



SECTION 1

CAN A CONCEPTUAL FRAMEWORK FOR CORPORATE SOCIAL  
RESPONSIBILITY [CSR] ASSURANCE BE DEVELOPED?

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Abstract

Independent corporate social responsibility [CSR] assurance should provide stakeholders with confidence that company CSR reports are complete, accurate and reliable. However, the voluntary nature of CSR reporting and assurance practices, implies that CSR assurance practices are largely unregulated, producing a variety of assurance providers using different approaches, undermining its effectiveness. The paper proposes that CSR assurance should be regulated to ameliorate these inconsistencies. The study examines the CSR assurance reports of the 200 largest companies listed on the Johannesburg Stock Exchange, utilising a qualitative content analysis undertaken in two phases. The first phase examines annual/sustainability reports to identify companies that published independent CSR assurance reports during 2011/2. The second phase analysed CSR assurance reports to establish the primary characteristics of CSR assurance.

**Keywords:** Assurance, Competencies, Corporate Social Responsibility [CSR], Framework, Standards

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1 Introduction

Despite recent prominence, contemporary corporate social responsibility [CSR] discourse may be traced to a series of articles between Berle and Dodd in the 1930s (Okoye, 2009). More recently, despite its contentious nature, global concerns about the adverse effects of unrestrained global economic growth and anthropogenic climate change are driving companies to respond by implementing CSR interventions and reporting on their CSR performance (Aras & Crowther, 2008; Gupta, 2008; IIA, 2010). It may accordingly be argued that business is ethically bound to contribute to economic development while simultaneously improving the quality of life of its workforce and their families, the local community and society at large (IIA, 2010). It is therefore increasingly recognised that today's companies not only have financial and legal obligations to their shareholders, they also have certain responsibilities to

society extending beyond these obligations (Ramasamy & Yeung, 2009).

Unlike external financial reporting which is mandatory for all companies, CSR reporting is usually voluntarily provided (Archel, Fernández & Larrinaga, 2008). To be credible, social and environmental reporting should be undertaken with the same rigour as conventional financial reporting and forms an integral part of a broader integrated reporting <IR> framework. This is in line with the King Code on Governance for South Africa 2009 [King III] that requires company financial and CSR reporting and disclosures to be provided in an integrated report (Force for Good, (sa); IoD, 2009). In this regard, it should be noted that all companies listed on the Johannesburg Stock Exchange [JSE] are obliged to apply the King III provisions, or explain why they have not.

Unscrupulous companies may however, be tempted to provide false CSR disclosures in order to

capitalise on the positive association with strong CSR performance. Within a CSR context, this window dressing is referred to as green-wash (Delmas, & Burbano, 2011; Lyon & Maxwell, 2011; Polonsky, Landreth & Garma, 2010). Green-wash may be defined as the cynical intention to deceive, by selectively disclosing CSR-related information. Companies disclosing CSR information may therefore not necessarily be good corporate citizens, but may simply wish to favourably influence stakeholder perceptions (Aras & Crowther, 2008; Okoye, 2009).

Independent assurance of CSR disclosures is an attempt to improve the credibility of CSR reports and mitigate the risk of green-wash. CSR report assurance enhances the quality of voluntary CSR reports (Sierra, Zorio & Garcia-Benau, 2013), while reinforcing trust and confidence in company reporting (ICAEW, 2005).

## 2 Theoretical background

### 2.1 Corporate social responsibility [CSR]

CSR reporting can be defined as “the process of providing information designed to discharge social accountability” (Gray, Owen & Maunders, 1987). Companies are not only expected report their financial performance, but to also provide pertinent information relating to their non-financial performance (Okoye, 2009). CSR may be described as the voluntary

adoption of the principles of social responsibility, processes of social responsiveness and the resultant observable outcomes (Orlitzky, Schmidt & Rynes, 2003; Williams & Zinkin, 2008). CSR reporting should disclose the manner in which companies comprehensively account for the impacts of their operations on the planet, its people and the future (ICAEW, 2004; UNCSD, 2007).

Carroll’s pyramid depicted in

Figure 1 provides the most widely used framework depicting the primary CSR dimensions (Carroll, 1991). The economic dimension represents the primary responsibility of business to profitably produce required goods and services. The legal dimension focuses on achieving economic goals while complying with mandatory legislation and regulations. The ethical dimension refers to voluntarily doing what is considered ‘right, just and fair’ and avoiding harming nature, the environment and people (Cacioppe, Forster & Fox, 2008). The philanthropic dimension involves contributing to society by improving the general quality of life. Despite the responsibilities in Carroll’s pyramid having always existed, recent demands for increased company accountability have revived the interest in reporting the voluntary dimensions associated with company ethical and philanthropic performance.

Figure 1. Carroll's Pyramid of CSR (Carroll, 1991: 42)



The CSR discourse has however, been negatively impacted by the wide range of different terminologies used to describe CSR-related issues (Aras & Crowther, 2008; Kirdahy, 2007). These terminologies often mean different things to different people, and may be used interchangeably. Even though *sustainability* may be emerging as a preferred term in the literature (Adams & Larrinaga-González, 2007; Adams & McNicholas, 2007; Aras & Crowther, 2008; Daly, 2010; IoD, 2009), the term *CSR* continues to be used in the current literature (Armstrong & Green, 2013; Boulouta & Pitelis, 2014; Julian & Oforidankwa, 2013; Lee, Seo & Sharma, 2013; Murphy & Schlegelmilch, 2013). The resultant confusion is intensified by the term *sustainability* also being used

to simply refer to the on-going operations of the company, for example from a going concern perspective.

Wan-Jan (2006) argues that the contradictory perspectives of CSR, contributes to the prevailing cynicism about the CSR phenomenon itself. However, Sabadoz (2011) counterintuitively suggests that CSR’s poor definition may actually result in the consideration of most, if not all pertinent CSR-related issues. Irrespective of the terminology used or the approach adopted, implementation of CSR-related business strategies and activities have serious implications for companies (IIA, 2010), by accounting for the existing needs of both companies and their stakeholders, while simultaneously protecting,

sustaining and enhancing human and natural resources for future generations.

## 2.2 CSR reporting

Historically, non-financial disclosures were considered less important than financial disclosures, usually provided for information purposes only. By the advent of the 21<sup>st</sup> century, changing stakeholder expectations of business saw companies changing their reporting strategies from focusing exclusively on quantitative issues to incorporating a more qualitative and broad approach (Zorio, Garcia-Benau & Sierra, 2013). Whereas 25 years ago, 80% of a company's market value was reflected on the balance sheet with 20% representing intangibles, today 80% of a company's market value factors in non-financial information (Eccles, Krzus and Serafeim, 2011; Gouws & Cronjé, 2008). While CSR reporting was once regarded as being a moral social obligation, companies now recognise it as being a business imperative (Aras & Crowther, 2008; Jones, Hillier & Comfort, 2014; KPMG, 2011).

Exclusive reliance on financial information for decision-making is changing as socially responsible investors, rating agencies and other institutional investors become increasingly interested in non-financial company information (Aras & Crowther, 2008). The demand for expanded company reporting is illustrated by PRI signatory organisations growing to 1 325 since its launch in 2005<sup>1</sup>, representing assets under management of US\$45 trillion globally by March 2015. PRI institutional investor signatories commit to act in the best long-term interests of their beneficiaries. Despite emphasising investor interests, PRI signatories recognise that environmental, social, and corporate governance [ESG] issues can impact the performance of their investment portfolios, which in turn improves the alignment of investors with society's broader objectives.

Since financial performance has not historically been recognised as an integral component of CSR reporting, it may be argued that many CSR reports are fundamentally flawed (Aras & Crowther, 2008; Morimoto, Ash & Hope, 2005). Integrated reporting aims to overcome this deficiency by presenting a more comprehensive picture of a company's activities (Eccles, Cheng & Saltzman, 2010; Eccles, Krzus & Watson, 2012; Eccles *et al.*, 2011). The International Integrated Reporting Council [IIRC] more comprehensively defines integrated reporting as "a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time" (IIRC, 2013a). Notwithstanding the International Integrated Reporting Framework [IRFW] identifying human, social, relationship and natural capitals; implying that integrated reporting is a mechanism through which

companies can account to stakeholders, the final published IRFW specifically targets the providers of financial capital, and not the broader stakeholders (IIRC, 2013b; IIRC, 2013c). While broader stakeholder interests are not completely disregarded, their importance are somewhat trivialised by the IRFW stating that "all stakeholders interested in an organization's ability to create value over time" should also benefit. Nevertheless, integrated reports should still provide sufficient information reflecting how the company has impacted the economic life of the community (both positively and negatively) during the year under review (IoD, 2009), albeit from an instrumental perspective.

The objective of integrated reporting is to consolidate material information relating to the business model, strategy, governance, performance and prospects of organisations in a manner adequately reflecting the commercial, social and environmental context within which it operates (IIRC, 2012). Since integrated reports should concisely communicate company performance, providing additional information through linkages to other reports and communications (IIRC, 2013a), it complements and does not replace existing company reports.

The principles underlying good CSR reporting are transparency and accountability (CorporateRegister, 2008), providing pertinent information required by stakeholders (Archel *et al.*, 2008). Unlike external financial reporting which is mandatory for all companies and usually covered by the International Financial Reporting Standards [IFRS], CSR reporting guidelines are not prescriptive (Archel *et al.*, 2008). It is subject to the definition and interpretation of the reporting company and its stakeholders, through effective stakeholder engagement (AccountAbility, 2006), resulting in the inconsistent application of diverse CSR-related reporting frameworks and standards (Morimoto *et al.*, 2005). Comprehensive CSR reporting should provide a balanced perspective of the benefits and costs associated with the reporting company's non-financial impacts that extend beyond the traditional financial footprint (Aras & Crowther, 2008).

Despite several CSR reporting frameworks emerging, the GRI is the most widely used framework for CSR reporting (Eccles *et al.*, 2011), and may accordingly be described as the *de facto* standard for CSR reporting (Black & Quach, 2009; KPMG, 2011). The GRI G4 version of the standard, released in May 2013, incorporates *the principles for defining report content* (materiality, stakeholder inclusiveness, sustainability context and completeness); and *the principles for ensuring report quality* (balance, comparability, accuracy, timeliness, clarity and reliability) (GRI, 2013a). The GRI identifies the CSR reporting dimensions and classifies it according to the economic, environmental and social impacts (GRI, 2013a), which may require independent assurance, as identified in Elkington's (1994) 'triple bottom line'.

<sup>1</sup> Principles for Responsible Investment accessed on 31<sup>st</sup> March 2015 at <http://www.unpri.org/about-pri>

The *economic dimension* includes economic performance, market presence, indirect economic impacts and procurement practices. The *environmental dimension* relates to materials, energy, water, biodiversity, emissions, effluent and waste, products and services, compliance, transport, overall, supplier environmental assessment and environmental grievance mechanisms. To enhance report credibility, the GRI G4 recommends that reporting companies

have their CSR reports externally assured, but has not imposed it as a compliance requirement (GRI, 2013a). The diversity of issues covered by the *social dimension* necessitates sub-division into the sub-categories representing labour practices and decent work, human rights, society, and product responsibility. As reflected in table 1, these sub-categories are further delineated into the following reporting dimensions:

**Table 1.** GRI reporting dimensions

Labour practices and decent work	Human rights	Society	Product responsibility
<ul style="list-style-type: none"> <li>• employment;</li> <li>• Labour/management relations;</li> <li>• occupational health and safety;</li> <li>• training and education;</li> <li>• diversity and equal opportunity;</li> <li>• equal remuneration for women and men;</li> <li>• supplier assessment for labour practices; and</li> <li>• labour practices grievance mechanisms.</li> </ul>	<ul style="list-style-type: none"> <li>• investment;</li> <li>• non-discrimination;</li> <li>• freedom of association and collective bargaining;</li> <li>• child labour;</li> <li>• forced or compulsory labour;</li> <li>• security practices;</li> <li>• indigenous rights;</li> <li>• assessment;</li> <li>• supplier human rights assessment; and</li> <li>• human rights grievance mechanisms.</li> </ul>	<ul style="list-style-type: none"> <li>• local communities;</li> <li>• anti-corruption;</li> <li>• public policy;</li> <li>• anti-competitive behaviour;</li> <li>• compliance;</li> <li>• supplier assessment for impacts on society; and</li> <li>• grievance mechanisms for impacts on society.</li> </ul>	<ul style="list-style-type: none"> <li>• customer health and safety;</li> <li>• product and service labelling;</li> <li>• marketing communications;</li> <li>• customer privacy; and</li> <li>• compliance.</li> </ul>

### 2.3 CSR assurance

To capitalise on the benefits associated with strong CSR performance, unscrupulous companies may be tempted to falsely report their CSR performance, referred to as green-wash (Alves, 2009; Delmas, & Burbano, 2011; Lyon & Maxwell, 2011; Polonsky *et al.*, 2010). Therefore, although several companies usually disclose their CSR performance, financial analysts, investors and other stakeholders may question the reliability, comparability, relevance and materiality of these disclosures; creating a credibility gap that reduces the usefulness of the CSR report (Manetti & Becatti, 2009).

Assurance is the process of providing interested parties with confidence about the extent of reliance that may be placed on reported information (Jones *et al.*, 2014). CSR assurance therefore involves more than simply providing a statement commenting on reported CSR information, it should also refer to the underlying processes and systems generating the reported information (Al-Hamadeen, 2007; Morimoto *et al.*, 2005). Reported CSR information should therefore be *recorded, compiled, analysed* and *disclosed* in a manner that facilitates the provision of assurance about the reliability, accuracy and completeness of the underlying CSR data. Both quantitative and qualitative assurance approaches are necessary to establish the veracity of the underlying CSR data and in order to find a balance amongst the

social, environmental and economic impacts of company activity (Morimoto *et al.*, 2005).

The nature and scope of CSR assurance practices vary greatly according to several factors including regional heterogeneity; the company's reporting experience; the type of assessor; the value to the reporting company; the assurance engagement cost; the size and scale of operations; the assurance provider's perceived independence, credibility and expertise; and the expectations of stakeholders (CorporateRegister, 2008; De Beelde & Tuybens, 2013). A typical independent CSR assurance report should therefore concisely and unambiguously describe the objectives and scope of the assurance engagement; the respective responsibilities of management and the assessor; the assurance methodology deployed; the stakeholder engagement process; the systems, processes and underlying data; any engagement limitations; the engagement results and the assurance opinion(s); and a conclusion relating to the completeness and fairness of the CSR disclosures (AccountAbility, 2008; Al-Hamadeen, 2007; ICAEW, 2004).

#### 2.3.1 Assurance appetite

Independent assurance enhances the quality of voluntary CSR reporting (Sierra *et al.*, 2013). Reporting companies increasingly rely on assurance to improve the credibility and transparency of disclosed

CSR information (Kolk & Perego, 2010; Manetti & Toccafondi, 2011; Perego, 2009). Independent CSR assurance improves stakeholder confidence about the veracity of the underlying CSR disclosures (FEE, 2002; Zorio et al., 2013), and attempts to bridge the credibility gap arising from a lack of confidence in both the reported data and the sincerity of reporting companies (Owen & O'Dwyer, 2004).

### 2.3.2 Assurance methodology

Providing information about the standards used during the CSR assurance engagement, allows assurers to improve report comparability, enhancing users' understanding about the nature and extent of assurance provided (Al-Hamadeen, 2007; Owen, Swift, Humphrey & Bowerman, 2000). Despite the emergence of several assurance standards and approaches dealing with CSR-related matters, none have universal acceptability (ICAEW, 2008). While some assurers may use professional engagement standards, developed over extended periods through rigorous, independent and transparent processes, others subjectively rely on judgement to determine the nature, timing and extent of assurance procedures and the content of assurance reports, or involve proprietary approaches that follow systematic, documented, and evidence-based processes (Ackers, 2009; Al-Hamadeen, 2007; IFAC, 2006; Manetti & Becatti, 2009).

The primary standards presently used in CSR assurance engagements are AA1000AS and ISAE 3000 (Ackers, 2009; Al-Hamadeen, 2007; Daly, 2010; Perego, 2009; Manetti & Becatti, 2009; Marx & van Dyk, 2011). AA1000AS is a non-proprietary assurance standard intended for use by all CSR assurers (Ackers, 2009; Manetti & Becatti, 2009), and has been designed to complement the GRI principles (AccountAbility, 2008). AA1000AS is the only standard that effectively aligns the assurance engagement objectives with the material interests of stakeholders, specifying that the assurance engagement should be undertaken from a stakeholder perspective (AccountAbility, 2008; Al-Hamadeen, 2007). By contrast, ISAE 3000 is a generic non-financial assurance standard, specifically developed for mandatory application by members of the global audit profession (Ackers, 2009; Al-Hamadeen, 2007; Manetti & Becatti, 2009). Unlike AA1000AS, ISAE 3000 has not been specifically designed to provide assurance on CSR reports (Ackers, 2009; FEE, 2006; Manetti & Becatti, 2009). The diversity of standards used in CSR assurance engagements may result in assurers combining different heterogeneous and even conflicting guidelines and standards, increasing user confusion (Manetti & Toccafondi, 2011). However, CorporateRegister (2008) caution that this lack of standardisation may result in assurers 'cherry-picking', complying with certain principles from one approach and with other principles from another,

without being fully compliant with either, but referencing both.

### 2.3.3 Assurance providers

Unlike the oligopolistic financial audit market dominated by the Big 4 audit firms (Sierra *et al.*, 2013), there is no consensus about the parties that should provide independent CSR assurance (Ackers, 2009; Al-Hamadeen, 2007; Manetti & Becatti, 2009). The largely unregulated CSR assurance market therefore exhibits higher levels of competition and is subject to fewer legal constraints and enforcement mechanisms (Sierra *et al.*, 2013). The credibility of CSR disclosures and CSR assurance reporting is accordingly enhanced when stakeholders can identify the assessor (Wiertz, 2009).

The primary providers of independent CSR assurance may traditionally be divided into certification bodies, specialist CSR assurers and audit firms (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Perego, 2009; Manetti & Becatti, 2009; O'Dwyer, Owen & Unerman, 2011). The audit profession usually adopts a conservative assurance approach, enhancing perceptions about the veracity of CSR reports (ICAEW, 2008). Auditor assurers usually provide an assurance process that (i) complies with rigorous ethical and professional assurance standards; (ii) adheres to internal quality control procedures; (iii) utilises a defined framework and standards; and (iv) deploys the necessary skills and expertise to competently undertake the assurance engagement. By comparison, unregulated non-auditor assurers appear to provide higher levels of assurance, adding greater value to the CSR reporting process (from an external stakeholder perspective), despite focusing on improving CSR strategies and processes, potentially impairing independence (O'Dwyer & Owen, 2005). A significant shortcoming of many these reviews, is that the engagement evidence informing the formulation of the assurance opinion(s) may simply be explanations provided by management, or identified through perfunctory walk-through factory inspections, potentially depicting a false reality (Jenkins, 2001).

### 2.3.4 Assurance engagement scope

For reporting companies to meaningfully respond to stakeholder expectations they should engage independent CSR assurers that go beyond conventional (financial) audit practice, by considering performance not usually covered in company financial disclosures (Swift & Dando, 2002). Conventional audit reports issued by audit firms usually relate to highly regulated and reasonably comparable company annual financial statements, whereas assurance reports covering non-financial information are usually neither regulated nor comparable. The ambiguity of many of the terms used in CSR assurance reports may cause

some difficulty to some stakeholders to establish the exact nature, purpose and scope of the assurance engagement, or precisely what the resultant assurance opinion(s) meant.

To provide stakeholders with confidence about the veracity of CSR disclosures each CSR assurance report should clearly define the terms of reference and the engagement method and scope (CorporateRegister, 2008). While some assurers may address important principles such as completeness, materiality and accuracy in their CSR assurance reports, others may only mention that the underlying systems have been checked, or refer to assurance about some other limited aspect of the CSR report (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009).

However, since there are no generally accepted methodologies for collecting, evaluating and reporting company non-financial performance data, until reporting companies can consistently report on the scope of their CSR performance disclosures, assurers will be unable to consistently define the scope of the CSR assurance engagement (Ackers, 2009, Manetti & Becatti, 2009; Marx & van Dyk, 2011). Moreover, until the various CSR assurance providers agree on what assurance should entail and how it should be communicated, simply because a CSR report has been verified through some type of assurance report, the assurance engagement scope and quality will not be comparable (CorporateRegister, 2008).

### 2.3.5 Assurance characteristics

As previously stated, the GRI presently provides the most comprehensive framework used for CSR reporting and recommends that reporting companies should have their CSR reports externally assured (GRI, 2013a). GRI G4 guideline G4-33 suggests that companies should indicate their current external assurance policies and practices in their CSR disclosures (GRI, 2013a). The key attributes of CSR assurance reports identified by the GRI should inform the broad CSR assurance framework. This should improve the ability of assurers to provide stakeholders with assurance conclusions that adequately address the material CSR issues and provide confidence that the underlying CSR disclosures may be relied upon. According to the GRI, independent assurance reports should:

- be conducted by parties external to the company with demonstrable competencies in both the engagement subject matter and assurance practices;
- be implemented in a systematic, documented and evidence-based manner, characterised by defined procedures;
- provide a reasonable and balanced representation of a company's CSR performance, and ensuring about the veracity of all material data in the CSR report;
- utilise independent and objective assurance providers capable of providing an impartial opinion(s)

about the veracity of the underlying CSR disclosures;

- assess the extent to which the reporting company has applied the GRI Reporting Framework; and

- provide a publicly available written assurance opinion(s), while describing the nature of assurer's relationship with the report preparer.

The considerable variation in CSR assurance practices implies that extant CSR assurance practices does not add value to external users (Al-Hamadeen, 2007), especially when there is a perception that the different terms means different assurance levels (O'Dwyer & Owen, 2005). Similarly, variances in the volume, character and detail of company CSR disclosures are exacerbated by a lack of consensus about how CSR data should be collected, evaluated and reported, undermining the assurer's ability to produce meaningful and comparable CSR assurance reports (Jones *et al.*, 2014). In this regard, the titles used for assurance reports (Al-Hamadeen, 2007), the nature and extent of work performed, the parties to whom assurance reports were addressed, the criteria and standards underpinning the assurance process, and any limitations on the scope of the assurance engagement, varied significantly (Deegan, Cooper & Shelly, 2006). These shortcomings could be addressed through the development of appropriate standards for CSR assurance engagements that should be consistently applied by all CSR assurers (PwC, 2005).

### 2.3.6 Assurance opinion(s)

Assurance increases the credibility of information for the intended audience by evaluating performance against suitable predetermined criteria and standards (AccountAbility, 2008). A CSR assurance report should therefore reflect the assurer's opinion(s) produced after a CSR assurance engagement to establish the veracity and completeness of a company's CSR disclosures (Al-Hamadeen, 2007; CorporateRegister, 2008). Disclosing the level of assurance provided assists in clarifying the aim of the assurance engagement; indicating the level of risk involved and the particular circumstances of the assurance engagement; and justifying the assurance evidence gathering procedures deployed (Al-Hamadeen, 2007). No assurer can however, provide absolute assurance about the completeness and integrity of every detail in a disclosure.

Aligned to the assurance levels, CSR assurance opinions may be classified as being *limited* or *reasonable* (Al-Hamadeen, 2007; CorporateRegister, 2008; Wiertz, 2009). Limited assurance opinions are expressed in the negative form, indicating that sufficient work was performed to suggest that 'nothing came to the assurer's attention causing them to believe that the reported data did not reflect the actual CSR performance' (Ackers, 2009; Manetti & Becatti, 2009; Marx & van Dyk, 2011). Reasonable assurance

conclusions on the other hand, are expressed in the positive form, and indicate that sufficient work was undertaken to confirm that the reported data reasonably represented the company's actual CSR performance. Extant research observes that auditor assurors were more likely to provide limited CSR assurance opinions, while non-auditor assurors tended to provide reasonable assurance opinions (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & van Dyk, 2011).

### 3 Research methodology

The objective of independent CSR assurance is to provide stakeholders with confidence that the CSR disclosures are complete and may be relied upon, but the ostensibly voluntary nature of CSR implies that CSR assurance practices are not regulated, resulting in a diversity of assurance providers and practices. In the light of this ambiguity, the objective of this research is identify emerging CSR assurance practices in an attempt to develop a conceptual framework for CSR assurance engagements, that may be consistently applied by all CSR assurors in order to improve report comparability and reduce stakeholder confusion.

In the absence of a universal framework for CSR reporting, and since it is universally acknowledged that the GRI is the 'gold standard' for CSR reporting (Black & Quach, 2009; KPMG, 2011), this study uses the GRI reporting dimensions as a proxy for the components of CSR activities that should be reported and accordingly independently assured. However, the diverse nature of company activities imply that some organisations may consider different CSR issues to be more important to communicate in their CSR and CSR assurance reports. In this regard, a secondary research objective is to understand the primary GRI reporting dimensions that have been included in the scope of CSR assurance engagements.

Despite the ostensibly voluntary nature of the King III, the JSE regulations specifically require all listed companies to apply the King III principles, or to explain why it has not. In this regard, it should be noted that King III principle 9.3 requires organisations to have their CSR disclosures independently assured (IoD, 2009). As such, South Africa is one of the first countries to impose the provision of independent CSR assurance as a *de facto* mandatory requirement. It is accordingly appropriate to confine this South African study to JSE-listed companies. Within this context, a purposive (Sekaran & Bougie, 2010; Welman, Kruger & Mitchell, 2011), non-probability sample (Barbour, 2001) representing the 200 largest JSE-listed companies (in terms of market capitalisation), was selected for this study. Amongst these 200 companies, one company was subsequently delisted and seven others incorporated their various company reports into the annual reports of their holding companies, reducing the companies included in this study to 192. When the companies selected for this

study were extracted on 30<sup>th</sup> April 2012, there were 376 companies listed on the JSE, representing a total market capitalisation of R6 889 billion. Despite the 200 largest JSE-listed companies then only representing 53% of JSE-listed companies, they accounted for 99.3% of the total market capitalisation of the JSE.

Exploratory studies frequently utilise qualitative research methods to understand the nature of the emerging phenomena being studied and provide a rigorous approach to theory development (Birkinshaw, Brannen & Tung, 2011). The empirical component of this research utilises a qualitative content analysis undertaken in two phases. The first phase involves examining the annual/sustainability reports of the selected companies to identify companies that published independent CSR assurance reports during 2012/13. In the second phase, the identified CSR assurance reports were analysed to establish the diverse nature of the report components to understand the assurance characteristics that should be incorporated into a CSR assurance framework.

Despite the South African context for this research, and since CSR assurance is a *de facto* mandatory requirement for companies in the study, the global nature of the CSR and CSR assurance discourse suggests that the study observations may reveal the emerging CSR assurance characteristics that may be emulated across all companies, both in South Africa and globally, as the CSR assurance discourse continues to evolve. The proposed assurance framework should be adopted globally by all CSR assurors and consistently applied across all types of organisations.

## 4 Empirical results and discussion

### 4.1 Introduction

To provide the necessary context to this paper, it is appropriate to briefly review the providers of independent CSR assurance, the assurance standards utilised, the intended beneficiaries of the CSR assurance report, the extent of assurance provided and the competencies of the respective assurance providers. Since the objective of this paper is to develop a CSR assurance framework, the empirical component attempts to identify the CSR dimensions covered by the various CSR assurance engagements, as disclosed in the independent CSR assurance reports.

### 4.2 Assurance providers

As indicated in table 2, auditor assurors were the primary providers of independent CSR assurance, followed by specialist CSR assurors. In 2011/2, the Big 4 audit firms issued 31 CSR assurance reports, representing 62% of all CSR assurance reports. In addition, mid-tier audit firms issued two CSR

assurance reports (4% of assurance reports) while one CSR assurance report was issued by internal audit (2%). The audit profession's dominance in the provision of independent CSR assurance confirms the findings of other researchers (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & van Dyk, 2011; O'Dwyer *et al.*, 2011). Other independent CSR assurance providers included specialist CSR assurance providers collectively providing 15 CSR assurance reports (30% of assurance reports); and a certification body that provided one CSR assurance report (2%). This paper uses the terms *auditor assessor* and *non-auditor assessor* to differentiate between members of the audit profession and other CSR assurance providers.

**Table 2.** Type of CSR assurance provider

Type of assessor	2011/2
Assurance by a Big 4 audit firm	28
Assurance by a Mid-tier audit firm	2
Joint assurance by two Big 4 audit firms	2
Assurance by an internal audit activity	1
Joint assurance by Big 4 audit firm & CSR Consultancy	1
Assurance by a specialist CSR assessor	15
Assurance by a certification body	1
Total	50

#### 4.3 CSR assurance standards

Information about the standards used in an assurance engagement improves the ability of stakeholders to understand the nature and extent of the assurance provided, enhancing their ability to compare CSR assurance reports and CSR disclosures (Al-Hamadeen, 2007). However, the inconsistent application of standards and the tendency for auditor and non-auditor assessors to use different standards in their CSR assurance engagements (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Becatti, 2009), undermines the ability of stakeholders to meaningfully interpret, analyse and compare CSR assurance reports and the underlying CSR disclosures.

As indicated in table 3, although two assurance reports (4%) in 2011/2 did not disclose the assurance standard used, the primary standards used in CSR assurance engagements were ISAE 3000, followed by AA1000AS. In addition, two assessors referenced ISO 14064-3:2006<sup>2</sup> and one also referred to ISO 19011<sup>3</sup>,

<sup>2</sup> ISO14064-3: 2006 specifies principles and requirements and provides guidance for those conducting or managing the validation and/or verification of greenhouse gas (GHG) assertions (accessed online on 23<sup>rd</sup> April 2013 at [http://www.iso.org/iso/catalogue\\_detail?csnumber=38700](http://www.iso.org/iso/catalogue_detail?csnumber=38700)).

<sup>3</sup> ISO19011: 2011 provides guidance on auditing management systems, including the principles of auditing, managing an audit programme and conducting management system audits, as well as guidance on the evaluation of competence of individuals involved in the audit process, including the person managing the audit programme, auditors

while several referred to the GRI. Although the GRI provides a reporting framework and not an assurance standard, it provides reporting companies with the guidelines necessary to implement CSR assurance, allowing compliant companies to add a '+' (plus) to their self-declared GRI status.

**Table 3.** Assurance standards referenced in CSR assurance reports

Assurance standard	2011/2
ISAE 3000	32
AA1000AS	13
AA1000AS & ISAE 3000	1
AA1000AS & ISO 14064-3:2006	1
AA1000AS, ISO 14064-3:2006 & ISO 19011	1
Not stated	2
Total	50

Aligned to the findings that auditor assessors were the primary providers of CSR assurance, the generic non-financial assurance standard ISAE 3000, which is mandatory for auditor assessors, was also the most commonly referenced CSR assurance standard. Apart from KPMG that did not refer to an assurance standard in their CSR assurance report to Gold Fields, the remaining auditor assessors all referenced ISAE 3000, with Ernst & Young [EY] referencing both ISAE 3000 and AA1000AS in their report to British American Tobacco. By comparison, except for ERM that referenced ISAE 3000 as well as ISO 14064-3:2006 and ISO 19011 in their assurance report to Mondi, the remaining specialist CSR assessors all referenced AA1000AS, with CA Governance also referencing ISO 14064-3. Internal audit did not reference any standard. An interesting trend is that apart from EY (British American Tobacco only), auditor assessors did not reference AA1000AS their assurance reports, although several specifically referred to AA1000APS<sup>4</sup> and its principles of inclusivity, materiality and responsiveness. As expected, the CSR assurance reports of Standard Bank, ABSA, Nedbank, Arcelor Mittal and Liberty Holdings (all assured by Big 4 audit) were assured according to ISAE 3000 and not AA1000AS, despite referencing the AA1000APS principles. Some assessors also referred to the following (reporting) frameworks and guidelines in their CSR assurance reports: GRI G3, AA1000APS, King III, JSE SRI, GHG, BEE and UNGC. In several instances, assessors revealed that these provided the assurance engagement criteria.

and audit team (accessed online on 23<sup>rd</sup> April 2013 at [http://www.iso.org/iso/catalogue\\_detail?csnumber=50675](http://www.iso.org/iso/catalogue_detail?csnumber=50675)).

<sup>4</sup> The AA1000 AccountAbility Principles Standard provides a set of principles describing the manner in which corporate accountability is understood, governed, administered, implemented, evaluated and communicated.



#### 4.4 CSR assurance report titles

It may be argued that the CSR assurance report title should succinctly indicate the nature of the assurance engagement. Despite identifying four different types of CSR assurance providers, the study observes that no particular types of assurers prescribe a specific title for their CSR assurance reports, with even the same assessor using different terms to describe its own assurance reports. Although the most commonly used report title by all types of assurers is *independent assurance report*; growing in popularity (especially amongst auditor assurers), is *independent assurance report on selected sustainability information* which provides users with a more comprehensive perspective of the objective and content of the assurance report. Other titles used to describe CSR assurance reports include *assurance report*, *independent third party assurance reports* or *statement of assurance*.

Even though the International Framework for Assurance Engagements [IFAE]<sup>5</sup> clearly distinguishes between auditing and assurance engagements, three CSR auditor assurers specifically include the term 'auditor' in the titles of their CSR assurance reports. Deloitte called its reports to Bidvest an 'independent auditor's limited assurance report and to Barloworld a report of the independent auditors'. Similarly, Indyebo calls its report to Discovery Holdings an 'assurance report of the independent auditors'. However, on other CSR assurance engagements, Deloitte correctly refer to assessor and not auditor in their CSR assurance report titles.

While section 49(a) of ISAE 3000 specifically requires auditor assurers to use a title clearly indicating that the report is an *independent assurance report*, in a few isolated instances, auditor assurers referred to their independence in the body of the report, and not in the title. By disclosing their independence in the CSR assurance report title, assurers illustrate their desire to highlight the importance of the independence dimension, improving the stakeholders' ability to rely on the underlying CSR disclosures.

#### 4.5 Report addressee

Since CSR reporting and accordingly CSR assurance reflects companies' attempt to demonstrate their stakeholders accountability, the CSR assurance report should therefore be addressed to both the intended and unintended audiences (Ackers, 2009; Wiertz, 2009). Both ISAE 3000 and AA1000AS specifically require the assurance report to identify the party or parties to whom the report is directed. Therefore, since the primary audiences for CSR assurance reports include both internal and external stakeholders (O'Dwyer *et*

*al.*, 2011), it is asserted that CSR assurance reports should be addressed to all reasonably expected users.

Although two specialist CSR assurers did not identify the parties to whom the report was addressed, the remaining specialist CSR assurers as well as the certification body, addressed their assurance reports to both the board and the stakeholders. By contrast, all auditor assurers addressed their assurance reports to their principals (including the board, directors, members, shareholders or even the company itself). Moreover, since auditor assurers deliberately confine the intended users of their CSR assurance reports to their principals, auditor assurers purposefully renounce responsibility to (unintended) external stakeholders. Examples of this practice include:

- 'we do not accept or assume liability to any party other than the company...'
- 'we do not accept or assume responsibility to anyone other than the company...'
- 'we do not accept or assume responsibility to anyone other than the directors of the company and the company...'
- 'we disclaim any assumption of responsibility for any reliance on this report, or the sustainability report to which it relates, to any person other than the directors or management, for any purpose other than for which it was prepared...'

Since qualitative non-financial data may have more inherent limitations than quantitative financial data, it is anecdotally suggested that the extent of work undertaken and the evidence gathered by the assessor is simply in order to support the opinion(s) provided in the assurance report. By confining the users of their CSR assurance reports to their principals and deliberately excluding broader stakeholders from placing reliance thereon, auditor assurers attempt to mitigate their exposure to liability from the unintended users of their reports, caused by unreliable assurance reports. A further compounding factor may be the general conservatism anecdotally associated with the audit profession. It is accordingly argued this established auditor assessor practice of limiting their liability, completely undermines the objective using independent assurance to demonstrate their accountability to stakeholders by attesting to the veracity of the underlying CSR disclosures.

#### 4.6 CSR assurance scope

Notwithstanding existing anomalies in the CSR assurance practices of auditor and non-auditor assurers, the most contentious area is the CSR assurance engagement scope. The CSR assurance engagement scope should reflect the diverse nature of the CSR activities that companies should report on (Adams & Evans, 2004; Al-Hamadeen, 2007; Archel *et al.*, 2008; GRI, 2005; Marx & van Dyk, 2011; Utting, 2005), and the extent to which company CSR-related disclosures have been independently verified. However, what may be considered important in one

<sup>5</sup> The IFAE provides the assurance framework developed by the International Auditing and Assurance Standards Board [IAASB] with which the audit profession is obliged to comply (SAICA, 2012: Framework 3-15).

company or industry may be regarded as insignificant in another. For example, effluent control may be more relevant for manufacturing companies than financial institutions. It is accordingly argued that the CSR assurance engagement scope should not only disclose the extent to which company CSR-related performance was covered by the assurance engagement, but more importantly, the aspects that were excluded. To determine the material CSR performance areas at their respective reporting company clients, assurers should therefore not only be familiar with the industry within which the company operates, but should also possess the necessary technical knowledge and skills (AccountAbility, 2008; Al-Hamadeen, 2007; GRI, 2013b) to undertake the engagement.

In the absence of a uniform standard for CSR reporting, the GRI has become the *de facto* standard for CSR reporting, globally. In this regard, the GRI G4 identifies a range of dimensions incorporated under the categories of labour practices and decent work; human rights; society; and product responsibility. Companies do not however, necessarily report on all of these dimensions, nor provide independent assurance thereon. The study found that the scope of the CSR-related activities covered by CSR assurance engagements inconsistently included the following:

- All disclosures in the CSR report;
- The sustainability risk management framework;
- The extent to which the GRI framework was applied;
- Energy, waste and water data;
- Emissions control (including carbon dioxide equivalent and green-house gas emissions);
- Adherence to the company's own or industry sustainability principles or applicable industry charters;
- Industrial relations and conflict management;
- Local, indigenous and diversity employment practices;
- Registered HIV cases and the extent of employee participation in anti-retroviral therapy;
- Job creation;
- Training and development;
- Safety issues, occupational injuries, illnesses and fatalities;
- Community engagement, development and impacts;
- Environmental incidents;
- Corporate Social Investment [CSI] spend; and
- Downstream suppliers.

To indicate the organisational coverage of their assurance engagements, some assurers also disclosed the number of sites that they visited and/or the number of remote reviews undertaken. However, unless specifically disclosed by assurers, stakeholders were often unable to determine the sites that were visited or

reviewed, the percentage of total operations represented by these sites, or even the site selection justification.

Since the assurance engagement scope is determined by the reporting company and not by stakeholders, impairs the ability of stakeholders to understand whether the CSR assurance engagement verified the CSR disclosures that were material to the reporting company (Adams & Evans, 2004; Al-Hamadeen, 2007; Owen *et al.*, 2000; Utting, 2005). The inconsistent and inadequate disclosure of the scope of CSR assurance engagements, exacerbated by company and/or industry nuances, further undermine the ability of stakeholders to precisely establish the CSR aspects that were assured and those that were not. The limited scope of some CSR assurance engagements is illustrated by Corporate Citizenship indicating that the scope of their SABMiller assurance engagement "did not extend to a complete audit of the report's contents". Similarly, PricewaterhouseCoopers [PwC] disclosed that their MTN CSR assurance engagement was confined to the quality of the services provided, CSI spend, survey of employee culture, fraud management framework and the whistle-blower hotline data, emphasising that they "have not conducted any work outside of the agreed scope". The scope of PKF's assurance report in respect of Allied Technologies was confined to the GRI indicators, without disclosing the aspects that were included or excluded. Despite not providing an exhaustive list, the above examples confirm that the CSR assurance engagement scope may not cover all material company issues, especially from a broader stakeholder perspective.

#### 4.7 Discussion

The anomalies in CSR reporting and CSR assurance, the variation in the scope and the assurance procedures utilised in CSR assurance engagements reduce the clarity, usability and comparability of CSR assurance reports and the underlying CSR disclosures. Therefore, despite the objective of CSR assurance being to provide legitimate stakeholders with confidence that the company's CSR disclosures may be relied upon, this study suggests that these benefits are not being fully realised. To meaningfully interpret and understand the impact of these anomalies on CSR reports and CSR assurance reports, stakeholders should possess high levels of knowledge, expertise and access to corroborating information usually only possessed by institutional investors. It may accordingly be argued that CSR reporting and CSR assurance are really provided for the benefit of informed investors and not for the broader non-investor stakeholder community. This assertion is supported by the observation that the primary providers of independent CSR assurance (i.e. auditor assurers), address their CSR assurance reports to the reporting company and deliberately exclude non-

intended users from placing any reliance on the assurance provided. Since it is asserted that extant CSR reporting and assurance practices and accordingly CSR assurance reports, do not meet stakeholders' requirements or expectations, this study argues that until these anomalies are addressed, the development of a conceptual framework for CSR assurance will remain an elusive goal.

Nevertheless, since the objective of this paper was to provide an assurance framework for CSR that could be consistently applied by the various assurance providers around the world, it is accordingly considered appropriate to consider the characteristics that should be incorporated into a proposed CSR assurance framework. These characteristics, which may broadly be classified into nine categories, should assist to reduce stakeholder confusion while improving report analysis and comparability.

#### **4.7.1 Regulation**

Several of the anomalies in CSR assurance practices may be ascribed to the evolutionary, but ultimately separate development of CSR assurance practices by various assurance providers, to accommodate the voluntary requirements of diverse reporting companies. To overcome these deficiencies and to introduce an element of consistency, it is suggested that appropriate regulations and/or legislation should be promulgated which will impose CSR reporting and CSR assurance as a mandatory requirement, with prescribed guidelines. This should reduce the impact of anomalies such as the type of assurance provider, the assurance standard, the assurance engagement scope, the assurance provider's qualifications and expertise, the assurance procedures and the assurance opinion(s).

#### **4.7.2 Assurance providers**

The provision of independent CSR assurance by diverse CSR assurance providers has given rise to the inconsistent application of various assurance practices, impairing the ability of stakeholders to clearly interpret and understand the resultant CSR assurance reports. The primary providers of independent CSR assurance may be categorised as being either auditor assurors (dominated by the Big 4 audit firms) or non-auditor assurors (primarily specialist CSR assurors). In addition to the inconsistent application of CSR assurance practices, the absence of a regulatory regime implies that important dimensions such as qualifications, expertise and quality assurance are uncontrolled. At present, anybody without any demonstrable competencies is able to provide independent CSR assurance.

The proposed regulatory regime should prescribe the establishment of a global oversight body to regulate the providers of independent CSR assurance and ensure the consistent quality of the CSR assurance

provided. Membership of this body should be mandatory for all independent CSR assurance providers.

#### **4.7.3 Assuror independence**

Independence is considered to be a vital attribute allowing a CSR assurance provider to provide stakeholders with an objective and impartial opinion(s) about the veracity of a company's CSR disclosures. Questionable assuror independence undermines the credibility of the assurance provided and accordingly the confidence that stakeholders may place on the underlying CSR disclosures. Confirming the importance of independence, the content analysis observed that only one of the CSR assurance providers did not disclose their independence in either the title and/or in the body of the assurance report. Therefore, although assurors already overwhelmingly comply with this requirement, it should be prescribed in any proposed framework.

#### **4.7.4 Assuror competencies**

The importance of ensuring that CSR assurors are appropriately skilled and have the required competencies to undertake the assurance engagement is confirmed by both AA1000AS and ISAE 3000 requiring assurors to disclose their competencies. By disclosing their competencies, assurors enhance the credibility of their CSR assurance reports and reflect the extent of confidence that stakeholders should place on the veracity of the underlying CSR reports (AccountAbility, 2008). Conversely, by not disclosing their competencies, CSR assurors weaken the CSR assurance report, undermining the ability of users to rely on the underlying CSR disclosures (Al-Hamadeen, 2007). While 74% (n=37) of CSR assurors disclosed the competencies or expertise of their organisations and/or of their assurance team in their CSR assurance reports, these disclosures were often ambiguously and generically referred to in terms of their 'available institutional competencies'. These disclosures do not therefore provide stakeholders with any confidence about whether the assurance providers and the assigned assurance practitioners are suitably qualified, experienced and skilled to perform the CSR assurance engagement. By contrast, the dominant specialist CSR assuror [IRAS] leveraged the personal and professional brand of its lead assuror to enhance its credibility amongst the established audit profession, and the Big 4 audit firms in particular. In this regard, CSR assurance reports issued by IRAS not only disclosed the assurance practitioner's expertise, qualifications and number of assurance engagements undertaken, it also named the principal assuror.

It is suggested that the proposed regulatory framework should prescribe the qualifications, expertise and competencies that assurance providers should possess for the various types of CSR assurance

engagements, with an oversight body monitoring their competencies. On the assumption that a universally applicable CSR assurance standard will be developed, a CSR-related qualification should be established and prescribed for all CSR assurance practitioners. While this may improve stakeholder perceptions about whether particular CSR assurers and/or their individual assurance practitioners have the necessary professional competencies to generically provide CSR assurance, it does not address the specific technical skills that may be required on particular CSR assurance engagements.

#### **4.7.5 Beneficiaries of independent CSR assurance reports**

Independent CSR assurance report should provide the users of company CSR reports with confidence about the extent to which the CSR disclosures may be relied upon. Unlike the mandatory audit reports in respect of company financial statements that are primarily intended for, and accordingly addressed to company shareholders, it may be argued that since CSR reporting addresses issues of concern to broader society, it should be addressed to the broader company stakeholders. It is therefore suggested that the proposed framework should require assurers to identify and report to all stakeholders with a legitimate interest in the activities of the reporting company.

#### **4.7.6 Assurance standards**

While the two primary standards presently utilised in CSR assurance engagements are AA1000AS and ISAE 3000, other related standards and frameworks used included ISO 1404-3, ISO 19011 and the GRI (which is a CSR reporting framework and not an assurance standard). Despite isolated exceptions, ISAE 3000 tends to be used by auditor assurers whereas AA1000AS is usually used by non-auditor assurers. It should be reiterated that not only do ISAE 3000 and AA1000AS provide different levels of assurance, they also mean different things and relate to different aspects of the assurance engagement. This impairs the ability of stakeholders to interpret the different CSR assurance reports issued, since they must not only consider the merits/demerits of the different types of assurers, they should also understand the implications of the different assurance standards used.

In order to address this deficiency, it is proposed that the standards bodies representing the different types of assurers should collaborate to develop a uniform global standard for CSR assurance engagements that can be consistently applied by all CSR assurers, irrespective of the assurer type or location in the world. The development of this new standard should be controlled by the proposed oversight body described earlier, and incorporated into the proposed regulatory framework.

#### **4.7.7 Scope of CSR assurance engagements**

The extent of reliance that users should place on the CSR assurance report and the underlying CSR disclosures depends on the scope of the assurance engagement and the extent of assurance work performed. Without a definitive reporting CSR reporting standard, companies may not necessarily disclose the same information, as evidenced by the empirical results in section 0, which are not aligned to the reporting of the GRI framework described in section 0 and Table 1.

In the absence of a uniform CSR reporting framework the proposed regulatory framework should not only prescribe the GRI G4 dimensions as the minimum CSR reporting guidelines, but also define it as the scope of all CSR assurance engagements. To accommodate the requirements of specific countries and industries, this should be adapted to take account of the prevailing socio-economic circumstances. In South Africa for example, this should incorporate provisions relating to employment equity [EE], broad-based black economic empowerment [BBBEE], etc. This standardisation should assist stakeholders to understand exactly what has been reported and what has been assured, while at the same time enhancing stakeholders' ability to compare reports across different reporting periods and for different companies.

It is however, acknowledged that a thorough comprehensive review of the scope of CSR assurance engagements may require stakeholders to possess specific technical and industry expertise in order to meaningfully analyse and interpret what has been included or excluded from the scope of the assurance engagement. While it may be argued that independent CSR assurance should provide the company's broader stakeholders with confidence that the underlying CSR disclosures may be relied upon, the different scope applied to the various assurance engagements complicates the ability of the average stakeholder to understand the implications of what has been disclosed in the CSR assurance report, or even what has been omitted (without necessarily being disclosed).

#### **4.7.8 Assurance opinions**

The assurance opinion(s) provided is arguably the most important component of the CSR assurance report. The assurance opinion(s) reflects the extent of reliance that stakeholders should place on the underlying CSR disclosures. Both of the existing CSR-related assurance standards provide for different assurance levels. Non-auditor assurers using AA1000AS usually provide reasonable assurance opinions, whereas auditor assurers using ISAE 3000 usually provide limited assurance opinions although a few auditor assurers provided limited assurance on some dimensions and reasonable assurance on others

within the same assurance engagement. Even though the empirical results reveal that all CSR assurers provided an assurance opinion(s), the nature of the opinion(s) and the extent of confidence provided are inhibited by the lack of comparability of the underlying data.

While there will always be a need to differentiate between reasonable and limited assurance engagements, the proposed conceptual CSR assurance framework should clearly articulate the parameters within which each should be applied, and not be left to the discretion of the reporting company and/or the assurance provider.

#### **4.7.9 Recommendations for improvement**

AA1000AS specifically requires the assessor to include recommendations for improvement in a publicly issued assurance report, but this is required by ISAE 3000. The empirical results reveal that non-auditor assurers usually either provide recommendations for improvement in their CSR assurance reports, or at least disclose that they provided management with recommendations for improvement. However, while the areas for improvement recommended by CSR assurers may illustrate the emerging nature of CSR reporting practices, the recommendations made are usually too generic and ambiguous to provide stakeholders with any meaningful insights about the deficiencies that require remedial action. By comparison, aligned to the detailed management reports provided by financial statement auditors, auditor assurers usually provide a similar management report containing comprehensive information relating to the findings of the assurance engagement, together with any recommendations for improvement, without disclosing this in the assurance report. These management reports are however, usually confidential and only distributed to internal company stakeholders.

To assist reporting companies improve their CSR practices, it is recommended that in addition to the customary management letter containing the detailed recommendations for improvement, the proposed CSR assurance framework should compel CSR assurers to provide an overview of areas requiring improvement in the body of their reports. Not only will this assist reporting companies to develop their capacity to meaningfully report CSR performance, it will also provide stakeholders with an indication of the areas requiring attention.

### **5 Study limitations and recommendations for further research**

The empirical component of this research was restricted to observations from the content analysis. The study results are therefore confined to publicly available information contained in the annual/CSR and/or CSR assurance reports. While the paper advances reasons for some of the observations, these

have not been empirically tested and are largely anecdotal. It is recommended that further research should be undertaken to establish the validity of the underlying reasons for the emerging CSR assurance phenomena identified.

This research presupposes that in addition to CSR assurance being a King III requirement, stakeholders require company CSR disclosures to be independently assured. Additional research should be conducted to explore the reasons why reporting companies provide independent assurance on their CSR disclosures. Similarly, research should be conducted to confirm that stakeholders require CSR disclosures to be independently assured and within that context, to establish the CSR dimensions that should be assured, the nature of that assurance and their preferred assurance providers.

While it may be argued that CSR reporting and CSR assurance practices are interrelated and should be developed simultaneously, the emphasis of this paper is on the assurance component. It is accordingly proposed that similar research should be conducted into the CSR reporting practices with a view to providing the platform upon which CSR assurance engagements may be undertaken.

Since it is argued that integrated reporting complements and does not to replace CSR reporting to stakeholders, the assurance of integrated reports has been excluded from the scope of this paper. A similar study should therefore be undertaken relating to assurance of integrated reports.

## **6 Conclusion**

This paper acknowledges that reporting companies are responding to stakeholder demands for increased accountability by disclosing their non-financial CSR performance. Independent assurance provides stakeholders with confidence that these disclosures may be relied upon. However, the variety of assurance providers and their disparate assurance practices inconsistently cover different CSR dimensions and result in incomparable and ambiguous assurance reports. This situation is exacerbated by the voluntary nature of CSR reporting and assurance and the absence of uniform CSR reporting and assurance standards that may be consistently applied by all CSR assurance providers, irrespective of assessor type. Therefore, despite the study revealing that companies are increasingly having their CSR disclosures independently assured, extant inconsistent CSR assurance practices severely undermine the confidence of stakeholders about the veracity of the underlying CSR disclosures. This impairs the ability of stakeholders to understand and compare the content of the assurance reports as well as the underlying CSR disclosures.

In order to ameliorate this deficiency, this paper proposes that a mandatory regulatory mechanism be introduced, which should prescribe a CSR reporting

standard based on the GRI G4 that should be consistently applied by all reporting companies. This proposed reporting standard should inform the development of a CSR assurance standard to which all assurance providers must comply. Given the global diversity of CSR assurance providers, it is posited that a representative body comprising all CSR assurance providers, should collaborate to develop this proposed new assurance standard. Moreover, accepting that various parties presently provide independent CSR assurance and are expected to continue doing so, the proposed assurance standard should identify the qualifications and experience that CSR assurance providers should possess.

Since it may be argued that CSR disclosures are intended to reflect the manner in which companies account to their broader stakeholders, assurers should engage with representative stakeholder bodies, and address their CSR assurance reports to the stakeholders and not only to the company, as is currently the practice by auditor assurers. Despite the CSR assurance anomalies identified in this paper, the scope of the various assurance engagements remains one of the most contentious areas. However, the scope of CSR activities covered in an assurance engagement can only be standardised once the necessary CSR reporting frameworks have been developed and standardised. In this regard, it is suggested that the GRI G4 provides a useful mechanism to achieve this objective.

Despite both CSR reporting and CSR assurance still being in the early stages of evolutionary development, it is expected that the demand for, and provision of CSR reporting and assurance will continue growing, with extant practices being harmonised. By comparison, financial accounting and assurance practices are still evolving, despite having already been a mandatory requirement for centuries.

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