible for business sustainability and providing sustainability information; an independent viewpoint is more credible than one that is too closely associated with the business and its information.

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1 Introduction

Over the last few years, there has been an increasing trend towards reporting socially responsible performance via the voluntary disclosure of a sustainability report that assess the three main components of the triple bottom line: environmental protection, economic growth, and social equity.

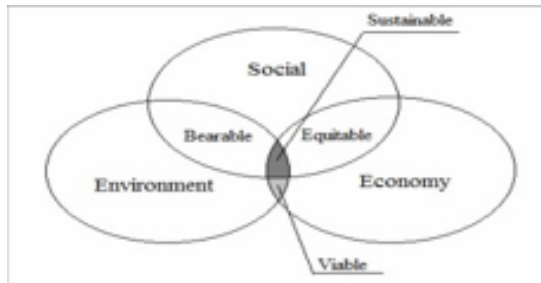


Figure 1 The three material topics to be reported on

This voluntary disclosure can be conceived as being a viable mechanism through which the firm may increase transparency in its disclosure over the last few years. Nonetheless, the considerably growing trend towards such sustainability reporting has not been accompanied by a corresponding increase in the credibility and accuracy of information.

This divergence is due to a perceived lack of consistency and completeness regarding the content and scope of sustainability disclosure.

In the context of this lack of credibility, stakeholders demand external assurances in order to enhance their degree of confidence in the outcomes of the evaluation of a specific performance. Thus, companies can voluntarily initiate a process of verifying this self-reported information. However, such assurances are not a legal requirement and no universal standard exists; there is a substantial heterogeneity in the subject matter of sustainability reports and their objectives, level, and criteria of assurance.

This thesis aims to reinforce the understanding about sustainability performance, voluntary disclosure and external assurance processes. The paper consists of six chapters. Chapter two reviews available literature on CSR assurance and explain its role and nature. The third one explained the benefits of having a CSR report assured but also the challenges. The research questions and the methodology of the empirical qualitative analysis (interviews) used in this study is described in chapter four. Chapter five explains the methodology used for the research and presents results while discussing them against prior literature. Finally, in chapter six are presented the conclusions based on the findings and general literature.

2 Literature Review

1.1 Background on Corporate Social Responsibility Assurance

More and more companies are publishing CSR reports due to the growing interest of investors. Nonetheless, the quality of this information varies substantially across firms. Consequently, investors are demanding external verification of the content of CSR reports.

“The use of external, independent reviews of sustainability management processes and final disclosures is intended to increase the robustness, accuracy and trustworthiness of disclosed information. The terms used to describe this process vary and include assurance, external assurance, verification, and certification.”

(<https://www.globalreporting.org/resourcelibrary/GRI-Assurance.pdf>)

Initially, assurance statements produced by professional accounting firms mainly concentrated on assessing the accuracy of data transfer from management information systems to sustainability reports and neglected consideration of reporting completeness.¹

One of the companies that tracks the trend of CSR disclosure by companies is KPMG.

KPMG has examined the issuance and quality of CSR disclosures from 1993 onwards. They found that only a little over ten percent of the world largest companies issued a CSR report or CSR related information during their first year of study. This increased to over seventy percent in 2015 (KPMG, 2015). But, the growing issuing of CSR related information does not translate into heightened trustworthiness of this information. This stems from the fact that these reports lack transparency, address similar issues in various ways and doubts remain whether they provide the reader with a complete picture. Wim Bartels, Global Head of KPMG’s Sustainability Assurance, expressed that the global momentum in corporate responsibility demands both higher quality CR information and greater use of assurance to maintain standards and stakeholder confidence.

¹ O’Dwyer and Owen’s 2005 survey of assurance statement content in the early 2000s found that it was assurers from outside the accounting profession who made more use of terms like “fairness” in their assurance opinions. There was limited global professional body interest in this form of assurance prior to 2004 and ISAE 3000 had not yet been issued (the standard was issued in 2004 and came into effect on 1 January 2005)

The data suggests that assurance rates increase most rapidly in countries where high rates of CR reporting have been achieved. For example, between 2015 and 2017 there was a 14-percentage point increase in assurance of CR data in Taiwan and Japan, and a 12 percentage point increase in the US—all of which have high CR reporting rates of 88 percent or above.

Investors and other financial stakeholders are increasingly aware that environmental, social and governance (ESG) issues, previously considered “non-financial”, are relevant to the financial performance and long-term value creation potential of a business.

As a result, there is greater demand for assurance, which promotes reliability in this information. The growing awareness and engagement of investors, audit committees and management is one of the key drivers behind the growth in assurance of corporate responsibility data. Recent developments such as the reporting recommendations of the Task Force on Climate-related Financial Disclosures are likely to reinforce this growth trend.

Other drivers for assurance include pressure to demonstrate that GHG emissions data is reliable and accurate. The Paris Agreement has had a significant effect in Japan, with many companies seeking to prove that they have reduced GHG emissions and are on a pathway consistent with the 2°C scenario outlined in the agreement.

In 2015, the Financial Stability Board highlighted climate change as a risk to the stability of the global financial system and set up the Task Force on Climate-related Financial Disclosures (TCFD). The Task Force has brought together companies that prepare financial data and users of that data (investors, lenders and insurers) to recommend how companies should disclose the financial risks of climate change. These recommendations focus on the disclosure of physical risks from extreme weather such as storms and droughts, and commercial risks related to the global transition to a lower carbon economy. The recommendations were submitted to the G20 in July 2017.

As a result, pressure is growing on companies to improve their disclosure of climate-related financial risk.

Various initiatives worldwide have proposed standards and procedures by which companies can communicate their CSR information to the public. These bodies are for instance the Global Reporting Initiative (GRI) and AccountAbility. They have a vital role in initiating standards to increase the homogeneity of CSR disclosures.

The starting objective of the GRI was to provide a framework for companies on how to report their environmental impact. They released a set of guidelines in 2013, called G4, which includes standards for reporting and a manual on how to implement the GRI Guidelines². The G4 give an insight into three standard areas on which the company should report, which are social matters (e.g. how employees are treated), environmental matters (e.g. emissions) and economic issues. In 2017 Assurance of the CR data has more than doubled among the G250³ in the last 12 years (now 67 of the reports), indicating that the largest companies see value in adopting this practice. Assurance is also increasing at a steady rate among n100⁴ companies.

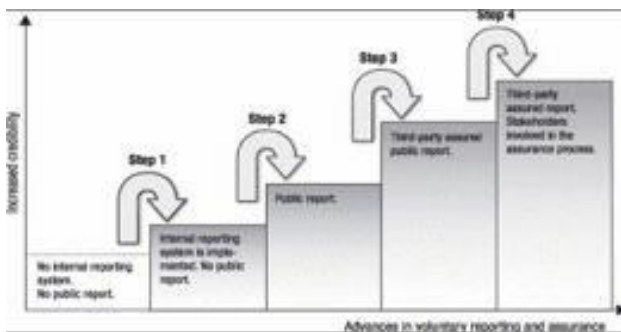


Figure 2 Steps towards third-party assurance (Park and Brorson, 2005)

Figure 2 shows the steps normally taken by the reporting organization in the CSR assurance process. Step 1 creates internal reporting systems and reports, the next stage is to publish the report, step 3 increases credibility by assuring the report on third-party assurer and in the final step the stakeholders are taken into the assurance process with the aim of increasing value and enhancing credibility.

There are two ways in which a company can take on assurance: internal assurance and external assurance. Internal assurance can be achieved by means of internal auditing and control systems to validate data gathering processes. The primary objective of an external audit is providing external stakeholders (primarily shareholders) with independent assurance on the reliability of the primarily financial disclosures contained in the annual financial statements. Whereas internal assurance gives the executives control over the reporting process, external assurance checks the overall quality of the disclosures. To assess the quality, the assurers, need to possess the right competences to do the verification process.

² A set of guidelines called “GRI standards” become mandatory for firm from July 2018.

³ The world’s 250 largest companies by revenue as defined by the Fortune 500.

⁴ The largest 100 companies by revenue in each country.

They have to confirm that the disclosures, within the scope of the assurance, are in line with the appropriate guidelines. Also, they have to make sure that companies do not merely disclose positive information, a practice called 'cherry picking' (O'Dwyer, 2011). Internal audit usually provides top management and the board with independent assurance that all material risks have been identified and are being effectively mitigated within the company's risk appetite (Cascarino & van Esch, 2007).

The quality can be defined as to whether the assurance statement provides information to the share- and stakeholder on whether the company's disclosures, within the scope of the assurance, give a correct and complete depiction of the company's operations and answers the needs of those share- and stakeholders in the sense of transparency and understandability.

While external assurance of sustainability reporting shares similarities with external audit of financial reporting, there are also important differences.

It is clear what financial reporting is intended to measure and there are long-established procedures for financial accounting. Sustainability reporting covers diverse topics, and the issues that are most critical to manage, measure and disclose vary by sector and even by company because it often depend on the activity that the firm performs and also involves a mix of quantitative and qualitative information.

One should also consider that only in few countries and for few sectors, sustainability reporting and assurance are either required or common practice.

Literature focused on the external assurance of CSR reporting is scarce (Maroun, 2017), especially from the U.S. perspective, making it necessary to search for trends and find predictive indicators through studying the raw metadata provided by organizations like the GRI Sustainability Disclosure Database Reports List, which contains over 26,000 reports from over 7,900 organizations.

2.2 Prior findings

Most of the literature appears to be subjective comments in business magazines or company reports rather than reviewed scientific texts or academic papers. The academics lack answers to the question of 'how a CSR should be audited?' (Castka et al., 2004). However, during the recent 10 years the subject has been studied more.

Research from this subject seems to be about developing audit instruments and frameworks for structured CSR report auditing.

Deegan et al. (2006) found that the quality of assurance statements varied significantly and that most of the assurance statements lacked material information on legal liability, e.g. who is responsible for disclosures in the report and who for the assurance process. Also, which standards were used to guide the assurance processes in most cases remained unanswered. They argue that this information is vital and homogeneity must be achieved. Otherwise, users of the statements could deem them worthless.

According to Zorio et al. (2013) the average quality of the assurances is tolerable, meaning that assurance statements give a concrete amount of information to users of the statement. In addition, they found evidence on the relation between assurance provider and the quality of the assurance. Their findings showed that the quality of assurance provided by an accountant firm is higher in contrast to other providers.

Most of these studies advocate mandatory guidelines and doubt the potential value implications of the assurances in their current state.

CSR assurance is developing at different rates across various regions and sectors (Ackers, 2009; CorporateRegister, 2008). The demand for voluntary CSR assurance is greater in countries with weaker legal regimes, where assurance serves as a substitute for regulation or legislation (Kolk & Perego, 2010).

Using data for 525 companies, the results indicate a significant positive influence of assurance on firm value (Benschop Wouter 2017). The research made by Benschop Wouter shows, however, that this relationship only holds when the reporting company is located in a country where CSR reporting remains voluntary. A significant negative relation is found between the scope of the assurance and firm value. Implying that assurance is preferred, but the costs involved should be limited. Furthermore, a significant positive relation is reported between the quality of assurance and firm value. No relationship is found for neither the level nor the provider of assurance on firm value. These findings show the importance of assurance for investors and the need for mandatory and enhanced regulation.

Companies can have various reasons for demanding assurance on their CSR reports. For instance, they can be pressured by the general public to adopt assurance or they want to show to the public that the information is not self-serving and that they provide high quality disclosures (Cheng et al., 2015).

Previous research has attempted to examine and understand the consequences for companies after they had chosen to acquire assurance. Hodge et al. (2009) found that assurance takes away doubts of investors regarding the disclosures made by the reporting companies (especially when the assurance is provided by an accountant). Casey & Grenier (2015) even found that companies that bought assurance had significant capital market benefits. On the contrary, the results of Cho et al. (2014) and Peters & Romi (2015) show that companies saw no or just a marginally significant increase in their share price after they had bought assurance.

However, the latter results might be due to the fact that Cho et al. (2014) and Peters & Romi (2015) examined companies located in the United States, which are obligated to communicate their emissions by law, and are in this way subjected to a mandatory reporting regime (Rich, 2009).

In addition, the existing literature does not consider the consequences of the differences in quality of the assurances, although suggestions were made by Junior et al. (2014).

2.3. D. Lgs. 254/2016

The D. Lgs. 254/2016 establishes the new methods of communication of non-financial information by companies. On October 22, 2014, the so-called "Barnier Directive" concerning "the communication of non-financial information and information on diversity by some companies and certain large groups " was approved by the European Parliament and by the Council of European

Union. This Directive was implemented in Italy on December 30th 2016 through the Legislative Decree n. 254 which requires large companies that constitute public interest entities to provide a non-financial statement containing at least environmental, social, personnel-related information, respect for human rights and the fight against active and passive corruption.

It is an important innovation in the communication of information concerning the "sustainability" that involves companies of significant size. And, on the other hand, these companies will likely give a boost to the whole system of sustainability disclosure, promoting its spread even among the companies that, although not directly bound by the law, operate as suppliers of who should complied with this decree, in the context of a "sustainable value chain".

The goal is to understand the business model, the policies adopted, the results obtained by the company and the main risks resulting from its activities, its products, services or business relationships.

Furthermore, the declaration must include the policy applied in relation to the composition of the administrative, management and control bodies of the company.

In accordance with the Decree, companies are required to report explicit reference to the adopted reporting standard (for example the "GRI G4 Guidelines") or, alternatively, to the autonomous reporting methodology chosen.

This declaration, which can be individual or consolidated, can be included in the management report or, alternatively, constitute a separate report. In both cases, the publication obligation exists.

The declaration, whose compliance with the contents of the decree is the responsibility of the directors of the public interest body, must be reviewed by the statutory auditor of the financial statements, or other entity authorized to perform the specifically appointed legal audit.

The provisions of the decree are applicable to financial years from January 1, 2017 on; starting from the first edition, the information must be provided with a comparison with previous years.

It is essential to point out that this topic still deserves an important study activity since there exist a substantial difference between a conformity check (as required by the standard) and an independent third-party verification that goes beyond mere formal compliance. Moreover, in this perspective, it is considered useful to point out the attention on another issue, essential with respect to the application of the regulatory provisions, to the effectiveness of communication, to the development of opportunities for non-financial disclosure by the under-threshold subjects not bounded by the legislative decree n. 254/2016: it seems possible to recognize a certain ambiguity, with regard both to the way in which they are developed and declined in the documents of the sector operators and the interpretations that have provided various institutions with reference to the relationship between the non-financial disclosure directive and the decree that has implemented it.

The directive applies to certain large companies and groups with more than 500 employees.

Such companies are required to give a review of policies, principal risks and outcomes, including on:

- Environmental matters;
- Social and employee aspects;
- Respect for human rights;
- Anti-corruption and bribery issues;
- Diversity on boards of directors

Such statement should include a description of the policies outcomes and risks related to those matters and should be included in the management report of the undertaking concerned. The non - financial statement should also include information on the due diligence processes implemented by undertaking, also regarding, where relevant and proportionate, its supply and subcontracting chains, in order to identify, prevent and mitigate existing and potential adverse impacts.

If companies do not have a policy on one of these areas, the non-financial statement should explain why not.

Indeed, disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection. In this context, disclosure of non-financial information helps the measuring, monitoring and managing of undertakings' performance and their impact on society.

Whereas carrying out an assurance exercise is not mandatory under the GRI Sustainability Reporting Guidelines, 'auditability' of information forms one of the laid down reporting principles considered essential for underpinning the production of a 'balanced and reasonable' report.

Given that the purchase of assurance is a costly decision, it may be assumed that companies purchase such assurance only if the benefits outweigh the costs. Benefits could include increased stakeholder or user confidence in the quality of the sustainability information provided and/or increased stakeholder trust in the level of organizational commitment to sustainability agendas.



“We believe that the real impact of the Directive will start to become evident during 2019 or even 2020, following these delays in transposition and a transitional period as companies become familiar with the legislation and introduce new internal reporting systems or adapt their existing ones.

Despite the delays and teething troubles, the Directive is a key step to increasing the importance of CR reporting, particularly in those EU Member States where no such requirements previously existed. However, the true benefits of non-financial reporting will be felt only when it is properly integrated with financial reporting and not treated as a separate exercise by a different silo within the organization.” (KPMG 2016)

2.4 Who ask for assurance

Companies that operate in sensitive industries (e.g. mining and utilities) have a greater demand for their CSR report to be assured. Moreover, when companies are domiciled in a country with a strong legal environment or when the country of origin is stakeholder-oriented, the chance of having their reports assured increase as well as the choice of an accountant firm as a provider. The latter is also supported by the findings of Kolk & Perego (2010) and by Zhou *et al.* (2016) on the GHG assurance market. However, contradicting results have been found by Casey & Grenier (2015), who studied the adoption and benefits of assurance using a U.S. sample. They found no significant relation between the adoption of assurance and the environmental and social sensitivity of the industry the companies operated in. They argue that this might be due to the fact that these companies have to disclose because of regulation, which might replace the demand for assurance.

The rise in sustainability reporting and assurance has been accompanied by the development of sustainability assurance standards. Stakeholders are showing increased interest in assured sustainability disclosures. For instance, initiatives such as the Carbon Disclosure Project (CDP) and The Carbon Tracker Initiative have increased investor interest in the disclosure and assurance of data on greenhouse gas (GHG) emissions and carbon risk. Stakeholders are also increasingly interested in external assurance of supply chain disclosures. Companies that use conflict minerals may, in some instances, be required to have external verification processes for supply chain disclosures.

Prior research has shown that there is an industry association between the level of environmental and social risks experienced by companies and the level of environmental and social disclosure (e.g., Adams et al. 1998; Patten 2002); companies belonging to industries with a greater environmental or social impact are more exposed to environmental or social risks and will have a greater need to manage these risks by purchasing assurance to increase user confidence in the credibility of the information contained in the sustainability reports they produce.

Aside from the need to increase user confidence, the business culture of a country, and in particular whether a country is more stakeholder- or shareholder-orientated, can influence the demand for assurance on sustainability reports and the choice of assurance provider.

A stakeholder-orientated or communitarian culture is one in which a broad spectrum of stakeholders are seen by society as possessing a legitimate interest in corporate activities. Stakeholder groups in these countries will therefore have considerable influence upon the activities of companies. By contrast, a shareholder-orientated or contractarian business culture is one in which companies are primarily seen as instruments for the creation of shareholder value; other stakeholder groups have less legitimacy and therefore less influence on corporate activities (Bradley et al. 1999): “management in communitarian-orientated societies would be more likely to perform and disclose social responsibility activities as part of strategically managing stakeholder relationships” (Smith et al. 2005).

A more recent study by Peters & Romi (2015) suggest that having a Chief Sustainability Officer (CSO) is positively associated with CSRA demand. This relationship is enhanced when the CSO has more expertise on the sustainability matter. Peters & Romi (2015) also provide an interesting insight concerning the relationship between size and CSRA.

Their results show that in the absence of a sustainability committee or a CSO, size no longer influences the demand for CSRA.

2.5 Assurance providers

Assurance standards should provide a consistent platform and utilise common terminology, facilitating comparability and reducing report user confusion.

In a study of 650 global CSR assurance reports, CorporateRegister (2008) found that the primary assurers were the Big 4 audit firms (40%), certification bodies (25%) and consultants (24%). Similarly, Manetti and Becatti (2009) revealed that the Big 4 firms produced 71% of assurance reports, with the remaining 29% being issued by other unnamed assurers.

Accountant firms have a monopoly position on the verification of mandatorily issued annual reports, but they face competition on the assurance market for sustainability disclosures (Cohen & Simnett, 2015). Companies have a wider choice of assurers among accountancy firms, environmental experts, management advisors and NGO's. For instance, Simnett *et al.* (2009a) found that in 2002-2004, almost sixty percent of all assured CSR reports were assured by a firm other than an accountant. This was due to the distinct difference between financial and non-financial information. CSR-related information is non-financial, and contains e.g. information on emissions and working conditions, whereas auditors are trained in understanding financial regulation and accounting standards. Therefore, accountant firms are not the ordinary choice for firms when they demand assurance on their CSR report (Pflugrath *et al.*, 2011).

With regard to the standards used in the assurance process, accountancy firms are known to make use of the ISAE3000. Whereas the other assurance providers predominantly make use of the AA1000AS from AccountAbility (Cohen & Simnett, 2015).

Auditors are usually more conservative than other assurers by focusing on information consistency in CSR reports, whereas other assurers tend to focus more on completeness, fairness and overall balance (O'Dwyer & Owen, 2005).

Overall it is argued that assurers who work for accountant firms do a better job than other providers with respect to the assurance of sustainability disclosures.

Firstly, it is argued that the Code of Ethics and quality controls introduced by the IAASB and used by accountants, improve the process of the assurance and therefore increases the overall quality (Huggins *et al.*, 2011).

Besides, accountant firms have a significant amount of reputational capital which motivates them to perform a high-quality job and makes them less prone to outside influences which can be detrimental to the assurers independence (Craswell *et al.*, 2004; Simnett *et al.*, 2009a). Also, accountant firms can profit from economies of scale, while other providers are usually much smaller (Pflugrath *et al.*, 2011).

However, counter-arguments are made by scholars who believe that other providers, such as an environmental specialist, perform a better job (Gray, 2000; Zorio *et al.*, 2013). They build upon the fact that these providers have more specialized knowledge regarding the assurance of CSR disclosures. However, as argued by Simnett *et al.* (2009a), this knowledge can easily be bought or obtained by accountant firms.

The shareholders are also interested in this information, because it shows dedication of the company to provide high-quality information to their share- and stakeholders, and therefore endure the extra costs (Simnett *et al.*, 2009a). Stakeholders are more eager to devote their money to a company that has its CSR report assured by an accountant firm. The Big4 companies have more public visibility than the smaller (local) accountants. Hence, they have more to lose and therefore more reputational capital. Also, they have larger economies of scale than other accountant firms.

Also, the description of the assurer's competencies is necessary for share-and stakeholders. Claiming to be competent and providing an explanation on this matter increases the stakeholder's confidence that the CSR information does not contains errors.

Whereas reporting companies may use auditors for CSR assurance due to the perceived credibility and strong brands of the auditing profession, enhanced by rigorous assurance methodologies, they may use non-auditor assurance providers due to the higher assurance levels provided and reduced costs.⁵

⁵ While this is difficult to show systematically as the fees for the engagements are not disclosed, discussions with assurance providers in this area in at least three countries suggest the fees charged by audit firms can be commonly up to five times the fees quoted by environmental consultants for the same engagements.

In selecting a provider, organizations should consider providers' expertise and competency with sustainability management processes and disclosures. External assurance providers are also expected to be independent from the organization, to be able to reach and publish an objective and impartial opinion or conclusions, be demonstrably competent in both the subject matter and assurance practices, and apply quality control procedures to the assurance engagement, among other abilities.

Third party assurers can be: Academic Institutions, Accountants (Big 4), Accountants, Certification Bodies, Broader Consultancies, Specialist Consultancies, Independent Advisory Boards, Individuals, Government Bodies and NGOs and are generally divided in three groups which together control almost 90 per cent of the global market (CorporateRegister.com 2008):

- *Accountancy firms*. They are normally connected to global networks; are focused on business; have expertise in financial and non-financial reporting; they have their own systems, controls and audit/assurance procedures (including for climate change/GHG data)
- *Engineering firms*. They normally offer technical certifications and engineering expertise; they understand complex processes and are used to risk-based analysis; they apply a multi- disciplinary approach.
- *Sustainability services firms*. They are experts and focus on sustainability related issues; they are smaller than the others assurance providers' general categories and are usually locally based; they are also often recognized because of their experience with stakeholder issues.

The "niche" assurance providers have largely left the market, and the trend towards Big Four provider dominance is widely expected to escalate. The International Integrated Reporting Committee's (IIRC's) will is to develop an integrated reporting, as reporters may be more inclined to use their existing Big Four financial auditors to provide both financial and non-financial assurance given it is likely to be more cost- effective and logistically convenient (CorporateRegister.com 2008).

It is essential that the professional accountant can understand and assess the reliability of information and have the strength of character to challenge management if concerns arise. Where appropriate, the professional accountant should bring specialists into the team to deal with technical matters.

The Big4 assurance providers follow well-established and widely recognized standards when conducting their work, which allows a consistent and more readily understandable approach to the work they perform.

They are bound by a strict code of ethics and are subject to regular assessment by regulators. Their commitment to professional competence and due care requires them to offer high-quality services to businesses and to act in the public interest. This is why a sustainability report with a clean assurance conclusion from a professional accountant is seen as credible in the marketplace.

Overall the Big 4 audit firms possess scale economies and greater capacity to invest in new technologies. They also have a greater investment in maintaining their reputational capital. Taken together these factors suggest that the Big 4 firms are less likely to behave opportunistically or myopically. As a result, they are better able to serve as an effective monitoring mechanism than are smaller auditors. Moreover, due to their size, the Big 4 audit firms are less prone to fall victim to fee dependence, as the costs of compromising independence (litigation and reputation costs) outweigh the benefits.

The auditing profession has well-developed “global” standards, a body of ethics and independence requirements, as well as quality control mechanisms at both the firm and engagement levels that help ensure that the assurance provided is of a consistently high quality.

2.6 Standards

There are multiple standards and guidelines available, different in scope and content, to perform the assurance process. Disclosing information about the standards and guidelines used during the assurance engagement helps users to understand the nature and extent of assurance provided.

While some assurers may use professional engagement standards, developed through rigorous, independent and transparent processes, others tend to rely on subjective judgement to determine the nature, timing and extent of assurance procedures and accordingly the content of CSR assurance reports (IFAC, 2006). Despite the lack of a uniform CSR assurance standard, two dominant approaches have emerged: AA1000AS and ISAE 3000, both underscored by risk (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & van Dyk, 2011).

Although CSR assurance reports increasingly refer to the GRI Guidelines, these do not represent either a standard or a benchmark against which assurers should measure CSR reports (Barry Ackers, 2015).

One of the most common set of guidelines is produced by the International Auditing and Assurance Standards Board (IAASB) called the ISAE3000. The focus of the ISAE3000 lies upon the verification of internal control systems that measure the CSR performance.

Another set of guidelines is produced by the British non-profit organization AccountAbility, which are called the AA1000 Assurance Standards (AA1000AS). These standards do not merely support the checking of data gathering processes, but also help a company on how to evaluate its operations and subsequent performance. In addition, it encourages stakeholder incorporation. To do this, the assessor has to identify different stakeholder groups and their respective informational needs (Segui- Mas et al., 2015).

Both these standards address similar issues and make a distinction between two levels of assurance. About 46.6% of the external assurances have been conducted using the ISAE3000, while 20.7% the AA1000AS. 1.7% of the external assurances were conducted with both assurance standards.

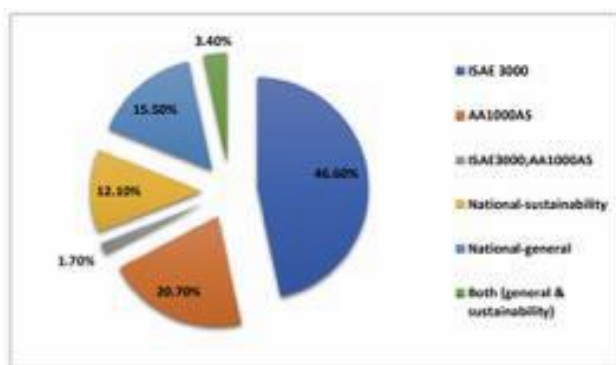


Figure 3 Centre for Sustainability & Excellence 2017

ISAE 3000 is more popular among audit firms (Deloitte, 61.54% of engagements used ISAE 3000; EY, 50%; KPMG, 69.23%; PWC, 47.83%), while specialist assurance providers/technical experts seem to favor AA1000AS (76.47%, vs. 11.76% for ISAE 3000).

ISAE 3000 was issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The audit parameters given in ISAE 3000 are similar to traditional financial statement auditing.

Specialist assurance providers/technical experts prefer to use AA1000AS which provides “solutions to the most critical challenges in corporate responsibility and sustainable development.”

AA1000AS also provides guidance on the “quality of sustainability performance information disclosed by an entity” and helps in the “alignment of non-financial aspects of sustainability with financial performance.” Specialist assurance providers/technical experts who have the necessary competence to evaluate the quality of sustainability performance data because of their subject matter expertise, may find it more natural to use AA1000AS.

The main difference between ISAE 3000 and AA1000AS is that the former focuses on assurance procedures and the latter focuses on the quality of reporting processes. AA1000AS could be used by the reporting organization to determine reporting scope and subject matter information to report, while ISAE 3000 could be used by the assurance provider to determine the terms of assurance engagement, plan and perform the engagement, and obtain evidence and ethical requirements.

The AA1000AS distinguishes a high and moderate level of assurance, whereas the ISAE3000 uses the terminology reasonable versus limited (AccountAbility, 2008; IAASB, 2011). Despite the different jargon, in both standards high or reasonable assurance is chosen when the company has the urge to decrease the assurance risk to the lowest possible level. This level of assurance is reached by an extensive evaluation of the report by presenting the assurance statement worded in a positive form as opposed by a limited assurance statement which makes use of negative language (Hodge *et al.*, 2009). The level of assurance is determined preliminary to the assurance preparation itself and is contractually agreed upon by the company and assurance provider. Logically, a reasonable level is more costly to companies, which influences the decision by altering the costs and benefits of assurance.

The International Integrated Reporting Council (IIRC) was formed in 2010, primarily in response to early adopters of integrated reporting⁶ and the lack of specific guidelines or standards for external assurance. In April 2013, the IIRC released a global integrated reporting framework which laid the foundation for a more complete reporting model. In a study of global sustainability reports issued between 2002 & 2004; Simnett et al. (2009) find that companies seek to enhance credibility and corporate reputation through assurance. A recent study of listed international companies also finds the assurance of sustainability reporting reduces information asymmetry supporting the value relevance role of these reports (Cuadrado, Martinez & Garcia, 2017).

⁶ Report that includes both non-financial and financial disclosures, beyond basic economic information.

Since the audit approach for financial and non-financial reports likely differ, creating a holistic audit approach for both in an integrated form may be difficult. The IIRC framework has attempted to provide some level of standardization for external assurance of these integrated reports. ISAE3000 and AA1000AS are principle-based standards meaning that they provide basic guidelines for accountants to follow. By the contrast, rules-based standards are basically a list of detailed rules that must be followed when preparing financial statements. A principles-based on approach is the most popular accounting method globally because it is usually better to adjust accounting principles to a company's transactions, rather than adjusting a company's operations to accounting rules.

2.6.1. GRI – Global Reporting Initiative Guidelines

The GRI Guidelines (www.globalreporting.org) are a framework of principles and guidance, together with a list of disclosures and indicators, for voluntary use by organizations in reporting their sustainability performance. CorporateRegister.com hosts the directory of all reports using the GRI Guidelines (www.corporateregister.com/gri). The GRI Guidelines are a reporting tool, applied by reporting companies.

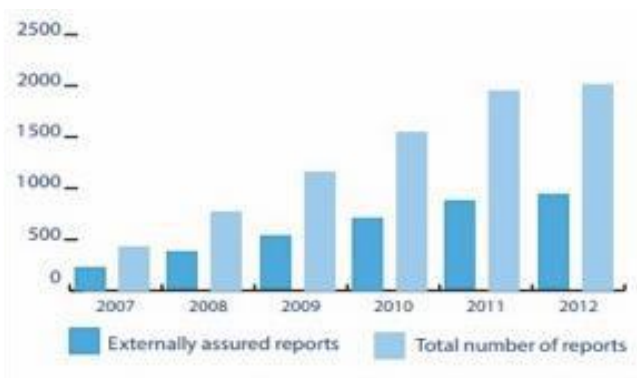


Figure 4 Number of GRI Reports registered in the GRI Database and the number of reports that included some type of external assurance statement (% of reports)

The GRI Standards use the term ‘external assurance’ to refer to activities designed to result in published conclusions on the quality of the report and the information⁷ contained within it.

⁷The information can be either qualitative or quantitative.

External assurance can also refer to activities designed to result in published conclusions about systems or processes⁸. This is different from activities designed to assess or validate the quality or level of performance of an organization, such as issuing performance certifications or compliance assessments.

The current G4 version of the Guidelines, introduced in July 2018, includes ‘Principles for Defining Report Content’ like Materiality, Stakeholder Inclusiveness, Sustainability Context, Completeness as well as ‘Principles for Ensuring Report Quality’ like Balance, Comparability, Accuracy, Timelines, Clarity, Reliability.

For the GRI standards is expected that assurance providers:

- are independent from the organization and therefore able to reach and publish an objective and impartial opinion or conclusions about the report;
- are demonstrably competent in both the subject matter and assurance practices;
- apply quality control procedures to the assurance engagement;
- conduct the engagement in a manner that is systematic, documented, evidence- based, and characterized by defined procedures;
- assess whether the report provides a reasonable and balanced presentation of performance – considering the veracity of data in the report as well as the overall selection of content;
- assess the extent to which the report preparer has applied the GRI Standards in the course of reaching its conclusions;
- issue a written report that is publicly available and includes: an opinion or set of conclusions; a description of the responsibilities of the report preparer and the assurance provider; and a summary of the work performed, which explains the nature of the assurance conveyed by the assurance report.

⁸Such as the process for defining report content, including the application of the Materiality principle or the stakeholder engagement process.

2.6.2. ISAE 3000

The *International Framework for Assurance Engagements* and the assurance standard, ISAE 3000, are issued by the IAASB and apply to various types of assurance engagement. The Assurance framework sets out the key elements of an assurance engagement and applies to financial or non-financial, and historical or prospective information.

Auditor assurors are compelled to comply with the mandatory IFAC Code of Ethics, which includes important provisions relating to competence, due care and objectivity, and which is underpinned by the framework for financial auditing standards. Auditors performing CSR assurance engagements are therefore obliged to apply ISAE 3000, which is a generic non-financial assurance standard that provides auditor assurors with the necessary guidance on the assurance principles and procedures, including the need for understanding the requirements of intended assurance report users (ICAEW, 2008; Manetti & Becatti, 2009). ISAE 3000 provides for short-form (i.e. listing basic elements), or long-form⁹ assurance reporting and introduces two assurance levels based on the engagement risk (Al-Hamadeen, 2007; CorporateRegister, 2008). In this regard ISAE 3000 provides for both limited and reasonable assurance engagements and opinions.

Limited assurance opinions should be expressed in the negative form, implying that insufficient work was performed to allow the assesor to conclude that the CSR report reliably represents company CSR performance (Manetti & Becatti, 2009). Negative-form reports are usually worded in a manner indicating that nothing came to the assesor's attention to conclude that the reported data did not reflect actual performance.

By contrast, reasonable opinions should be expressed in the positive form, indicating that sufficient work was done allowing the assesor to conclude that the reported data reasonably reflected company performance. To put it simply, positive-form assurance opinions may indicate that 'the company did it correctly', whereas negative-form opinions may mean that 'nothing leapt out at the assesor as being terribly wrong' (Eccles et al., 2012).

⁹including additional items such as terms of engagement and findings.

ISAE 3000 does not prevent assurors from providing different assurance levels for various aspects of the CSR report, reflecting different verification procedures (Manetti & Becatti, 2009). However, disclosing multiple assurance levels in the assurance report may increase report user confusion, which could be overcome by the assessor providing limited assurance on the entire report (FEE, 2011).

ISAE 3000 provides stringent requirements and accompanying guidance on the performance of assurance engagements including guidance on planning the engagement and collecting evidence.

According to the same standard, the assurors must satisfy educational, ethical and other professional requirements and maintain relevant skills through continuous professional development and so help create and sustain confidence in information. Professional accountants in public practice are subject to regular monitoring procedures and must have professional indemnity insurance.

2.6.3. AA1000AS

AA1000AS is the only internationally recognized standard specifically designed for CSR assurance (AccountAbility, 2008), and tends to be favored by non-auditor assurors. Being principles-based, AA1000AS provides the necessary flexibility for application in different organizations and sectors. AA1000AS complements the GRI principles and is the only assurance standard that effectively aligns assurance with the material interests of stakeholders. AA1000AS requires assurors to evaluate and provide an inclusive opinion on the extent to which the reporting company has adhered to the fundamental principles of inclusivity, materiality, completeness and responsiveness. Unlike ISAE 3000, AA1000AS specifically recognizes that different subject matter may be accommodated in one CSR assurance engagement, with high levels of assurance provided for some aspects of the assurance engagement and moderate assurance levels for others. High assurance levels require assurors to gather extensive evidence from internal and external sources, whereas moderate assurance levels are usually associated with gathering limited evidence from internal sources and focusing on the plausibility of the CSR disclosures.

3 Benefits and limitations of CSR assurance

Investors are increasingly taking CSR assurance into account when valuing a company. Hence, companies should take on the potential benefits of assurance when determining whether to adopt assurance or not (Wouter Benschop, 2017)

The provided assurance statement informs the investors on e.g. the work performed and competencies of the assessor. Giving more information in the statement (i.e. higher quality) helps the investors to assess how valuable the assurance is. For instance, the AA1000AS requires assessors to report on how stakeholders have been involved in the assurance process and the method by which the assessor tries to identify these stakeholders (AccountAbility, 2008).

3.1 Benefits of third-party assurance

External assurance or verification can provide both report readers and internal managers with increased confidence in the quality of sustainability performance data, making it more likely that the data will be relied on and used for decision making.

Over the last decades, both stakeholders and shareholders have become increasingly interested in the environmental and social performance of firms as described in the article “The Investor Revolution” by Robert G. Eccles and Svetlana Klimenko in HBR. Which is why firms started to voluntarily release Corporate Social Responsibility (CSR) reports.

One recent example that increased pressure on firms to be more open/transparent about CSR was the Volkswagen Group scandal or the even more recent acquisitions against Daimler (and Bosch) and Audi¹⁰. Volkswagen AG lost almost a quarter of its market value after it admitted to cheating on U.S. air pollution tests for years. These scandals push investors to wonder even more than before whether the information is self-serving or gives an actual depiction of the company actions regarding environmental and social issues (Cheng *et al.* 2015).

¹⁰Like VW, Daimler is suspected of building "defeat device" functions into its motor control software that allowed cars to reduce harmful emissions when undergoing regulatory tests.

One way to enhance the trustworthiness is by means of acquiring independent third party assurance on the CSR report. Another potential benefit of having assurance was examined by Birkley et al. (2016) who argues that assurance leads to an improved environmental image. They gathered environmental reputation scores from a magazine called Newsweek. This magazine scored companies that produced a CSR report during 2008 and 2009, in order to identify the best environmental performing company in the United States (Newsweek, 2016). The analysis of Birkley et al. (2016) showed that assurance is positively associated with the environmental image of the company. This relationship, however, is stronger and causes a bigger (positive) effect on the reputation of the companies when having a provider belonging to the Big4 auditing companies rather than from an other auditing firm.

In addition to the examination of determinants of assurance, Casey & Grenier (2015) also investigate the capital market benefits of assurance on CSR reports. They found that the cost of equity capital is lower for firms with assurance in the subsequent year. Also, analysts forecasts were more similar for companies that had their CSR report assured. Furthermore, the analysts found a reinforcing effect when the assurance is provided by a firm from the accounting profession.

Coram *et al.* (2009) provides evidence on the relation between share price assessments (movement of the stock price in the market) and the assurance of non-financial information. They use informations derived from a balanced scorecard and found that the voluntary disclosure of non- financial information such as customer satisfaction ratings affected estimates of the trend of future stock prices. This effect was stronger when the information was sustained by some form of assurance report. Brown-Liburd & Zamora (2015) studied a context more related to the assurance of environmental and social disclosures. They examined, by means of an experiment, whether the relation between a share price assessment, CSR investment disclosures, and assurance differed when executives received a reward which depends on the non-financial performance of the company. Investors may become skeptical of reported information if managerial pay is explicitly tied to CSR performance. Such pay-for-CSR-performance provides managers with greater incentives to overinvest in CSR and thereby report strong CSR performance. In turn, investors will seek CSR assurance as a disclosure credibility signal. In reference to this, they find that, in the presence of pay-for-CSR-performance and high CSR investment level, investors' stock price assessments are greater only when CSR assurance is also present.

Most of these studies use a sample containing companies domiciled in the U.S and, as shown by the findings of Casey & Grenier (2015), results from the U.S. might not be generalizable to other countries as European ones. Furthermore, it should be noted that most studies start by arguing that the releasing of CSR information and the assurance of it is voluntary. However, mandatory regulation is emerging. This is an important factor to take into account since this could be the driver behind the issuance of CSR reports and the subsequent assurance.

When applying the signaling framework¹¹ to the assurance market for CSR reports, the company that publishes the CSR report is the signaler and has access to non-public information about the company. The signal, in this case, is having the company's CSR report assured. For the signal to be useful it should unveil the underlying quality of the information (Connelly *et al.*, 2011) which is satisfied since the provider of the assurance checks the report and delivers a statement confirming that the quality is of an acceptable level. Firms that perform worse will abstain from doing this since having assurance is a costly and timely process.

Furthermore, since the assurance statements are usually published along with the CSR report, they are easily detectable. In addition, the GRI keeps a list of all published CSR reports and whether they are assured, making it more visible to the receivers who would otherwise not react to the signal.

Summarizing, benefits of assurance include:

- Increased recognition, trust and credibility. An assured report can provide an organization's stakeholders with a greater sense of confidence in disclosures. Among other things, it reflects the seriousness with which the reporter approaches sustainability reporting. Investors, rating agencies and other analysts increasingly look for assurance when making investment and rating decisions.
- Reduced risk and increased value of reporting. Data quality continues to be a significant issue for reporters and report users. The role of assurance in reducing data quality risks is recognized in a number of requirements, indexes and surveys. Disclosures which are viewed as robust and credible are more likely to be relied on, thus increasing the value of reporting. (KPMG International Survey of Corporate Responsibility Reporting 2017).

¹¹based on the framework of signaling theory by Connelly *et al.*, 2011.

- Strengthened internal reporting and management systems. External assurance can help confirm that internal systems and controls are robust, and can recommend any necessary improvements.
- Improved stakeholder communication. Assurance processes may involve the review of a reporter's stakeholder engagement processes. Some organizations use their reporting processes and/or sustainability reporting as the basis for on-going dialogue with stakeholders. Both of these can help promote mutual communication and understanding.

John Viera of Ford: “To get a reputational benefit you need your actions to match your words and to report in a consistent and transparent way against an accepted framework” (The KPMG Survey of Corporate Responsibility Reporting 2013). Accordingly, if firms acquire outside assurance of their reports to enhance the credibility of the message being portrayed as argued in much recent research (e.g., Park and Brorson, 2005; Simnett et al., 2009; Kolk and Perego, 2010; Michelon, Patten and Romi, 2015), we would expect the practice to impact assessments of its environmental reputation as opposed to being directly related to differences in firm value.

A three-party relationship – management, users, and the professional accountant – is a key aspect of an assurance service.

- Management prepares the sustainability information to be reported.
- The professional accountant independently evaluates the information and issues an assurance conclusion in a separate report.
- Users of information will have confidence in sustainability reporting that is accompanied by an independent assurance report.



3.2 Challenges in CSR Assurance

One of the main issues facing the reporting of CSR information can be explained by means of the agency problem: CSR information is susceptible of information asymmetry. The users of the information doubt the quality of the information, i.e. is the information true and does it provide a complete picture. For instance, the stake- and shareholders doubt whether the company tries to, for example, greenwash their operations. This means they fear that the company is trying to create an image of themselves that they are committed to the environment, but their actual actions do not reflect this (Cheng *et al.*, 2015).

In order to opportunistically capitalise on the positive association with strong CSR performance, some companies may be tempted to make false claims about their CSR performance. Green-wash or 'linguistic hijacking' is the cynical intention to deceive by selectively disclosing CSR-related information. Companies disclosing CSR information may simply want to favorably influence stakeholder perceptions (Aras & Crowther, 2008; Okoye, 2009). Aras and Crowther (2008) argue that even the language used in CSR reports may be designed to influence thought and divert attention away from the corporate reality. The need for independent CSR assurance that enhances the perception about the integrity and credibility of CSR disclosures has been established by several authors (Adams & Evans, 2004; Al-Hamadeen, 2007; Gouws & Cronjé, 2008; Marx & van Dyk, 2011; Mitchell & Hill, 2010).

Stakeholders therefore require balanced financial and non-financial company information, enhanced by independent assurance to ameliorate the effect of corporate green-wash. A lack of confidence in the reporting company's sincerity and the data provided produces a credibility gap between stakeholders and companies (Owen & O'Dwyer, 2004). In order to improve stakeholders' ability to interpret, accept and compare CSR performance, it is suggested that CSR behavior should be authentically quantified, measured and evaluated against universally accepted benchmarks, standards and principles. In this regard, CSR assurance adds value to CSR disclosures by attesting to their completeness, validity, accuracy, reliability and relevance.

4 Assurance process

Assurance is a relatively new term used to describe broader verification processes, including audit, validation, review and attestation.

The main requirements of an assessor in performing the work, according to the standards, include independence (of the assurance provider); a clear auditable subject; examination of documentation and gathering evidence; and issuing an opinion based on the evidence obtained.

CSR assurance facilitates balanced corporate reporting and provides confidence about the completeness, validity, relevance and integrity of CSR disclosures. CSR assurance refers to the entire process through which companies determine and measure their non-financial impacts, and report them to broader stakeholders.

If a company chooses to have its reports assured the subsequent decision would be to choose which level of assurance to obtain and which sections to assure. The ISAE 3000 distinguishes between reasonable assurance and limited assurance (IAASB, 2011). The AA1000AS also differs between two levels of assurance being high assurance and moderate assurance (AccountAbility, 2008).

Reasonable assurance is stated in the positive form, in which the assessor states that the CSR report is in line with the identified criteria. Limited assurance is stated more negatively, indicating that nothing has come to the assessor's attention that the CSR report is not in line with the appropriate guidelines (Hodge *et al.*, 2009; O'Dwyer *et al.*, 2011). As can be expected, to come to a reasonable conclusion (i.e. high-level assurance) a more extensive assurance process has to be conducted by the assessor. Therefore, the cost for the company to acquire a reasonable level assurance are higher than when a limited assurance statement is chosen. However, acquiring a reasonable assurance means the risk of serious flaws lowers significantly (O'Dwyer *et al.*, 2011). The second part that determines the rigor of the assurance process regards the scope of the assurance; it defines which sections of the sustainability report the company wants to have 'checked' ¹², Hence, in line with the argumentation about the level of assurance, the broader the scope of the assurance, the more extensive the assurance process and the higher the costs. Also, the risk that serious flaws are still present in the CSR report is reduced.

¹²This can be for instance the data (i.e. specific sections), GHG emissions, or the entire sustainability report (Global Reporting Initiative (GRI), 2013).

When this is put in a signaling perspective, a company that wants to distinguish itself from lesser performers will obtain a higher level assurance and will choose to have their entire CSR report assured.

The GRI provides a complete overview whether the CSR report is partially assured, completely assured or the assurance was limited to the information regarding GHG emissions. Also, when recommendations are given, the value of the assurance potentially increases. These recommendations can entail advice on the gathering of data and how to link financial and non- financial information increasing the value of future disclosures, and therefore the current market value of the company. So, when assurance quality is higher, the trustworthiness of the assurance increases, lowering information asymmetry and therefore leaving investors more willing to invest in the company's shares.

Variations in CSR assurance standards may exacerbate user confusion when assurers combine different heterogeneous operating instruments, even possibly mixing conflicting guidelines and standards. A CSR assurance report involves more than a statement commenting on disclosed CSR performance; it should also refer to the underlying processes and systems generating the CSR data (Al-Hamadeen, 2007).

CSR assurance utilizes both quantitative and qualitative techniques to verify the integrity of CSR data (Morimoto, Ash & Hope, 2005). Procedures deployed during CSR assurance engagements include interviews, compliance tests, substantive tests and analytical procedures, incorporating procedures that critically analyse historical data, indexes and business trends; enquiring into gaps between planned and achieved performance. The assurance opinion expressed by the assessor about the veracity of CSR disclosures requires assessors to gather sufficient and appropriate evidence about the reliability and relevance of the underlying CSR systems and indicators (Morimoto et al., 2005).

The CSR assurance engagement should include the following criteria (Al-Hamadeen, 2007):

- the engagement subject matter;
- the evaluation criteria;
- a tripartite relationship between the reporting company, the intended report user and the assessor;
- an assurance process, as regulated by standards and against predetermined criteria;
- an assurance opinion; and
- communication of the results of the assurance engagement to users.

Independent CSR assurance reports should: refer to the objectives and scope of the assurance engagement; comment on the respective responsibilities of management and assurers; disclose the assurance methodology utilized; provide an opinion on the completeness and fairness of the report; and include recommendations for improvements (ICAEW, 2004). By providing performance relevant information, CSR disclosures should facilitate stakeholder decision-making and therefore these reports should be addressed to stakeholders.

An assurance engagement process may focus on data quality, processes to determine what data to collect, or both. The underlying intent in all cases is to improve the quality of final disclosures. Higher quality information is seen as more trustworthy and, ultimately, more useful for the organization and for the information user.

It may be relatively straightforward or almost impossible to ascertain a specific level of assurance for any given disclosure. For example, emissions data may be collated and auditable but levels of staff satisfaction across a large company may be much more difficult to quantify because of the nature of the information. Because of the non-homogenous nature of non-financial information, we may need different levels of assurance for different types of CSR disclosure.

To increase the meaning of assurance, Huggins *et al.* (2011) propose several circumstances in which the value of assurance is enhanced. The assurance provider must be independent of the company, must have significant expertise on CSR reporting, must have gathered enough knowledge concerning the collection of sustainability information and needs to have enough quality controls on the process. The assurance process is hardly regulated in most countries, what leads to different providers of assurance, different scopes and multiple guidelines that can be adhered.

4.1 How the assurance engagement is performed

An assurance engagement process has three distinct phases: planning, execution, and reporting and feedback. At the beginning of the assurance engagement, the reporter and assurance provider should agree to the following issues as part of project planning according to the GRI guidelines (“The External Assurance of Sustainability Reporting”, p.8, 2013):

- The intended use and distribution of final sustainability disclosure information;
- The reporting criteria and frameworks to be applied;
- The objective and scope of information and processes to be assured (e.g. assess materiality and strategy processes, assess relevance of reporting criteria, assess internal controls, assess data quality and data gathering systems quality, verify explanations of management systems and performance reporting, etc.);
- The responsibilities of management in the assurance process (e.g. data collection and establishment of internal controls, etc.);
- The responsibilities of the assurance provider, including compliance with various ethical and/or legal requirements;
- The access and evidence that will be supplied to the assurance provider to support the provider’s conclusion report;
- Expected form and content of the assurance report or statement, and the process for feedback to the reporting entity;
- Timeline and resources involved: while planning should of course be done at the start of the process, it also needs to be done on an iterative basis throughout the engagement as issues come up and the process needs to be adjusted.

Important considerations that will shape the nature of the assurance engagement include:

- Scope of assurance engagement. By determining the scope of information to be reported and assured, the reporter can determine how and when to involve the assurance provider and the internal resources.

Materiality and strategy considerations are usually determined very early in any sustainability reporting process. If these issues are part of the scope of the assurance engagement, then it is useful to share documentation with the assurance provider at an early stage. Likewise, if the focus of the assurance engagement is data quality, then it is useful to share information about data systems and internal control processes at an early stage. This allows for additional checks to be included in the process or controls to be modified if there are concerns about specific elements of data collection and disclosure.

- Responsibilities of management and the assurance provider. Clearly defining who in the organization is responsible for specific processes and actions is critical for planning the process and facilitating ongoing communication.
- Access and evidence to be provided. The reporter and assurance provider must agree on the provider's level of access within the reporting organization. Will senior management or board members be interviewed? Does the assurance provider need to travel to operational sites to interview management or assess internal controls at key operating units? What data sets will the provider receive, and at what stage will these be available? It is usual that an assurance provider will need access to:
 - Supporting documentation, which may include financial reporting, inventory records, water usage records, energy consumption records, personnel data, supplier details, and correspondence and other information relating to stakeholder engagement;
 - Any assumptions and estimates that underpin information to be disclosed.

When reporters provide greater access, or provide information early in the process, it allows for more critical questioning and more input from the assurance provider. This can increase the value of the assurance engagement and result in a better, more useful report. Once the assurance engagement is completed, the assurance provider will issue an assurance report or statement that may be disclosed as part of the sustainability reporting process. This document is drafted and often signed by the assurance provider.

An example of assurance statement conclusion released by a Big4 auditing firm could be:

“Based on the assurance procedures performed, nothing has come to our attention that caused us to believe that the indicators of the company for the year ended Month, 20XY included in the report were not measured and reported in accordance with the Company’s policies and standards in all material respects.” (EY)

The assurance outcome stated above is a result of procedures performed in a limited assurance engagement which are more limited in nature, timing, or extent than a reasonable assurance engagement. This type of conclusion is preferred by the assured companies in terms of costs and margin of errors. When a limited assurance is requested, companies have the possibility to report a data with a 5% of error.

The form and content vary depending on the assurance scope, the assurance standard being used and, to some extent, on the assurance provider preferences.

Information provided in an assurance statement may include:

- *Addressee.* The intended audience for the assurance report or statement (e.g. stakeholders or the board of directors, executive or committee responsible for report signoff, etc.);
- *Introduction.* A statement of the overall objectives or mandate, and the responsibilities of reporter and assurer;
- *Scope.* A statement identifying which disclosures are covered by the assurance verification process;
- *Level of assurance.* Assurance providers often offer two levels: ‘reasonable assurance’ (i.e. high but not absolute) or ‘limited assurance’ (i.e. moderate). The higher the level of assurance, the more rigorous the assurance process is, as defined in the standards and procedures used for the specific assurance engagement;

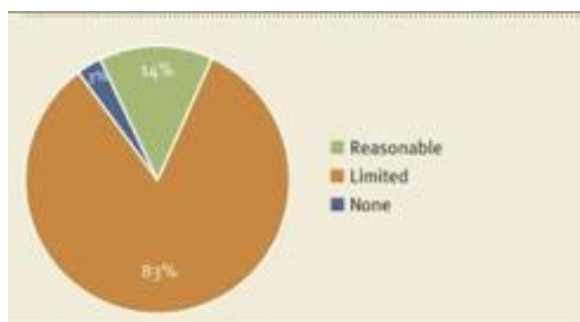


Figure 5 Stated levels of assurance by accountants (corporateregister)

- *Criteria for report preparation and assurance standards.* A statement identifying the criteria and methodologies used by the reporter when preparing the sustainability reporting and final report (e.g. GRI G4 Guidelines, other reporting protocols, and descriptions of or reference to internal management and control procedures); and the standard(s) used to by the assurance provider to guide the assurer's approach (e.g. ISAE 3000, AA1000AS, or national and sector standards);
- *Limitations.* A comment on any noteworthy limitations on either the scope of the information assured or on the assurance activities, such as the unavailability of some data, or changes in the data gathering systems;
- *Activities.* A summary of the actions taken to check the accuracy, plausibility or relevance of the sustainability disclosures covered by the assurance;
- *Conclusion(s).* A statement indicating whether the assured information is fairly presented, free of material misstatements and reported in accordance with reporting criteria. The wording of the conclusion will differ according to the standard used; the level of assurance, and the assurance provider;
- *Recommendations.* Some assurance reports include a summary of recommendations for further action or attention;
- *Signature and date.* A formal sign-off by the assurance provider's most senior executive responsible for the assurance.

In addition to the publicly disclosed assurance report or statement, assurance providers may also prepare a separate 'management letter', with detailed findings and recommendations for management or board consideration. This feedback can be used to begin or continue a dialogue with executives or the board about management and reporting of sustainability issues.

Normally companies have their own global policies and practices based on a range of standards and guidelines that they use as benchmarks.

Criteria are the benchmarks against which business sustainability information are evaluated. Without such criteria, it would be almost impossible for external users to understand how the company decide what to report. Criteria have the following characteristics:

- relevant: relevant criteria contribute to conclusions that help users make decisions;
- complete: so that relevant factors that affect conclusions are not left out;
- reliable: to allow consistent evaluation of information;
- neutral: free from bias; and
- understandable: criteria contribute to clear and comprehensive conclusions that are not subject to significantly different interpretations.

A professional accountant will provide an assurance conclusion in a separate written report that is attached to the sustainability information that is being reported on; it tends to be short and concise and contains information such as the criteria used and a summary of work performed.

Two types of conclusion are available. They differ due to the different nature, timing and extent of evidence-gathering work. A conclusion may be worded positively or negatively, depending on the type of assurance service ('reasonable assurance' and 'limited assurance', respectively).

A reasonable assurance conclusion might be worded as: 'in our opinion, ABC's report on its greenhouse gas emissions is fairly stated...'

A limited assurance conclusion is typically expressed as: 'Based on our work, nothing has come to our attention that causes us to believe that XYZ's report is materially misstated...'

The decision about which type of assurance conclusion is appropriate depends on factors such as the needs of users and cost and benefit considerations¹³.

A sample page from the proposed audit protocol is presented in Appendix as an example.

¹³Before the work starts, the company need to agree with the professional accountant what type of assurance

conclusion they want.

5 Methodology and results from the interviews

There has been little academic research seeking to venture beyond documentary analysis in order to examine “the organizational reality of [sustainability assurance] work” (Power, 1995). As a result, there has been a lack of in-depth research examining the processes by which sustainability assurance statements are generated.

Within this thesis the term sustainability assurance is used to refer to assurance provided on sustainability reports or their equivalent. This assurance is normally presented in the form of an assurance statement included within or published alongside stand-alone corporate social responsibility report.

Developing an understanding of the nature of the assurance provided on the content of these reports, especially how the ‘back-stage’ of assurance practice is constructed by practitioners, can provide valuable insights into the reliability and credibility that a range of report users may place upon reporting content.

A qualitative research approach is adopted as this emphasizes the description and understanding of processes and standards. Specifically, a series of semi-structured interviews with practitioners in assurance provider firms was carried out. The aim of the interviews was to better understand how (concretely) assurors perform their work and which challenges do they face.

The paper’s aim is to analyze the processes through which practitioners in the sustainability assurance department, sought to gain support for their services by developing perceptions of legitimacy among company’s audiences.

The sustainability assurance is a voluntary undertaking for auditees and remains largely unregulated. Hence, its development and expansion depends on the market requirement (companies are mainly asking for CSR assurance to make their report reliable for the stakeholders).

Given that sustainability assurance has rarely been studied in-depth, it remains a practice that is not well understood. This makes the choice of a qualitative approach an appropriate one to help develop our understanding of its practice.

The problem appears to lie with the largely qualitative, often incomplete data that needs to be assessed to fulfill the core assurance aims.

ISAE 3000 and AA1000AS appear to have acted more to develop broad parameters for non-financial data assurance as opposed to providing the detailed guidance on practice that assurers' desire; "the relevance of sustainability-related issues changes over time and therefore externally developed standards may not be suitable for every unique organization" (Wallage's 2000).

The findings suggest that innovation in new assurance practices in consultancy firms may be overwhelmed by the perceived necessity of relying considerably on financial audit training and techniques and on internal professional firm control procedures which may inadvertently dilute certain forms of expertise that could drive more innovative assurance practices.

5.1 Methodology

The research is a qualitative one that tries to capture and describe the process and challenges related to CSR assurance process.

Throughout an interviewing process, the themes mentioned above were used in a loosely guided manner and the sequence in which issues were addressed varied throughout different interviews.

A semi-structured interview process was conducted giving to the interviewee the possibility to give insights about the complete assurance process as well as about the challenges related to it.

The process of selecting the companies to be interviewed was quite challenging due to the fact that the sustainability services are still requested by a market niche. On the Accountability website were mentioned some of the licensed assurance providers that operates in Italy which are: KPMG, PwC, Deloitte, Ernst&Young, Bureau Veritas and Rina Services S.p.A. Through a deeper research, I could find some few other providers but their number in total still remains low.

I composed a list of nine companies to be called in order to obtain an interview about the topic of my research. The inquired companies were: PwC, KPMG, Deloitte, Ernst&Young, Bureau Veritas, Rina Services S.p.a, SGS, La Chiave a Stella, DNV-GL.

Two of the four big consulting companies didn't accept my request of an interview as well as some of the certification companies without providing an explanation probably because of the fear of being time consuming. Only five firms answered positively to my request and all of them belong to a different category of assurance providers which makes the research more accurate.

The interviews were carried out during a three-months period and the length was about 45-60 minutes.

The interviews were conducted with two assurance providers from the big four audit firms, two from the world's leading inspection, verification, testing and certification companies as well as one social auditor. All of the interviewed professionals have a well-developed knowledge about CSR reporting throughout their extensive experience so they could provide reliable and accurate information about the topic. The result was a deeper understanding of the assurance service and assurance provider challenges.

The five professionals interviewed provide sustainability assurance services to a range of national and multinational companies. They operate within wider sustainability divisions that also focus on providing a range of advisory services to companies on sustainability-related matters. The assurors experiences contributed to the quality and relevance of the data collected.

A contact with a member of the sustainability department engaged in the sustainability assurance was established through e-mail requests expressing an interest in understanding the assurance process and its evolvement. This led to an informal skype interviews and phone calls with the managers of the department in charge of the sustainability assurance. A list of broad open questions designed to encourage individuals to discuss their activities and views on sustainability assurance practice both generally and specifically was addressed to them¹⁴. These questions initially addressed two key themes: the assurance process and the standards used. At the beginning of each interview it was made a clear outline of the nature of the study being conducted as well as confirmation that the study was being undertaken for academic research purposes only.

¹⁴A list of the questions can be found in the Appendix.

The study investigates the nature of and dynamics surrounding practitioners' efforts to operationalize sustainability assurance. They are experts of many organizations' CSR and therefore, can give expert opinions about the actual state of the market. One of them requested to not be cited in this research and therefore even the names of the other companies that accepted the interview will not be mentioned. The specialists who I interviewed were all managers of the Sustainable assurance department. All of them explained to me that their department is still a niche so they are few professionals who are performing the assurance service.

5.2 Results

5.2.1. Assurance process

The interviews showed that the assurance process can be described as quite standardized.

One assurance provider from one of the international certification companies described the execution of the assurance process as follows:

“Nowadays there are much more companies than in the past which want their CSR report to be certified by an independent third party in order to not rely anymore on self-referentiality.

The initial step of this process is to ask information on previous reports and on the company's organization like the organization chart, who is in charge of building the CSR report and, in case of branches, is there centralized control or a decentralized one?

For every client we build a table used for the estimation of how many days we need to verify all the information necessary to come up with a conclusion.

We usually spend the first two days in the office to analyze what needs to be focused on, who is the responsible of the CSR report and which kind of proofs to be asked for in order to check the compliance with the report. These activities are part of our Activity Plan.

On the field usually, there are two persons: one from the sustainability division and one from the worker protection one. They are in charge of back-trace the source of information.

If for example in the CSR report is stated that the CO2 emissions were 200 million tons per year, they try to understand how these emissions have been calculated; if is stated that the company registered only 10 work accidents, they check the register of accidents at work.

If in the report are stated qualitative information like “we are the global leader in...”, they ask for more details about these claims and verify the market data in order to came up with a benchmark about what the client is stating in its CSR report.

After this part of the work, we frame a list of statements or information that need to be corrected or clarified.

The next step is to check if the asked corrections have been done. If everything is in line with what the assesor was expecting, the CSR assurance is released.”

The process follows almost the same pattern in the big four consulting companies even though they usually have developed some internal procedures. The manager of the sustainability department of one of the Big4 explained that they adapt the IASE to a more concrete practice.

“The first step that we call Planning and Analysis is divided in three activities. The first one is to determine the key subjects together with a materiality analysis through documents from that sector analysis, benchmark analysis, news on magazines. The second activity is to get into some interviews in order to understand how the company is organized, who drafted the CSR, the tools for collecting data and how much the data could be reliable. The third one is the verification strategy during which we take all the relevant aspects of the company e for each one we decide which kind of verification process to be made in order to understand the reliability of that particular information (higher the risk that information is not accurate, higher procedures to get deeper till the origin of the data).”

The importance of the communication through the assurance process cape up from the interviews: “Reporting organizations are expecting to get feedback on their work during the process, so they can improve their report”.

Assurance statement is written on the basis of the standard used: quite narrow in the case of ISAE 3000 and more detailed in the case of AA1000.

5.2.2. Data materiality

Qualitative data or the claims stated in the report can represent difficulties in assurance.

Assurors procedure is to search for evidences; they try to collect external information such as newspaper came outs. This limit the self-celebrations; if the information is not objectively verifiable, it is not considered explained one interviewee. The GRI standards provide the professionals with a series of indicators to establish the data materiality. However, only general suggestions rather than specific guidelines or tools are provided by the GRI for assessing materiality.

In the past, the materiality of data should have been considered for both stakeholders and management. Instead in the most recent GRI guidelines, the data has to be material just for one of the two. This allow to consider the interests of both parties and to not spend too much time in order to find the perfect match of materiality for both parties.

One interviewee explained that environmental data are difficult to measure in comparison with the monetary data. In order to better understand the information given, they ask for material evidence supporting the estimations (such as electricity bills). However, most of the companies don't use a proper system that monitors all these environmental impact estimations.

5.2.3. Standards

The way in which the assurance process is developed depends on the standard used in assurance. One of the interviews discussed the absence of a single standard and that could be a limitation especially for the reader of the report.

Currently, the accounting professionals use ISAE 3000 standard for assuring while adding AA1000 if the client is reporting on its principles, too. The GRI standards are most commonly used to determine data materiality.

One interviewee from a certification agency, explained that around 60% of their clients require GRI indicators (and the clients that have no preference today will ask for GRI in the future) to be used. The reason is because the main indicators are already given: indicators comprising economic, environmental and social performance (labor practices and decent work, human rights and product responsibility).

The other 40% is not interested yet in one particular standard, giving to the assured the possibility to choose what standard suites best for their type of business.

According to the other certification agency, about 90% of the companies ask to be used the GRI; the reason is because the indicators are measurable and comparable both from a quantitative and qualitative point of view.

According to the social auditor, the need to adopt a standard depend, in 80% of the cases, on external factors such as the market, tenders, ecc, whereas the remains 20% is a company will.

5.2.4 Quality of assurance statement

Limited assurance conclusion might not give the best outcome but is overly preferred by the companies mostly because its limited cost compared to a reasonable assurance conclusion.

The negative assurance statement “nothing has come to our attention which gives the causes us to believe that the reported data do not accurate reflect the company’s performance” offers less trust to the information compared to a positive assurance statement (reasonable assurance) or financial assurance where the origin of the data is carefully examined but for most of the stakeholders, it is sufficient.

A reasonable assurance implies a higher cost for companies due to the higher level of data checking till the origin of it. Most of the companies are not ready for such an investment so a limited assurance is “good enough”.

The Big four’s assesor specified that this type of audit is different from statutory audit (reasonable engagement) which is more detailed and complex (100% inspection and so broader revision). Instead the assurance process use a limited sampling increasing the risks of misleading reporting. This is the reason why they provide a negative conclusion; the assesor has less confidence because of the reduced level of analysis. This type of limited conclusion is less costly for the client but offers an equally valid service included one interviewee.

Moreover by asking a limited assurance statement, companies have a five percentage error margin in communicating their environmental actions; in case of reasonable assurance, there must be no errors in the report.

The quality of the assurance statement depends on the use of a standard. Assurors who use ISAE3000 standard, provide a limited assurance statement which, dominates the market according to the empirical study. The AA1000AS provide an assurance statement which includes more details about the recommendations and the quality of the report and this might affect the perceived quality although the work conducted for the assurance might be of the same quality. However in most of the cases the company who asks for this service choose the standard to be used.

5.2.5. D. Lgs. 254/2016

With this decree from 2017, the assurance on CSR report (although for now, only for some large companies) passes (with the exception of some niche areas where it was already provided) from voluntary to mandatory for commercial companies quoted in the stock exchange and groups with more than 250 employees. These companies have to send the sustainability report to the CONSOB in accordance to the standards of the auditing firm. One of the interviewee affirmed that most of the companies which are not directly bound by the law, continue to report as before the decree. The most important added value of this decree is the acknowledgment of a sustainability culture. Indeed according to one of the interviewee, the culture is changing even for the small companies: some of them started some sort of social activities, others realised that they should better report all their environmental actions in order to obtain benefits from the communication.

6 Conclusions

The aim of this study was to develop knowledge about the subject. The literature reviewed indicated that developing an applied auditing procedure for CSR reporting will be a challenging task due to a lack of studies on the topic, despite the widely reported debate surrounding the subject. The most daunting barrier to a CSR audit protocol resides perhaps not in the complexity of its creation, but rather in its implementation. A system of measurement may well accord with high standards but fail to create an acceptable output because companies have different interests in communicating their sustainability activities in accordance with the interests of the stakeholders.

On the evidence discovered to date, CSR seems to be perceived by many as the social strand of sustainable development. However, there is far less agreement regarding its measurement. Both the literature review and the interview analysis indicate that developing an applied CSR auditing procedure is a challenging task. This is due in no small measure to the lack of formal study of the topic, despite the widespread debates it provokes. Moreover, it is a complex subject that currently lacks even a single broadly accepted definition.

According to almost all interviewee the challenges in the assurance process comes just when the company to be assured is new in the sustainability reporting and there could exist miscommunications between the companies requiring assurance and the assurers.

Accuracy of information in CSR reports represent a real challenge and the empirical research gave more insights about the issue.

The research suggested that assurance providers find difficult to educate the reporting companies about the importance of the quality of the report and even of the sustainability activities in general. However, for a better communication, is essential an exhaustive explanation of the different standards and their effect on the assurance to the clients.

The most important benefits were mentioned as being an increase in data credibility for stakeholders while improving internal processes and reporting.

All the interviewees saw that companies are beginning to assure more, being more transparent and open.

7 Glossary

Assurance engagement: is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria. (International Auditing and Assurance Standards Board, IAASB, International Framework for Assurance Engagement, Final Pronouncement, December 2013, par. 10)

Sustainability report: is the final product of the sustainability reporting process where the organization reports on the most critical (or material) aspects of the organization's economic, social and environmental impacts and the relation of those with its performance. (GRI)

Material Aspects: are those that reflect the organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders. To determine if an Aspect is material, qualitative analysis, quantitative assessment and discussion are needed.

Stakeholders: Groups or individuals that can reasonably be expected to be significantly affected by the organization's activities, products, and/or services, or whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives.

8 Appendix

8.1 Questions

- 1) The structure of the department in which they work;
- 2) The process: the steps through which this assurance process is conducted;
- 3) Which standards are used and why;
- 4) How do they verify the data materiality;
- 5) What changed with the new Legislative Decree;
- 6) Which type of companies prefer more that their CSR report to be assured.

8.2 Assurance check list

The following check list may be useful for organizations that are considering an assurance process. Planning stage:

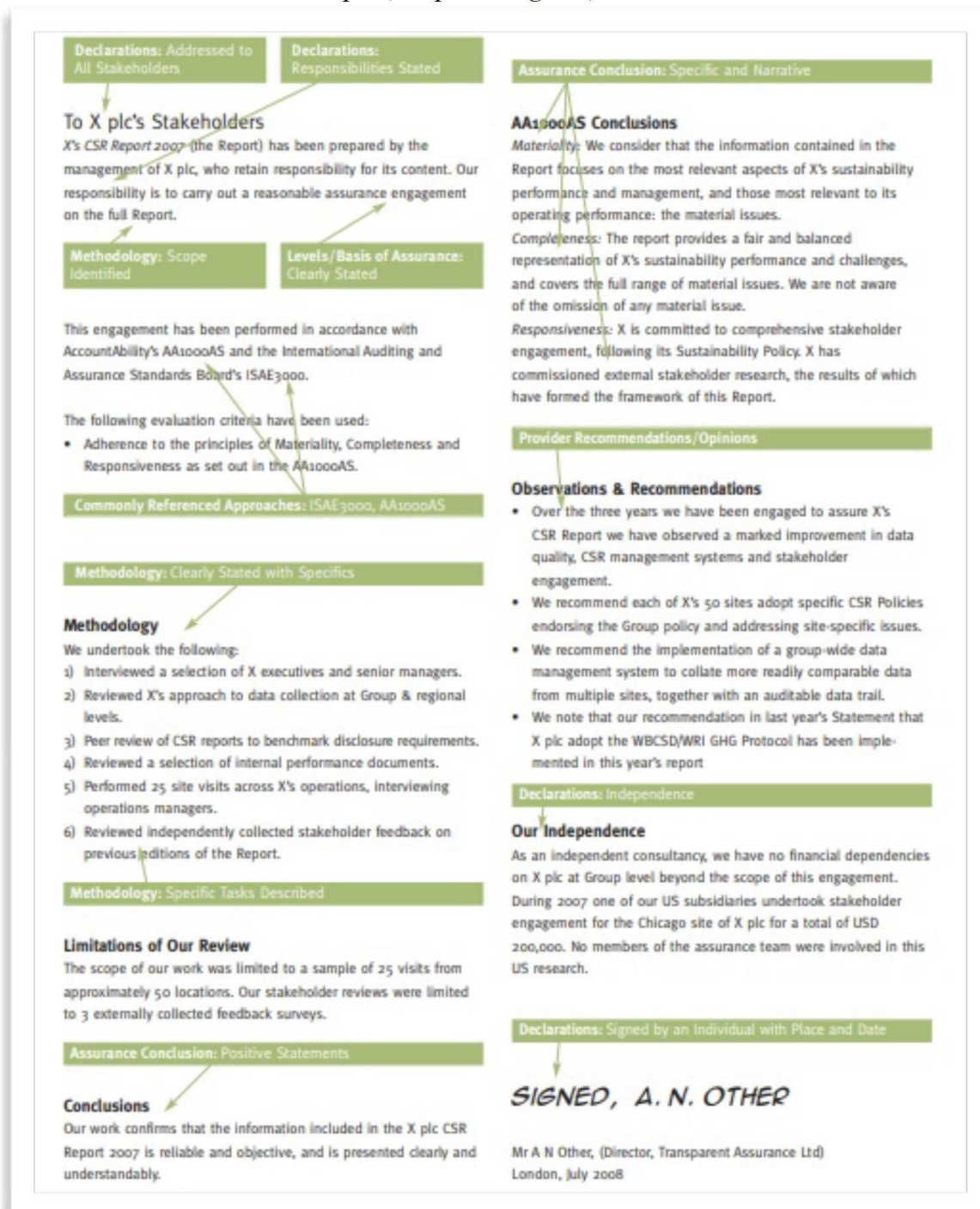
- What are the relevant national laws and standards?
- Who is the internal/external audience for the report/disclosures?
- What information is most important to have assured?
- What level of assurance is important for the intended audience?
- To what extent do we plan to integrate sustainability reporting and annual (financial) reporting? Can we gain efficiencies from integrating sustainability report assurance and financial auditing?
- What added-value do we want to achieve from the assurance process?
- Do we have internal reporting systems and review processes in place?
- What type of assurance provider do we need (e.g. locally or globally operating)?
- How independent is the assurance provider?

- Which assurance standard do we want our provider to use?
- What activities will they do (i.e. nature and depth of assurance work)?
- How much will it cost?

Execution stage:

- Does the assurance engagement plan address relevant disclosure risks?
- What documentation and data will be supplied to the assurance provider in order to form a conclusion?
- When will the necessary documentation and data be supplied to the assurance provider?
- Will management and/or data managers be interviewed as part of the process?
- Are visits to key operational sites necessary? Reporting and feedback stage:
- What will the assurance report or statement look like?
 - Have we agreed on a process for the assurance report or statement? E.g. Will management see and be able to comment on the assurance statement or report prior to report publication?
- Will the assurance provider provide a 'management letter' for the board or executive management team with additional feedback on sustainability processes and reporting?

8.3 Assurance Statement example (Corporateregister.com)



8.4 A comparison between standards used

Recommended minimum contents of assurance statements: ISAE 3000, AA1000, GRI, FEE

Content of the report	ISAE 3000	AA1000	GRI	FEE
Title	✓		✓	✓
Addressee	✓	✓	✓	✓
Name & location of the assurator	✓		✓	✓
Scope & objective of the engagement	✓	✓	✓	✓
Respective responsibilities of reporter and assurator	✓		✓	✓
Competencies of the assurator	✓	✓		✓
Independence of assurator from reporting organisation	✓	✓	✓	✓
Criteria used to assess evidence and reach conclusions	✓	✓	✓	✓
Assurance standards used	✓	✓	✓	✓
Extent of the stakeholder participation in the assurance process			✓	
Impartiality of the assurator towards stakeholders	✓	✓		
Conclusion/Opinion	✓	✓	✓	✓
Materiality (from a stakeholder perspective)	✓	✓		
Completeness	✓	✓		
Rsponsiveness to stakeholders		✓		
Performance	✓	✓		
Reporting on reservations/qualifications			✓	✓
Additional commentary	✓	✓		
Progress in reporting and assurance since last report		✓		
Suggestions for improvements in reporting and processes	✓	✓		
The report date	✓		✓	✓

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