

# Sustainability Assurance Practices in Sri Lanka among Public Listed Companies

## **Abstract**

**Purpose** - In response to increasing stakeholder expectations, an increasing number of companies is reporting on their corporate social and environmental performance in addition to the normal financial measures. As this trend continues, so too will the need for providing assurance on this additional information and the systems and processes used to generate it. The purpose of this study is to provide an overview of sustainability assurance practices in Sri Lanka among the listed public companies.

**Design /Methodology** – Data collection and analysis was carried out in two stages. First, the published annual reports of the companies listed in Colombo Stock Exchange as of March, 2015 were analyzed. Then unstructured interviews were carried out with assurance providers.

**Findings** - Even though sustainability assurance is less practiced, there is an increasing trend that the companies to obtain assurance from external assurance providers to ensure credibility of report published. Furthermore most of the companies have obtained sustainability assurance from audit firms rather than specialized consultants. Assurance providers are mostly using SLSAE 3000 as the basis to provide these assurances. None of the companies were qualified enough to obtain reasonable assurance on sustainability reporting and only limited assurances were obtained.

**Value addition** – This study contributes to the advancement of knowledge on sustainability assurance practices in the developing countries taking Sri Lanka as the case.

**Key words** – Reporting guidelines, Sri Lanka, sustainability, sustainability assurance, sustainability assurance standards

## **1 Introduction**

There is an increasing need for assurance of non-financial information as part of understanding an organization's performance against sustainable development commitments, policies and strategies. This is relevant to secure quality internally, and to provide credible information to interested stakeholders externally. Also this information is important to those stakeholders concerned with specific social, environmental and economic aspects of performance, and to those more interested in the impact of non-financial aspects on financial performance and valuations.

Since the importance of sustainability report was identified, we conducted this study on how sustainability assurance is practiced in Sri Lanka. At present there are no statutory or regulatory requirements for assurance on sustainability reporting, in Sri Lanka. Most of the companies which are preparing sustainability reports follow Global Reporting Initiative's reporting guidelines.

## **1.1 Research Gap**

With increasing the awareness of environmental issues, there has been rising demand for environmental friendly business practices.

Since sustainability reporting is not yet a mature business practice, there are still misconceptions about the value assurance offers.

- Acknowledging that certain parts of the business or particular indicators and responding to sustainable development challenges and opportunities are less developed than others to demonstrate transparency. This will actually build stakeholders' confidence and trust, rather than damage it.
- While auditing data is both valid and useful, it only covers part of the assurance spectrum. Report assurance looks to confirm not only the validity of data but also an organization's priorities. The process helps a company recognize whether or it's placing appropriate emphasis on what matters most to stakeholders -what is material.
- Broader report assurance is expensive. Companies often spend large sums auditing their financial disclosures. As these companies are increasingly judged by more than just financial metrics, they will need to adopt similar practices and levels of assurance to ensure non-financial disclosures are just as accurate and reliable.
- There are less amount of prior literature on sustainable assurance practices in Sri Lanka. Therefore we don't know about sustainability assurance service which is practiced in Sri Lanka.

## **1.2 Background and statement of the problem**

Sustainability is an emerging field in developing countries like Sri Lanka. Even though it's not a legal requirement & just a voluntary practice still companies are focusing on sustainability due to business case of sustainability and to improve the company image and public relation.

Sustainability assurance is a voluntary practice followed by the companies to ensure credibility of information provided to the public. There are criticisms that companies do not focus on obtaining assurances to sustainability reports and sometimes do not release sustainability reports except mentioning some information on websites.

In this study we try to analyze how listed public companies see the importance of sustainability assurance and how many companies are obtaining assurance at present in Sri Lanka.

### **1.3 Objectives of the Study**

The objective of this research is to provide an overview of the sustainability assurance certification in Sri Lanka and how the practice is maintained on sustainability assurance certification.

The followings are the main objectives which are expected to be achieved at the end of this study:

- I. To provide a brief overview of development of sustainability reporting assurance practices in Sri Lanka.
- II. To provide evidence on current assurance practices adopted by assurance providers in Sri Lanka.
- III. To provide guidelines to develop policies which are relevant to sustainability assurance Practice in Sri Lanka.
- IV. To identify the challenges faced in development procedure for sustainability assurance practice in Sri Lanka.

### **1.4 Significance of the study**

The term “sustainability” includes environmental, social and economic aspects but there is no coherence as to what it actually means and how it should be carried out in practice. While sustainability assurance is a growing market that the audit profession is interested in continuing to dominate, the actual practice is not as clear as the financial audit. This can lead to insecurity for the practitioners regarding what is expected of them and what the assurance process should look like. With increasing the awareness of environmental issues, there has been rising demand for environmental friendly business practices.

Furthermore, it is problematic for auditors to interpret the meaning of terms such as competence, even if it is addressed and defined in existing assurance standards. While much research has been conducted on the standards and on the content of sustainability reports, little research has focused on the Sustainability Assurance Practices Works in Sri Lanka among the Public Listed Companies.

The relevance of this study is to assess how sustainability assurance Practices Works in Sri Lanka, which according to the generally accepted standard is required in the assurance of sustainability reports. In

summary, the intent of this paper is to investigate how does The Sustainability Assurance Practices Works in Sri Lanka among the Public Listed Companies?

### **1.5 Scope and limitations of the study**

The study has two specific limitations: first, the assessment is limited to the companies listed In Colombo Stock Exchange , and the findings may not necessarily be representative of sustainability reporting practices of non-listed companies, and second, content analysis techniques of annual and sustainability reports may have specific limitations. Holsti (1969, p. 14) offers a broad definition of content analysis as “any technique for making inferences by objectively and systematically identifying specified characteristics of messages”. Content analysis has limitations, such as the risk of capturing an incomplete picture of the company’s business, but it is also widely recognized and accepted as a research instrument. Limiting the study to the assessment of sustainability reporting in the annual reports, sustainability reports and company web sites is justified because such reports are considered important corporate governance and stakeholder documents produced by companies. Indeed, these reports afford companies the opportunity to communicate with their investors and their stakeholders at large.

## **2 Literature Review**

### **2.1 Sustainability**

The concept of sustainability originally started in Forestry, where it means never harvesting more than what the forest yields in new growth. The word “*Nachhaltigkeit*” (the German term for Sustainability) was first used with this meaning in 1713 (*Farrington, and Kuhlman, 2010*).

Since then two major developments in sustainability have taken place, First is development of tripple bottom line approach which focuses on the concern for people, planet and profit in harmony. Second is the distincion between strong and weak sustainability .Very strong sustainability focuses very strong ecocentric world view which rejects almost all the use of natural resources. , society contains many parts which are not ivolved with any of the economic activities there by contributes to protect the environment. On the other hand very weak sustainability is the one which is more technocentric. Here when social, environmental and economic interests compete and priority is given for economic interest (Byrch, et al., 2007).

Importance of sustainability has been realised by the world in 1970s, particularly, after the rise of environmental and social issues. Hurricane Katrina, Love canal disaster, China Floods and Bholu Cyclone are some of the major natural disasters which made the world to realise the power of environment .(Day and Klein, 1987, p. 244, cited in Power, 1997, p. 127)

In addition, the social issues created by the multinationals by their activities such as BP oil leak, Bopal gas leak, etc., created more criticisms, attracted public attentions and media coverage on this regards. This made corporations to understand their responsibility towards environment and society where they operates for their survival.

Inspiration for sustainability started with the Brundtland report released in 1987. The World Commission on Environment and Development headed by Gro Brundtland defines the sustainability as “*meeting the needs of the present without compromising the ability of future generations to meet their own needs* (WCED, 1987, pp. 627-645).” However we can find evidences in the history where sustainability was an ancient practice evolving throughout the history.

Studies indicate that sustainability reporting is not widely practiced in developing countries, mostly in Asia. (Fifka, 2012). Further it is generally confined to certain industries such as oil, chemicals and steel (Fifka, 2012)

## **2.2 Sustainability reporting**

The capacity of a firm to continue to operate over a long period of time, depends on the sustainability of its stakeholder relationships. This new stakeholder view of the firm goes beyond triple bottom line and balanced scorecard.

Companies need appropriate systems to measure and control their own behavior in order to assess whether they are responding to stakeholder concerns in an effective way and to communicate the results achieved by aiming at monitoring and tracking from a qualitative and quantitative viewpoint the overall corporate performance according to a stakeholder framework.

The corporates who are adopting sustainability practices on voluntary basis are using Global Reporting Initiative (GRI) G4 and G 3.1 as guidelines for preparing sustainability reports. G4 is the latest version of GRI guidelines which consist of more comprehensive guidelines for General Standard and Specific Standard Disclosures. In addition to that companies are following their own practices to issue

sustainability reports other GRI. The way of categorizing the nonfinancial information contained in these sustainability reports are categorized to six categories as per (GRI) 2007 categorization scheme. Those categories are as follows: economic, environment, labor, human rights, product responsibility, and society. GRI persuades measuring the impact of company's operations to the society and environment through physical and monetary ratios (GRI, 2002).

### **2.3 Sustainability Assurance**

Assurance can be described as the provision of confidence or certainty by an independent assurance provider to a party or group of persons in relation to certain subject matters (Park & Brorson, 2005).

. The level of assurance expressed varies with the nature of the service provided. The scope and depth of an assurance service depends on the need for confidence of the interested parties on one hand and on the availability of proper evidence on the other hand .The interested parties should be informed adequately about the level of assurance envisaged, so avoiding an expectation gap.

Assurance of sustainability reports is argued to fulfill the same function and provide the same values for the stakeholders as audit does for financial reports. That is, they provide credibility to the report by being examined by an independent, competent third party (Park & Brorson, 2005)

Sustainability reports become increasingly important as organizations are expected to be accountable, to perform responsibly and to report on their performance. Publishing a sustainability report helps an organization to be more transparent and credible in its relations with stakeholders. This can lead to a better performance on the markets, including the financial and labor markets, thus increasing shareholder value. Organizations voluntarily commission assurance engagements on reports they have prepared because of the perceived benefits, both external and internal. The independent assurance provider issues a report that enables users to place more credibility on the information reported by the organization. Each user of the assurance report can now take decisions based on the information in the sustainability report with less uncertainty about that information (Mellqvist& Stierna, 2013).

Adams and Evans (2004) state that there is an issue regarding assurer's expertise regarding the assurance procedure. Therefore it is said that 'ISAE 3000 explicitly foresees the possibility that auditors make use of experts from other disciplines to complete their investigations and there is an obligation to evaluate audit risk even when the document examined for verification does not resemble a traditional accounting record.

The survey report of KPMG (KPMG 1999, 2002, 2005, 2011) examined whether the Top Fortune 500 companies in a number of different countries produce publicly available sustainability reports, and whether these are assured. The outcome reflected there is an increasing trend towards publishing sustainability reports and obtaining assurance on sustainability reports published. Results of the surveys conducted were as follows. (Refer Table 1).

*Table 1: Assurance on sustainability reports among Fortune 500 companies*

<b>Year</b>	<b>Published Sustainability Reports</b>	<b>Obtained Assurance on Sustainability Report</b>
<b>1999</b>	35%	19%
<b>2002</b>	45%	29%
<b>2005</b>	70%	30%
<b>2008</b>	58%	40%

(O'Dwyer & L. Owen, 2005,2011)

In Sri Lanka, there is no statutory requirement that sustainability assurance reports should be assured. The exception is when the sustainability report is located in the management report, within the annual report and thereby is encompassed by the statutory audit. In addition, Sri Lankan companies are producing sustainability reports in accordance with the GRI guidelines and assure these reports by an independent attestation. The GRI guidelines leave a lot of freedom to the reporting company in terms of the scope and depth of assurance. The requirement of sustainability assurance differs from the requirement of external review of financial reports, in which government has refrained from commenting on preferred type or nature of provider.

According to International Auditing and Assurance Standards Board principles, essential elements of assurance services - ISAE 3000 describes regarding external verification of nonfinancial reports that determine the level of reliability of the procedures carried out, with the level of assurance, in order to reduce the expectation gap between a reader's perception of the reliability of the verifications and their actual effectiveness.

The possibility of making use of an inter disciplinary team of experts, types of verifications and tests to implement, the evaluation of audit risk are suitable reporting criteria for the form of the final assurance statement . These principles allow the auditor to indicate two different levels of assurance based on the intrinsic characteristics of the subject matter and of the investigations implemented as a) reasonable assurance or b) limited assurance (Meern, 2002)

Reasonable assurance means the practitioner gathers sufficient appropriate evidence to conclude that the subject matter conforms in all material respects with identified suitable criteria, and gives a report in the form of a positive assurance. But in the case of limited assurance the practitioner gathers sufficient appropriate evidence to conclude that the subject matter is plausible in the circumstances, and gives a report in the form of a negative (KPMG, International survey of corporate sustainability reporting (Meern, 2002)

The great weakness of the ISAE 3000 is that it is not specifically designed for assurance services on sustainability reports. This explains several problems that strike both assurance providers and stakeholders addressed by CSR reporting. Among these elements, the three main problems are:

- Absence of relation with financial auditing, with particular reference to fraud.
- Deficiency of verification on compliance with national law and regulations.
- Lack of involvement of the stakeholders' representatives in the verification process of materiality and relevance of the information given.

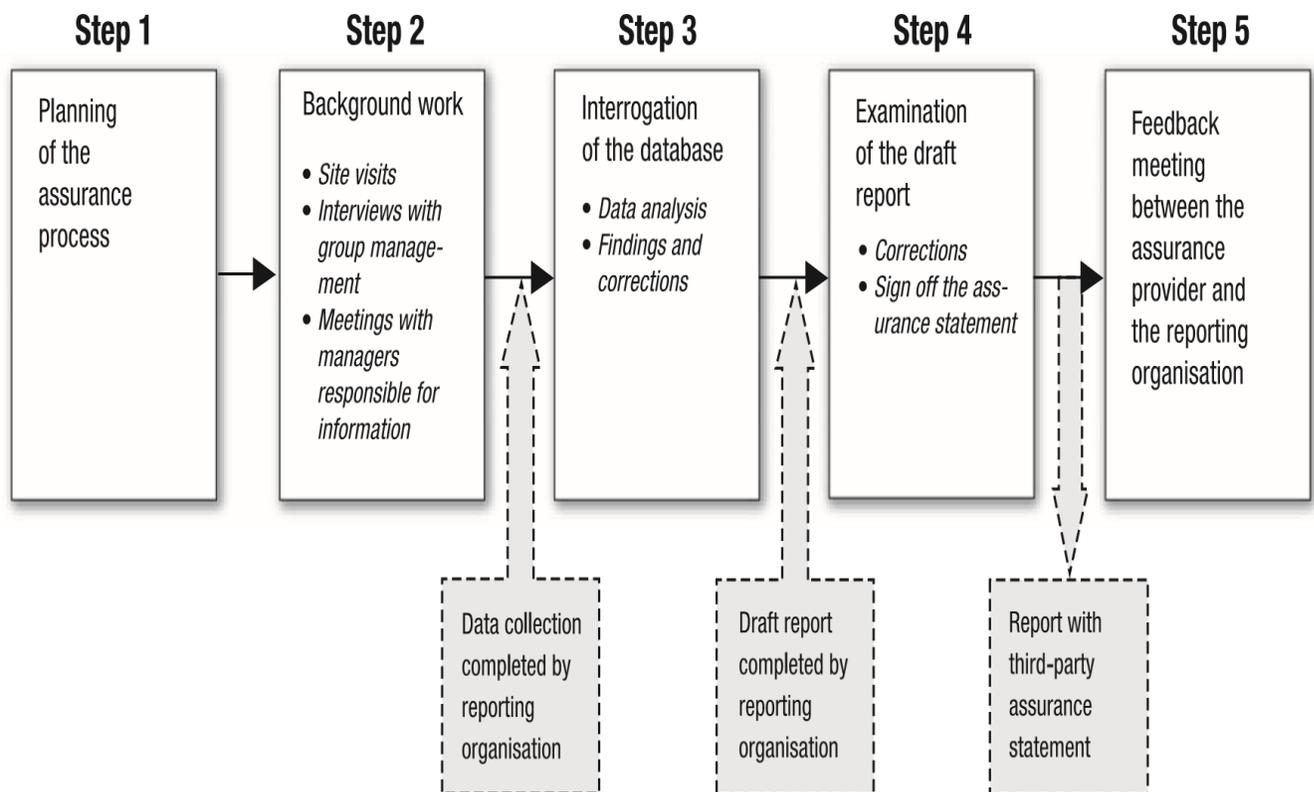
There are few other criticisms against present assurance standard other than above mentioned three limitations. The main criticisms of present assurance standards can be pointed out as: the determination of the level of assurance, roles and responsibilities of external experts, the relations with financial audit, the compliance with national laws and regulations, the relevance and the materiality of the information given and the involvement of external stakeholders in the verification process.

There is an issue regarding assurer's expertise regarding the assurance procedure. Therefore it is said that 'ISAE 3000 explicitly foresees the possibility that auditors make use of experts from other disciplines to complete their investigations and there is an obligation to evaluate audit risk even when the document examined for verification does not resemble a traditional accounting record. This highlighted section should come under Sustainability assurance standards while avoiding any duplications.

Roger, Ann and Wai (2009) have argued that, enhancing of credibility reports of companies & stage of corporate reputation is measured by the sustainability reports they assured and also he have demonstrated that, ‘a strong link between companies with a higher need to enhance credibility and those having their sustainability reports assured’.

According Park & Brorson (2005) the assurance processes are organized through five steps (refer Figure 1).

*Figure 1: Typical steps of third-party assurance process*



**Source:** (Park & Brorson, 2005)

## 2.4 Sustainability assurance providers & standards used

There are mainly two international standards used by assurance practitioners to provide sustainability assurance, which are designed for different objectives have taken a dominant role. These are

- AA 1000 Assurance Standard
- ISAE 3000 standard

The AA1000 Assurance Standard (known as AA 1000 AS) was developed by the London-based Institute of Social and Ethical Account- Ability (more commonly known as Account Ability). AA1000 is a free, open-source set of principles that focuses on the learning aspects of addressing sustainability/CSR.

The ISAE3000 standard ("Assurance Engagements Other Than Audits or Reviews of Historical Financial Information") is a standard which provides guidance in the form of basic principles and essential procedures for professional accountants on how to conduct non-financial assurance engagements.

According to the ISAE 3000 Main elements of the ISAE 3000 regarding external verification of non-financial reports are the following,

- The determination of the level of reliability of the procedures carried out (level of assurance)
- The possibility of making use of an interdisciplinary team of experts
- Types of verifications and tests to implement
- The evaluation of audit risk
- Suitable reporting criteria
- The form of the final assurance statement. (Manetti & Becatti, 2009)

The GRI Guidelines, AA 1000 AS and ISAE3000 standards do not directly compete amongst themselves, as some assurance providers seem to reference them in different combinations in view of overlap in minimum content of assurance (Manetti & Becatti, 2009).

## **2.5 Sustainability assurance providers:**

There is an argument that from whom (audit practitioner or another external assurer) the companies are obtaining sustainability assurance reports in order to enhance credibility of their reports. There are some factors which are affecting the choice of assurance provider. Those are company top management decisions and traditions, industry and country related factors. Therefore Roger, Ann and Wai (2009) state that, 'the stakeholder orientation of a company's country of domicile, with companies from stakeholder-orientated countries being more likely to choose a member of the auditing profession as their assurance provider'. ( Simnett, et al., 2009)

*Table 2: Certification standards on sustainability and their purposes*

<b>Name of the standard</b>	<b>Purpose</b>
ISO 26000	Social sustainability certification standard
ISO 9001	Quality Management Standard to ensure businesses operates efficiently
ISO 14001	Environmental Management Standards ( waste management & other environmental concerns)
OHSAS 18001	Occupational Health & Safety Management Standard focuses on reducing the risk of costly accidents and comply with legislation
ISO 50001	Effective Energy Management Systems Standards
ISO 22000	Food safety Management focuses on management food safety from farm to fork
ISO 31000	Risk Management Standards
ISO 20121	Sustainable Events Management Standards with the goal of "Ensure an environmentally responsible approach to your next event"
ISO 22301	Business Continuity Management Standards with the aim of Minimize the Impact of disruptive incidents.
ISO 9002	Model for Quality Assurance in Production, Installation and Servicing Standard
HACCP	Hazard Analysis and Critical Control Point -Food safety management standard
GMP	Good Manufacturing Practice

## 3 Methodology

### 3.1 Study Design

We used annual reports of companies, unstructured interviews and findings from other countries to collect data. We designed checklists to compare data collected from annual reports and used Appendix-1 to conduct unstructured interviews with practitioners.

Initially we carried out the study as a replication of a study done by Marx and Dyk (2011) done in South Africa in the year 2011. Latter we carried out unstructured interviews to overcome limitations mentioned by them in their study. Criteria and evaluation methods are selected based on the above mentioned study. Moreover we used various other criteria based on the applicability to Sri Lankan scenario. Further

unstructured interviews with key assurance practitioners were carried out to ensure internal validity of the study.

### 3.2 Population & Sample

On the purpose of data collection we used both primary & secondary data sources. Primary data was collected through interviews. Secondary data were gathered from annual reports of the listed companies which are publishing sustainability reports as a part of their annual reports.

We have conducted un-structured interviews with sustainability assurance providers (such as audit firms) and sustainability reporting practitioners (such as management personnel of companies). This assists in providing an overview of the sustainability assurance certification in Sri Lanka and how the practice is maintained on sustainability assurance certification.

Population was 295 Public listed companies in Colombo Stock Exchange in the financial year of 2014/2015. From this population we selected 78 sample companies which are preparing sustainability reports. While obtaining the sample we ensured companies from various industrial sectors are selected.

We conducted 1 to 2 hours interviews in the later period with DNV, Ernst and Young, KPMG who are big three sustainability assurance providers in Sri Lanka. We interviewed persons such as Audit Senior Managers, Managers and Country Head who are responsible in relation to providing sustainability assurances. These interviews were unstructured and questionnaire attached in Appendix 1 was used as the guideline for discussion. We recorded the discussions, took some notes to transcribe the discussion into the study. Refer Table 3 for more details on the interviews.

*Table 3- Interview Summary*

<b>Name of Organization</b>	<b>Date &amp; Time period</b>	<b>Designation</b>
DNV GL – Sri Lanka	20 <sup>rd</sup> Oct 2016 (11.00am – 1.00pm)	Country Head
Ernst & Young	17 <sup>th</sup> Oct 2016 (10.00am -11.00am)	Audit Manager
KPMG	12 <sup>th</sup> Sep 2016 (3.00pm – 4.00a-pm)	Project Manager

### **3.3 Data Analysis**

After data was collected from interview and annual reports, we developed relevant criteria for data analysis. Criteria were developed mainly based on the objectives. Data collected were critically evaluated & analyzed based on the criteria. Primary data collected was mainly analyzed to get understanding about overview of Sustainability reporting & challenges in sustainability assurance development.

To analyze secondary data, we planed to evaluate disclosures by the companies in the annual report, standards & guidelines adopted to provide those disclosures. A check list was developed based on criteria & data collected was recorded against the check list to facilitate data analysis.

### **3.4 Mechanisms to assure the quality of the study**

- Dependability

Dependability is the measure which measures consistency of measures used over time. If measures are fluctuating overtime, it will affect the reliability and validity of the research. Since the measures are replicated from the previous study and re-evaluated before applying, we can ensure measure is not fluctuating over time. Contents of sustainability reports were analyzed and amendments to the checklist were made to ensure timeliness and dependability of measures.

- Credibility

In order to ensure truthfulness of data included in this study, obtained guidelines assistance about the field interviewing the people in accounting practice before the interviews and more than one person were taking part in the interviews. Recordings were taken throughout the interviews and all the participants were taking down notes and summarized them immediately after the interviews. When collecting data from annual reports, double checked the annual reports with the information find out from those reports. Further credibility was ensured since we collected data from annual reports prepared by the management who are accountable legally. Those sources help to improve the credibility of the study.

- Conformability

Conformability tests the objectivity of the research. Since factual data from published reports are obtained its free of biasness of the researchers personal interest. Further since data is publicly available it can't be manipulated by researcher for personal interest.

Interviews are taken from 3 different practitioners who are employed under both Audit Firms and Certified consultants. Thereby conformability of research is ensured throughout of this study.

Triangulation has been used to collect data and we collected data from various sources such as published annual reports, unstructured interviews and existing literature on various countries.

- Replicability

To ensure the feature of replicability of the study, the research has done based on the publicly available secondary data (Published annual reports) & explicit the measurement criteria. Thereby the study can be replicated easily by another researcher.

- Transferability

Findings can be generalized to the population since purposive sample method used to select samples. Industry wise conclusions can be generalized for the companies operating in the same industry. Since this is more towards qualitative aspects of research, there is a limitation that, results cannot be generalized beyond the population.

## 4 Analysis and Discussion

### 4.1 Evolution of the sustainability assurance practices in Sri Lanka

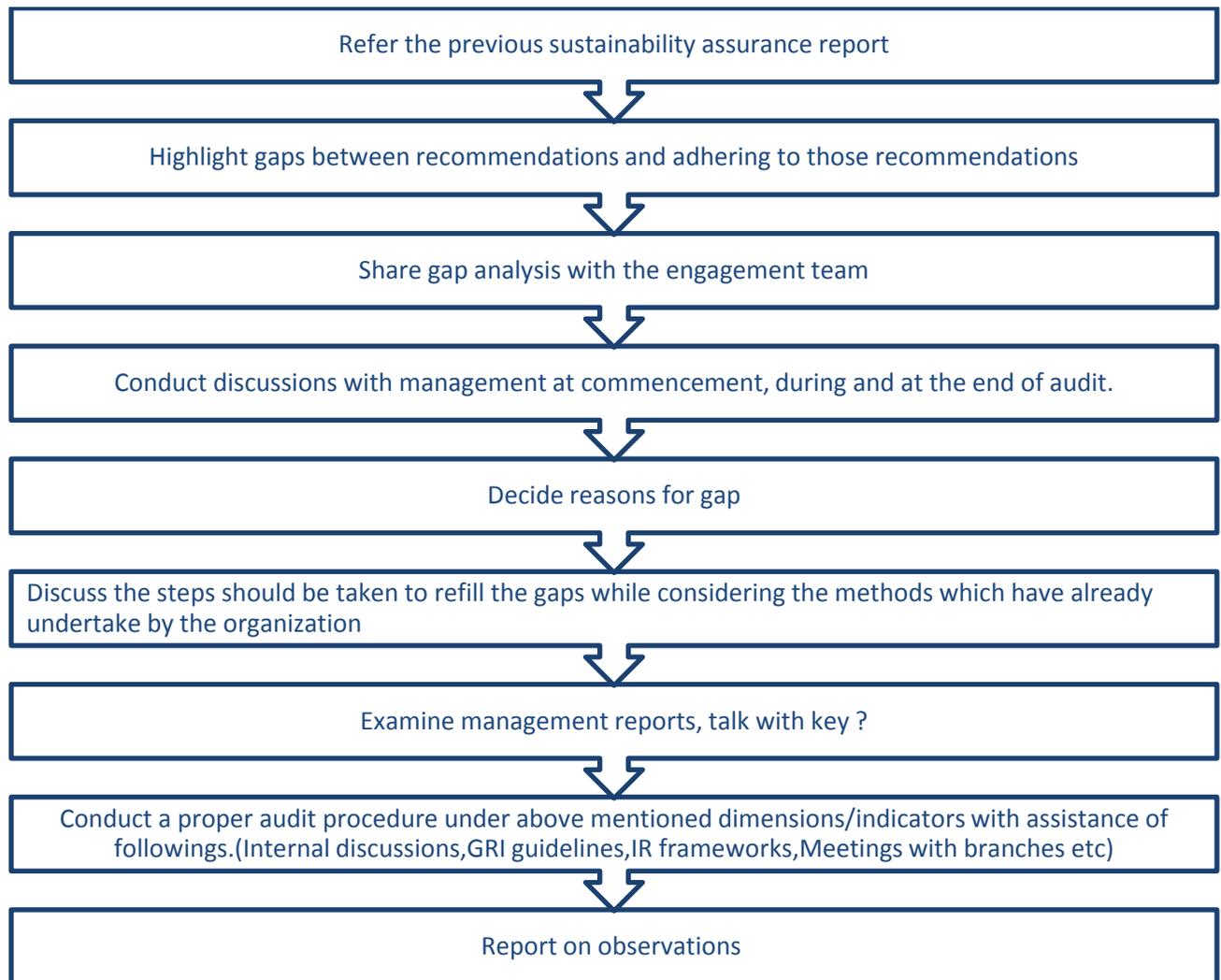
Hotel sector was the pioneers in the development of sustainability concept in Sri Lanka. Same as the global developments, environment concern was the main initiative for the development of sustainability in Sri Lanka. In 1997 Kandalama Hotel, which is one of Aitken Spence PLC's hotels, received "Green Globe" award from Environmental Community Service, UK after a stringent environmental audit ( Hulangamuwa & Ariyabandu, 2002)

In Sri Lanka, the first sustainability report was published as a Social Report by Ceylon Tobacco Company in 2004 for the financial period of 2002/2003. This report was independently reviewed by Bureau Veritas using AA1000 standard (The Island.lk, 2004). Although tobacco causes injuries to people, they try to show how they reduce the damage through sustainability reports through which they provided information about the company to the society

### 4.2 Sustainability Assurance Procedures

Sustainability Assurance procedures adopted by various practitioners vary based on their internal models developed by the parent company. Given below is an example of a procedures used by Sri Lankan practitioners (DNV GL) (refer Figure 2):

*Figure 2: Practices adopted by DNV GL Sri Lanka*



### **4.3 Sustainability Assurance Practice**

We have carried out this analysis to identify the background of sustainability assurance reporting in Sri Lanka. I.e. to understand about how many companies in Sri Lanka are following the accepted principles to report on sustainability and which reporting standard is playing the predominant role in reporting (refer Table 1).

*Table 4- Sustainability Reporting Guidelines Used*

	<b>No. of Companies</b>	<b>Percentage</b>
GRI -G 4	50	64%
GRI- G 3.1	1	1%
Not following GRI	27	35%
	<b>78</b>	<b>100%</b>

Based on the findings we identified that above 50% of the companies who prepare sustainability reports are GRI followers. Among the GRI following companies except one company all others are following G4 guidelines which is the latest version of GRI. Since very low understanding and expertise is available for companies to report on sustainability, GRI is helpful for them to report on sustainability at the initial stages.

Studies carried out in Malaysia in 2010 found that, Varieties of standards were used in assuring the sustainability reports. Standards such as the GRI, ACCA Sustainability reporting guideline, BURSA Malaysia CSR reporting guidelines as well as the Malaysian Silver book . Only one company out of twelve applied GRI reporting guideline whilst other used it only as a reference. Most companies adopt the BURSA Malaysia guidelines (Sawani, Mustafa & Zain, 2010).

This situation is totally different from Sri Lanka where 50% of the companies are adopting GRI. Study further found that most of the Malaysian companies are using BURSA guidelines since BURSA made CSR compulsory among public listed companies. But in Sri Lanka CSR reporting is not compulsory and there is no regulating body. Therefore Sri Lankan companies are using GRI and disclose information voluntarily.

*Table 5 – Companies Obtaining Sustainability Assurance*

<b>Description</b>	<b>No. of Companies</b>	<b>Percentage</b>
<b>Independent assurance obtained</b>	25	32.05%
<b>No assurance obtained</b>	53	67.95%

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Based on the findings from the above table (Refer Table 2) vast majority of companies, which is above 50% have not obtained assurance report from external assurance providers. Even though only 25 companies have obtained assurance, all of them have obtained independent assurance from external assurance providers, than relying on internal parties. This improves the credibility of information disclosed.

In a study carried out in South Africa by Marx and Dyk (2011) it was found that only 35% of companies listed in Johannesburg Securities Exchange which are used in Socially Responsible Investment (SRI) Index have obtained assurance in sustainability reporting. With 32%, in 2015 Sri Lanka reflects a similar situation that prevailed in South Africa in 2012. Hence it is clear that compared to South Africa Sri Lanka is still behind the developments in terms of sustainability assurance. This situation can be attributable to the early developments of Integrated Reporting in South Africa (Marx and Vanessavan, 2011) which also provided a boost to the sustainability assurance practices.

In Australia a study has been carried out among 295 companies which are listed in ASX 300 list on the sustainability assurance practices. It was found that 56% (167) of the firms have reported on sustainability assurance in year 2015. Out of the 167 companies only 40 companies (24%) have obtained independent assurance in sustainability reports. This is 13% of the total samples selected for study. (Bepari and Mollik, 2016). Situation in Sri Lanka is better than Australia where 32% of the companies are obtaining sustainability assurance. Sri Lanka is dominated by Buddhism culture which has principles of protecting nature. This inheritance behavior of management might have led to better results in Sri Lanka compared to Australia.

When we discussed about this findings with one of the key person who is working for sustainability assurance providers in Sri Lanka he explained the reason as follows:

*"Some companies are obtaining sustainability assurance only for the holding company which would cover the subsidiaries also. Therefore if the samples we have selected include parent company and subsidiaries then the results might indicate most of the companies doesn't have sustainability assurance. But in the real scenario parent company's sustainability assurance can be applied for subsidiary also. Therefore the result might be biased. Eg- John Keels Holdings obtains sustainability assurance only for the holding company."*

Further practitioner expressed his experience that;

*“Sustainability assurance practice was adopted in Sri Lanka 10 years before only and still under the development stage. Therefore management is not aware about importance of obtaining assurance and contribution of top management to the sustainability development. They consider sustainability as a responsibility of CSR division. Therefore the sustainability assurance reports obtained companies are less in Sri Lanka”.*

Moreover the local companies do not consider sustainability reporting as an investment. They always think it will generate a cost to the company. But if they try to reduce the resource consumption (e.g. water, energy, oil), in the process of manufacturing or providing services, it will automatically reduce the material cost of the process. In explaining this attitudinal issue, a practitioner stated that;

*“The main reason behind that is bad attitude of local companies. Local companies do not think sustainability reporting as an investment. They always think it will generate a cost to the company. But if they try to reduce the resource consumption (E.g. water, energy, oil), in the process of manufacturing or providing services, it will automatically reduce the material cost of the process.”*

#### **4.4 Industry Analysis**

Then we analyzed what industries are keen towards obtaining assurance on sustainability report than the other. We selected companies to cover certain specific industries for the research purpose. Findings are shown in the following table (refer Table 6):

*Table 6- Industry Wise Analysis*

<b>Selected Industries</b>	<b>Total No of Companies in the Industry</b>	<b>No. of companies preparing sustainability reports</b>	<b>No. of companies with assurance</b>	<b>Assured Companies as %of sample</b>
<b>Diversified Holdings</b>	21	9	3	33%
<b>Foot wear&amp; Textile</b>	6	2	1	50%

<b>Hotels &amp; Travels</b>	42	12	1	8%
<b>Beverage, Food&amp; Tobacco</b>	23	8	0	0%
<b>Chemicals &amp; Pharmaceuticals</b>	12	5	0	0%
<b>Health care</b>	7	4	1	25%
<b>Finance &amp; Insurance</b>	43	22	14	64%
<b>Telecommunication</b>	4	2	1	50%
<b>Power and Energy</b>	9	3	1	33%
<b>Plantations</b>	20	4	0	0%
<b>Motors</b>	6	1	1	100%
<b>Manufacturing</b>	40	3	1	33%
<b>Services</b>	8	0	0	0%
<b>Trading</b>	9	1	1	100%
<b>Construction &amp; Engineering</b>	4	2	0	0%
<b>Information Technology</b>	2	-	0	0%
<b>Investment Trusts</b>	14	-	0	0%
<b>Land &amp; Property</b>	20	-	0	0%
<b>Oil Palms</b>	5	-	0	0%
<b>Total</b>	295	78	25	

Finance Insurance Sector has a large number of companies which have obtained sustainability assurance reports than the other industries. Our sample covered only 64% in the industry. But there are 14 companies which is around 51% percentage of total assurance obtained companies (25).

Further we can see a number of companies which obtained assurance from the industry are above 60% of the number of companies preparing sustainability reports. Finance Insurance sector includes the companies which are mainly in the banking and insurance sector. Therefore their negative impact to the

environment and society is low. But they are keener towards obtaining assurance on sustainability information.

A study carried out in Portugal found out from 60 companies selected for study 9 companies were selected from financial sector (third highest after industrial sector and consumer service sector). Out of 9 companies 6 companies have obtained assurance on sustainability report in the year of 2011 which is 67%. Therefore findings from the study- finance & insurance sector companies are more keener towards obtaining sustainability assurance can be justified based on the similar findings from Portugal (Gomes, et al., 2015).

A possible reason could be the convenience for the finance companies to submit sustainability reports than manufacturing companies or companies in other sectors. Because establishing initial infrastructure facilities and measuring the performance is easy for them. There by most of the financial institutions are publishing sustainability reports and obtaining sustainability assurance.

One practitioner stated that;

*“It’s easy for financial institutions to prepare sustainability reports since their impact is low. Their consumption levels can be easily measured through branch wise meters. And usage of energy source is only electricity for lights, air conditioner and computers.”*

He further stated;

*“This is not going to be easy hereafter. There is an evolving trend that financial institutions measure an indicator to show how green their money is. This trend is evolving after the frauds and money laundering activities which have created issues in the society. Thereby financial institutions are taking actions to ensure the cash deposited to them and landed to customers are used in a sustainable way. This will make sustainability reporting in financing sector difficult in future.”*

Table 7: Assurance Providers

<b>Independent external assurance obtained consisting of</b>	<b>No. of Companies</b>	<b>Percentage</b>
<b>Audit firms</b>	23	92%
<b>Other independent assurance providers /Specialist Consultant</b>	2	8%
<b>Assurance provided by certified firms</b>	0	0%
	25	100%

As per Table 4, Independent external assurance have been obtained mainly through audit firms which is 92% and only 8% assurance is obtained from other independent specialist consultants. This is similar to the situation prevailing in South Africa where 83% of companies also have chosen audit firms to obtain assurance rather than specialist consultancy (Marx and Dyk, 2011).

One possible reason for preferring audit firms is that it's easy for them to obtain both financial and sustainability assurances from audit firms since they are already familiar. But this practice could question the quality of the assurance reports provided by audit firms in the sustainability information, since they do not have expertise to provide sustainability assurance.

A specialist consultant from one of the leading sustainability assurance practitioners in Sri Lanka mentioned:

*“We are really costly. Our cost is more than double of audit firms. It's because of the quality, time and effort we spend for. If you see the depth of assurance opinion we provided you can easily understand the quality. We are worth for that cost.”*

Furthermore the specialist consultants are more costly (even more than double times) than audit firms and therefore for cost constrains some companies choose to go for audit firms. Further since specialist consultants are using international standards and procedures it's difficult for some companies to establish required infrastructure to support on sustainability audit.

#### 4.5 Assurance Standards Used by Assurance Providers

Purpose of the analysis is to identify the assurance standard mostly used by assurance practitioners in Sri Lanka and the factors which are influencing the decision by users when choosing assurance standards. Findings of our study is expressed through the following table (Refer Table 8):

Table 8– Assurance Standards Used

Description	No. of Companies	Percentage
SLSAE3000 only	22	88%
AA1000AS only	3	12%

When companies obtained sustainability assurance, most of the assurance providers used SLSAE 3000 as the base to provide assurance. Out of 25 companies which have obtained external assurance 23 opinions were based on SLSAE 3000. This is 88% of the total opinions provided. Only 2 assurance opinions, which is 12% were based on the AA 1000 standards. Thereby it's crystal clear that most of the assurance providers in Sri Lanka are using SLSAE 3000 to provide opinion.

When we discussed the reason with assurance practitioners we couldn't obtain a clear answer for this since they are familiar with the standards their firms are using and not familiar about the other standards since it's not relevant for them.

When we discussed with a practitioner about SLSAE 3000, who are using AA1000 he mentioned;

*"I don't know much about it. It's not relevant for us. I don't even look into it. Even our clients told that we don't want it and provide the opinion based on AA 1000."*

When we discussed with a practitioner from audit firm he mentioned:

*"We are not familiar with AA 1000 since it's not relevant for us. We are relying on standards which are issued by Chartered Institute of Sri Lanka. That's enough for us to provide assurance since most of the companies are receiving limited assurance. Not reasonable assurance."*

Further we noticed audits firms have used SLSAE 3000 to provide opinions and Specialized Consultants are using AA 1000 to provide opinion. None of the practitioners have used both SLSAE 3000 and AA

1000 as the basis for the opinion. This might be due to the reason that audit firms are familiar with accounting standards published by the Chartered Accountants of Sri Lanka for the statutory audit purposes. Thereby they prefer to use SLSAE 3000. While most of the specialist consultants operating in Sri Lanka are global firms. Thereby they prefer to use global standards such as AA 1000.

Another reason could be the influence of the clients since they are obtaining finance from foreign countries also. Therefore foreign investors are keen towards sustainability information. Since foreigners are not familiar with SLSAE 3000 clients request the assurance practitioner to provide assurance based on AA1000 standards.

Studies carried out in South Africa gives evidence that ISAE3000 is the dominant standard used by practitioners (47.6%) for assurance on sustainability information, with fewer practitioners (9.52%) adopting AA1000AS. However, it is encouraging that 19.05 percent of reports are issued on the basis of both AA1000AS and ISAE3000. (Marx & Dyk, 2011)

Same situation prevails in Sri Lanka where 88% of the assurances are provided based on SLSAE 3000 which is the amended local version of ISAE 3000 standards. Since most of the assurance providers are audit firms (Refer table 4) it's easier for audit firms to adopt another part of accounting standards rather than learning a new global standard.

#### **4.6 Information Assured**

Objective of this analysis is to study, out of the 78 sample companies we have selected for study, how many companies have obtained assurance on sustainability reports disclosed and information disclosed on the websites.

Purpose of this analysis is to learn about which communication ways companies are using to communicate the sustainability information and which is more convenient to the company and stakeholders. Findings are described through the following table (Refer Table 9):

*Table 9- Sustainability Reporting Disclosure*

<b>Sustainability Report Disclosed</b>	<b>No. of Companies</b>	<b>Percentage</b>
<b>With annual reports</b>	17	68%
<b>As a separate report</b>	5	12%

<b>In the website</b>	3	20%
	25	100%

We have noticed most of the companies are issuing sustainability assurance reports along with their annual reports. Out of 25 sustainability assurance obtained companies 17 (68%) companies have issued with annual report. Five companies are issuing as a separate report. Only 3 companies have published on the website. This is only 20% of the total assurance reports published. Thereby it's clear that more convenient mode is the issuance with the annual report and publishing in the website is least popular.

In a study carried out in Malaysia it was found that 58% have incorporated the sustainability reports within the annual report and only 16% of the companies have published standalone reports. Other companies have used various other ways such as websites (Sawani, Zain and Darus, 2010). Similar situation can be found in Sri Lanka where 68% of the companies are publishing sustainability reports along with annual reports and only 20% of the companies publish standalone reports.

This is because when companies disclose information along with financial reports which are mandatory by the laws, sustainable reports also attracts attention from readers. Furthermore it's a convenient and a clear mode for readers to understand non-financial aspects also (Sawani, Zain and Darus, 2010)

*Table 10 – Assurance Obtained*

<b>Assurance Obtained on</b>	<b>No. of Companies</b>	<b>Percentage</b>
<b>1) Both Annual report and Sustainability report</b>	25	32%
<b>2) Only on Financial Information</b>	53	68%
<b>3) On information disclosed on website</b>	0	0%
<b>Total</b>	78	

Based on our findings (refer Table 6) none of the companies have obtained assurance on additional information disclosed in the website. All 25 assurances obtained were only for the sustainability assurance reports published with the annual reports. All other companies have obtained external assurance for the financial information only since it's mandated by law in Sri Lanka.

Even though websites play important role in the information technology era for companies to communicate with stakeholders, companies do not understand the importance of ensuring credibility of information disclosed in the website. Since sustainability assurance obtaining is an emerging field in Sri Lanka we can expect improvements in future.

#### 4.7 Level of assurance obtained

Purpose of this analysis is to obtain an understanding about the credibility of sustainability information disclosed. Level of assurance is provided by the external practitioners who are using SLSAE-3000 as the base to provide opinion. Providing level of opinion is not practiced under AA-1000 assurance standards.

Under SLSAE 3000 two level of assurance is provided. They are reasonable assurance and limited assurance (Chartered Institute of Sri Lanka, 2010). Reasonable assurance is provided when the sustainability information was able to be validated to a reasonable level and there are no material misstatements. Limited assurance is provided when the practitioner is unable to validate the information to acceptable level and there are possibilities for misstatements. (Chartered Institute of Sri Lanka, 2010).  
Correct the spelling of as “Chartered”

Under AA-1000 standards practitioner indicates the opinion on 6 bases starting from neutrality and indicate the areas of improvement needed. Five main areas measured under AA 1000 are as follows (Accountability.org, 2015).

- **Inclusivity:** Inclusivity means the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability. I.e. The engagement with key stake holders to identify the sustainability challenges and material issues were collected, prioritized and fairly reflected in the report.
- **Materiality:** Materiality determines most relevant and significant issues for the shareholders and the company. I.e. to check whether the issues and aspects which are important/what matters to internal and external stakeholders are included in the report.
- **Responsiveness:** Responsiveness means to respond to the issues and impacts in an accountable way. Whether the report expresses proper governance practices, policies and management systems exists to response properly to key stakeholder concerns are considered here.
- **Reliability:** Data and information expressed in the reports are accurate and reliable.

- **Completeness:** Whether the report fairly attempted to disclose general and specific standard disclosures and whether the company has brought reasonable reason for any information which is not disclosed.
- **Neutrality:** Disclosures related to sustainability issues are reported in unbiased way (both positive and negative impact are disclosed.) (Accountability.org, 2015)

*Table 11- Level of assurance obtained*

<b>Level of assurance obtained</b>	<b>No. of Companies</b>	<b>Percentage</b>
<b>Reasonable assurance</b>	0	0%
<b>Limited assurance</b>	23	92%
<b>Assurance based on AA-1000</b>	2	8%
<b>Total</b>	25	100

As per Table 7, it's notified that none of the sustainability reports were in adequate quality to obtain reasonable assurance. All 23 companies which have obtained sustainability assurance reports under SLSAE 3000 have got only limited assurance. This is 98% of all the sustainability assurance reports provided. This might be due to the reason that sustainability information are mostly subjective than financial information. Further information on this area is being discussed in the latter part of the study.

Two companies, which are 8% of the assurance obtained companies, got assurances under AA-1000 standard. A company in the Motor Engineering sector has obtained "Good "opinion in all 5 bases (Neutrality, Inclusivity, Materiality, Reliability, and Responsiveness) except Completeness which was stated as "Acceptable" level. A leading Diversified holding company in Sri Lanka obtained "Good opinion in all 5 bases (neutrality, inclusivity, completeness, reliability, responsiveness) except materiality for which "Acceptable" level was stated. Since the standards are varying comparability of the reports are effected.

### **Main hinders in the development of sustainability in Sri Lanka**

- High cost-

Sustainability reporting and obtaining assurance has become costlier which some startups are not affordable to adopt. Further it's costlier for companies to support on non-financial assurance audits and get the sustainability reports assured compared to financial information.

- Lack of awareness

Top management doesn't have enough awareness and considers it as a cost making process rather than investment. Further top management considers it as a responsibility of CSR department instead of company as whole.

- Sluggishness

Slowness of companies in adopting to global changes and improvements.

- Lack of systems and procedures

Companies doesn't have proper systems in place to obtain data for non-financial information and prepare sustainability reports.

## **The future for sustainability Reporting: Mandating Sustainability Assurance in Sri Lanka?**

We obtained the opinion of practitioners whether it is possible to mandate the sustainability assurance in developing countries like Sri Lanka. Some of their suggestions are discussed below:

One practitioner from specialist consultancy firm told that:

*“It's not required to mandate sustainability assurance for all companies. Instead Companies listed in the stock exchange should obtain sustainability assurance certifications. Because they are funded by public money. Companies' performance will be decided not only by financial information but also by non-financial information. Therefore those companies should prove that they have concerned about corporate responsibility towards the society. Through that, long run sustainability of those companies will be ensured. Otherwise investment advisors cannot guarantee the opinion given to the investors.”*

Moreover he mentioned:

*“There are some large scale companies which have not listed in the stock market also should be asked to prepare sustainability reports since they make huge impact to the economy. For example we can consider key players in the following industries -Tea industry, Apparel industry...etc. Further Security Exchange Commission (SEC) have*

*responsibility towards investors about the companies listed under them. Therefore CSE can take actions to mandate sustainability assurance in the above mentioned areas in Sri Lanka.”*

If sustainability reporting/assurance is to be mandated the following suggestions should be considered.

1) Reasonable time frame should be given (average of 3 years)

Sustainability assurance practice is a long run investment. Companies should be given enough time to develop required infrastructure facilities to practice sustainability reporting and obtain sustainability assurance.

2) Government should arrange financing facilities for SMEs which are listed in stock exchange since this is a high cost taking investment which some SMEs might not be able to afford it.

3) Regulate sustainability assurance standards (adopt global standards) and develop basic requirements (adequate qualification and knowledge on GRI) for sustainability assurance practitioner to ensure quality of sustainability assurance reports.

4) Require the top management to take the responsibility and sign saying that sustainability reports are reliable and accurate which might lead top management to involve in reporting.

Once practitioner from audit firm suggested:

*“Corporate Social Responsibility is a voluntary initiative. It begins where the law ends and is entirely motivated by the desire to maintain competitiveness and maximize the effectiveness of management and company resources. It is not dictated by laws, but rather by the requirements of society and consumers. Sustainability reporting is an initiative which comes from the business; it comes from the inside, not from outside like from governments. Therefore that cannot be expected from the government in a developing country like Sri Lanka.”*

#### **4.8 Challenges on non-financial information audits**

Following challenges were mentioned by audit practitioners while conducting audits and providing assurance on non-financial information.

There is guidance, such as ISAE 3000, for practitioners to follow when performing assurance Engagements on non-financial information but there are a number of challenges and issues are considered by Ernst and Young. (Ernst and Young, 20013)

- Independence

Stakeholders want credible information they can trust. An expert providing an independent Opinion on the reliability of information helps to reinforce trust. Independence is therefore an essential characteristic of assurance engagements.

Ernst and Young as a practitioners have clear standards to follow in terms of independence. However meeting independence requirements can be challenging

- Skills , Experience and training and the need for specialist knowledge

ISAE 3000 addresses certain quality aspects of external assurance, such as the need for appropriate specialist knowledge and skills to be available in the assurance team.

As information demands change, EY might be asked to carry out different types of assurance engagements that might be outside of their normal skill sets. For example, they have expertise in performing quantitative assessment of information but are less likely to have experience of performing assurance engagements on qualitative information like sustainability assurance.

- Quantitative versus qualitative information

Ernst and Young might have lots of experience in auditing Financial Statements but providing external assurance reports on non-financial information like sustainability assurance brings different challenges. For instance, there is no system of double entry in the same way as for financial information, which can provide an overall control mechanism. Analysis and measurement tools can be immature compared to accounting software.

- Suitability of criteria and obtaining sufficient appropriate evidence

It might be difficult to find suitable criteria by which to measure the information provided in the report. According to ISAE 3000, without suitable criteria, Ernst and Young are unable to perform the engagement. Quantitative data tends to have clear criteria to measure against. However, non-financial information might be qualitative in nature, and suitable criteria might therefore be difficult to identify.

- Identifying and understanding the intended users

ISAE 3000 emphasizes the importance of understanding who the intended users are and their needs but defining and managing users might be difficult, particularly in circumstances where the reporting information is going to be freely accessible on an entity's website.

- The control environment

While in financial reporting the management assessment of internal controls and its external examination as part of an audit has become part of standard practice, the procedures over the preparation of non-financial information are comparatively less formalized.

## 5 Conclusion, Limitations and Future Directions

The report mainly focuses on providing an overview of sustainability assurance practice in Sri Lanka among the public listed companies. We collected data for the study through various sources such as unstructured interviews, published annual reports, and websites.

Through the study, it was analyzed how sustainability assurance is practiced in Sri Lanka. In response to increasing stakeholder expectation and to discharge their fiduciary duty managements are reporting on their corporate, social and environmental performance in addition to general financial reporting. The research discusses in sustainability assurance obtained by the companies' in order to increase the credibility CSR reports published.

The study found that, less number of Sri Lankan companies (only 32%) had obtained independent assurance on sustainability reporting. This is only 25 companies out of 78 companies we have selected from the population of sustainability reports publishers. From the sustainability assurance providers 23 (92%) companies obtains assurance report from Audit firms and only 2 companies (8%) are obtaining sustainability assurance from certified consultants.

Further we found majority of assurance providers' prefer to use the accountancy-focused assurance standard ISAE/SLSAE 3000 rather than the accountability based AA1000AS in conducting the assurance assignments. Especially Audit firms are using SLSAE while certified consultants are using AA 1000 global standards. Further most of the Sri Lankan companies are using GRI reporting guidelines since there is no specific standard in Sri Lanka to provide guidance.

Moreover the study found that companies in financial sector are keener towards publishing sustainability reports and obtain sustainability assurance, since it's easier for them to collect data and

Majority of the assurance statements are prepared under limited assurance engagement with a focus on the data accuracy rather than on the broader social accountability. This might be due to the reason that sustainability information are mostly subjective than financial information.

Additionally study compared the findings with researches carried out in other countries, and carried out unstructured interviews to obtain explanations on findings. These assisted on ensuring validity and credibility of studies. In addition we obtained suggestions from assurance providers to develop guidelines on regulating sustainability reporting.

### **Suggestions for future study**

Future studies can be carried out in the following areas:

1. Evaluate the quality of sustainability assurance opinions provided by the assurance providers.
2. Evaluate the sustainability audit procedures carried out by different practitioners.

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## Appendixes

### Interview Questions

01. Can you please brief us on the evolution of the sustainability assurance practices in Sri Lanka? ( specifically about Ernst & Young in Sri Lanka & its history )
02. Brief us on how the sustainability auditing & assurance Practices Carried out?
03. As you think why the companies in developing countries are less interested in sustainability assurance compared to developed countries?
04. Challenges faced while auditing assuring non-financial information?
05. Based on the information processed so far by us, most of the companies in Sri Lanka obtained limited assurance. What are the factors mainly contributing of this?
06. What are the practices expected from the corporates to provide reasonable assurance?
07. If Sri Lankan government decides to mandate sustainability assurance (similar to South Africa) what challenges companies would face & government, Chartered Accountants Sri Lanka would face regarding this?
08. What are the main factors which hinders the development of sustainability assurance in Sri Lanka?

09. Suggestion to overcome those challenges?
10. Most of the companies go for audit firms to obtain assurance rather than other assurance providers. Are there any specific reasons for it?
11. Even though SLSAE 3000 is not specific & comprehensive enough to conduct assurance practices, most of the assurance providers in Sri Lanka are using that. What are the reasons for it?
12. Even though finance & assurance companies have a less impact on environment, finance industry is the one consisting more companies who had obtained assurance. What factors are contributing to this tendency?