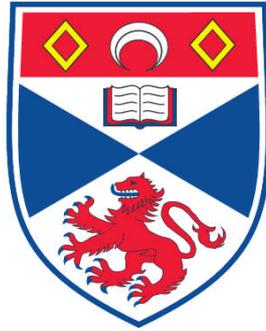


**ASSURANCE OF CORPORATE STAND-ALONE REPORTING :  
EVIDENCE FROM THE UK**

**Radhi Mousa Al-Hamadeen**

**A Thesis Submitted for the Degree of PhD  
at the  
University of St. Andrews**



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**University of St-Andrews**

**Assurance of Corporate Stand-alone Reporting: Evidence from  
The UK**

Radhi Mousa Al-Hamadeen

A thesis submitted in fulfilment of the requirements of the Degree of Doctor of  
Philosophy in Accounting

**University of St-Andrews / School of Management  
St-Andrews, UK**

August 2007

## Declarations

I, Radhi M. Al-Hamadeen, hereby certify that this thesis, which is approximately 92,000 words in length, has been written by me, that it is the record of work carried out by me and that it has not been submitted in any previous application for a higher degree.

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*To My Father*

## **Abstract**

Since the early 1990's the number of corporate stand-alone reports produced by various organisations worldwide has increased considerably (Kolk, 2004; Owen, 2006). It is argued that introducing an assurance statement with the stand-alone report may contribute to enhancing the credibility of the reported information (FEE, 2002; Dando and Swift, 2003; ACCA and AccountAbility, 2004).

This thesis reports on a multi-level analysis of assurance statements attached to stand-alone reports that were produced by the UK FTSE100 companies during the reporting years 2000-2004. Drawing on a research instrument (which itself has been informed by previous literature, namely O'Dwyer and Owen, 2005) as well as the most recent assurance guidelines and standards (such as FEE, 2002; GRI, 2002, AA1000AS, 2003; and ISAE3000, 2004), this thesis examines the extent to which assurance statements disclose information about crucial elements of the assurance engagement, the amount of disclosure as well as factors associated with the information disclosed. In this context, particular attention is given to issues of independence of the assurance provider; the methodology used to conduct the assurance engagement; the degree to which stakeholders have been engaged and their issues taken account of within the assurance process; and assurance results (namely presentation of the assurance opinion, findings and recommendations).

The research results suggest that, despite the increased amount and quality of information disclosed within the assurance statements over the years, engagement of stakeholders and taking adequate account of their issues within the assurance process is still lacking compared to other dimensions of assurance. In the absence of generally accepted stand-alone reporting criteria and assurance standards for this type of reporting, various assurance approaches have emerged and these correspond to the nature of the assurance provider (for example, accountancy, consultancy and certification body). The FTSE100 companies (in almost in two-thirds of the conducted engagements) rely most heavily on

consultancy firms for assurance and as a result, this approach dominates UK assurance practice. As a consequence, there are noticeable variations in the assurance methodologies, results of the assurance engagements (findings, opinions and recommendations) and shape of the assurance statements over the study. There are also changes that emerge over time and these are most strongly associated with the standards that are used to govern the assurance engagement and also the type of information being assured. These findings raise concerns about whether it is possible to harmonise assurance practice of the corporate stand-alone reports. This thesis concludes with some practical implications for the assurance of stand-alone reports, as well as recommendations for future research.

## **Acknowledgement**

First of all, thanks to Allah who granted me the capability to complete this work. I would like to express my gratitude to my supervisor, Prof. Jan Bebbington. I am greatly indebted to her for advice, invaluable support, encouragement and successful guidance throughout the conduct of this study. Sincere thanks should also go to my sponsor, Al-Hussein Bin Talal University in Jordan, for their financial support during the whole period of my study.

I would also like to thank: Prof. David Owen, Prof. Michael Power, Prof. Nancy Kamp-Roelands, Prof. Brendan O'Dwyer, Prof. Markus Milne and David Collison for their help, comments and advice during preparation of this thesis. I wish to acknowledge the useful comments and suggestions given by my colleagues in the BAA Doctoral Colloquium, the ScotDoc Management Conference, the CSEAR Summer School, and the BAA/ICAS Colloquium. Special thanks also to all my colleagues, friends and the entire staff at the School of Management/University of St-Andrews for their encouragement and support. I am also grateful to Marion Cobban for her assistance in editing this thesis.

To my mother, sisters and brothers who suffered a lot during the period of my study, I would like to say many thanks for your support, patience and blessings. Finally, I would like to thank my dear wife Ghadeer, for her great support and help during the period of my study.

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## List of Abbreviations

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|                 |   |
|-----------------|---|
| <b>AAA</b>      | The American Accounting Association                         |
| <b>AA1000AS</b> | AA1000Assurance Standard                                    |
| <b>ABI</b>      | The Association of British Insurers                         |
| <b>ACCA</b>     | The Association of the Chartered Certified Accountants      |
| <b>AICPA</b>    | The American Institute of Certified Public Accountants      |
| <b>AP</b>       | Assurance Provider  |
| <b>APB</b>      | Auditing Practices Board                                    |
| <b>AS</b>       | Assurance Statement   |
| <b>BITC</b>     | Business in the Community                                   |
| <b>CSR</b>      | Corporate Social Responsibility                             |
| <b>EH&amp;S</b> | Environmental, Health & Safety                              |
| <b>EMAS</b>     | Environmental Management and Audit Scheme                   |
| <b>FASB</b>     | Financial Accounting Standards Board                        |
| <b>FEE</b>      | Fédération des Experts Comptables Européens                 |
| <b>FT</b>       | Financial Times   |
| <b>FTSE</b>     | Financial Times Stock Exchange                              |
| <b>GAAP</b>     | Generally Accepted Accounting Principles                    |
| <b>GAAS</b>     | Generally Accepted Assurance Standards                      |
| <b>GRI</b>      | The Global Reporting Initiative                             |
| <b>GRIVWG</b>   | The Global Reporting Initiative Verification Working Group  |
| <b>HS&amp;E</b> | Health, Safety & Environment                                |
| <b>IAASB</b>    | The International Auditing and Assurance Standards Board    |
| <b>IAPC</b>     | The International Auditing Practices Committee              |
| <b>ICAEW</b>    | The Institute of Chartered Accountants in England and Wales |
| <b>IFAC</b>     | The International Federation of Accountants                 |
| <b>IFAE</b>     | The International Framework for Assurance Engagements       |
| <b>ISAEs</b>    | International Standard on Assurance Engagements             |
| <b>ISAs</b>     | International Standards on Auditing                         |
| <b>ISO</b>      | Organisation for International Standardisation              |
| <b>ISREs</b>    | International Standards on Review Engagements               |
| <b>LBG</b>      | London Benchmarking Group                                   |
| <b>LLP</b>      | Limited Liability Partnership                               |
| <b>Ltd</b>      | Limited   |
| <b>N/A</b>      | Not Applicable  |
| <b>NGO</b>      | Non-Governmental Organisation                               |
| <b>RC</b>       | The Reporting Company                                       |
| <b>SD</b>       | Sustainable Development                                     |
| <b>UNEP</b>     | United Nations Environmental Programme                      |

# Chapter One

## Introduction

### 1.1 Introduction

Since the beginning of the 1990s an increasing number of organisations have produced formal reports on their non-financial (namely environmental and social) performance (Wheeler and Elkington, 2001; KPMG, 2002 and 2005; ACCA and AccountAbility, 2004; ACCA and CorporateRegister.com, 2004; Kolk, 2004; Owen, 2006). These reports have been titled environmental, social, and most recently sustainability reports (Kolk, 2004; Owen, 2006). For the purposes of the current thesis such reports are referred to as 'stand-alone reporting'.

Various rationales exist for publishing a stand-alone report. These reasons range from business incentives (such as increasing customer loyalty, attracting investors, and avoidance of reputational risks) to accountability explanations (Gray *et al.*, 1996; Idowu and Towler, 2004). It is believed that the inclusion of an external assurance statement is one element that may increase the credibility of stand-alone reports (Woodward, 2001; FEE, 2002; Dando and Swift, 2003, Adams and Evans, 2004). Further, if the credibility of stand-alone reports is increased it is assumed that the gap between the perceptions of stakeholders and the beliefs of the reporting organisations will be bridged (GRI, 2002; Dando and Swift, 2003; ACCA and CorporateRegister.com, 2004, Adams and Evans, 2004). As a result, assurance is an important area of practice to study.

There are various approaches whereby reports can be assured including: site audits of (among other things) environmental pollution and health/safety performance; assurance for product certification purposes (for example forest stewardship or quality assurance of labour standards); internal and external assurance engagements; use of an external advisory panel to comment on corporate responsibility; checking the accuracy of data in a report; and a statement on an aspect of performance by an opinion leader (ACCA and AccountAbility, 2004, p. 15). Of these various approaches, this thesis examines the external assurance practice.

Assurance entails more than providing a statement commenting on the reported information. It includes a process of examining the report's contents as well as the reporting company's systems and routines (Woodward, 2001; GRI, 2006). In contrast with financial auditing practice, however, assurance of stand-alone reports is less developed and not yet standardised. The current study investigates the incidence and characteristics of external assurance of corporate stand-alone reports of the FTSE100 companies in the UK from 2000-2004 (the justification of the time period considered is provided in section 1.4). The next section outlines the purpose of the study and the research questions addressed.

## **1.2 Research questions and approach of the thesis**

Despite the significant increase in the quantity and the improvement achieved in the quality of the stand-alone reporting practices, significant challenges still exist (Wheeler and Elkington, 2001; SustainAbility and UNEP, 2004). The most notable challenges are the lack of completeness of the reports and the way in which materiality is addressed by corporations as they decide what to report (Owen *et al.*, 2000; Adams, 2004; Adams and Evans, 2004; FEE, 2006; KPMG, 2006). In addition, engaging stakeholders within the reporting process provides a challenge (Adams and Evans, 2004; Park, 2004; O'Dwyer and Owen, 2005; O'Dwyer *et al.*, 2005). Finally, the credibility of information contained in reports remains a concern as does the issue of whether or not assurance can enhance accountability to organisational stakeholders (see Ball *et al.*, 2000; O'Dwyer and Owen, 2005).

Assurance has the possibility of addressing these challenges and provides the core motivation for the current study. Indeed, the act of certifying corporate stand-alone reports "presuppose the possibility that the data and statements made in the reports can be verified as being in some way 'true' " (Thomson and Bebbington, 2005, p. 522). How this process seeks to achieve this outcome, therefore, requires investigation.

A second motivation of the study is concerned with investigating if there has been harmonisation within assurance practices. Prior literature has noted that there are variations in assurance practices (as inferred from an examination of assurance statements disclosure) across the globe. For example, there are variations in: the

standards used to govern the assurance practice, terms used to express the assurance opinion, addressees, methodologies employed in the assurance exercise and even titles given to the assurance statements (see Ball *et al.*, 2000; Kamp-Roelands, 2002; CPA Australia, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). These variations in turn, have raised questions about the extent to which one is likely or would wish to see some standardisation of practice.

In order to address these challenges and to investigate the extent to which assurance practice still suffers from the concerns raised in the previous investigations, a research instrument (informed by previous literature as well as the most influential standards issued in the field - namely, FEE, 2002; GRI, 2002; AA1000AS, 2003; ISAE3000, 2004) was designed to capture comprehensive information about the incidence and nature of assurance practice and, to this end, the current study addresses the following research questions:

1. What is the incidence of assurance within the stand-alone reports for the UK FTSE100 companies from 2000-2004?
2. What are the characteristics of the participants in the assurance process? That is, who produce assured reports and who provide the assurance statements?
3. What disclosure is made about the general characteristics of the assurance engagement and assurance provider, such as the: title of the statement; addressee; assurance fees; and competencies of the assurance provider?
4. To what extent do assurance statements disclose information about the dimensions of:
  - a- Independence of the assurance provider from the reporting company;
  - b- Work carried out during the assurance exercise including: procedures used to obtain evidence, criteria used, standards employed to govern the process, and to what extent issues of materiality and completeness were addressed in the assurance practice;
  - c- Degree of stakeholder engagement and consideration of issues relevant to them in the assurance exercise;

- d- Assurance results with emphasise on: what opinion is expressed using what form of words, are weaknesses in the performance, reporting systems and other underlying processes identified and in what areas are recommendations presented?
5. How much space is devoted to various aspects of assurance on the face of the assurance statements?, and
6. What factors are associated with the information disclosed in the assurance statements?

The last research question is supported by a number of sub-questions about those factors that may have an association with the practice of assurance of corporate stand-alone reports. This final research question explores the extent to which assurance statements' information are associated with: type of the stand-alone report, size of the market capital of the reporting company, sector/industry of the reporting company, standards used in assurance practice, type of the assurance provider, and level of assurance pursued.

### **1.3 Objectives of the study**

Drawing from the above research questions, the thesis has several objectives, namely to:

1. Understand the background of assurance practices and the nature of society's needs with respect to assurance;
2. Investigate the extent to which the assurance practice is found within FTSE100 corporate stand-alone reports;
3. Explore the characteristics of the different aspects of assurance practice, including: the reporting companies, the assured stand-alone reports, the assurance providers, and the assurance statements themselves;
4. Examine information disclosed in the assurance statements and explore those disclosures related to the dimensions of the assurance process as identified above;
5. Measure the space allocated to various dimensions within assurance statements; and

6. Investigate factors that may be associated with the dimensions of the assurance process.

To achieve the above research objectives, the thesis adopts the exploratory approach to investigate the phenomena being examined. In addition, the study is empirically based, drawing on published assurance reports. This is due to the fact that this area is relatively new and more empirical work is required in order to better understand practice. To this end, the study uses two sources of information: (i) the literature addressing corporate stand-alone reporting; audit and assurance practices, and assurance of corporate stand-alone reports, and (ii) an analysis of assurance statements. To achieve this latter task, the research instrument referred to above has been employed to develop a systematic description of the assurance statements' contents and the characteristics of the parties engaged in the assurance process.

#### **1.4 Summary of the previous work on assurance of the stand-alone reports**

In comparison with other audit and assurance practices (especially financial statements' audit), assurance of corporate stand-alone reports is a relatively new area of research (Wilson, 2003). As a result, there are relatively few studies that address this field. Having noted a relative lack of research, studies that have been conducted have focus on critiques of assurance (Ball *et al.*, 2000; Kamp-Roelands, 2002; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006) or are more of an exploratory nature (Wilson, 2003; CPA Australia, 2004; Park and Brorson, 2005). While chapter three examines this literature in more detail, various gaps in the existing literature have been identified and this study seeks to address these areas.

First, although some assurance statements from the UK have been considered in some of the previous studies (see Ball *et al.*, 2000; Wilson, 2003; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006), none of these studies focused explicitly on UK assurance practices. UK stand-alone assurance practice is worthy of detailed investigation because the UK has the highest level of assurance practice in the world and also has a well developed stand-alone reporting tradition (Sustainability and UNEP, 2004; KPMG, 2005). For example, Sustainability and UNEP (2004, p. 5) judge that seven

out of the top ten stand-alone reports in the world were produced by the UK companies and that all of these reports were externally assured.<sup>1</sup>

Second, the majority of prior studies focused on the years before 2002.<sup>2</sup> The years 2002 and 2003 are crucial for assurance practice since influential stand-alone reporting guidelines (such as GRI Guidelines, 2002) and assurance standards (namely AA1000AS and ISAE3000) were released in this period. It is therefore important to evaluate the influence that these standards may exert on the practice of assurance. Consequently, assurance statements that appeared with stand-alone reports for the reporting years 2003 and 2004 (as well as the years 2000-2002) form part of the current research sample.

Third, the earlier studies (specifically Ball *et al.*, 2000 and Kamp-Roelands, 2002) have focused on those assurance engagements performed for environmental reporting practices. In contrast, the current study (like all these studies conducted after 2002) considers analysing assurance statements attached with all types of the corporate stand-alone reports issued (including environmental, social or sustainability reports).

Fourthly, some of the previous studies (for example, Wilson, 2003 and Deegan *et al.*, 2006) sought to evaluate assurance practices against pre-defined standards (such as FEE, 2002 and GRI, 2002). This kind of analysis will detect compliance/non-compliance with these standards but will not capture practices of assurance more broadly. In the current study, the analysis considers a wide range of assurance aspects (see also, O'Dwyer and Owen, 2005).

Finally, except for Wilson (2003),<sup>3</sup> none of the previous studies analysed factors that may have an association with information disclosed within the assurance statements. The current study undertakes such an investigation and this, in turn, may be helpful as

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<sup>1</sup> The seven UK companies are: Co-operative Financial Services; BP plc; British American Tobacco Group plc; BT Group plc; BAA plc; Rio Tinto plc; and Royal Dutch/Shell Group (SustainAbility and UNEP, 2004, p. 5).

<sup>2</sup> Where assurance statements are analysed they often relate to the reporting year(s) on/or before 2002 (except for Deegan *et al.*, 2006, where 11 assurance statements from 2003 were included in the database used to extract the sample of their study). Details of what years were considered within the sample analysed by Deegan *et al.*, (2006) are not entirely clear from their paper.

<sup>3</sup> Wilson (2003) examined potential associations between disclosures in the assurance statements that conform the requirements of the FEE (2002) with the factors of: country of the reporting company, type of the assurance provider, type of the stand-alone report, and sector of the reporting company. For more details see Chapter Three.

these factors may also be associated with the future development of the assurance practice.

### **1.5 Limitations of the research**

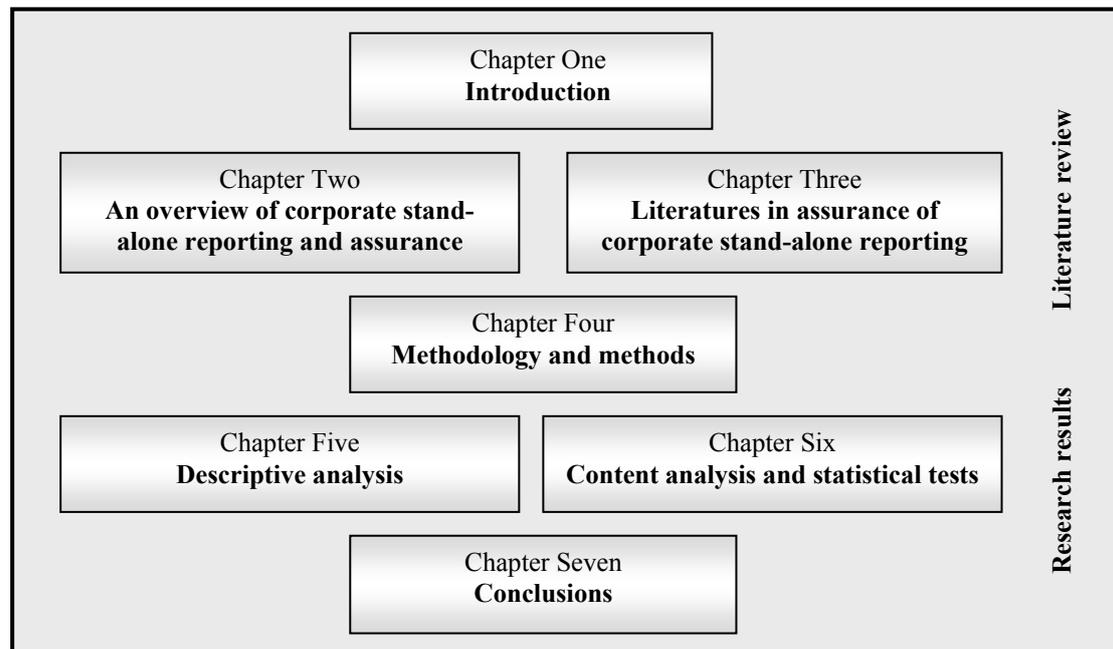
This research has two key limitations. First, the data is focused on the assurance statements that are provided within the corporate stand-alone reports produced by the UK FTSE100 companies. Thus, results of the research are valid only for this sample. Nevertheless, the results of the research may be used with suitable caution for comparison purposes with regional or global trends in assurance practices. Second, the current research focuses on the practice of assurance of the corporate stand-alone reporting of the companies. This implies that the attention is directed to the information disclosed by the reporting companies on their non-financial performance as well as the information disclosed by the assurance practices on this information, rather than the inherent limitations of the reporting practice (namely the non-financial/sustainability performance of the reporting companies).

### **1.6 Structure of the research**

The thesis is divided into seven chapters. In addition to the introduction and the conclusion, these chapters cover three main parts: the literature review; methodology and methods; and results of the data analysis. Figure 1.1 illustrates the overall structure of the thesis. As is evident, chapter one describes the research problem, objectives of the study, the approach applied in the study, summary of the prior literature, limitations of the research, and design of the research chapters.

Chapter two provides a general overview of corporate stand-alone reporting and assurance. The chapter is divided into three main sections. Firstly, corporate stand-alone reporting is presented with an emphasis on its definition and motivations as well as description of the usual contents of this type of reporting. Furthermore, this section explores the desired attributes of stand-alone reporting practice as well as global trends in this practice. In the second part of the chapter, the practice of assurance is examined as presented within the accounting profession literature. Attention is given to the distinction between different types of assurance engagements and assurance levels. The final section of this chapter explores the practice of assurance of corporate stand-alone reports. In order to provide an appropriate framework for the data analysis

this section also provides an overview of the emerging guidelines and standards that purport to serve the practice of assurance of corporate stand-alone reporting namely FEE (2002); GRI (2002), AA1000AS (2003) and ISAE3000 (2004). Additionally, and for the purposes of making fair comparisons in the current research, trends in assurance in various countries is described as well as being categorised according to type of assurance provider and industries of the reporting companies.



**Figure 1.1 Structure of the thesis**

Chapter three examines prior literature on assurance of corporate stand-alone reports. The aim of this chapter is to draw attention into those concerns identified in the literature with regard to assurance practices in order to inform the current research. This chapter starts with examining the role of audit and assurance in the society, with attention to these arguments presented by Power (1999) in this regard. In the second part of the chapter attention is given to empirical studies of assurance. The final section deals with the implications drawn from the prior literature for the current research with an emphasis on these concerns raised in literature regarding assurance practice.

Chapter four deals with the methodology and methods. It provides an explanation of the philosophical assumptions that underpin any piece of research. In this regard,

different research frameworks are explored (Burrell and Morgan, 1979; Chua, 1986; Laughlin, 1995) and the philosophical assumptions that underpin the current research are then presented, followed by an explanation of the research methods and specifically those methods applicable to the current research study. The final part of this chapter presents in detail the design of the research instrument used in this study as well as describing the data gathering process.

Chapters five and six present the results of the data analysis of the study. The former introduces analysis of the descriptive data, namely the general characteristics of: the reporting companies and their assured stand-alone reports. Additionally, this chapter provides data and analysis on the assurance providers (their types and competencies) as well as some features of the assurance statements examined in this study. In chapter six, three levels of data analysis are provided. Firstly, dimensions of the assurance process are explored, and the results of the content analysis are then presented. The final section in this chapter presents results of the statistical analysis that explores associations between information disclosed in the assurance statements and six proposed factors.

Chapter seven develops the general conclusions of this study as well as recommendations made as a result of the study. In this chapter, attention is given to the implications of the research in practice. Additionally, this chapter outlines the opportunities for future research in the area of assurance of corporate stand-alone reporting.

## Chapter Two

### **An Overview of the Corporate Stand-alone Reporting and Assurance**

#### **2.1 Introduction**

This thesis focuses on assurance statements appended to corporate stand-alone reports that in turn provide data on different aspects of the organisations' performance activities (namely, environmental, social, and economic). These reports are variously described in the literature (see SustainAbility and UNEP, 1997 and 1998; KPMG, 2002 and 2005; Gray, 2001; Kolk, 2003; Adams, 2004; Idowu and Towler, 2004; Kolk, 2004; Erusalimsky *et al.*, 2006), but for the purposes of the current study are described as stand-alone reports. In order to place assurance practices in context, this chapter is divided into two parts. In the first part, the definition, history and current patterns of stand-alone reporting are outlined. In addition, explanations of why organisations report, the contents and desirable characteristics of the stand-alone reports are also discussed. Global trends on the stand-alone reporting practice by country, economic sectors and type of report are then provided. The second part of the chapter focuses on the definition of assurance in the profession accounting literature, with a particular emphasis on the emerging standards and guidelines for assurance practices. The chapter closes with some concluding comments, specifically noting that the provision of assurance statements within stand-alone reports has become the norm. While this chapter focuses primarily (but not exclusively) on the professional literature on reporting and assurance, chapter three will focus on the academic literature that seeks to understand the role of assurance in corporate stand-alone reports.

#### **2.2 Corporate stand-alone reporting**

##### **2.2.1 Definition of and motivations for stand-alone reporting**

The GRI (2006, p. 3) defines stand-alone reporting as “the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development”. They go on to say that a stand-alone report should provide a balanced and reasonable representation of the sustainability performance of a reporting organisation, including

“both positive and negative contributions” (GRI, 2006, p. 3). Consequently, it is expected that contents of a stand-alone report would provide more information about different aspects of the non-financial performance of organisations.

It has been argued that stand-alone reporting developed because conventional accounting failed to serve society’s needs (Gray *et al.*, 1996). Thus, stand-alone reporting was founded with the aim of achieving accountability through making organisational life more visible/transparent (Gray *et al.*, 1996).<sup>4</sup> Further, it is believed that enhancing democracy within the society can be achieved via the development and discharge of accountability (Gray *et al.*, 1996, p. 36).<sup>5</sup> Accountability in general, means “the willingness and ability to explain and justify one’s acts to self and others, is both rooted in social practice and interpenetrated by business practice” (Munro and Hatherly, 1993, p. 369). Gray *et al.*, (1996, p. 38) further define accountability as “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible”. According to these definitions, accountability implies two duties: the responsibility to undertake certain actions (or refrain from certain actions) and the responsibility to provide an account of those actions to external parties to whom a duty of accountability is owed (Gray *et al.*, 1996). Although there are an increased number of initiatives to promote corporate social, environmental and ethical accountability over the recent years, a gap still exists between the codes of corporate accountability and the actual activities and impacts of business entities around the world (Christie, 2001, p. 5).

For many organisations, the decision to introduce a stand-alone report appears to be sparked by a desire to enhance credibility with stakeholder groups, as well as to publicise their sustainability (mainly environment) commitment by listing particular initiatives, or more generally to demonstrate the progress they have made in reducing their environmental burden (SustainAbility and UNEP, 1998, p. 7). Furthermore, advocates of stand-alone reports have suggested that benefits for an organisation include: enhancing their ability to track progress against specific targets; facilitating

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<sup>4</sup> The GRI (2006, p. 6) defines ‘transparency’ as “the complete disclosure of information on the topics and indicators required to reflect impacts and enable stakeholders to make decisions, and the processes, procedures, and assumptions used to prepare those disclosures”.

<sup>5</sup> Gray *et al.*, (1996, p. 36) argue that the ability of reporting to achieve these goals also depends on the structure of society particularly the type of democracy in a society. For example, in a participative democracy, information needs to flow from those controlling resources to society and the information should describe the use of these resources (Gray *et al.*, 1996).

the implementation of the environmental strategy; reputational benefits and identification of cost savings (Kolk, 2004, p. 51).<sup>6</sup> From stakeholders' point of view, stand-alone reporting practices may help them to obtain knowledge of reporting organisations' commitment to responsible business practices (O'Dwyer *et al.*, 2005, p. 759). Despite the identified benefits of the stand-alone reporting practice, some have argued that one of the driving forces in the popularity of such practice was the need to appease some user groups namely environmental activists (Schaltegger *et al.*, 1996 in Idowu and Towler, 2004, p. 424), and this in turn, arise doubts about the extent to which these reports are unbiased and complete.

Several reasons are offered by organisations who decided not to produce a stand-alone report, including: a belief that they already have a good reputation for their non-financial (sustainability) performance and hence do not need to report (SustainAbility and UNEP, 1998, p. 9). In addition, other aspects may also influence the decision to not report including: the level of regulatory and societal attention in a country that encourages non-financial disclosures and the costs associated with disclosure (such as information collection and processing costs, litigation costs, and proprietary (i.e., competitive disadvantage and political) costs, see Meek *et al.*, 1995; Kolk, 2004).

Given the voluntarily nature of the stand-alone reporting practice, some authors have argued that voluntary initiatives are unlikely to produce widespread, consistent and systematic practice and that only changes in regulation can produce such practice (Gray, 2001, p. 13). There are, however, various regulatory developments that drive companies towards stand-alone reporting (KPMG, 2005, p. 19)<sup>7</sup> and while such reporting is not mandatory, they have been produced by some organisations for many years. The next section examines the contents and attributes of the stand-alone reports.

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<sup>6</sup> Further to these benefits, the GRI (2006) argues that stand-alone reports prepared in compliance with well-established reporting frameworks (such as GRI Reporting Framework) may have several purposes. The GRI (2006, p. 3) identifies three general purposes that stand-alone reports can be used for: (i) benchmarking and assessing (where the non-financial performance could be assessed with respect of laws, norms, codes, performance standards, and voluntary initiatives); (ii) demonstrating how the reporting organisation "influences and is influenced by expectations about the sustainability development"; and (iii) comparing (where the performance within an organisation and between different reporting organisations could be compared over time).

<sup>7</sup> KPMG's 2005 survey indicated that national standards and regulations (particularly in countries like Japan and France) are the second most important factor that influences companies as they are deciding which issues to address in their stand-alone reports (KPMG, 2005, p. 20).

### 2.2.2 Contents of the corporate stand-alone reporting

As already indicated, stand-alone reporting involves the production of information on the social, environmental and economic (sometimes phrased non-financial) performance of a reporting company. In order to ensure a balanced and reasonable presentation of the company's non-financial performance, the content of reporting have been specified by standards as well as individual company practice (GRI, 2006, p. 7). Three factors affect the contents of a stand-alone report: the reason why the reporting organisation produces a report, experience of the organisation and the reasonable expectations and interests of the organisation's stakeholders (GRI, 2006, p. 7).

Given that non-financial performance covers a wide range of issues, it seems that an effective reporting is not solely about the amount of information provided, but also about providing information that would enable stakeholders to make informed decisions that are relevant to their interests (Wheeler and Elkington, 2001; AccountAbility, 2003a; KPMG, 2005). Specifying significant or material issues on which to provide information, therefore, becomes of critical importance (Adams, 2004; KPMG, 2005).

Erusalimsky *et al.*, (2006, p. 17) divide stand-alone reporting into three main types: social, environmental and economic aspects of reporting (noting that some organisations produce one report that considers all these elements while other organisations may produce reports that focus on one of these aspects). For reporting that covers social issues, organisations usually report on employees, with other group of stakeholders (such as communities, suppliers, and customers) also being included. This type of reporting may include disclosures on: employees' job satisfaction, the use of forced labour, child labour, health and safety of employees, local (and broader) community interactions, and human rights information (Thomson and Bebbington, 2005, p. 516). In contrast, environmental reporting is dominated by reporting on key environmental issues such as waste, energy, material and water usage (Erusalimsky *et al.*, 2006, p. 17).<sup>8</sup> The third category outlined by Erusalimsky *et al.*, (2006) is

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<sup>8</sup> One of the most pressing environmental issues and challenges is the climate change, thus it is not surprisingly, that around 85% of corporate stand-alone reports (for the Global 250 companies) address this issue, and 67% of these reports indicated that they measure and report on the amount of direct emissions from their own business operations, while only 33% reporting their emissions from

economic reporting where organisations would be expected to disclose information about the economic impact of their activities (such as, payments to government in the form of taxes; charitable donations; and the general economical impact of the business).

While there is no standard format for stand-alone reports, the GRI (2002) proposes a set of contents that should be contained within reports which are being prepared in accordance with their Guidelines. Table 2.1 describes these elements.

**Table 2.1 Basic contents of a stand-alone report <sup>a</sup>**

| <b>Contents of the stand-alone report</b>  |
|--|
| • <b>Introductory statement</b> (presented by the CEO or similar position) including: the reporting company's vision regarding its non-financial performance (economic, environmental, and social); missions and values; purpose of reporting; and presentation of the report contents.        |
| • <b>General information about the reporting company</b> such as: name; major products and/or services; operational structure; countries of operation; ownership nature; economic measures (such as number of employees, products, total capitalisation); and list of identified stakeholders. |
| • <b>Scope of the report</b> , this should cover: reporting period (fiscal/calendar year) for information reported; boundaries of the report (countries, regions, product and/or services); and any specific limitations of the scope.   |
| • <b>Criteria or accounting method</b> used to measure or report the economic, environmental, and social cost and benefits (management systems to manage the non-financial issues).  |
| • <b>Targets and objectives</b> (either derived from previous experience or identified for future achievement).  |
| • <b>Identification of impacts</b> generated from business activities which in terms relate to the period of reporting.  |
| • <b>Performance indicators</b> that relate to the non-financial issues, and introducing performance data on the material issues identified by the reporting companies.  |
| • <b>Assurance statement</b> provided by external party.   |
| • <b>Panels of contact</b> with stakeholders (such as contact details and feedback channel)  |

Source: Drawn from GRI (2002, pp. 38-44). <sup>a</sup> The G3 standards now in force for organisations that tend to report on their sustainability performance. Table describes standards in place for reporting companies who are the focus of the current thesis.

The diversity of the stand-alone reporting practices as outlined by Erusalimsky *et al.*, (2006) has several implications for this thesis. First, the scope of assurance may be influenced by the nature of the stand-alone reporting. In particular, the extent to which assurance statements disclose information regarding various aspects being assured within the stand-alone reporting practice (such as, scope of the reported information and material issues identified by the reporting company) will reflect the salience of

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purchased electricity and just 26% reporting emissions from other resources (such as transportation and emissions associated with the use of reporting company's products or services - KPMG, 2005, p. 27).

reporting guidelines. In addition, the GRI's (2002) recommended contents may be considered as reporting criteria against which the assurance provider might be able to assess the stand-alone report. In this context, the current study investigates the extent to which assurance providers employ such guidelines (as criteria) when performing their assurance engagements. Further, given the range of issues that may be reported on, an assurance provider is likely to need to possess a range of competencies with respect to those issues being assured. Finally, the GRI framework (2002) specifies that reporting companies should to design the content of the stand-alone report in conjunction with stakeholders consultation. In this respect, one may expect assurance providers (and assurance statements) will consider interactions with stakeholders.

**Table 2.2 Titles of the stand-alone reports**

| Title of the report              | ACCA Award Category |               |        |
|----------------------------------|---------------------|---------------|--------|
|                                  | Sustainability      | Environmental | Social |
| Sustainability/SD                | •                   |               |        |
| Environmental Report             |                     | •             |        |
| Environment, Health and Safety   |                     | •             |        |
| Environment and Social           |                     | •             |        |
| HSE + Fire Prevention            |                     | •             |        |
| Safety, Environmental and Social | •                   |               |        |
| Social and Environmental         | •                   |               |        |
| Environmental and Social Impact  | •                   |               |        |
| Corporate Accountability         |                     |               | •      |
| Report to Society                | •                   |               |        |
| Corporate Social Responsibility  | •                   | •             | •      |
| Corporate Responsibility         | •                   | •             | •      |
| Operating Responsibly            | •                   |               |        |
| Corporate Citizenship            | •                   |               |        |

Source: Drawn from Erusalimsky *et al.*, (2006, p. 14).

In summary, stand-alone reports have many different titles (see Table 2.2) that describe the various aspects that are contained within them (see Erusalimsky *et al.*, (2006, p. 14). These reports contain a variety of data (as specified in Table 2.1) as well as possessing certain attributes. It is to the attributes of stand-alone reporting that attention now turns.

### **2.2.3 Attributes of the corporate stand-alone reporting**

The GRI (2002) identifies groups of attributes that should be present in stand-alone reports (GRI, 2002, p. 23): (i) general principles that form the framework for the

stand-alone report (including transparency; inclusiveness; and auditability);<sup>9</sup> (ii) principles that guide decisions about stand-alone report content (including completeness, relevance, and sustainability context); (iii) principles that aim to ensure the quality and reliability of the stand-alone report (including accuracy, neutrality, and comparability); and (iv) principles relating to accessibility of the stand-alone report (including clarity and timeliness).

In general, principles of transparency and inclusiveness guide the decisions of the reporting process (how, when and what to report). In this respect, the reporting company needs to take numerous considerations in account when producing the stand-alone report such as: completeness (relating to the scope and boundaries of reporting), relevance of information for stakeholders' decision-making needs, and accuracy and comparability of the report over the years - see GRI (2002, p. 23).

Completeness is an important issue which needs to be considered when producing a stand-alone report. Adams (2004, p. 732) suggests that the most serious problem with the current stand-alone reporting practice is a lack of completeness. A stand-alone report could be considered a complete report if it covers all material aspects from a stakeholder perspective (Adams, 2004).<sup>10</sup> Indeed, Adams (2004, p. 732) argues that consulting with stakeholders and establishing governance structures "to ensure that stakeholders are heard are also an important consideration in moving towards completeness" of the stand-alone reporting. Linked to completeness, materiality is also a crucial characteristic of stand-alone reporting practice. This implies that organisations should disclose information that is considered material for stakeholders' decisions (Deegan and Rankin, 1996). It is suggested in the literature that engaging an external assurance provider may help closing the credibility gap between stakeholders and reporting organisations (Dando and Swift, 2003; Adams and Evans, 2004). From

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<sup>9</sup> Transparency principle focuses on accountability as the "full disclosure of the processes, procedures, and assumptions in report preparation are essential of its credibility" (GRI, 2002, p. 24). The inclusiveness principle requires that the reporting company "should systematically engage its stakeholders to help focus and continually enhance the quality of its reports" (GRI, 2002, p. 24).

<sup>10</sup> Indeed, materiality in the stand-alone reporting context is more complex than in the preparation of the financial statements because: (i) the stand-alone report is not prepared from just one viewpoint (traditionally, that of the shareholders in the financial reporting case) but is also relevant to wide variety of other stakeholder groups; (ii) the stand-alone report may include less quantitative and more non-financial, qualitative information which may add a challenge for verifiability of the report's content; and (iii) the reporting criteria of the stand-alone reports are "less developed than law and standards that determine financial reporting" (FEE, 2006, p. 24).

the perspective of the current study, an assurance provider may play a role in narrowing this credibility gap through addressing issues of materiality and completeness within the assurance assessment which may help the reporting organisation to improve its future reporting and non-financial performance as well as providing relevant information to stakeholders about these aspects.

The current study is also concerned with the principle of auditability. Auditability not only refers to the quality and reliability of the information contained in the stand-alone report, but also to the processes and systems underlying preparation of the stand-alone report (GRI, 2002, p. 24). Under the auditability principle, reported information should be “recorded, compiled, analysed, and disclosed” in a manner that would enable an external third-party or internal assurance provider to examine the reliability and accuracy of information (GRI, 2002, p. 24). In order to enhance the auditability of reported information, companies should design data collection systems and other underlying processes and systems so that verifiable information is produced. Additionally, the reporting company should anticipate that the data collection systems and other underlying processes and systems themselves would be auditable (GRI, 2002).

Some of these attributes will be considered in this study. Before turning to assurance itself, however, a summary of trends in stand-alone reporting will be provided in the next section.

#### **2.2.4 Trends of the corporate stand-alone reporting**

This section of the chapter describes trends in stand-alone reporting, with a particular focus on UK trends. The aim of this section is to provide a context within which the reports that are the focus of this study may be understood. Many surveys have been conducted of corporate stand-alone reporting (see, for example, SustainAbility and UNEP, 1997, 1998, 2002, 2004; KPMG, 1999, 2002, 2005; ERM, 2001; PwC, 2002). Some of these surveys concentrated on assessing contents of the leading reports around the globe (namely SustainAbility and UNEP), while others focused on the prevalence of corporate stand-alone reporting by country of reporting and sector/industry of the reporting companies (for example KPMG and PwC). It could be argued that the triennial surveys conducted by the accounting and consulting firm

KPMG are the most regular and comprehensive ones, since these surveys have been issued every three years since 1993.<sup>11</sup> Having noted this, O'Dwyer and Owen (2005, p. 206) argue that "the trends reported in the KPMG surveys are meant to be broadly indicative but should be read with a degree of caution" because the size and sector as well as in the sample size of the surveyed companies over the years changes and as a result the surveys are not comparable. Nevertheless, such surveys provide a "broad indication of growing practice in this form of reporting" (O'Dwyer and Owen, 2005, p. 206). The most current survey (2005) will be used as it identifies trends in stand-alone reporting in terms of type of report, country of reporting, and sector of reporting companies since 1993.

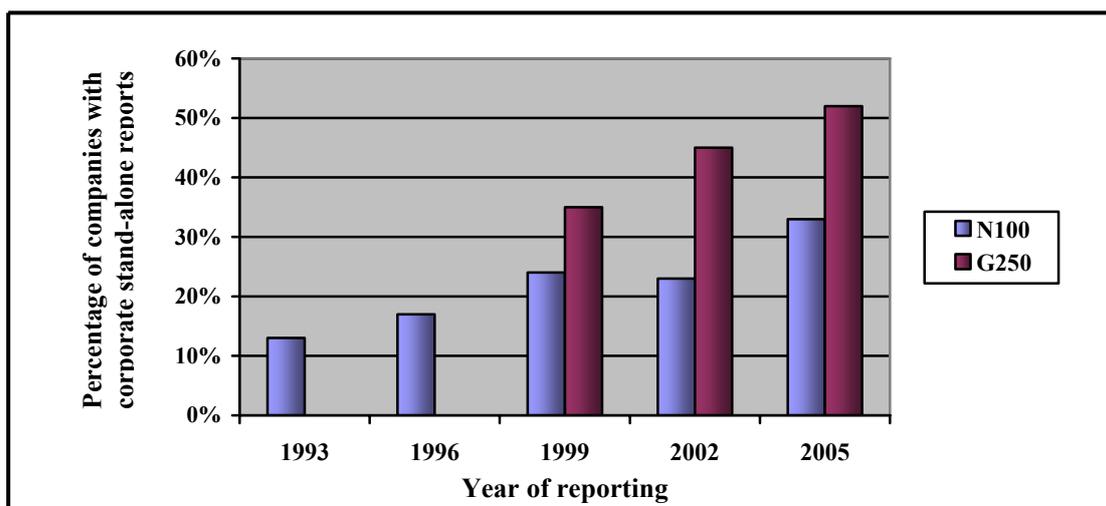
According to KPMG's survey data,<sup>12</sup> over time an increasing proportion of large companies in 16 countries (hereafter N100) produced stand-alone reports. The incidence of reporting increased from 13% in 1993 to 23% in 2002 with a further increase to 33% in 2005. KPMG (2005, p. 4) also state that in 2005 52% of the G250 companies issued stand-alone non-financial reports, compared with 45% in 2002.<sup>13</sup> Figure 2.1 illustrates the incidence of corporate stand-alone reporting of both N100 and G250 over the KPMG surveys for 1993, 1996, 1999, 2002 and 2005.

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<sup>11</sup> Since its first release, KPMG International has published five surveys covering the years 1993-2005. The release in each year is titled KPMG International Survey of Corporate Responsibility Reporting and concentrates on analysing trends of corporate responsibility reporting of the global largest corporations, including the top 250 companies of the Fortune 500 (Global 250 - G250) and top 100 companies in selected countries (National 100 - N100).

<sup>12</sup> This survey has been conducted by KPMG in association with the University of Amsterdam. The survey covers corporate responsibility reports either published separately or as part of the corporate annual report and accounts. Data analysed in the survey was gathered between September 2004 and January 2005 with the majority of these reports covering the calendar year 2003 or the financial year 2003/4 (KPMG, 2005, p. 8).

<sup>13</sup> If annual financial reports which include non-financial (mainly corporate responsibility) information are added to these figures the percentages of reporting increase to 64% for the G250 and 41% for the N100 samples (KPMG, 2005, p. 4).

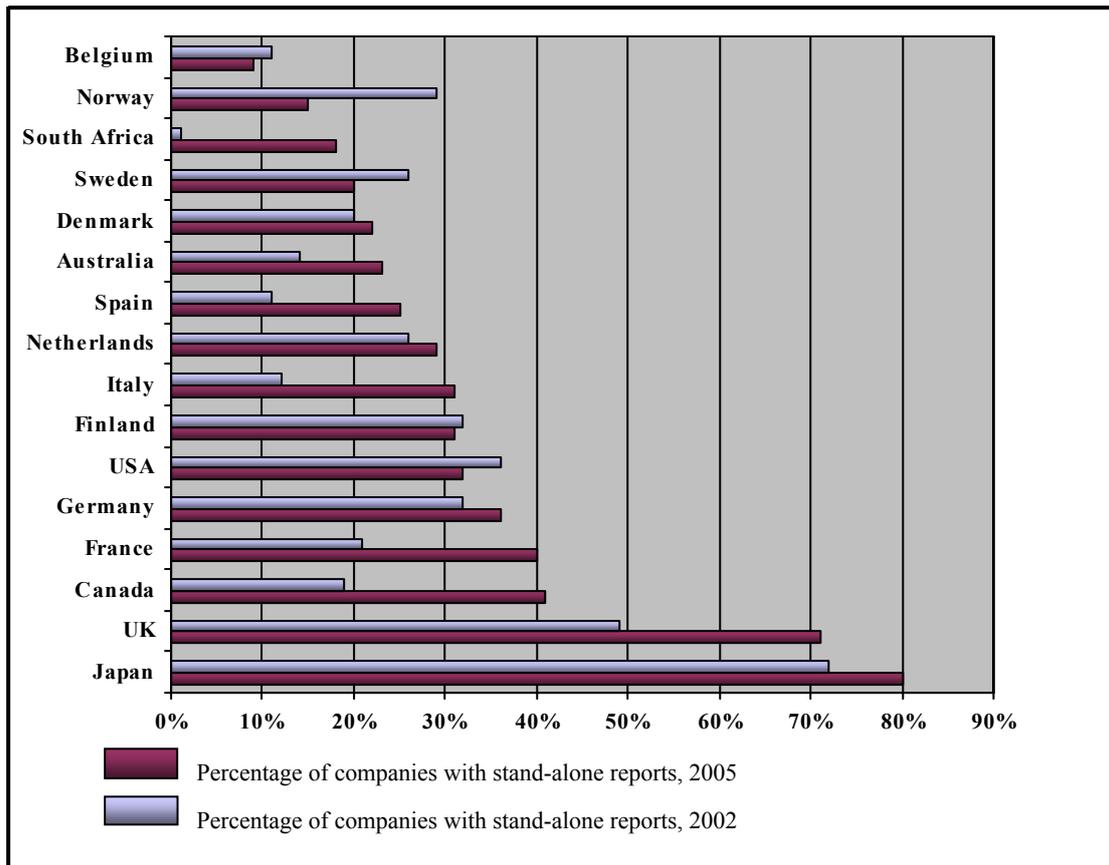


Source: KPMG, (2005, p. 38)

**Figure 2.1 Corporate stand-alone reporting (N100 & G250) / Years 1993-2005**

KPMG (2005, p. 9) identify a change in the terms used to describe stand-alone reports. In 2005, almost 70% of the G250 and almost 50% of the N100 reports were called sustainability reports which contrasts with 2002 when almost 70% of both global and national reports issued were called environmental, health and safety reports (KPMG, 2005, p. 9). It could be argued that the change in the titles used to describe stand-alone reports implies that a greater diversity of issues are likely to be disclosed within these reports. This may, in turn, have implications for the assurance of such reports.

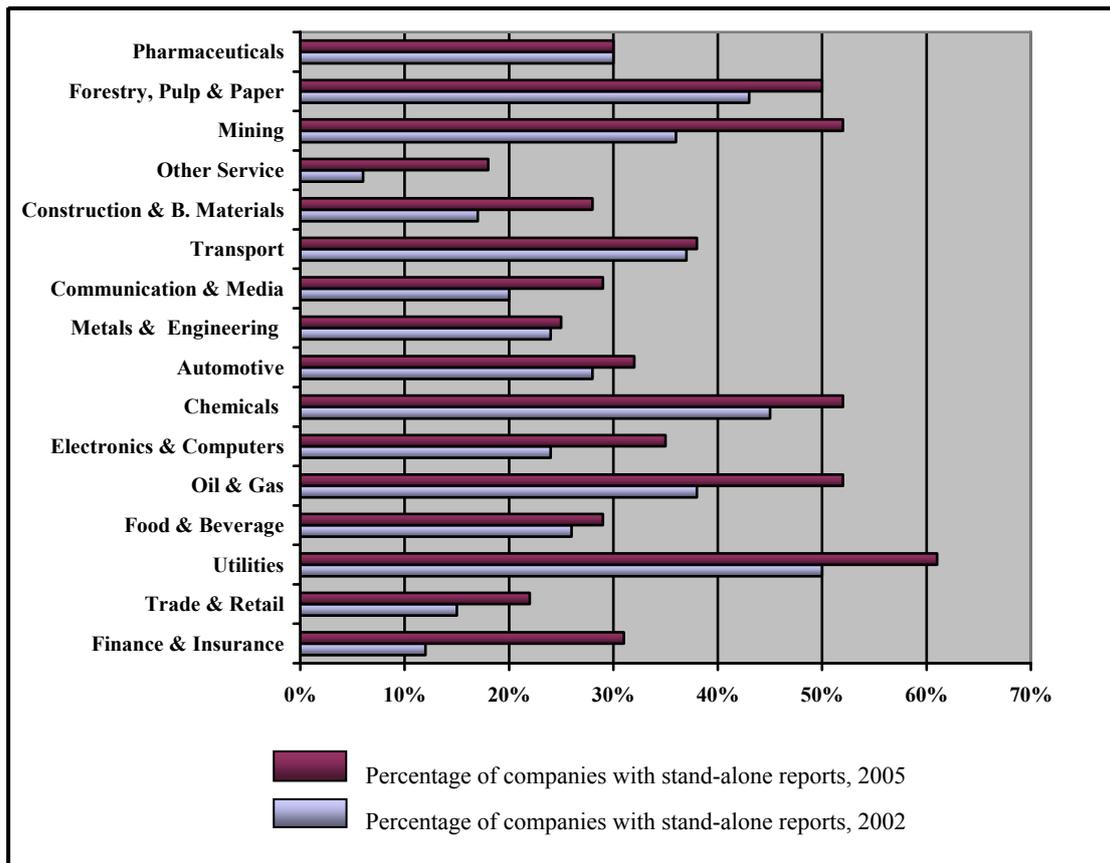
In respect of country of reporting, KPMG's 2005 survey showed that the countries with the highest proportion of companies producing stand alone reporting were Japan and United Kingdom, with 80% and 71% of their top 100 companies, respectively, issuing reports (up from 72% and 49% respectively in the 2002 survey). This results in the UK being a leading country with respect for reporting and it may also be the case that what happens in the UK will be an indication of what may happen in other countries in the future. Figure 2.2 presents data on the percentage of the corporate stand-alone reports found within the top 100 companies in 16 different countries for the years 2002 and 2005.



Source: KPMG (2005, p. 10)

**Figure 2.2 Stand-alone reporting by country (N100) / Years 2002 and 2005**

The KPMG (2005) survey also provides data on sectors that are most active in corporate stand-alone reporting. While both the N100 and G250 groups demonstrate an increase in reporting activity in all economic sectors (KPMG, 2005, p. 12) the utilities sector still has the highest incidence of reporting in the N100 sample along with mining; oil and gas; and chemicals sectors. The most notable change in reporting behaviour is that of the financial sector. Among both G250 and N100 companies, stand-alone reporting in the financial sector has increased dramatically in 2005 (KPMG, 2005, p. 12). Figure 2.3 presents data on the percentage of the corporate stand-alone reports by sector/industry for the top 100 companies in 16 different countries for the years 2002 and 2005.



Source: KPMG (2005, p. 12)

**Figure 2.3 Stand-alone reporting by industry (N100) / Years 2002 and 2005**

In line with increases in stand-alone reporting, there appears to be an increase in demand for these reports to be assured (Wallage, 2000; O'Dwyer *et al.*, 2005). Assurance may be seen as one way to increase the credibility of reported information (Dando and Swift, 2003; ACCA and AccountAbility, 2004). The next section, therefore, describes the practicalities of assurance (with Chapter Three considering the theoretical implications of assurance).

## 2.3 Assurance

### 2.3.1 Definition and overview of assurance practice

This section describes the practice of assurance and, among other things, explores its relationship with the more conventional practice of auditing. Assurance is a relatively new word used to describe different sorts of 'checking' such as audit, review and attestation (IFAC, 2006). ACCA and AccountAbility (2004, p. 15) argue that "[a]uditing, verification and validation are some of the tools and processes by which

assurance is obtained”. Assurance is defined in the dictionary as a positive declaration intended to give confidence (Oxford English Dictionary, 1989, p.724).

Wilson (2003, p. 122) differentiates between two categories of assurance: substantiated and unsubstantiated. Substantiated assurance is related to the practice where a “qualified and objective practitioner performs a systematic and formal evaluation and verification of the subject matter (e.g. management systems) and then reports the results of that process” (Wilson, 2003, p. 122). In this category of assurance, objectivity and rigour of underlying process will be high. Examples of this category of assurance are: internal audit practice, audit of financial accounts by the chartered accountants and audit of the environmental management systems (Wilson, 2003, p. 122). In contrast, the term unsubstantiated assurance is used to describe an exercise where “the assurance provider issues a subjective evaluation of the subject matter based on experience or expertise rather than a systematic and detailed evaluation or verification of the underlying performance measurement and management processes” (Wilson, 2003, p. 122). An example of this category is a commentary on the subject matter issued by an expert or an opinion leader. The current study only considers substantiated assurance as objectivity of the assurance provider supposed to be higher, assurance assessment would be more rigorous and systematically conducted and assurance opinion is also presented under this category of assurance.

The Auditing Practices Board (APB)<sup>14</sup> is responsible for developing audit and assurance standards in the UK. The ABP has determined that the “International Standards on Auditing (hereafter ISAs) (UK and Ireland)” are to be applied to all audits of financial information for periods commencing on or after 15 December 2004. These standards are extracted from the ISAs issued by the International Auditing and Assurance Standards Board (IAASB). Therefore, discussion of the professional standards in the field of assurance of stand-alone reports will draw (in the first instance) on the framework of assurance and auditing practices as identified by the IAASB.

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<sup>14</sup> Auditing Practices Board (APB) is one of the five independent bodies under the authority of the Financial Reporting Council (FRC). The other four bodies are: the Accounting Standards Board (ASB); the Professional Oversight Board for Accountancy (POBA); the Financial Reporting Reviews Panel (FRRP); and the Accountancy Investigation and Discipline Board (AIDB).

The IAASB (2006, p. 229) defines an assurance engagement as “an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria”.<sup>15</sup> In the same context, Gill *et al.*, (2001, p. 12) define assurance as allowing “satisfaction with the reliability of information provided” to be expressed. They also emphasised that the degree of satisfaction (or confidence) achieved is determined by the nature and extent of the procedures carried out by the assurance provider and the results of the evaluation process of evidence obtained (Gill *et al.*, 2001, p. 12).

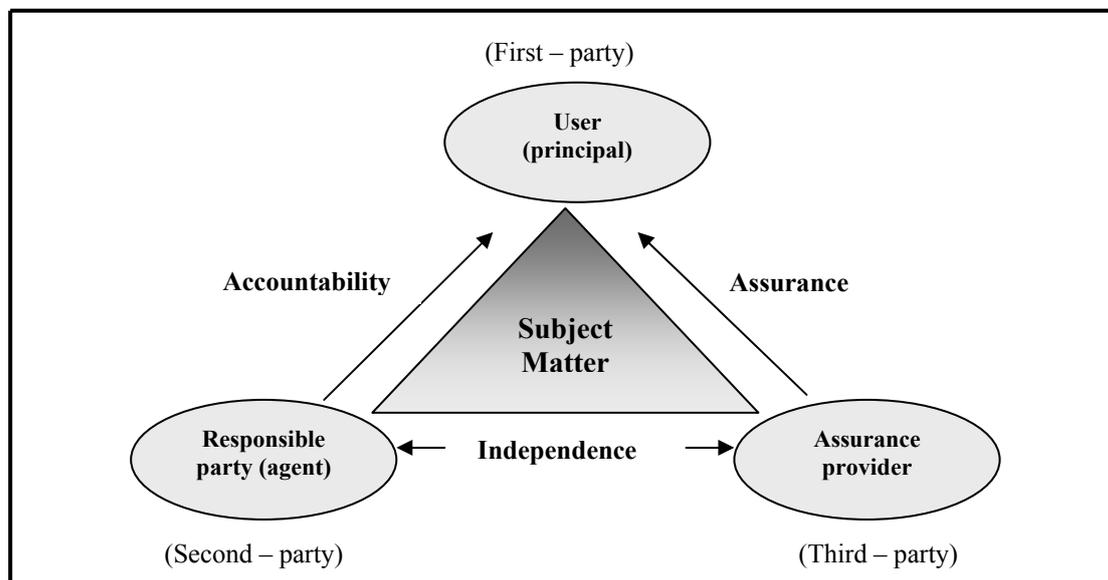
From the above definitions it follows that an assurance engagement would consist of the following elements (Gill *et al.*, 2001, p. 13): (i) subject matter which may take several forms such as financial performance (e.g. historical financial information), the non-financial performance (e.g. environmental aspects, KPIs of efficiency and effectiveness), the systems and procedures (e.g. internal control), and the behaviour (e.g. compliance with laws and regulations – see Eilifsen *et al.*, 2006, p. 632); (ii) a set of criteria which are defined as “the benchmarks used to evaluate or measure the subject matter” (Eilifsen *et al.*, 2006, p. 632); (iii) a three-party relationship involving a responsible party, an intended user/users, and a professional assurance provider (accountant) or a professional firm; (iv) an engagement process; and (v) a conclusion.

At the core of assurance engagements are various types of accountability relationships (Gill *et al.*, 2001; Eilifsen *et al.*, 2006; IAASB, 2006). An accountability relationship exists when one party is accountable to and/or responsible to another for the subject matter “either as a result of an agreement between the two parties or required by legislation, or when a party voluntarily chooses to report to another party on a subject matter (e.g. sustainability reporting practices)” (Gill *et al.*, 2001, p. 12). Gill *et al.*, (2001, p. 13) argue that an accountability duty might also occur when a user is “expected to have an interest in how the responsible party has discharged its responsibility for a subject matter”. Typically, three parties are involved in the assurance engagement (Eilifsen *et al.*, 2006; IAASB, 2006): a user or users (such as the shareholders and/or other groups of stakeholders); a party responsible for the

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<sup>15</sup> As identified by the IFAC, practitioner refers to a professional accountant in public practice. Since some of the assurance engagements are not audit engagements the term practitioner is used instead of auditor (Eilifsen *et al.*, 2006, p. 632).

subject matter (such as the management), and a practitioner (an assurance provider). The three-party relationship in assurance engagement is illustrated in the Figure 2.4 below.



Source: Adapted from Eilifsen *et al.*, (2006, p. 633)

**Figure 2.4 Three-party relationship in an assurance engagement**

The responsible party (an agent) is usually the person or group of persons who are responsible for the subject matter (or the subject matter information)<sup>16</sup> with respect to the user (the principal). The responsible party may or may not be the party who engages the practitioner (e.g. in a financial report audit engagement, the management is responsible for the preparation of the financial statements and the implementation of internal control within the company, while the assurance providers ‘the auditors’ are engaged, at least in theory, by the members or shareholders of the company – see Gill *et al.*, 2001, p. 13).

The International Framework for Assurance Engagements (proposed by the IAASB) requires that the assurance provider be independent from the responsible party (see

<sup>16</sup> It is important to distinguish between the subject matter and the subject matter information. Eilifsen *et al.*, (2006, p. 633) define the subject matter information (assertion) as the outcome of the evaluation or the measurement of the subject matter (e.g. in an assurance engagement of a company’s data collection system, the effectiveness of the data collection system is the subject matter. Management’s assertion about the effectiveness of the data collection system is the subject matter information). A clear example of when the responsible party is responsible for both the subject matter and the information on the subject matter is when the reporting company engages a practitioner to carry out an assurance engagement regarding a report prepared by the company related to its own sustainability practices (Eilifsen *et al.*, 2006, p. 633).

Eilifsen *et al.*, 2006, p. 633). The main role of the assurance provider is to express a conclusion to the user (principal)<sup>17</sup> on the subject matter or the subject matter information (Eilifsen *et al.*, 2006, p. 633).

In order to perform an assurance engagement that enhances the accountability relationship (as shown in Figure 2.4), the IAASB identifies a set of characteristics that must be present before it is accepted include (Eilifsen *et al.*, 2006, p. 634):<sup>18</sup>

- 1- That the relevant ethical requirements (e.g. independence and professional competence) are satisfied.
- 2- The engagement clearly exhibits all the following characteristics:
  - (i) The subject matter is appropriate;
  - (ii) The criteria to be used are suitable and are available to the intended users to help them to make their own judgments;
  - (iii) The practitioner has access to sufficient appropriate evidence to support the assurance conclusion;
  - (iv) The practitioner's conclusion, in the form appropriate (either a reasonable assurance engagement or a limited assurance engagement), is contained in a written report; and
  - (v) The practitioner is satisfied that there is a rational purpose for the assurance engagement.

Further, disclosure around these aspects could be expected in the assurance statement itself.

### 2.3.2 Types of assurance engagements

During the last two decades the practice of audit and assurance has been criticised on the basis that these services have failed to meet sufficiently the needs of users (Gill *et al.*, 2001, p. 11). For that reason the American Institute of Certified Public Accountants (AICPA) formed a special committee on assurance services: the Elliott

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<sup>17</sup> The intended user is the person or group of people expected to use the practitioner's report (Gill *et al.*, 2001, p. 14). Intended users are normally the addressees of the report and may impose restrictions on or requirements for an assurance engagement (e.g. in a special purpose financial report audit the practitioner may consider redistricting the access of the report to only identified users, thus, other intended users may have no involvement in defining the scope of an assurance engagement – see Gill *et al.*, 2001, p. 14).

<sup>18</sup> In addition to these characteristics, “specific ISAs, ISREs, or ISAEs may include additional requirements that need to be satisfied prior to accepting an engagement” (Eilifsen *et al.*, 2006, p. 634).

Committee (1996). The key recommendations of the Elliott Committee were: (i) accountants should embrace and “significantly expand[ing] the ‘assurance services’ provided by the accounting profession to consolidate its existing markets” (Schelluch and Gay, 1997, in Gill *et al.*, 2001, p. 12); and (ii) the audit/attestation function should evolve into an assurance function, with a associated movement towards broader-based assurance services (Uzumeri and Tabor, 1997, in Gill *et al.*, 2001, p. 12).

IFAC responded to the Elliott Committee recommendations by introducing the ‘International Standards on Assurance Engagements’ (hereafter ISAEs). These standards were developed in 1999 and published in 2000 under the ‘International Framework for Assurance Engagements’ (hereafter IFAE). The aim of this framework was to meet the increased demand for services that seek, via assurance, to increase the value of information for decision-making (IFAC, 2006). Although the new framework (IFAE) does not replace existing International Standards on Auditing (ISAs), it formally brings auditing within the assurance engagement framework (Gill *et al.*, 2001, p. 12).

The term ‘assurance engagements’, therefore, describes a variety of assurance services. Assurance services can be defined as “independent professional services that improve the quality of information, or its context, for decision makers” (Elliott Committee/AICPA, in Eilifsen *et al.*, 2006, p. 630). This definition of assurance services is broad with focus on serving decision-making process, since making a good decision requires quality information (which may be financial or non-financial – see Eilifsen *et al.*, 2006). An assurance engagement can help the decision maker by increasing confidence in the reliability and relevance of information (Eilifsen *et al.*, 2006, p. 630). The IFAE developed by the IAASB defines an assurance engagement (see section 2.3.1) more narrowly than the Elliott Committee definition. Figure 2.5 illustrates the scope of the IAASB’s assurance engagements, and the relationship between the different sets of standards issued by the IAASB.

| <b>Assurance Services (Elliott Committee)</b>  |   |   |  |  |
|--|---|---|--|--|
| IAASB<br>Engagement Standards  |   |   |  | Assurance Services<br>(Elliott Committee)<br>beyond the Scope<br>of IAASB<br>Engagement<br>Standards |
| <b>Within the Scope of the IAASB<br/>International Framework for Assurance<br/>Engagements</b> |   |   | IAASB Related<br>Services                                  |  |
| <b>IAASB Audits and Reviews<br/>of Historic Financial<br/>Information</b>                      |   | <b>IAASB Assurance<br/>Engagements Other<br/>Than Audits or<br/>Reviews of Historic<br/>Financial Information</b> |  |  |
| International<br>Standards on<br>Auditing<br><br>ISAs  | International<br>Standards on<br>Review<br>Engagements<br>ISREs | International Standards<br>on Assurance<br>Engagements<br><br>ISAEs   | International<br>Standards on<br>Related Services<br>ISRSs |  |

Source: Eilifsen *et al.*, (2006, p. 631)

**Figure 2.5 Framework of assurance services and the IAASB standards**

As is evident in Figure 2.5, the assurance engagement framework introduced by the IAASB does not cover all services falling within the Elliott Committee's definition of assurance services (Eilifsen *et al.*, 2006).<sup>19</sup> Nevertheless, this framework identifies standards specifically designed to serve assurance engagements other than audit or review of historic financial information. Among those standards issued in this context, the International Standard on Assurance Engagements 3000 (ISAE3000) is applicable in the area of assurance of 'non-financial' stand-alone reporting. The current study seeks to identify the standards used to govern the assurance engagements, with ISAE3000 being one of those standards considered. Further details of the assurance standards (including ISAE3000) which considered in the current study are provided in section 2.4.2.

There are different approaches to categorise assurance engagements (Gill *et al.*, 2001; Wilson, 2003; IAASB, 2006) and the distinctions made assist in distinguishing between assurance engagements related to stand-alone reports and the other types of assurance engagements. Assurance engagements have been categorised (Wilson,

<sup>19</sup> An example of a difference can be seen where the engagements that improve the relevance of the information, or its context, are assurance services as defined by Elliott Committee, but "will not necessarily be considered assurance engagements" according to the IAASB framework (Eilifsen *et al.*, 2006, p. 632). An example of this category might be the agreed-upon procedures engagement regarding financial information where the assurance provider does not intent to provide an assurance opinion (Eilifsen *et al.*, 2006, p. 632).

2003, p. 125) by: (i) the type of engagement and (ii) the level of assurance sought. Each category will be discussed in greater depth.

There are two main types of assurance engagements: assertion-based engagements and direct-reporting engagements (IAASB, 2006, p. 146). In an assertion-based assurance engagement (including the financial statement audit engagement) the evaluation or measurement of the subject matter is performed by the responsible party (IAASB, 2006). Thus, the subject matter information is in the form of assertion by the responsible party that is made available to the intended users (IAASB, 2003, p. 14). In the current study, assurance of a stand-alone report is an assertion-based assurance engagement since the measurement of the subject matter is carried out by the reporting company and, hence, information included within the stand-alone report are deemed assertions presented by the reporting company to different users. These assertions are subjected to the judgment of the assurance provider through carrying out the assurance practice.

In contrast, within a direct reporting assurance engagement the assurance provider may directly perform the measurement or evaluation of the subject matter, or “obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users” (IAASB, 2006, p. 193). In this type of assurance, the information on the subject matter is provided to the intended users only in the assurance statement (IAASB, 2006, p. 193). It is also noted that in this instance the practitioner does not comment on the reliability of the responsible party’s assertions (Eilifsen *et al.*, 2006, 633). An example of this type is where the practitioner directly evaluates the effectiveness of the company’s internal control against for example, the Committee of Sponsoring Organisations of the Treadway Commission (COSO) criteria without any assertions being made by the management (Eilifsen *et al.*, 2006, p. 633). It should be noted here that the standards included within the IAASB’s framework cover both types of the assurance engagements (assertion-based and direct reporting).

There are two main levels of assurance possible, depending on the type of assurance engagement undertaken: audits (where a reasonable level of assurance is intended to be provided by the practitioner) and reviews (where a limited level of assurance is

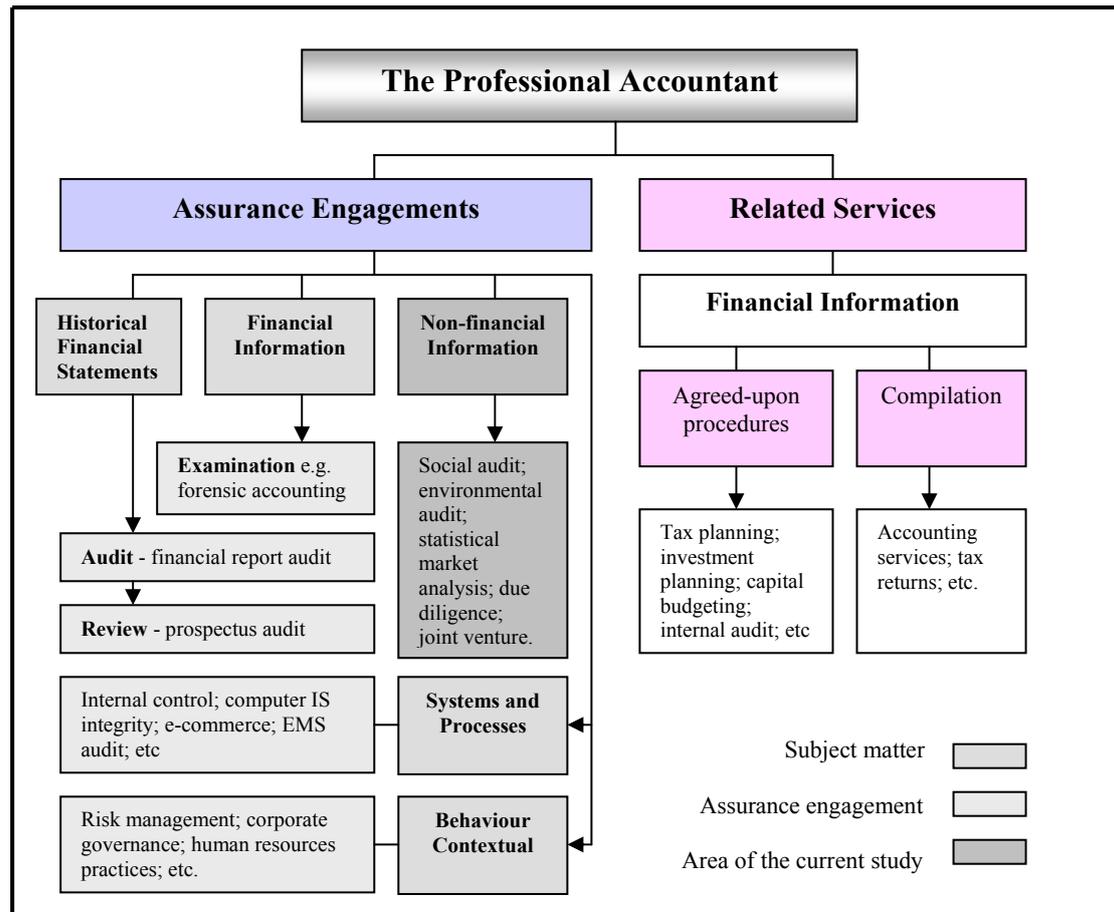
intended to be provided – see IAASB, 2006). Levels of the assurance are discussed in section 2.3.3 of this chapter.

In addition to the above two distinctions, the general framework of the IAASB (2006) engagements distinguishes between two types of engagement services provided: assurance engagements, and related services. In contrast with the Elliott Committee, the related services category is not recognised as assurance services in the IAASB framework (see Figure 2.5). The related services under the IAASB framework include two types of engagements:<sup>20</sup> (i) agreed-upon procedures regarding financial information, and (ii) compilation of financial information. In these two types of engagements no assurance is provided by the practitioner (IAASB, 2006). This is in contrast to the requirement for a practitioner to express assurance to the users of the assurance report in an assurance engagement (Eilifsen *et al.*, 2006, p. 632).

According to the IAASB framework of assurance engagements (see Figure 2.6), there are different types of subject matter information that is subject to assurance. The subject matters may include for example, financial or non-financial information (either they are historical or prospective information); systems or processes (e.g. internal or hired systems for electronic commercial transactions, and system integrity measures); or behavioural matters (e.g. risk management and corporate governance – see Gill *et al.*, 2001, p. 13). As a consequence, the assurance engagement may take different forms according to the form of the subject matter information (e.g. audits in the case of financial statements included in an annual report; reviews in the case of interim financial report; and assurance of non-financial performance data and other types of information).

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<sup>20</sup> Agreed upon-procedures engagement has been defined as “an engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings” (IAASB, 2006, p. 228). The recipients of the report form their own conclusions from the report by the practitioner and the report is restricted to those parties that have agreed to the procedures to be performed (IAASB, 2006, p. 228). In a compilation engagement the practitioner is intended to present in the form of financial statements ordinarily, information that “is the representation of management without undertaking to express and assurance on the statements” (Eilifsen *et al.*, 2006, p. 632). In both of these engagements no assurance is given by the practitioner to the users of the information being evaluated.



Source: Adapted from the ISAEs, the International Federation of Accountants (July 2000, in Gill *et al.*, 2001, p. 14)

**Figure 2.6 Schematic framework of assurance engagements**

The framework of assurance engagements (as shown in Figure 2.6) includes provision of assurance of non-financial information. In the context of assurance of stand-alone reports, it would be expected that an assurance statement would reflect the application of the assurance framework (specifically by the accountants or any other types of assurance providers who adopted the financial audit model). This includes, for example, indicating that the assurance practice is not an audit or review engagement. Thus, it would be expected that the statement provided in this context will not be titled an ‘audit or review’ report/statement. In addition, an assurance opinion would not be expected to be expressed for those engagements performed according to the non-assurance standards (such as agreed-upon procedures).

### 2.3.3 Levels of assurance

The IAASB framework also distinguishes assurance according to the level of assurance expressed, as well as the type of engagement being carried out (whether it is an audit or a review of historical financial information or another assurance engagement – see Eilifsen *et al.*, 2006, p. 632). The purpose of disclosing the assurance level obtained is to enhance intended users' confidence about the subject matter information (Eilifsen *et al.*, 2006, IAASB, 2006). Under the IFAE there are two types of assurance engagements that practitioners are permitted to perform: a reasonable assurance engagement and a limited assurance engagement (IAASB, 2006, p. 229).<sup>21</sup> These two types of assurance are also linked to the degree of the engagement's risk.

A reasonable assurance engagement relates to those practices in which the risk of the assurance engagement<sup>22</sup> is reduced to an acceptably low level in the circumstances of the engagement (IAASB, 2006, p. 229). Reducing the engagement's risk to zero to obtain absolute assurance is rarely attainable or cost beneficial (Eilifsen *et al.*, 2006, p. 635). In the case of reasonable assurance, the practitioner's conclusion needs to be expressed in a positive form. On the other hand, a limited assurance engagement focuses in reducing the assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement (IAASB, 2006, p. 229). In the case of limited assurance the practitioner needs to express the engagement's conclusion in the negative form. In practice, assurance providers tend to provide limited assurance in those engagements where the risk of engagement is high, whereas a reasonable assurance is provided in

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<sup>21</sup> Reasonable and limited assurances are the latest terms used by the IAASB to describe the assurance level. In 1997, the International Auditing Practices Committee (IAPC currently IAASB) issued an exposure draft entitled "Reporting on the Credibility of Information" (Roebuck *et al.*, 2000, p. 212). In this draft, the IAPC suggested that level of assurance provided within the assurance engagements is dependent on; nature of the subject matter and objective of the engagement (Roebuck *et al.*, 2000, p. 212). The IAPC also suggested in that exposure draft that the level of assurance provided within the engagements is ranged from a 'low level' to 'absolute level' (Roebuck *et al.*, 2000, p. 212). Since obtaining absolute assurance is not possible, it was expected that the assurance levels would range from a low to a high level (Roebuck *et al.*, 2000, p. 212). In March 1999, the IAPC issued a second exposure draft entitled "Assurance Engagements". This draft retained the concept of the 'continuum', but restricted the levels of assurance being provided to two levels: a high level and moderate level, which in turn changed again into reasonable and limited level since 2003 (IFAC, 2003).

<sup>22</sup> The IAASB (2006, p. 230) defines the assurance engagement risk as "the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated".

the low risk engagements. Table 2.3 illustrates the assurance levels provided within the IAASB assurance standards.

**Table 2.3 The IAASB assurance standards and assurance levels**

| Level of Assurance                      | Assurance Engagements (IAASB Assurance Framework)    |   |
|---|--|---|
|   | Audits and Reviews of Historic Financial Information | Assurance Engagements Other Than Audits or Reviews of Historic Financial Information ISAE3000   |
| <b>Reasonable Assurance Engagements</b> | Audits of historic financial information<br>ISAs     | Reasonable assurance engagement other than audits of historic financial information             |
| <b>Limited Assurance Engagements</b>    | Reviews of historic financial information<br>ISREs   | Limited assurance engagements other than reviews of historic financial information<br>ISAE 3400 |

Source: Adapted from Eilifsen *et al.*, (2006, p. 636).

An assurance provider might be able to reduce the risk of the assurance engagement by evidence gathering process (Eilifsen *et al.*, 2006, p. 636). For example the nature and degree of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are purposely limited relative to a reasonable assurance engagement, but must still be “sufficient for the practitioner to obtain a meaningful level of assurance as a basis to for a negative form of expression” (Eilifsen *et al.*, 2006, p. 636). In this context, Hasan *et al.*, (2005, p. 93) argue that the level of assurance may be influenced by: nature of the subject matter; criteria used; procedures (work effort); and quantity and quality of the evidence gathered. In the context of assurance of stand-alone reports and due to lacking of generally accepted criteria and assurance standards for this type of reporting it is unexpected to find an agreement in how to disclose level of assurance pursued between the different types of assurance providers.

Table 2.3 also indicates that the different types of the assurance engagements (audits, reviews and the other types of assurance) are correlated with the level of the assurance engagement and a specific set of standards to be used during the assurance engagement. Where an assurance engagement carried out in the context of historical financial information (which is typically financial statements), an audit is a reasonable

assurance engagement as ISAs should be used, and a review is a limited assurance engagement as ISREs should be used (Eilifsen *et al.*, 2006, p. 636).

Indeed, there are many other examples of assurance engagements other than audits or reviews of historical financial information where the ISAEs should be used (for example, assurance of prospective financial information requires the adoption of ISAE3400). The practice being investigated in the current study (assurance of stand-alone reports) is located under the broad area of assurance engagements. Therefore, it is expected that assurance providers (if they are accountants) will adopt those standards specified for engagements other than audits or reviews of historical financial information (namely ISAE3000). In terms of level of assurance, it is expected that assurance statements provided by accountancy firms will disclose the level of assurance. Moreover, the level of assurance will depend on various aspects related to the assurance practice (such as assurance methodology) since it is suggested in the literature that the level of assurance is influenced by assurance procedures, and the quantity and quality of evidence gathered (Hasan *et al.*, 2005; Eilifsen *et al.*, 2006; IAASB, 2006).

In the next section, assurance of the corporate stand-alone reports is explored. Attention is mainly given to define this type of assurance, purposes of it and the most relevant assurance standards which are applicable for this type of assurance.

## **2.4 Assurance of corporate stand-alone reports**

### **2.4.1 Definition of assurance of the stand-alone reporting**

Numerous definitions exist for general assurance practices (see section 2.3.1) and there is currently no agreed specific definition of assurance practice as it relates to stand-alone reports. SustainAbility and UNEP (2004, p. 32) emphasise that assurance is a very broad term and at best its practical implications can be described as “steps taken to increase confidence in a report”. Likewise, Zadek *et al.*, (2006, p. 22) emphasise that assurance is defined in terms of its outcome as “enabling the confidence of a party or group of people that the information they have is accurate and complete enough for them to make an informed decisions about a certain subject matter”. Further, Wilson (2003, p. 162) defines provision of independent assurance on sustainability reports as “a formalised practice in which an independent and qualified

practitioner assesses the veracity or meaning of written or implied assertions regarding environmental, social, and/or economic performance or management made by an accountable party, and communicates the results of this assessment to another individual(s) or group(s) who will, or may, use that information”. Furthermore, the GRI (2006, p. 38) state that assurance involves “activities designed to result in published conclusions on the quality of the report and the information contained within it”. This includes consideration of underlying processes and systems contributed in preparing this information (GRI, 2006, p. 38).

From the above definitions, it could be argued that the assurance process of a stand-alone report consists of the following components. First, the existence of some accountability relationship where a responsible party provides information regarding the subject matter to another party (the users), and the assurance provider is responsible (as an independent party) to provide an opinion on the reported information. Second, the expression of a conclusion/opinion that is aimed at enhancing the confidence of the users with respect to the reported information. Third, the use of standards and criteria by the assurance provider to govern the assessment of the responsible party’s assertions against specified criteria. Fourth, communication of results by the assurance provider to the users, usually in the form of an assurance statement. These components would guide to introduce a specific definition applicable in the current research.

For the purpose of the current study, the assurance process is defined as: an engagement in which an independent third party is appointed by a responsible agent to carry out an assessment and express an opinion on assertions related to non-financial subject matter, and where specific set of standards and appropriate criteria are used to conduct that engagement, with the result being communicated to the users of such information.

Drawing from the above definition, all assurance statements that are contained with the stand-alone reports or with any sort of non-financial information disclosed by the FTSE100 companies for the years 2000-2004 will be considered. In contrast with some of previous studies (Ball *et al.*, 2000; Wilson, 2003) three practices, however, will be excluded in the current study since they are not able to convey assurance to the users of the assured stand-alone reports (mainly duo to lacking of a systematic

assessment of the subject matter by an independent third party, missing criteria and standards while conducting the assessment and absence of an assurance opinion within the statement – see Ball *et al.*, 2000; IAASB, 2006). First, assurance engagements carried out by an internal audit or internal assurance team/department (because these are not undertaken by an independent (external) third party). The Institute of Chartered Accountants in England and Wales (hereafter ICAEW, 1989 in Vinten, 1999, p. 410) stress that internal audit is not an independent activity and hence it could not be considered assurance for the purposes of this thesis. Second, engagements of the benchmarking parties, such as London Benchmarking Group (LBG), FTSE4Good, and Business in the Community (BITC), because these engagements are not conducted using a systematic approach, criteria and standards or with the aim of providing an independent opinion. Rather statements provided by such engagements (for example FTSE4Good) are aim at “allowing investors to gain exposure to companies that meet globally recognised corporate responsibility standards” (ACCA, 2005, p. 5). Other engagements (such as those provided by BITC) aim to benchmark the position of the reporting organisation in terms of developing and implementing an appropriate “strategic approach to corporate responsibility reporting” and practice (BITC, 2005, p. 4). Finally, general commentary statements issued by the opinion leaders, NGOs or any other parties are excluded because these statements, again, are not developed using a systematic approach of assurance or specific sets of standards as well as opinion/conclusion is not usually presented within these statements, thus, provision of assurance to the information’s users is doubtful.

While the key purpose of assurance is assumed to be increasing the credibility of disclosed information (ACCA and AccountAbility, 2004; Park and Brorson, 2005; Deegan *et al.*, 2006; GRI, 2006), addition benefits have been also been suggested including: (i) improving the public perception of the reporting companies’ activities; (ii) promoting improvements in control and reporting systems that will enhance the reporting process, as well as improving the content of the stand-alone report; and (iii) learning and knowledge transfer within the reporting company from engagement with external parties (FEE, 2003, p. 5). In addition, Wallage (2000, p. 54) suggests that a major driver for assurance of stand-alone reports is the legal requirement to report on the non-financial issues (namely environmental) in some countries. In addition to these motivations, Wilson (2003, p. 177) asserts that reporting companies may choose

to have their reports externally assured in an attempt to differentiate themselves from their peers as part of the overall communication and/or reputation strategy.

In summary, it could be argued on the basis of literature that enhancing credibility of reported information, and improving the internal reporting systems and other underlying systems are the most common reasons offered for assurance practice. From the perspective of the current study evidence for internally oriented drivers for assurance (improving the reporting systems and other underlying systems) could be inferred by the presence of disclosures of weaknesses and the provision of recommendations in the assurance statements. Evidence for credibility of the assured information could be inferred from the addressee of assurance statements. If assurance statements are addressed to stakeholders (externally or internally) one could infer that a credibility focus has been sought from assurance (Ball *et al.*, 2000).

It could be argued that the value-added by assurance is dependent on the quality of assurance practice being conducted (Knechel *et al.*, 2006). Further, Carcello *et al.*, (1992 in Knechel *et al.*, 2006, p. 147) assert that compliance with the professional standards is one of the most important attributes that affects the quality of audit/assurance. Furthermore, there is evidence that audit quality is increased by employing audit standards (Frantz, 1999). In the context of assurance of stand-alone reports, there are various sets of assurance standards applicable. In order to inform some implications into the current study, the next section focuses in exploring the most relevant assurance standards that in turn applicable for the stand-alone reporting practices.

#### **2.4.2 Emerging standards in assurance of stand-alone reports**

Standards are important as they govern audit and assurance practices. In the financial auditing literature, standards have been widely examined and found to be associated with various aspects such as: audit work, auditor liabilities, and materiality (see for example, Dye, 1993; Chandler and Edwards, 1996; Colbert, 1996; Chandler, 1997). This is also likely to be the case in the area of assurance of stand-alone reporting and hence this section devotes some attention to this matter. Indeed, SustainAbility and UNEP (2004, p. 5) argue that the use of emerging standards in the area of assurance of stand-alone reporting (notably AA1000AS) seems to have a “positive impact on the

quality and utility of assurance statements”. Within the stand-alone reporting practice it is important to make a distinction between those guidelines designed specifically to serve preparation of the stand-alone report itself (often considered as criteria for assurance), and those standards designed to govern the assurance process. This section of the chapter highlights those standards and guidelines issued specifically to manage the assurance process.

ACCA and AccountAbility (2004, p. 37) assert that there are a range of standards that can be used to govern the assurance process as well as provide benchmarks and guidance for carrying out the assurance assignment. Table 2.4 illustrates the most common standards being used in performing assurance of the stand-alone reports on global level.

**Table 2.4 Standards used to inform stand-alone assurance processes**

| <b>Standards and Guidelines of the Assurance Practices</b>   |
|--|
| <b>AA1000 Assurance Standard</b><br><b>AA1000 Framework</b><br><b>Amnesty International’s Human rights Guidelines for Companies</b><br><b>Association of British Insurers Guidelines</b><br><b>Better Banana Project</b><br><b>Coalition of Environmentally Responsible Economies (CERES) Principles</b><br><b>Corporate Social Responsibility Research – Quality Standard (CSRR-QS)</b><br><b>Dow Jones Sustainability Index (DJSI)</b><br><b>Eco – Management and Audit Scheme (EMAS)</b><br><b>EU Eco - label</b><br><b>Ethical Trading Initiative Base Code</b><br><b>Ethos Reporting Guidelines</b><br><b>European Foundation for Quality Management</b><br><b>Fair Labour Association Assessments</b><br><b>Fair Trade Labelling Standards</b><br><b>Forest Stewardship Council</b><br><b>FTSE4Good</b><br><b>IAASB ISAE3000</b><br><b>International Federation of Organic Agriculture Movements (IFOAM) Organic Standards</b><br><b>Investors in People</b><br><b>ISO14000/9000</b><br><b>Global Compact</b><br><b>Global Environment Management Initiative</b><br><b>Global Reporting Initiative (GRI)</b><br><b>Global Sullivan Principles</b><br><b>Greenhouse Gas Protocols</b><br><b>London Benchmarking Group (LBG)</b><br><b>The Natural Step</b><br><b>OECD Guidelines</b><br><b>Responsible Care</b><br><b>Sarbanes – Oxley</b><br><b>SA8000</b><br><b>Sustainability – Integrated Guidelines for Management (SIGMA) Project</b><br><b>WHO/UNICEF International Code on Marketing of Breast-milk Substitutes</b> |

Source: ACCA and AccountAbility (2004, p. 38).

ACCA and AccountAbility (2004, p. 37) argue that any subject matter may be covered by “a multitude of different standards, regulations and guidelines emanating from technical standards bodies, multi-stakeholder coalitions... governments, industry bodies and a growing body of certification and rating schemes”. The main challenge for the reporting companies is determining which is most useful, relevant, credible and compatible with stakeholders’ needs (ACCA and AccountAbility, 2004, p. 37). Dando and Swift (2003, p. 195) argue that robustness of most of the current assurance practices are questionable due to their reliance on financial auditing models, which are inadequate for qualitative dimensions of the non-financial (namely social and environmental) performance. Therefore, it is suggested that new frameworks are required specifically for provision of assurance on the non-financial performance (Dando and Swift, 2003).

Various parties have been engaged in developing and issuing standards and guidelines that aim to assist assurance providers perform their assignments (including professional bodies such as, the IFAC and FEE, as well as other organisations such as, the GRI and AccountAbility). For the purposes of the current study and in order to frame the process of data collection from the assurance statements, the study draw on elements of what O’Dwyer and Owen (2005) called the ‘recent high profile initiatives’ of four parties, namely: the International Auditing and Assurance Standards Board (IAASB) of the International Federation of the Accountants (IFAC, 2004); Fédération des Experts Comptables Européens (FEE, 2002); the Institute of Social and Ethical Accountability (AccountAbility, 2003a); and the Global Reporting Initiative Verification Working Group (GRIVWG) of the GRI (2002).<sup>23</sup> These parties are considered because the standards which have been issued by them are the most globally influential standards in the area of assurance of stand-alone reports (AccountAbility and KPMG, 2005; KPMG, 2005, O’Dwyer and Owen, 2005).

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<sup>23</sup> In addition to these parties, various organisations have produced standards and guidelines applicable for assurance of non-financial aspects of the reporting organisations. In this context, the International Organization of Standardization (ISO) has introduced three standards related to environmental auditing: ISO 14010 Guidelines for environmental auditing - General principles; ISO 14011 Guidelines for environmental auditing – Audit procedures & Auditing of environmental managements systems; ISO 14012 Guidelines for environmental auditing – Qualification criteria for environmental auditors (ICAEW, 2000, p. 15). Additionally, the Council on Economic Priorities Accreditation Agency (CEPAA) has introduced the Social Accountability 8000 (SA8000) standard in 1997. The SA8000 (which essentially based on the recommendations of the International Labour Organization (ILO) and the Universal Declaration of Human Rights) is “an auditable standard for a third party verification system to ensure both ethical sourcing of products and goods and workplace conditions worldwide” (Göbbels and Jonker, 2003, p. 56).

In 2002, two sets of standards and guidelines in the area of assurance of stand-alone reports were released: FEE and GRI, followed by the AA1000AS in 2003. Most recently the ISAE3000 (which is applicable for assurance statements issued by accountancy firms after 1<sup>st</sup> January 2005) was also released in 2004. In the next subsections attention is given to these standards.<sup>24</sup> Elements of these standards (namely GRI and AA1000) that guide stand-alone reporting practice itself are excluded from the discussion.

#### **2.4.2.1 The International Auditing and Assurance Standards Board (IAASB) of the International Federation of the Accountants (IFAC)<sup>25</sup>**

Following various drafts that have been released since 1997, the IAASB in March 2003 released an exposure draft titled: *Assurance Engagements Proposed “International Framework for Assurance Engagements”, Proposed ISAE2000 “Assurance Engagements on Subject Matters Other Than Historical Financial Information”*. This standard differs from previous proposed standards by using the terms ‘audit-level engagements’ and ‘review-level engagements’ to distinguish between two types of assurance engagements (IAASB, 2003, p. 6). The ISAE2000 was the preliminary version of the ISAE3000, which is considered the most to date and inclusive standard issued by the IAASB. The ISAE3000 is applicable for all professional accountants and effective (for assurance engagements of the non-financial subject matters) where the assurance statement dated on or after the 1<sup>st</sup> of January 2005 (IAASB, 2005, p. 927).

The purpose of the ISAE3000 standard was to “establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice – practitioners – for the performance of assurance engagements other than audits or

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<sup>24</sup> To justify the order in which the standards are considered in this section, priority is given to those standards issued by the accountancy professional bodies since these standards are mandatory for accountants in the public practice, whereas, other proposed frameworks (for example GRI) are deemed to be guidelines for assurance rather than standards, and such guidelines are still voluntarily.

<sup>25</sup> The International Federation of Accountants (IFAC) is the worldwide organisation for profession of accountancy. Founded in 1977 and registered in Switzerland as a non-governmental organisation. With a membership of 155 associations in 118 countries over all the world (IFAC, 2007), the IFAC has become recognised as an authoritative setter of international standards for auditing and assurance practices including “standards governing, auditor education, ethics and the practice of audits” as well as the public sector accounting (Loft *et al.*, 2006, p. 429).

reviews of historical financial information” (IAASB, 2005, p. 909).<sup>26</sup> To perform an assurance engagement in compliance with the ISAE3000, the assurance provider should comply with the requirements of parts A and B of the ‘IFAC Code of Ethics for Professional Accountants’.<sup>27</sup> This code requires the members of the assurance team and the assurance firm to be independent of the assurance client during the period of the assurance engagement (IAASB, 2005, p. 910). The ISAE3000 distinguishes between the reporting company and the users of the reported information. It requires that the assurance provider should accept or continue on assurance assignment only if the subject matter is the responsibility of a party other than the intended users of the assurance statement (IAASB, 2005, p. 911).

In order to perform an assurance engagement properly, the ISAE3000 requires assurance provider to plan the assurance assignment including: assessing the appropriateness of the subject matter; evaluating the suitability of the criteria; developing an overall strategy for the scope, timing and conduct of the engagement and developing an engagement plan (which consists of a detailed approach for the nature, timing and extent of evidence gathering procedures and the reasons for selecting them – see IAASB, 2005, p. 912). It is also required that the assurance provider to plan and perform an engagement with an ‘attitude of professional skepticism’, which means that the assurance provider should make a critical assessment of the validity of evidence obtained (IAASB, 2005, p. 913). Moreover, the assurance provider should consider materiality and assurance engagement risk when planning and performing an assurance assignment (IAASB, 2005, p. 915). Materiality could be considered “when determining the nature, timing and extent of evidence-gathering procedures, and whether the subject matter information is free of misstatement” (IAASB, 2005, p. 915). In order to support the assurance conclusion, the ISAE3000 requires the assurance provider to obtain sufficient appropriate evidence on which the opinion is expressed.<sup>28</sup>

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<sup>26</sup> For the purpose of this standard, terms “reasonable assurance engagement” and “limited assurance engagement” have been used to distinguish between the two types of assurance engagements. Details about these types could be found in section (2.3.3).

<sup>27</sup> This code was issued in November 2001. Section 8 “Independence of Assurance Engagements” of this code is applicable to assurance assignments when the assurance statement is dated on or after 31. December 2004.

<sup>28</sup> Taking into account the relationship between the cost of obtaining evidence and the usefulness of the information obtained, the assurance provider should use professional judgment and “exercise

In respect of the assurance statement, the ISAE3000 requires this statement to be in writing and contain a clear expression of the assurance provider's conclusion regarding the subject matter information (IAASB, 2005, p. 920). Although the ISAE3000 does not require a standardised format for reporting on assurance assignments it instead identifies the following basic elements to be included in the assurance statement (IAASB, 2005, pp. 921-923):<sup>29</sup> a title that clearly indicates that the statement is an 'independent assurance report'; an addressee; an identification of the subject matter being assured; an identification of the criteria used during the assurance assignment; a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria; an identification of reporting company's and the assurance provider's responsibilities; a clear reference that the assurance engagement was performed in accordance with the ISAEs; a summary of the work performed (this summary aims to help the intended users to understand the nature of the assurance conveyed by the assurance statement); the assurance conclusion;<sup>30</sup> the assurance statement date; the name and the location of the firm or the assurance provider; and other information (such as, competencies of the assurance provider and the team involved with the assurance engagement; disclosure of materiality levels; findings relating to particular aspects of the engagement; and recommendations – see IAASB, 2005, p. 925).

Although the ISAE3000 was designed to serve different types of non-financial subject matters, it could be argued that this standard does not identify type or level of risks that associated with the non-financial performance of organisations which in turn, may affect acceptability of the assurance assignment. Moreover, materiality's level regarding disclosure of aspects of the subject matter being assured (e.g. environmental

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professional skepticism in evaluating the evidence and its appropriateness to support the assurance conclusion" (IAASB, 2005, p. 917).

<sup>29</sup> To facilitate effective communication of the intended users, the assurance provider has two choices of reporting the assurance statement: 'short form' or 'long form' (IAASB, 2005, p. 921). The 'short term' statement usually includes the basic elements only, while the 'long term' statement often describes in details "the terms of assurance engagement, criteria used, finding relating to particular aspects of the assignment and, in some case, recommendations" (IAASB, 2005, p. 921)

<sup>30</sup> In a reasonable assurance engagement, assurance opinion is to be expressed in a positive form, for example "In our opinion internal control is effective, in all material aspects, based on XYZ criteria" (IAASB, 2005, p. 924). In contrast, a negative form of opinion needs to be expressed in the case of a limited assurance engagement, for example "Based on our work described in this statement, nothing has come to our attention that causes us to believe that internal control is not effective, in all material aspects, based on XYZ criteria" (IAASB, 2005, p. 924). In specific circumstances, assurance provider should express an unqualified opinion (for more details see IAASB, 2005, p. 925).

or social) or level of misstatement of data in the stand-alone report were both missing from standard's components. However, contents of this standard (namely those related to elements required to be include in the assurance statement) have been used to construct the research instrument used in this study. The aim of this use is to investigate the extent to which the assurance providers have disclosed information about the assurance engagement. In this respect, it is expected that assurance statements provided by accountancy firms and that conducted in compliance with the ISAE3000 to disclose the minimum elements required by this standard.

#### **2.4.2.2 Fédération des Experts Comptables Européens (FEE)<sup>31</sup>**

Since 1999, FEE has published various reports and discussion papers related to assurance of corporate stand-alone reports. In 1999, FEE issued its discussion paper: *Providing Assurance of Environmental Reports*. This proposal was the first attempt at applying the traditional procedures of financial auditing to the environmental reports. In April 2002, FEE released another discussion paper titled: *Providing Assurance on Sustainability Reports*.<sup>32</sup> In contrast with the 1999 discussion paper, the new paper addressed assurance of sustainability reports instead of environmental or social reports.

The 2002 discussion paper identified three different approaches to assurance of the corporate stand-alone reports: accountancy, social audit and consultancy approaches. The accountancy approach relies on the financial auditing model where high level assurance statements are presented by referring to specific standards and guidance such as those issued by the IFAC (FEE, 2002, p. 19). In contrast, social audit approach relies on obtaining evidence from resources outside the reporting company, and focuses mainly on providing assurance of management systems and performance of the reporting company related to social issues referred to in its stand-alone report (FEE, 2002, p. 19). Finally, the consultancy approach evolved through using external

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<sup>31</sup> The Fédération des Experts Comptables Européens (FEE – the European Federation of Accountants) commenced operations in 1987. FEE is the representative organisation for the accountancy profession in Europe (FEE, 2002, p. 2). FEE's Membership consists of 44 professional institutions of accountants from 32 countries (FEE, 2006, p. 3).

<sup>32</sup> In addition to these two (1999 and 2002), FEE has published the following reports and discussion papers (between 2002-2004) which all related to assurance of the sustainability reports: Benefits of Sustainability Assurance – February 2003; FEE Issues Paper - Principles of Assurance: Fundamental Theoretical Issues With Respect To Assurance In Assurance Engagements – April 2003; and FEE Call for Action: Assurance for Sustainability – June 2004.

consultants by the reporting company to help improve the management systems and performance of the non-financial issues (FEE, 2002, p. 19). When performing the assurance engagement, consultancies usually rely on expertise on one particular discipline rather than multidisciplinary teams (FEE, 2002, p.20).

In addition to identifying these three approaches to assurance, the FEE (2002) standard includes many other issues relating to: acceptability of the assurance engagement, characteristics of the assurance provider, planning of assurance process, and assurance work strategy. Additionally, FEE (2002) discusses crucial and challenging aspects relating to assurance engagements including: criteria for stand-alone reporting and assurance; scope of the assurance engagement and where stakeholders may be used to form it; stakeholder dialogue; the non-financial performance of the reporting company; and assurance reporting.<sup>33</sup>

One of the major features of the FEE proposed standard (2002) is the suggestion that assurance provider needs to obtain an understanding of the reporting company's stakeholder relationships and outcomes of the stockholder's dialogue; this will help in assessing the assurance risk through identifying those issues that are most relevant to the stakeholders (FEE, 2002, p. 36). In this context, another significant benefit emerges, where the company reports less of the stakeholders' expectations the assurance provider would consider this when assessing the completeness and balance of the stand-alone report, and hence, need to include this within the assurance conclusion (FEE, 2002, 39).

FEE (2002) state that an assurance statement can take different physical forms and can be used by one or more users (p. 55). Where a narrative assurance statement is intended to be used, and a high level of assurance has been undertaken, the following minimum set of information should be included in the assurance statement (FEE, 2002, p. 55):<sup>34</sup> a title; an addressee (the assurance statement might be directed to

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<sup>33</sup> Although the environmental dimension is deemed to be the most developed dimension of the stand-alone reporting, an assurance provider will face a challenge in the form of "the technical problems in understanding the scientific complexity of certain environmental measurements and disclosure" (FEE, 2002, p. 48). To overcome this challenge in respect of the environmental or any other stand-alone reporting dimension, assurance provider needs to rely 'to some extent' on the work of other assurance providers such as, the financial auditors in the case of economic performance (FEE, 2002, p. 54).

<sup>34</sup> These characteristics drawn from the IFAC statements, and had been included in the "International Standard on Assurance Engagement – ISA 100" (FEE, 2002, p. 55).

internal or external parties); a description of the engagement and identification of the subject matter; a statement to identify the responsible party (usually the reporting company) and a description of the assurance provider's responsibilities; when the assurance statement is for a restricted purpose, identification the parties to whom the statement is restricted and for what purpose it was prepared; identification of the standards used during the assurance assignment; identification of the criteria used; the assurance provider's opinion, including any reservations or denial of a conclusion,<sup>35</sup> the assurance statement date; and the name of firm or the assurance provider and the place of issue the statement.

#### **2.4.2.3 The Institute of Social and Ethical Accountability (AccountAbility)<sup>36</sup>**

In November 1999, AccountAbility released an exposure draft titled: *AA1000 Framework: Standards, Guidelines and Professional Qualification* (AccountAbility, 1999). This document focuses on how organisations could most effectively interact with their stakeholders through applying a framework consisting of three principles, namely: materiality, completeness and responsiveness. In addition, this framework contains a section for auditing and quality assurance guidelines that support the AA1000 framework's principles (AccountAbility, 1999, p. 15).

In June 2002, AccountAbility released a consultation document titled: *AA1000 Assurance Standard Guiding Principles – Consultation Document*. In this document, AccountAbility (2002, p. 8) emphasised that these guidance notes are intended to provide detailed guidance to implementing and using the AA1000 Assurance Standard but that they do “not provide detailed, technical guidance, for example on assurance risk, sampling, and types of assurance evidence”. Further to this document, AccountAbility has reissued the latest and most updated version of its standard in March 2003: *The AA1000 Assurance Standard*.<sup>37</sup> This time AccountAbility (2003a)

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<sup>35</sup> Where the assignment has more than one objective, a conclusion on each objective is expressed, and where the assurance provider expresses a reservation or denial of conclusion, the assurance statement should contain a clear description of all the reasons (FEE, 2002, p. 56).

<sup>36</sup> The Institute of Social and Ethical Accountability (AccountAbility) started as a non-governmental organisation located in London. AccountAbility's mission is to “promote accountability for sustainable development”. Furthermore, it “provides effective assurance and accountability management tools and standards through its AA1000 Series, offers professional development and certification, and undertakes leading-edge research and related public policy advocacy” (AccountAbility, 2003a, p. ii)

<sup>37</sup> Further to this release, AccountAbility (2003a and 2004) has held discussions aimed at evaluating notes of the earlier adopters of the AA1000AS. The first round was held in December 2003 and the second one in April 2004. AccountAbility (2003b, p. 3) emphasised that the purpose of such

emphasised that the purpose of the standard is to create a single approach to dealing with assurance of qualitative and quantitative data related to sustainability performance and to assess the quality of the systems that underpin this data and performance (p. 4). In terms of the standard's construction, AccountAbility (2003a, p. 4) emphasised that AA1000AS is drawn from "and builds on mainstream financial, environmental and quality-related assurance, and integrates key learning with emerging practice of sustainability management and accountability, as well as associated reporting and assurance practices".

While the AA1000AS is "specifically designed to be consistent with, and to enhance, the Global Reporting Initiative Sustainability Reporting Guidelines, as well as other related standards" (AccountAbility, 2003a, p. 8), it differs from standards such as (FEE and ISAE3000) in that it requires the assurance provider to perform the assurance assignment from the stakeholders perspective. In particular, this approach focuses on investigating whether the reporting company has consulted with stakeholders and addressed their interest and concerns in the stand-alone report (AccountAbility, 2003a, p. 8). In addition to the main assurance principles, the AA1000AS covers other issues concerned with the assurance process, such as: the independence of assurance providers, the essential elements of a public assurance statement, and competency requirements of assurance providers.

Indeed, for an assurance process undertaken using AA1000AS, principles of materiality, completeness and responsiveness must be applied (AccountAbility, 2003a, p. 13). These three principles "are common across all aspects of the AA1000 Series", since they may be used, for example, as reporting guidance for preparing the stand-alone report (AccountAbility, 2003a, p. 13). In this section, these principles are outlined as they relate to the assurance practice. It should be noted that the manner in which these principles are applied depends on the level of assurance pursued

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discussions is to "share experience among the first adopters of the standard and to assist in the practical development of the standard both for and by companies and assurance providers". Various aspects relate to AA1000AS have been discussed in these rounds, such as: roles of assurance providers, assurance levels, competencies, legal dimensions of assurance, and materiality (see AccountAbility, 2003b and 2004).

(AccountAbility, 2003a, p. 13).<sup>38</sup> The three principles of the AA1000AS could be briefly outlined as follows:

**Materiality:**<sup>39</sup> this principle requires that the assurance provider state whether the reporting company has included in the stand-alone report “the information about its sustainability performance required by its stakeholders to be able to make their judgments, decisions and actions” (AccountAbility, 2003a, p. 14). Based on the evidence available, assurance providers should form an opinion regarding materiality by referring to any misrepresentations or omissions in the stand-alone report (AccountAbility, 2003a, p. 17).

**Completeness:** under this principle it is required that the assurance provider evaluate the extent to which the reporting company “can identify and understand the material aspects of its sustainability performance” (AccountAbility, 2003a, p. 17). An assurance provider in this context should discuss shortcomings of completeness with the reporting company, which in turn may help to address these shortcomings in the stand-alone report (AccountAbility, 2003a, p. 18). Furthermore, an assurance provider should refer to such shortcomings in the assurance statement (AccountAbility, 2003a, p. 18).

**Responsiveness:** an assurance provider, under this principle, is required to evaluate “whether the reporting company has responded to its stakeholders’ concerns, policies and relevant standards” and communicated these responses adequately in its stand-alone report (AccountAbility, 2003a, p. 18).<sup>40</sup> Indeed, an assurance provider must form an opinion on this principle based on the evidence available from supporting information resources such as, reporting company, stakeholders’ views, industry and other benchmarks (AccountAbility, 2003a, p. 19).

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<sup>38</sup> In this context, there is no precise definition for assurance level. However, AccountAbility (2003a, p. 13) asserts that level of assurance may depend on the quality and the extent of various elements, such as: information available; sufficiency of evidence, underlying systems and processes; internal assurance systems; resources allocated for assurance by the reporting company; legal or commercial constraints; and competencies of the assurance provider.

<sup>39</sup> AccountAbility (2003a, p. 15) considers the information as a material if its omission or misrepresentation in the stand-alone report “could influence the decisions and actions of the reporting company’s stakeholders”.

<sup>40</sup> Responsiveness principle does not require the reporting company to agree or comply with stakeholders’ interests and concerns, but “that it has responded to coherently and consistently to them” (AccountAbility, 2003a, p. 18).

AccountAbility (2003a, p. 23) emphasised that the assurance statement “should address the credibility of the report and the underlying systems, processes and competencies that deliver the relevant information”. To fulfil this ambition, an assurance statement prepared in accordance with the AA1000AS should include: a statement on use of the AA1000AS (for example, how the standard’s principles were applied in the assurance engagement); basic description of the assurance work performed (this includes level of assurance and criteria used in the process); assurance conclusion; additional commentary which may relate, for example, to progress achieved in the stand-alone reporting since the last report; and suggestions for improvements in the reporting systems (AccountAbility, 2003a, pp. 23-24).<sup>41</sup>

#### **2.4.2.4 The Global Reporting Initiative (GRI)<sup>42</sup>**

Following a report issued in June 2000 by the Global Reporting Initiative,<sup>43</sup> the Global Reporting Initiative Verification Working Group (GRIVWG) in April 2001 released a working paper titled: *Overarching Principles for Providing Independent Assurance on Sustainability Reports*. The GRI (2001, p. 3) emphasised that the purpose and benefit of its overarching principles was to “provide practical guidance to organisations that prepare sustainability reports, to those who use such reports and to those who provide assurance on them”. In this paper, GRI (2001) proposed general principles that guide engaging an external assurance practice including: the business case for independent assurance, attributes of the assurance providers and communication of the assurance’s results.

Further to the overarching principles’ document (2001), the GRI launched its *Sustainability Reporting Guidelines* in 2002.<sup>44</sup> Although these guidelines were

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<sup>41</sup> In addition to these requirements, AccountAbility (2003a, p. 24) emphasise that the AA1000AS requires the assurance provider to “make information publicly available about its independence from the reporting organisation and impartiality toward its stakeholders, as well as its own competencies”. This information may be provided in the assurance statement or any other public document (AccountAbility, 2003a, p. 24).

<sup>42</sup> The Global Reporting Initiative (GRI) is an international multi-stakeholder body (located in Amsterdam – The Netherlands) established to create a common framework for sustainability reporting (FEE, 2002, p. 65).

<sup>43</sup> This report is mainly concerned with providing guidance on the preparation of stand-alone reports in accordance with the GRI principles. There is, however, a specific section that outlines guidance for verification of stand-alone reports. The guidance covers both planning of the verification process as well as content of the verification statement (GRI, 2000, pp. 47-49).

<sup>44</sup> GRI (2002, p. 1) emphasised that the term ‘sustainability reporting’ is used “synonymously with citizenship reporting, social reporting, triple-bottom line reporting and other terms that encompass the economic, environmental, and social aspects of an organisation’s performance”.

proposed mainly to assist organisations to report on their non-financial performance, the GRI (2002) have incorporated a guidance section focusing on credibility and assurance. This section in turn, incorporates different aspects that need to be considered in assurance. First, in order to gain a maximum benefit from the assurance engagement, the reporting company is encouraged to clarify many aspects with the assurance provider such as: the subject matter, the assurance criteria and evidence, controls, and usefulness of the reported information (GRI, 2002, p. 77). Second, there are group of issues and attributes that should be considered by the reporting company when selecting the assurance provider (GRI, 2002, p. 77). These considerations include: assurance provider's degree of independence, and conflicts of interest; the assurance provider's ability to balance consideration of the interests of different stakeholders; whether or not the assurance provider has been involved in the design, development of the reporting company's non-financial monitoring and reporting systems or assisted in compiling the stand-alone report; and the time available to the assurance provider to carry out the assignment (GRI, 2002, p. 78). Third, in order to enhance the independence of the assurance practice, responsibilities of the company's directors regarding the assurance engagement are to be clearly determined (GRI, 2002, p. 78). Finally, assurance statement should be addressed to the reporting company's board of directors (or governing body). In addition, this statement should contain a set of characteristics which in turn, are similar to those characteristics proposed in the GRI 2001 overarching principles.<sup>45</sup>

Further to above framework, the GRI released its latest and most updated stand-alone reporting guidelines "Sustainability Reporting Guidelines - G3" in October 2006. In these guidelines, the GRI proposed a new approach for describing the extent to which

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<sup>45</sup> GRI (2002, p. 78) emphasise that "[a]lthough GRI does not develop or prescribe practice standards for the provision of independent assurance, it offers the following guidance on what might be included in an independent assurance report". At a minimum, the assurance statement would include (GRI, 2002, p. 78): separate responsibilities for the reporting company and the assurance provider; a statement confirming the independence of the assurance provider, freedom of bias and conflicts of interest; a statement of scope, any limitations regarding the scope, objectives of the assurance assignment, and the pursued level of assurance; the criteria used during the assurance process; the professional standards for providing assurance that have been used during the assurance engagement; a description of how the assurance provider obtained the evidence (qualitatively and quantitatively) to provide the basis for the opinion, including the extent to which different categories of stakeholders involved in planning and performing the assurance process constrain, and indicate any limitations to this process; clear statement indicating the assurance provider's conclusion/opinion, regarding "the accuracy, completeness, reliability, and balance of the sustainability report"; and identification of the assurance provider, the location, and the date of the assurance statement.

principles of the “GRI Reporting Framework” is applied in any stand-alone report. Within G3, a new approach for disclosing those parts of the report that are assured is also proposed. Under this approach, it is anticipated that the reporting company will indicate the degree of compliance with the GRI Reporting Framework using: C, B, and A levels, as “the reporting criteria found in each level reflect an increasing application or coverage of the GRI Reporting Framework” (GRI, 2006, p. 5).<sup>46</sup> Additionally, the reporting company can “self-declare a ‘plus’ (+) at each level (e.g. C+, B+, A+) if they have utilised external assurance” (GRI, 2006, p. 5). While the 2006 approach is the current state of the art for the GRI, the assurance statements that are examined in this study have been prepared under the 2002 guidelines. Thus, the impact of the G3 framework (GRI, 2006) for assurance disclosure is not covered in this study.

### **2.4.3 Comparison of the assurance standards**

In order to provide an appropriate interpretation of the data analysis results, elements of the main standards and guidelines in the area of assurance of stand-alone reports should be incorporated into the study. Table 2.5 summaries the main characteristics as well as the recommended minimum contents of the assurance statement as proposed by GRI (2002), FEE (2002), AA1000AS (2003), and ISAE3000 (2004).

In comparison with other assurance standards, it could be argued that the AA1000AS is the only standard which aligns the assurance engagement with the material interests of the reporting company’s stakeholders (see also AccountAbility and KPMG, 2005). This covers “issues surrounding the materiality of performance information to stakeholders, the ability of the organisation to report in a complete fashion and the responsiveness of the organisation to stakeholders” (O’Dwyer and Owen, 2005, p. 211). The AA1000AS is also the only guidance that recommends assurance providers provide a further commentary on the contents of the stand-alone report. Furthermore, both AA1000AS and ISAE3000 suggest the assurance provider recommend any

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<sup>46</sup> Through applying the “GRI Application Levels” system, stand-alone reporters should declare “the level to which they have applied the GRI Reporting Framework” (GRI, 2006, p. 5). This system is helpful for report readers (with clarity about the extent to which the GRI guidelines elements were applied in preparation of a stand-alone report) and report preparers with “a vision or path for incrementally expanding application for the GRI Reporting Framework over time” (GRI, 2006, p. 5).

improvements in the reporting company's non-financial reporting and underlying processes and systems.

In addition to being compulsory for financial accountants, the ISAE3000 is the only standard that requires assurance providers to comply with a code of ethics (as outlined by the IFAC). In this context, all other guidelines require some information to be publicly available about the independence of the assurance provider. However, requiring disclosure of information about independence of the assurance provider would help in determining the degree in which users could trust the reported information as well as the assurance statement itself.

**Table 2.5 Recommended contents of AS – comparison of the assurance standards**

| General Characteristics   | Assurance standards/guidelines |           |            |            |
|---|--------------------------------|-----------|------------|------------|
|   | GRI                            | FEE       | AA1000AS   | ISAE3000   |
| Date of launch  | 2002                           | 2002      | March 2003 | Jan. 2004  |
| To compliance with  | Voluntary                      | Voluntary | Voluntary  | Compulsory |
| Compliance with SQC & Code of Ethics (1)                            | -                              | -         | -          | ✓          |
| <b>Minimum components to be included in the assurance statement</b> |                                |           |            |            |
| Title   | ✓                              | ✓         | -          | ✓ (2)      |
| Addressee   | ✓                              | ✓         | ✓ (3)      | ✓          |
| Scope and objective of assurance                                    | ✓                              | ✓         | ✓          | ✓          |
| Responsibilities of the RC and the AP                               | ✓                              | ✓         | -          | ✓          |
| Competencies of the assurance provider                              | ✓                              | ✓         | ✓          | ✓          |
| Independence of the AP from the RC                                  | ✓                              | ✓         | ✓          | ✓          |
| Criteria used   | ✓                              | ✓         | ✓          | ✓          |
| Standards used  | ✓                              | ✓         | ✓          | ✓          |
| Level of assurance pursued  | ✓                              | ✓         | ✓          | ✓          |
| Extent of stakeholders participation                                | ✓                              | -         | -          | -          |
| Impartiality of AP towards stakeholders                             | -                              | -         | ✓          | -          |
| Additional commentary   | -                              | -         | ✓          | -          |
| Conclusion/ Opinion   | ✓                              | ✓         | ✓ (4)      | ✓          |
| Reporting on reservations   | ✓                              | ✓         | -          | ✓          |
| Suggestions for improvements  | -                              | -         | ✓          | ✓ (5)      |
| Name and location of the AP   | ✓                              | ✓         | -          | ✓          |
| Date of the assurance statement                                     | ✓                              | ✓         | -          | ✓          |

(1) Compliance with a System of Quality Control and Code of Ethics. (2) Should be clearly titled as an “independent assurance report” (IAASB, 2005, p. 921). (3) Implicitly stated to be included in the minimum recommended contents of the assurance statement. (4) The final conclusion should cover the following issues: materiality, completeness, and responsiveness. “Fair and balanced” is the term that should be used to express an opinion regarding materiality. (5) Expressing recommendations by the assurance provider is proposed with many other issues that may additionally expressed by the assurance provider such as, findings relate to particular aspects of the engagement, and experience of the assurance provider (IAASB, 2005, 925).

A key feature of the FEE (2002) and GRI (2002) proposed guidelines is the acknowledgement that stakeholder dialogue is likely to be a significant issue in the stand-alone reporting process itself and “may therefore be referred to in the assurance

statement, and indeed may be necessary in helping determine appropriate wording for the statement” (O’Dwyer and Owen, 2005, p.211). In comparison with other guidelines, FEE’s approach to stand-alone reporting assurance is more cautious than that of AA1000AS with, for example, an “overriding desire to avoid creating an expectation gap ... whereby a user mistakenly assumes that there is more assurance than is actually present” (FEE, 2002 in O’Dwyer and Owen, 2005, p. 211). Furthermore, all assurance standards and guidelines considered in the current study except the AA1000AS, explicitly push the business case for stand-alone reporting, with “stakeholder involvement in the assurance process [being] alluded to but seen as far from central to the process” (O’Dwyer and Owen, 2005, p. 212). In addition, all these standards draw heavily on existing financial audit guidance on assurance but, rather tellingly, they suggests that assurance statements should be addressed to the reporting companies’ board of directors (or, if so agreed to stakeholders – see O’Dwyer and Owen, 2005).<sup>47</sup> This in turn may raise questions about ability of these standards to promote accountability within the society.

Nevertheless, components of the assurance statement as proposed by the four sets of standards are considered in the current study. The elements proposed by these standards are examined here through investigating the extent to which assurance providers have disclosed information regarding each of these aspects. For more details how these issues are addressed in the current study see section 5.6 (instrument of the study).

#### **2.4.4 Trends in assurance of stand-alone reports**

Since its appearance in the middle of the 1990s, growth of assurance practice has mirrored the growth in stand-alone reporting (SustainAbility and UNEP, 2004, p. 32). Various non-academic bodies have investigated the growth of assurance practice and have described the trends that are emerging (see for example, KPMG, 1999, 2002, 2005; SustainAbility and UNEP, 2002, 2004; ACCA and CorporateRegister.com, 2004; CPA Australia, 2004).

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<sup>47</sup> In this context, GRI (2002) for example state that “the use of assurance processes should be considered in terms of the value they may bring to reporting organisations, especially where stakeholder expectations have been determined and support for such processes has been identified” (p. 76).

The surveys prepared by KPMG Global Sustainability Services™ provide the most comprehensive data on the prevalence of assurance across different countries and sectors (Wilson, 2003, p. 181). Although the main focus of the KPMG surveys are stand-alone reporting, they also provide information on assurance of stand-alone reports. In the current study, and for the purpose of describing the development of assurance practice, trends and comparisons provided by the 2005 KPMG's survey will be used.<sup>48</sup> Additionally, information from this survey will be used to compare the incidence of stand-alone reporting and assurance practices of the UK top 100 companies (FTSE100) and the economic sectors in the top 100 companies in 16 countries (N100) as well as in the top 250 companies from the Global Fortune 500 (G250).

The key findings of the KPMG survey (2005) indicate that the proportion of assured reports in the global and national level has increased during the last five years. Results also indicate that overall 30% of the G250 sample have externally assured stand-alone reports in 2005 (in comparison with 29% and 19% in 2002 and 1999 respectively - see KPMG, 2005, p. 30). Additionally, KPMG (2005) indicate that 33% (171 reports) of the top 100 companies from 16 countries included in the survey had their stand-alone reports externally assured (in comparison with 27% and 18% in 2002 and 1999 respectively).<sup>49</sup>

Analysis of the top N100 in 2005 indicates that there has been an increase in the incidence of assurance since the 2002 survey (from 27% to 32%). Of all the countries included in the 2005 survey, the incidence of assurance was highest in the UK, where 38 (53%) of 71 stand-alone reports were assured. While it is noted that the overall proportion of the assured stand-alone reports is constant at 53% between 2002 and 2005, it was noted that the "UK shows an increase of 12 percent and is the only country other than Italy where more than 50 percent of the CR reports contain an assurance statement" (KPMG, 2005, p. 31). As can be seen in Table 2.6, assurance

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<sup>48</sup> In this survey, as in the previous surveys, KPMG describe the prevalence of assurance amongst the top 250 in the Global Fortune 500 (G250) and of the top 100 companies in 16 countries (19 countries in 2002) - National 100 (N100). Additionally, categorisation of assurance practices by sectors (industry) has been considered in this survey (see also section 2.5).

<sup>49</sup> In 1999, 11 countries participated in the survey, in 2002 and 2005 surveys number of participated companies raised to 19 and 16 countries respectively.

practices have increased in different European countries (except in Scandinavia) as well as many other countries around the globe (such as Japan, Canada, and Australia).

**Table 2.6 Assured stand-alone reports by country**

| Country      | 2002                |                             |            | 2005                |                             |            |
|--------------|---------------------|-----------------------------|------------|---------------------|-----------------------------|------------|
|              | Stand-alone reports | Stand-alone reports with AS | %          | Stand-alone reports | Stand-alone reports with AS | %          |
| UK           | 49                  | 26                          | 53%        | 71                  | 38                          | 53%        |
| Japan        | 72                  | 19                          | 26%        | 80                  | 25                          | 31%        |
| Italy        | 12                  | 8                           | 66%        | 31                  | 22                          | 70%        |
| France       | 21                  | 3                           | 14%        | 40                  | 16                          | 40%        |
| Spain        | 11                  | 3                           | 27%        | 25                  | 11                          | 44%        |
| Netherlands  | 26                  | 10                          | 38%        | 29                  | 11                          | 37%        |
| Australia    | 14                  | 6                           | 42%        | 23                  | 10                          | 43%        |
| Denmark      | 20                  | 9                           | 45%        | 22                  | 7                           | 31%        |
| Finland      | 32                  | 7                           | 21%        | 31                  | 6                           | 19%        |
| Norway       | 29                  | 6                           | 20%        | 15                  | 5                           | 33%        |
| Germany      | 32                  | 2                           | 6%         | 36                  | 5                           | 13%        |
| South Africa | 1                   | 1                           | 100%       | 18                  | 4                           | 22%        |
| Belgium      | 11                  | 4                           | 36%        | 9                   | 4                           | 44%        |
| Canada       | 19                  | 2                           | 10%        | 41                  | 4                           | 9%         |
| Sweden       | 26                  | 4                           | 15%        | 20                  | 1                           | 5%         |
| USA          | 36                  | 1                           | 2%         | 32                  | 1                           | 3%         |
| <b>Total</b> | <b>411</b>          | <b>111</b>                  | <b>27%</b> | <b>523</b>          | <b>170</b>                  | <b>32%</b> |

Source: KPMG International Survey of Corporate Responsibility Reporting (2005, p. 31).

One of the contributions of this study is that it examines UK practice, with the UK being a leading producer of assurance statements (see Table 2.6). It could be argued that knowledge of the nature and trends in assurance practices in the UK provides an indication of how assurance may evolve in other countries. In the light of this, it is expected that the proportion of the assured stand-alone reports which were issued by the FTSE100 companies during the years of the study would be higher than the global level as indicated in the KPMG survey 2005.

KPMG (2005) also analyse assured stand-alone reports by industry. As Table 2.7 indicates, firms in: utilities; finance, securities and insurance; and oil and gas, are the most common producers of the assured stand-alone reports. In contrast, construction and building materials; pharmaceuticals; and forestry, pulp and papers have a lower incidence of assured stand-alone reports.

In the current study, industries of the FTSE100 companies that issued assured reports are also investigated. Furthermore, industry is one of the factors investigated as to whether or not there is an association between disclosures of the assurance statement

and various corporate characteristics. Drawing from the KPMG survey (2005), variances between the industries is also expected in the UK context.

**Table 2.7 Assured stand-alone reports by the industry** <sup>50</sup>

| Industry                            | 2002                |                              | 2005                |                  |
|-------------------------------------|---------------------|------------------------------|---------------------|------------------|
|                                     | Stand-alone reports | Reports with AS <sup>a</sup> | Stand-alone reports | Reports with AS  |
| Utilities                           | 51                  | 13 (51%)                     | 48                  | 26 (54%)         |
| Finance, Securities and Insurance   | 40                  | 11 (27%)                     | 86                  | 24 (28%)         |
| Oil & Gas                           | 43                  | 18 (41%)                     | 44                  | 18 (41%)         |
| Electronics and Computers           | 33                  | 9 (27%)                      | 34                  | 14 (41%)         |
| Food and Beverage                   | 32                  | 5 (15%)                      | 34                  | 11 (32%)         |
| Trade and Retail                    | 37                  | 5 (13%)                      | 47                  | 10 (21%)         |
| Metal, Engineering                  | 34                  | 7 (20%)                      | 26                  | 9 (34%)          |
| Communication and Media             | 18                  | 2 (11%)                      | 29                  | 9 (31%)          |
| Mining                              | 14                  | 7 (50%)                      | 15                  | 9 (60%)          |
| Automotive                          | 30                  | 8 (26%)                      | 32                  | 8 (25%)          |
| Transport                           | 25                  | 8 (32%)                      | 26                  | 8 (30%)          |
| Chemicals and Synthetics            | 30                  | 10 (33%)                     | 31                  | 8 (25%)          |
| Other Services                      | 9                   | 2 (22%)                      | 24                  | 6 (25%)          |
| Construction and Building Materials | 18                  | 4 (22%)                      | 23                  | 4 (17%)          |
| Pharmaceuticals                     | 14                  | 6 (42%)                      | 11                  | 4 (36%)          |
| Forestry, Pulp and Paper            | 12                  | 2 (16%)                      | 13                  | 2 (15%)          |
| <b>Total</b>                        | <b>440</b>          | <b>117 (27%)</b>             | <b>523</b>          | <b>170 (32%)</b> |

Source: KPMG International Survey of Corporate Responsibility Reporting (2005, p. 32).

<sup>a</sup>AS: assurance statement.

In addition to investigating the country of residence and industry of the reporting companies, KPMG (2005) also consider the type of the assurance provider. Results of the KPMG survey (2005, p. 33) indicate that the major accountancy firms (Big Four) still lead the assurance of stand-alone reporting both at national and global level (although at both levels their market share has declined by 10% between 2002 and 2005). The results also indicate that the share of the market captured by other assurance providers has increased since 2002. Table 2.8 reproduces data on the commissioning of assurance providers.

<sup>50</sup> Difference between the figures included in Tables 2.6 and 2.7 in regard to number of stand-alone reports and assurance statements provided in 2002 is related to poor unrepresentative data of some countries that was not included in Table 2.6 (KPMG, 2005, p. 32).

**Table 2.8 Percentages of assured reports by type of AP (G250 & N100 companies)**

| Assurance Provider      | G250 |      | N100 |      |
|-------------------------|------|------|------|------|
|                         | 2002 | 2005 | 2002 | 2005 |
| Major accountancy firms | 64%  | 58%  | 65%  | 58%  |
| Certification bodies    | 9%   | 21%  | 11%  | 8%   |
| Technical experts firms | 21%  | 2%   | 16%  | 20%  |
| Specialist firms        | -    | -    | -    | 5%   |
| Other                   | 6%   | 19%  | 8%   | 7%   |
| <b>Total</b>            | 100% | 100% | 100% | -    |

Sources: KPMG International Survey of Corporate Responsibility Reporting (2002, p. 21)  
KPMG International Survey of Corporate Responsibility Reporting (2005, p. 33)

One of the key trends drawn from data in Table 2.8 is the increased percentage of assurance assignments being conducted by certification bodies (from 9% to 21%) and other types of assurance providers (from 6% to 19%). Once again, this material will provide a context within which the findings from the current study can be placed.

## 2.5 Conclusion

In this chapter of the thesis, the practice of corporate stand-alone reporting and assurance of this type of reporting were examined. Within this thesis, the term ‘stand-alone reporting’ is used to refer to any type of voluntary report issued by organisations that provide data on the non-financial aspects of the business activities (most usually environmental, social and economic impacts of these activities).

It has been argued that stand-alone reporting has developed when conventional accounting has failed to serve society’s needs (Gray *et al.*, 1996). Thus, this type of reporting was (theoretically) founded to achieve the goals of transparency and accountability through making organisational life more visible (Gray *et al.*, 1996). Several motivations are offered in the literature for producing stand-alone reports. Economic incentives, reputation maintenance, and enhancing credibility of the reporting organisations are the most dominant reasons offered (Gray *et al.*, 1996; Dando and Swift, 2003; Kolk, 2004; KPMG, 2005). Further, investigations of contemporary non-financial reporting indicate that the practice is increasing. However, less evidence exists (among other things) as to who the users are of these reports. In this respect, two main doubts about the reporting have emerged: completeness of the reporting, and the extent to which reports address all the material

issues that arise from stakeholders' perceptions (Adams, 2004). Thus, a credibility gap has been perceived between the reporting organisations and the general stakeholders (Adams and Evans, 2004).

Assurance of the corporate stand-alone reports is one of the mechanisms used by organisations to close the credibility gap with stakeholders through enhancing reliability of their reporting (GRI, 2002; Dando and Swift, 2003; Adams and Evans, 2004). As argued by Power (1999), assurance practices reflect a psychological need for comfort whereby individuals obtain proof from third party that an action or statement is valid. The need for assurance also arises in the context of accountability relationships, where an agent responsible to a principal regarding an issue. The third party in such accountability relationship is the assurance provider who is independent of the two parities (Gill *et al.*, 2001; Eilifsen *et al.*, 2006). In the context of assurance of stand-alone reporting such relationship is not well developed yet.

Recent years have witnessed an increased number of assured stand-alone reports over the world (see KPMG, 2005; Deegan *et al.*, 2006). Within the literature, different approaches to assurance of stand-alone reports have been proposed (FEE, 2002). In the same vein, various standards and guidelines purported to guide the assurance practice have been released by different parties, including professional bodies (such as the IFAC and FEE) and non-governmental organisations (such as AccountAbility and GRI). Of the various pieces of guidance released (FEE, 2002; GRI, 2002; AA1000AS, 2003; ISAE3000, 2004), the AA1000AS is most closely aligned with a stakeholder accountability perspective as “through its focus on stakeholder based materiality, its concern for reporting on completeness and on the responsiveness of the organisation to stakeholders it increases the possibility of any lack of accountability in reporting emerging in properly drafted assurance statements” (O'Dwyer and Owen, 2005, p. 212). This makes AA1000AS the most challenging of the guidance issued for both the reporting companies and the assurance providers (O'Dwyer and Owen, 2005). In order to draw key findings that would guide the current research, literatures that relate to the empirical work of assurance of stand-alone reports are examined in the next chapter.

## Chapter Three

### Assurance of Corporate Stand-alone Reporting: the Academic Literature

“What we need to decide, as individuals, organisations, and societies, is how to combine checking and trusting” Michael Power, 1997.

#### 3.1 Introduction

The practice of corporate stand-alone reporting and assurance of such reports was reviewed in chapter two. Chapter two focused on literature that emerged from professional associations or practitioners and, as a result, presented a relatively uncritical and non-theoretical analysis of the practices and trends that are being observed. This chapter of the thesis extends its focus to the academic literature that considers assurance of stand-alone reporting. It also contains a focus on prior empirical work carried out in this area. The current research study was informed by and responds to the findings of these past studies and provides the opportunity to reassess some of these findings within a large-scaled UK data set.

This chapter consists of three parts. The first explores society’s need for audit and assurance technologies, drawing from Power (1999). Power’s work also helps explore how organisations could achieve ‘auditability’ in respect of their stand-alone reporting and assurance practices. The second part of the chapter focuses on prior empirical studies in this area. This literature includes studies of a critically (Ball *et al.*, 2000; Kamp-Roelands, 2002; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006) and exploratory (Wilson, 2003; Park and Brorson, 2005) nature. Finally, the chapter explores the links between the two areas of literature explored and the current work.

#### 3.2 The role of audit and assurance in the society

According to the International Federation of Accountants (hereafter IFAC) accepting responsibility to act in the public interest is one of the distinguishing marks of the accounting profession (IFAC, 2006, p. 20). Different parties in the society (such as clients, credit grantors, governments, and employees) rely on the objectivity and integrity of the accounting profession to maintain the orderly functioning of the commercial transactions of the community. This reliance imposes a public interest

responsibility on the profession of accountancy (IFAC, 2006). Audit is one of the ways in which accounting could fulfil this responsibility. The crucial question that is posed from this practice, however, is why society needs audit and assurance in the first place?

Power (1999, p. 1) argues that the need for audit and assurance comes from the need of individuals to trust reported information. Robinson (2001, p. 2) suggests that in societies “where most relationships are impersonal, the smooth functioning of those relationships requires a degree of trust”, which in turn, might be achieved by assurance. Power (1999, p. 1) also asserts in this context that “accountability and account giving are part of what it is to be a rational individual”. In this sense, individuals usually accept the information from other parties; especially when there is no obvious reason for the individuals to misrepresent this information. Information, therefore, only needs a double-checking when there is doubt, conflict and mistrust, as “trust releases us from the need for checking” (Power, 1999, p. 1).

It is difficult to imagine a modern society without any form of checking, and there are many circumstances where society appears to believe that some checking is justified (Power, 1999). Checking up between society members is not matter of ‘technical expediency’ but it is also matter of culture, is a product of communities, and produces forms of accountability (Power, 1999, p. 2). Although accountability in its general sense is built in to all human interaction and giving accounts is “fundamental to everyday structures of reciprocity, concrete practices of checking or auditing can vary considerably” (Power, 1999, p. 3). These practices, therefore, depend on what society demands and this, in turn, is a function of what it is prepared to trust and the types of risk to which it feels susceptible. Power (1999, p. 4) suggests that the ‘audit explosion’ refers well-defined set of attitudes or cultural commitments to solve problems of accountability by the use of audits of various types. The ‘audit society’ label thus refers to the tendency revealed by these commitments rather than an objectively identifiable state of affairs (Power, 1999).<sup>51</sup>

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<sup>51</sup> In addition to Power’s (1999) argument with respect to why audit is demanded by society, Hayes *et al.*, (2005, p. 44) suggest four main theories to explain the demand for the audit services. These theories include: theory of inspired confidence, agency theory, policeman theory, and lending credibility theory. Hayes *et al.*, (2005, p. 45) assert that in the policeman theory the auditor’s job is focused on arithmetical accuracy of data and on prevention and detection of fraud, while lending credibility theory focuses in the management tendency to “enhance the stakeholders’ confidence in its

A precondition for the development of an audit/assurance relationship is the existence of an accountability relationship between an agent and a principal (Power, 1999; Gill *et al.*, 2001; Eilifsen *et al.*, 2006; IAASB, 2006). When an accountability relationship is complex (for example, where the principal is distant from the agent's actions and is unable personally to verify such actions, or when the principal does not have the expertise to understand or evaluate the reported information, - see Flint, 1988 in Power, 1999, p. 5) audit is demanded. In these cases, agents also expose principals to 'moral hazard', because an agent may act against the principal's interests. As a result, a principal may appoint a third-party to perform the checking function instead of checking him/her self (Power, 1999, p. 5). In this context, 'audit' is considered as a risk reduction practice which helps the principal to reduce the probability of value reduction actions undertaken by an agent (Power, 1999, p. 5). Under an economic approach to audit, where the risk associated with uncertain actions or inaccurate information outweighs the cost of hiring a third-party verifier (to the point where audit's marginal benefits equal its marginal cost), a principal will initiate an audit practice (Power, 1999, p. 5).

In summary, audit arises from the existence of some kind of accountability relationship. It could be argued that different communities and societies institutionalise different forms of accountability and that the principal-agent relationship can be developed in various ways. For example, Power (1999, p. 5) asks: "who are the relevant principals: shareholders, local communities, taxpayers, or future generations?" (Power, 1999, p. 5). In the current study, an accountability relationship is assumed to arise between different categories of stakeholders (principals) and the reporting company (the agent). The need to provide information within the context of

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stewardship by using audited financial statements". The theory of inspired confidence claims that the demand for audit services is the direct consequence of involving external stakeholders in the company, "these stakeholders demand accountability from the management, in return for their contribution to the company" (Hayes *et al.*, 2005, p. 45). Some of the information provided by management in this context might be biased, because of a possible "divergence between the interests of management and the external stakeholders thus, audit of this information is required" (Hayes *et al.*, 2005, p. 45). Under the agency theory company is viewed as the result of more or less formal contracts, in which several groups make some kind of contribution to the company, given a certain price (Hayes *et al.*, 2005, p. 45). In this case, an auditor is appointed not only in the interest of third parties, but also in the interest of the company management (Hayes *et al.*, 2005, p. 45). From the perspective of the current study, some of these theories (namely, lending credibility theory and theory of inspired confidence) might be useful for examining the assurance of stand-alone reports from the stakeholders' perspectives. Such examination would focus on the stakeholders' views towards the assurance practice. This is, however, outside of scope of the current research study.

this relationship is assumed to be discharged by way of stand-alone reporting. It would, therefore, be expected that in some instances assurance of the information contained in stand-alone reports would be appropriate.

In order to explore the ability of the assurance practice within the stand-alone reporting to be functioning as an accountability promoter within the society, it is important to consider the elements of audit and assurance practices. Power (1999, p. 6) identifies two elements that characterise the practice of auditing: programmatic (normative) and technological (operational) elements. At the normative level, the ideas and concepts that shape the mission of the practice are attached to broader policy objectives (Power, 1999, p. 6). Furthermore, it is assumed that the audit practice is likely to serve particular goals at this level and that audit is demanded by regulatory systems (Power, 1999, p. 6). At this stage, a convincing conceptual ideal of “what auditing is intended to achieve subsists in policy discourse, a vagueness which allows the idea to percolate into different policy arenas and to become attached to different goals” (Power, 1999, p. 6).<sup>52</sup> From the perspective of the current study, this element of audit may relate to a broader conception of accountability within the society which demands that organisations provide more than financial information to more than financial stakeholders. Hence, it may be argued that assurance of stand-alone reporting has a programmatic aspect, that of promoting accountability within the society (ignoring the extent to which there may be disagreement about how well this may be achieved).

In contrast, the technological (operational) element of audit relates to the practical concrete tasks and routines of the audit (such as samples, checklists, and analytical methods – see Power, 1999, p. 6). These routines become codified and formalised over the years, thus, audit processes can “be written up and recorded in a certain way” with practitioners also seeking to invoke cost-efficient solutions to the issue of assurance provision (Power, 1999, p. 7).

Power (1999, p. 7) argues that distinction between programmatic and technological elements of the audit practice is important in understanding that the audit explosion is

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<sup>52</sup> In this context, Power (1999, p. 7) points out the difficulty of identifying a precise meaning around the programmatic dimension of auditing. He emphasises that auditing in the light of its programmatic dimension is “for something, an ill-defined goal which it may serve only imperfectly but through which its daily routines make sense and have value” (Power, 1999, p. 7).

an “explosion of an idea which has become embodied in a wide range of programmes for accountability and control”. The current study focuses more on the technological aspect of assurance in that it seeks to describe the various assurance practices that are reflected on the face of the assurance report. At the same time, aspects of the evaluation (such as the engagement and role of stakeholders and to whom the assurance report is aimed at) relate to both technological and programmatic aspects.

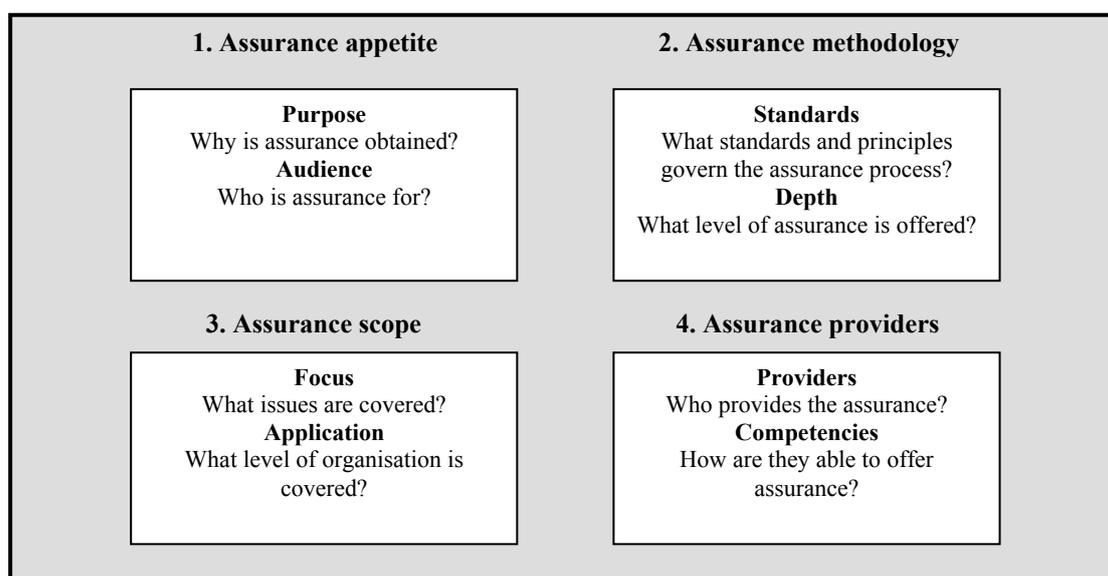
Power (1999, p. 7) argues that although audit has played a vital role in many institutional settings of the society, such as, hospitals, schools, water companies, laboratories and industrial processes, it should be noted that audit is much more than natural or self-evident response to problems of principal-agent accountability. Thus, audit shapes public conceptions of the problems for which it is the solution as well as being constitute of a “certain regulatory or control style which reflects the supposed commitments to checking and trusting” (Power, 1999, p. 7). This is in contrast to the usual assumption that audit responds to public expectations and that it is a practical/technical practice (while noting that audit must also be functionally robust).

Power has recently extended his work on the ‘audit society’ to explore what he phrases auditability (see Power, 2007). Auditability refers to the conception that there are cultural and institutional values which need to be translated practically through presenting assurable performance as well as systems designed to deal with this performance. He emphasises that auditability focuses on “a general analysis of how organisations and their routines become structured and presented [as being] ‘auditable’” (Power, 2007, p. 2). As a result, the assurance provider “can be understood as a vehicle for institutionalised values about the manner in which organisational and individual performance is represented” (Power, 2007, p. 4). From the perspective of the current research, assurance of stand-alone reporting may play a role in achieving auditability of organisations. How this is achieved would depend on the extent to which these practices enhance organisational accountability and transparency for the public’s benefit. In order to be able to make a judgement of this sort, it is relevant to review prior empirical work that has evaluated assurance.

### 3.3 Previous literature on assurance of corporate stand-alone reporting

Given the fact that assurance of stand-alone reporting is relatively new area of research, there are a limited number of empirical studies in this field. The empirical work that does exist can be split into either critical (see Ball *et al.*, 2000; Kamp-Roelands, 2002; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006) or exploratory (see Wilson, 2003; CPA Australia, 2004; Park and Brorson, 2005) studies. Additionally, some non-empirical work has been carried out (see for example, Wallage, 2000; Swift and Dando, 2002; Dando and Swift, 2003; Adams and Evans, 2004). Table 3.1 summarises the key empirical studies of assurance of corporate stand-alone reports.

In order to frame this literature it is necessary to understand why and how different aspects of assurance practice have developed, and to investigate the future challenges facing the assurance of stand-alone reports, ACCA and AccountAbility (2004, p. 16) developed a framework outlining four dimensions of the assurance (see Figure 3.1).



Source: ACCA and AccountAbility (2004, p. 16).

**Figure 3.1 The dimensions of assurance**

From this framework (see Figure 3.1), a number of crucial issues for assurance practice could be drawn out. These issues include: (i) the functionality of assurance (why it is performed and who appears to be the targeted recipient?); (ii) the extent to which assurance evidence can be obtained (what standards or principles are used and what level of assurance is offered?); (iii) the subject matter and scope of assurance

(that is, what issues are covered in assurance and to what extent are these issues amendable to verification?); and (iv) issues about the assurance provider (who can provide the assurance and what competencies required to be able to provide an assurance conclusion?).

Further to the above framework, Power (1999, p. 5) suggests that there are some fundamental aspects that should be present in order to ensure that the assurance/audit process is functioning properly. He emphasised that the most general “conceptual ingredients of an audit practice are: *independence* from the matter being audited; technical work in the form of *evidence* gathering and the examination of documentation; the expression of a *view* based on this evidence; and a clearly defined *object* of the audit process (e.g. financial statements)” ( Power, 1999, p.5 - emphasis added). It is expected that these aspects will be investigated within the prior literature.

Indeed, various issues of assurance practice have been discussed in the literature with assurance methodology, standards used to govern the assurance engagement, independence of the process, motivations and barriers of engaging an assurance provider, approaches used to provide the assurance, function of the assurance statement, and outcomes of the assurance engagement (wording of the opinion, findings and recommendations) being the most common issues addressed (see Ball *et al.*, 2000; Kamp-Roelands, 2002; Wilson, 2003; CPA Australia, 2004; Park and Brorson, 2004; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006). This prior literature will now be reviewed.

In the first critical attempt to evaluate the assurance practices within Europe and UK reporting, Ball *et al.*, (2000) used the theoretical arguments of Power to examine the extent to which assurance statements attached to corporate environmental reports promoted organisational transparency and empowerment of external parties. Their key focus included the independence of the assurance provider; rigour of the assurance procedures; the extent to which performance was addressed in the assurance statements and the extent to which these statements can be considered as a ‘value-adding’ for the external readers. Ball *et al.*, (2000) found that there was evidence of reporters control over the assurance process. Further, there was an overriding emphasis on the environmental management systems as opposed to commenting on

**Table 3.1 Empirical studies in the area of assurance of corporate stand-alone reporting**

| <b>Author(s)</b>                   | <b>Time period and country of the study</b> | <b>Sample and research method used in the study</b>   | <b>Key issues discussed within the study</b>  |
|------------------------------------|---|---|---|
| <b>Ball, Owen, and Gray (2000)</b> | 1991/ 1992-1998<br>UK                       | 79 entries (out of 262 entries) provided by 53 short-listed UK and European companies (in the ACCA Environmental Reporting Awards). Content analysis.   | Independence of the verifier; nature of the attestation work; value-adding of the third-party engagement; nature of the attestation report (weaknesses and recommendations); and what is being attested to (criteria of attestation and wording of opinion).  |
| <b>Kamp – Roelands (2002)</b>      | 1997-1998<br>The Netherlands                | 68 European assurance statements out of 85 produced by 57 companies in 11 European countries, appeared with the environmental reports only. <sup>1</sup><br>Content analysis.   | Contents of the audit report analysed by reference to the IFAC (2000) framework: title; addressee; reference to provider of the engagement; scope of the audit; limitations in the scope; audit criteria (reporting principles); audit objectives; level of assurance provided; responsibilities of the company and the auditor; description of the audit work; conclusion paragraph, recommendations; (signature, address, and name of the auditor) and date of the audit report. Quality of the audit report: completeness; comparability; neutrality; relevance; timeliness, credibility of the auditor. |
| <b>Wilson (2003)</b>               | 2001-2002<br>Canada                         | 206 assurance statements out of 360 included within the CorporateRegister.com database. These statements were from 20 countries worldwide, and related to 2001 and 2002. Content analysis, action research, and participatory – case study approach.  | To what extent are the contents of the assurance statements consistent with the framework of the financial auditing statements? Assesses degree of compliance of the statements' contents against the FEE (2002) template.<br>Association of the FEE (2002) template with factors of: country of reporting; type of assurance provider; sector/industry of the reporting company; and type of the 'sustainability' report are examined.   |
| <b>Park (2004)</b>                 | 2002<br>Sweden                              | 36 assurance statements out of 50 listed in the SustainAbility Benchmark Survey (2002). Interviews with four assurance providers (three accountants and one consultant) and with staff of 28 Swedish reporting companies.<br>Analysis and interviews. | Identification of the extent to which stakeholders have been involved within the assurance engagements. Identified motivations of the companies that are commissioning assurance engagements on their environmental and sustainability reports.   |

| Author(s)   | Time period and country of the study | Sample and research method used in the study   | Key issues discussed within the study   |
|---|--------------------------------------|--|---|
| <b>O'Dwyer and Owen (2005)</b>                        | 2002<br>UK                           | 41 assurance statements appeared with 81 short-listed environmental, social and sustainability reports of the ACCA UK and European Sustainability Reporting Awards. Research instrument used to analyse content of the statements. | Reference was made primarily to the requirements of the GRI, FEE, and AA1000 guidelines. The analysis covered issues of: general information about types of assurance provider and assurance process; independence of the assurance providers; description of the assurance work undertaken (this includes levels of assurance and use of specific assurance standards); materiality, completeness and responsiveness; assurance findings (assessment of reporting systems, other underlying processes and systems, and performance); and nature of assurance opinion offered in the assurance statement. |
| <b>Park and Brorson (2005)</b>                        | 2004<br>Sweden                       | 28 Swedish companies out of 119 contained within the CorporateRegister.com database. Structured interviews with management staff of the reporting companies and with the assurance providers (accountants and consultants).        | Experiences and views of the reporting companies on assurance practices (why companies seek third-party assurance practice?); approaches to assurance used by the assurance providers; defining scope of assurance; typical steps of the assurance process; costs and benefits of assurance practice; relationship with the assurance provider; and future perspectives on assurance practice (obstacles and drivers).  |
| <b>Deegan, Cooper, and Shelly (2006) <sup>2</sup></b> | 2000-2003<br>Australia               | 149 assurance statements out of 170 assured TBL reports from UK (48), Europe (52), Australia (33), and Japan (16). General framework of analysis – research method is not clearly defined.   | Analysis used to FEE (2002) and GRI (2002) guidance on the contents of the assurance statement. In addition to wording of assurance opinion, praise and improvements expressed within the assurance statement, the analysis includes: assurance providers; statements' titles; addressee; responsibilities of the reporting company; objectives of the engagements; assurance criteria; assurance procedures employed; standards used to govern the assurance engagement; use of experts; and restrictions imposed on the scope of assurance.   |

<sup>1</sup> In addition to this sample, Kamp-Roelands (2002) conducted an earlier analysis of 45 assurance statements attached to the non-EMAS reports which were issued by 29 companies from seven European countries (Kamp-Roelands, 2002, p. 95). <sup>2</sup> An earlier draft of this study has been published as a report in 2004 by the CPA Australia; this report is not considered here since its findings are almost similar to those provided by Deegan *et al.*, (2006).

the performance of the reporter. Thus, it was concluded that the assurance practice reflected a ‘managerial turn’ rather than a genuine corporate commitment to external transparency and accountability.

Ball *et al.*, (2000) study also raised question marks regarding independence of the assurance providers, rigour of the assurance procedures applied as well as findings of the assurance engagement. In respect of the former concern, there was a variation in level of disclosing independence of the assurance process between the assurance providers (with 64% of the accountants’ statements were judged to be independent against 44% of those provided by environmental consultants – Ball *et al.*, 2000, p. 7).

Further, Ball *et al.*, (2000, p. 8) suggested that three models of assurance existed with respect to independence of the assurance process (p. 8), namely: an independent verification model; an audit model and a consultancy model. The first model reflects an independent assurance process where the assurance provider is independent from the stand-alone reporter and comments from this standpoint. Within this model, there is usually no consultancy relationship between the assurance provider and the reporting company (Ball *et al.*, 2000, p. 8). In the audit model, the assurance provider (on behalf of the reporting company) conducts or assists in a corporate ‘environmental audit’, thus, the assurance statement is considered as a “report on aspects of the audit process or audit findings” (Ball *et al.*, 2000, p. 8). In contrast, within the consultancy model there are usually a variety of consultancy relationships between the assurance provider and the reporting company. These relationships may be ‘on-going’; thus, the assurance provider assists in producing the stand-alone report (or providing advice on its content) and provides an assurance statement (Ball *et al.*, 2000, p. 8). What is disturbing in this regard is that there was “no recognition amongst verifiers ... that the dual roles of consultant and ‘independent verifier’ played out by the consultant verifier might introduce an element of tension or conflict vis-à-vis public report” (Ball *et al.*, 2000, p. 8). Further more, Ball *et al.*, (2000) point out that the principal (the readers or stakeholders) did not appear to be commissioning the assurance. Rather, the agent (the reporting company) commissioned the assurance which is problematic because it implies that the agent has control over the scope of the assurance process (p. 9).

With respect to the assurance methodology, Ball *et al.*, (2000) suggested that assurance practices were unlikely to add value for external constituencies because there was considerable variation with regard to assurance methodology. They noted that this included for example, ambiguity with regard to the principles which the assurance provider used to reach his/her conclusion; a large variety of the terms used to reference the assurance methodology (e.g. review, inspection, validation); and variation of the assurance methods (e.g. site visits, staff interviewing, reviewing of information control systems). In their mind, these variations, in the absence of established assurance standards, would lead to a situation where an assurance statement reader will not be able to assess “the extent to which the verifier’s report provides comfort on the reliability of the [stand-alone] report itself” (Ball *et al.*, 2000, p. 12).

The third concern about assurance practice highlighted by Ball *et al.*, (2000) is related to the findings within and assurance provided by the assurance statements. Ball *et al.*, (2000) argued that if the assurance practice was independent and challenging one would expect to find disclosures on the face of the assurance statements relating to weaknesses in the data collected, the environmental management system as well as weaknesses in the environmental performance (p. 13). In their sample, the results revealed that only 39% of the statements made a reference to weaknesses in the data collection and only 13% made a reference to weaknesses in the environmental performance (with only 14% of these statements have provided recommendations regarding the environmental performance). This raises a critical question about the role that may be played by assurance providers in addressing crucial issues such as the non-financial performance of the reporting companies in their assurance engagements.

Finally, Ball *et al.*, (2000, p. 13) suggest that the differences in assurance provided by accountants versus environmental consultants arise from the fees paid for assurance. They argued that the low fee levels associated with assurance of stand-alone reporting could explain the cautious attitude of the accountants with respect to the level of assurance provided (Ball *et al.*, 2000, p. 13). Indeed, Outram (1996 in Ball *et al.*, 2000, p. 13) argued that “it would be unrealistic to expect the same degree of assurance from both environmental and financial verification”. This suggests that the amount of assurance fee paid by the reporting companies may be affecting assurance procedures applied, and consequently, the assurance conclusion will be also affected.

In this context, it should be noted that none of the previous literature has addressed this issue any further.

Kamp-Roelands (2002) shares many of the same concerns as Ball *et al.*, (2000) regarding the inadequacy of information disclosed within the assurance statements. Kamp-Roelands (2002) examined the 'leading-edge' of assurance statements that were released in Europe between 1997-1998 and found a large degree of variation in the information disclosed within these statements. Ambiguity of the words used to express the assurance opinion; wide variation in the methodologies used to obtain assurance evidence; variation in the definition of the assurance scope; and the variety of standards and criteria employed in the assurance engagements are examples of problems that were identified. This implies that the assurance practice is a far way from being harmonised. Thus, Kamp-Roelands (2002) called for an international action to develop meaningful assurance practice.

In order to see whether or not assurance practice is changing worldwide, Wilson (2003) examined the concepts behind, and the practice of, providing external assurance on what he called corporate 'sustainability' reporting. Through employing a participatory qualitative approach in two case studies of assurance engagements, Wilson (2003) explored approaches that are being used to undertake assurance engagements. Additionally, a content analysis of a global sample (206) of assurance statements was conducted to investigate the extent to which contents of these statements complied with the template of an 'accounting' oriented standards (FEE, 2002), as well as associations between these contents and industry type, country of reporting, type of assurance provider and type of report were addressed in the research. Although Wilson's (2003) analysis is relied mainly on FEE (2002) framework (which in turn, is a 'risk-based' approach designed to serve assuring of 'sustainability' reports) less attention was given to examining if assurance enhanced accountability and transparency.

Wilson (2003) found that assurance practice varied according to the practitioners' approaches. In contrast with Ball *et al.*, (2000), Wilson (2003) distinguishes between three different models of assurance: the accountancy, consultancy, and stakeholders commentary model. Consequently, one could suggest that there are three distinctive types of assurance: those reflecting an accountancy and consultancy mindset as well

as commentaries that are offered as some sort of assurance. Wilson (2003) concludes that there are association between contents of the assurance statements (as recommended in the FEE, 2002 template) and country of reporting; industry of the reporter; type of the assurance provider and type of the stand-alone reporting. In addition, it is suggested that the principles and processes that have traditionally been associated with financial audit/assurance can be applied in the case of corporate stand-alone reports. This conclusion was drawn from the perceived usefulness of an analysis based on an 'accountancy' profession standard (FEE, 2002).

Relying on work carried out by Park (2004 - which raised concerns about the lack of stakeholders' engagement within the assurance practice) Park and Brorson (2005) used different lenses to explore development of the environmental/sustainability reporting and the third-party assurance within the Swedish environment. The authors conducted series of open-ended interviews with staff of 28 companies and four assurance providers to explore the dynamics behind the corporate decision to engage, or not, in external assurance. Furthermore, Park and Brorson (2005) investigated the process of organising the assurance practice within the stand-alone reporting cycle.

From the perspective of the investigated companies, third-party assurance practices were considered beneficial as a tool to develop the internal reporting systems as well as to improve the quality of their stand-alone reporting (Park and Brorson, 2005, p. 1095). This result is consistent with the previous argument of Ball *et al.*, (2000) that the assurance practice has a strong managerial focus and it is for the benefit of the reporter rather than the external constituencies. The sample companies found it difficulty to verify that the assurance engagement increased credibility of the reported information (Park and Brorson, 2005). However, the study revealed that companies may seek third-party assurances in order be the same as other companies as well as to be eligible for being rewarded through the stand-alone reporting awards and schemes (such as, the European Sustainability Reporting Awards). This implies that assurance practice can be used as a symbolic statement in order to maintain the reputation of the reporting companies. In this regard, Ball *et al.*, (2000) articulate a contrasting point of view where they emphasised that "[a]s, the size of the short-list to the Awards tends to increase in progressive year, [this would] suggesting general improvements in reporting and perhaps verification practice" (Ball *et al.*, 2000, p. 4). For those

companies whom decided not to engage in assurance within their stand-alone reporting processes there were various reasons given including: suspicion about added value of assurance in terms of increasing the credibility of information; incomplete reporting systems; high assurance fees and absence of pressuring to undertake assurance (Park and Brorson, 2005). To some extent, this conclusion would emphasise the uncertainty reporting companies feel about the value of assurance.

In an attempt to build on prior literature (namely Ball *et al.*, 2000) O'Dwyer and Owen (2005) carried out an analysis of a 'leading-edge' assurance statements provided within the UK and European context.<sup>53</sup> Their main concern focuses on the extent to which these statements enhance transparency and accountability to organisational stakeholders. To facilitate the analysis, O'Dwyer and Owen (2005) evaluated the extent to which the contents of assurance statements address key accountability focused elements of assurance recommendations included within recently issued guidelines from AccountAbility (2003a), FEE (2002) and GRI (2002). Aspects investigated included: independence of the assurance exercise; engagement scope; standards and criteria employed; materiality; completeness; and responsiveness. Whilst a comprehensive analysis of the three guidelines implications to the assurance disclosure is addressed by O'Dwyer and Owen (2005), it seems that less attention was given to address what is missing in these guidelines. For example, O'Dwyer and Owen (2005) stated that according to materiality definition (as proposed by AccountAbility, 2003a in AA1000AS), information is deemed material "if its omission or misrepresentation could influence the decisions and actions of stakeholders. From this, [O'Dwyer and Owen] ... assume that identified stakeholders are viewed as the key users of these reports, so why the reluctance to address assurance statements to them?" (p. 224). In this instance, no attention is given for example to examine why AA1000AS does not require assurance providers to address their statements to the stakeholders if the materiality of information, indeed, was judged from their perspective?

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<sup>53</sup> O'Dwyer and Owen (2005) utilised the same sample-base that was used by Ball *et al.*, (2000). Their sample is consisted of 41 assurance statements (28 from the UK and 13 European) included within the environmental, social and sustainability reports short-listed for the 2002 ACCA UK and European Sustainability Reporting Awards.

O'Dwyer and Owen (2005) study also raises questions marks regarding the independence of the assurance process and the large degree of management control over the assurance practice. Despite the increased level of information disclosed about the independence of assurance provider as well as the procedures applied in the assurance exercise (compared to previous work of Ball *et al.*, 2000), there was no evidence that assurance statements are adding value for the reported information from stakeholders accountability perspective. This inference is draw from evidence that assurance providers appear to be reluctant to address their statements to specific stakeholder constituencies; a general absence of stakeholder participation in the assurance processes and materiality not being substantively defined in stakeholder terms in the face of the assurance statements (O'Dwyer and Owen, 2005).

Indeed, the large degree of the managerial capture over the assurance practices is one of the critical issues that impede the accountability being enhanced by these practices (Ball *et al.*, 2000; O'Dwyer and Owen, 2005). Given the fact that assurance providers are appointed by the reporting companies, it would be expected that they can place restrictions on the assurance exercise (specifically in the assurance scope), hence, assurance provides are effectively reporting to the management of the reporting company in opposed to stakeholders (O'Dwyer and Owen, 2005, p. 224). This implies that the value of the assurance is likewise directed to management.

Consistent with the earlier findings of Ball *et al.*, (2000), a clear distinction was evident between approaches of accountant and consultant assurance providers in O'Dwyer and Owen (2005). Within the accountancy approach, focus is given to the issue of consistency and accuracy of information in the stand-alone report; the phrase true and fair is not used in expressing an opinion and issues such as completeness of information provision is not usually considered (O'Dwyer and Owen, 2005, p. 225). In contrast, the consultancy model focuses more on the issues of completeness, fairness and overall balance within their opinion statements, as well as providing more commentary on systems, reporting and performance weaknesses (O'Dwyer and Owen, 2005, p. 225). Subsequently, consultants would appear to provide higher level of assurance which in turn, might be considered as adding value to the stand-alone reporting process from the perspective of external stakeholder groups, although "their

focus in aiding corporate strategic direction potentially blurs their independence” (O’Dwyer and Owen, 2005, p. 205).

One of the key findings of O’Dwyer and Owen (2005) is the influential role that standards can play in the assurance practice. For example, improvements in terms of the extent of work undertaken and greater degree of focus on the performance (as opposed to simply management systems) were noticed, “particularly in the case of assurance exercises conducted on social/sustainability reports, which employ AA1000 methodology” (O’Dwyer and Owen, 2005, p. 224). While this is encouraging it is disturbing that, although assurance statements employed the AA1000 guidance were most likely to provide a higher level of assurance, the overall trend of assurance reflects a lack of stakeholders’ input into the assurance process (O’Dwyer and Owen, 2005). This suggests that accountability to stakeholders is in a low priority in the assurance exercises (O’Dwyer and Owen, 2005).

In the most recent empirical work carried out in the area of assurance of stand-alone reporting, Deegan *et al.* (2006) have expanded on the work of O’Dwyer and Owen (2005). Deegan *et al.*, (2006) utilised an international sample of assurance statements: represented by 33 statements from Australia, 48 from the UK, 52 from Europe and 16 from Japan. Deegan *et al.*, (2006) used guidance provided by GRI (2002) and FEE (2002) with respect to the recommended contents of the assurance statement (for details of these contents, see section 2.4).

Consistent with Kamp-Roelands (2002), Deegan *et al.*, (2006) found that not only is there considerable variation within countries regarding contents of the assurance statements, but variations across countries also exist. Further, Deegan *et al.*, (2006, p. 367) argue that the degree credibility added to stand-alone reports by assurance depends on the attributes exhibited in the assurance statements as well as the nature of assurance providers themselves. These attributes included, for example, independence and clarity with respect to the contents of assurance statements (Deegan *et al.*, 2006, p. 367). With respect to independence, there was an absence of clear disclosure within many of the examined assurance statements. For example, few statements have made a reference to separate responsibilities of the reporting companies and the assurance providers. In terms of clarity of the assurance statements’ contents, Deegan *et al.*, (2006) conclude that it is impossible to determine the potential value that may

be added to the stand-alone reporting from the statements. In this context, considerable variability existed in, for example, the titles of the statements; the work undertaken; addressees; and criteria and standards employed in the assurance process. There was also a lack of clarity of impact of any limitations imposed on the assurance scope (Deegan *et al.*, 2006).

Given the fact that the assurance conclusion is key focus of any assurance statement, Deegan's *et al.*, (2006) study raised concerns about the variability in the wording of assurance conclusions "with many of the terms being used having no clear meaning" (p. 368). Relying on the findings above, Deegan *et al.*, (2006, p. 368) suggest that it is difficult to understand how readers of assurance statements would understand the nature of the engagement, what has been reviewed and the meaning of the assurance conclusion.

As a result, Deegan *et al.*, (2006) called for action to overcome the uncertainty in assurance practices. They argued that there is a need for clear guidance or regulations in the area. In this regard, Deegan *et al.*, (2006) suggest that co-operation is required between professional bodies and other parties (such as IAASB, GRI and AccountAbility) to devise 'comprehensive' guidance for assurance of stand-alone reporting. To support their argument in this context, Deegan *et al.*, (2006) concluded that accountancy assurance providers, for example, were more likely to identify an addressee of their statements (suggesting that the company is responsible for the content of the stand-alone report) and indicate the standards used to conduct the assurance engagement. From Deegan's *et al.*, (2006) perspective, the willingness to disclose such information is due to the guidance that has been created by the accountancy profession in relation to audit of the financial statements (p. 368). Although Deegan's *et al.*, (2006) citations are related to specific disclosures that in turn, are required initially within compulsory 'accountancy profession' standards, it should be noted that value of some of these disclosures remains doubtful from a stakeholder accountability perspective, since the whole process is undertaken for internal benefit and addressed finally to the management of the reporting company. In this case, assurance statements merely "represent an *internal* assurance exercise being published externally" (O'Dwyer and Owen, 2005, p. 225 emphasise in original).

Wallage (2000) calls for generally accepted criteria to be established for the purposes of assuring stand-alone reports (with emphasis on the financial audit experience). In contrast, Swift and Dando (2002) argued that in the interests of true accountability and commitment to stakeholder interests, assurance providers of stand-alone disclosures must go beyond normative auditing practice and comment on features of performance that would not normally be covered in the financial disclosure. In the same vein, Dando and Swift (2003) suggest that assurance practice can be used to narrow the credibility gap in the stand-alone reporting practice if it is going beyond the 'accuracy focused' model of the financial audit which they argued, is not adequate for the broader dimensions included within stand-alone reporting. Dando and Swift (2003) argued that the current practice of assurance has a number of inadequacies related to its robustness, reliability and consistency. Furthermore, they raised questions with regard to usefulness of the stand-alone reporting and assurance for the external stakeholders. They noted that if the stand-alone reporting "discloses performance in terms of stakeholders, then reporting needs to be assessed in terms of its relevance and usefulness to stakeholders and their decision making" (Dando and Swift, 2003, p. 199). They further called for universal standards for assurance practice as well as for the credibility of the assurance providers. In this context, Dando and Swift (2003) suggest that the AA1000 Assurance Standard could play a focal role.

Finally, Adams and Evans (2004) highlighted the negative influence of management in the assurance exercise. They emphasised that the usefulness of the recent assurance practice is questionable due to the absence of key features that they believe are necessary for meaningful assurance engagements. These features are related to absence of the stakeholders involvement within the assurance practice; limitations imposed by management on the scope of assurance; the reporter commissioning the assurance provider; a lack of assessment of the completeness of reported information; and an inability of assurance provider to express an opinion. Hence, Adams and Evans (2004) suggested that there needs to be radical change in the governance systems in order to give stakeholders more powerful role in assurance (such as appointing the assurance provider as well as determining scope of assurance).

A number of implications for the current research can be drawn from the key issues and concerns identified in the prior literatures. These concerns will be used as a lens

to evaluate the status of the assurance practice within the UK. The next section in this chapter draws out these concerns.

### **3.4 Implications from the prior previous literature for the current research**

Taken together, the results of the prior studies of assurance raise several concerns. Doubts about value added by assurance for external constituencies, and inability of assurance to enhance accountability and transparency for stakeholders are major concerns (see Ball *et al.*, 2000; O'Dwyer and Owen, 2005). In addition, a number of more technical issues were identified as being lacking. Specifically, concerns exist in the areas of: independence of the assurance providers; the competencies of providers; managerial capture of assurance (represented for example by, limitations imposed in the assurance scope and absence of non management addresses); absence of the stakeholders engagement in all stage of assurance; variability in the level of assurance provided; lack of consideration of assessment of completeness; weaknesses not be addressed (especially weaknesses in non-financial performance); and a lack of consideration of materiality from stakeholders' point of view. Concerns also arise with regard to the procedures applied within the assurance engagement as well as the disclosures made in the assurance statement. Under this last category, there are number of concerns including: variations in the statements' titles; lack of disclosure of standards used to govern the assurance exercise; lack of disclosure of criteria against which the reported information is assessed; variation and ambiguity in the opinion wording; variability of assurance techniques and procedures applied; a concentration on verifying data accuracy and its generating systems as opposed to performance; and a lack of recommendations (despite weaknesses being highlighted).

The key outcome that emerges as a result of the concerns is that the accountability relationship that should underpin audit/assurance (as expressed by Power, 1999) is absent. Furthermore, the absence of the stakeholder engagement suggests that the assurance exercise (in a programmatic sense) will not enhance public accountability.

The current research attempts to build in this prior literature to provide an evaluation of a longer and broader UK sample of assurance statements as well as a more up to date evaluation. The concerns identified in the literature appear to have lessened (with regard to some technical aspects) over time (comparing the Ball *et al.*, 1999 study

with O'Dwyer and Owen, 2005) and, as a result, one would expect that for some aspects of assurance the current study sample will be better. This could also be expected that although there are no generally accepted assurance guidelines, voluntary guidelines have continued to be issued over time (see O'Dwyer and Owen, 2005). Further, it is expected that the information disclosed within the assurance statements provided on FTSE100 companies' stand-alone reports will share characteristics with statements provided around the globe. At the same time, given that the incidence of assurance in the UK is higher than elsewhere in the world it may be that UK performance would provide a glimpse of where international trends will evolve to. Although none of the previous studies have focused on assessing the assurance practice solely within the UK environment, the various studies have included a considerable number of assurance statements that were issued by large UK companies (see for example, Ball *et al.*, 2000; Wilson, 2003; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). Therefore, it is expected that the findings of the current research will be comparable (to some extent) to the findings from the prior literature.

### **3.5 Conclusion**

This chapter of the thesis has presented the prior literature in the area of assurance of stand-alone reports. Given that this area of research is relatively new compared to financial audit research, a limited number of studies have been conducted.

In principle audit and assurance is demanded in the society because of existence of an accountability relationship between two parties (Power, 1999). For example, within the financial audit model, this relationship is constituted between management of the company (as an agent) and the shareholders (as a principal). Within the stand-alone reporting it is hoped that such a relationship can be fostered between a reporting company (as the agent) and general stakeholders/society (as the principal). The existence of this relationship in theory exists, but in reality is not fully functional. Assurance could plausibly contribute to the quality of that relationship by increasing the trust between the parties.

The prior literature in the area of assurance focused on the 'first wave' of assurance statements in UK and Europe (Ball *et al.*, 2000; Kamp-Roelands, 2002). In addition, later studies examined assurance of a variety of reports (social, environmental or

sustainability) in different parts of the world (Wilson, 2003; CPA Australia, 2004; Park, 2004; Park and Brorson, 2005, O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). In these studies, various crucial aspects were examined including for example, independence of the assurance provider, the work performed, conclusions expressed and degree of stakeholders' engagement in the assurance exercise.

Numerous concerns have been raised in literature including: the independence of the assurance process; variability in the approaches to and procedures used to obtain assurance evidence; limitations imposed by the management on the assurance scope; variations in titles of assurance statements; failure to comment on performance of the entity under review; ambiguity in wording the assurance conclusions; absence of any addressees other than the reporter; and absence of stakeholders' engagement in these practices. All concerns have raised questions about ability of assurance practices to increase credibility of information in eyes of the reports' readers and, hence, the ability of these practices to enhance organisational accountability and transparency.

As the current research intends to evaluate assurance practices of the largest UK companies, the concerns raised by the previous literature will be used to inform the work. In the next chapter, the methodology and methods employed in this thesis are outlined and, in particular, the literature reviewed here has been used to develop the research instrument of the study. This instrument in turn, will be used to analyse the assurance statements targeted in this study.

## Chapter Four

### Research Methodology and Methods

#### 4.1 Introduction

Previous chapters have reviewed literature on the fields of: the corporate stand-alone reporting; auditing and assurance; and assurance of corporate stand-alone reports. Before moving to the data analysis chapters, it is imperative to present the methodology and methods employed in this study. This chapter outlines the various ontological and epistemological assumptions made by researchers undertaking social research. Attention is particularly given to the philosophical ideas underpinning social aspects of accounting research. The objectives of the current research study are then presented. This is followed by explanation of the philosophical assumptions underpinning the current research study which in turn, supports the choice of a particular methodology for the study. This chapter concludes with an outline of the content analysis method (which has been employed in conjunction with a research instrument) to gather the empirical data of the current study. Finally, the data gathering process is outlined.

#### 4.2 Philosophical assumptions

This part of the chapter highlights the various philosophical assumptions that underpin any research study and which will lead to a specific methodology being employed to investigate the research phenomena. This section relies on the Burrell and Morgan framework (1979), as well as other relevant frameworks such as, Chua (1986), and Laughlin (1995).

##### 4.2.1 Assumptions about the social science

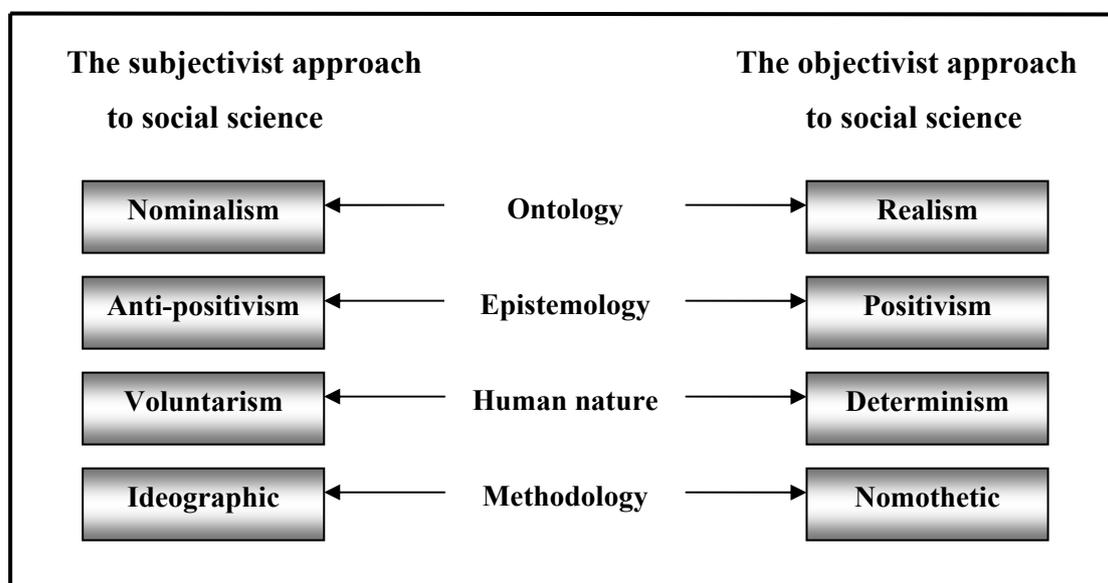
Denzin and Lincoln (1994, p. 13) claim that research is guided by a set of thoughts, beliefs and feelings about the world in general and how it should be studied and understood, and this idea is behind the concepts of: ontology, epistemology and methodology. Realism and idealism are terms used to describe the ontology - the study of existence – what is the nature of the reality? (Ryan *et al.*, 2002, p. 13). In contrast, the core of the epistemology is to decide how we can acquire knowledge through ‘justified true belief’ (Ryan *et al.*, 2002, p. 11). Taylor and Bogdan (1984, p.

1) simply define the methodology as “the way in which the researcher approach problems and seek answers”.

The ontological assumptions within research concern researchers’ beliefs about reality, while assumptions about epistemology determine what counts as knowledge and in turn, determines how knowledge is gathered. Whilst any researcher tries to search and study in order to gain ‘knowledge’ about social phenomena, different ontologies, epistemologies, models and paradigms of human nature will lead the researcher to build different types of methodology (Burrell and Morgan, 1979; Chua, 1986; Laughlin, 1995; Gill and Johnson, 1997).

Burrell and Morgan (1979, p. 7) present a model with four sets of assumptions which provided a powerful tool for analysing social science. These four assumptions, taken together, epitomise the subjective – objective approach to the study of the social science. Figure 4.1 presents the framework of assumptions concerning social science research.

#### The Subjective – Objective dimension



Source: Burrell and Morgan (1979, p. 3).

**Figure 4.1 A scheme for analysing assumptions about social science research**

Burrell and Morgan (1979) assert that the ontological and epistemological assumptions made by the researcher in combination with an individual’s views of the human nature guide the methodological nature of any piece of research.

The ideographic approach to methodology is “based on the view that one can only understand the social world by obtaining first hand knowledge of the subject under investigation” (Burrell and Morgan, 1979, p. 6). This methodology focuses on the development of the individual understanding the ways which enable to create, modify and interpret the social world in which the individual exists (Burrell and Morgan, 1979, p. 6). From the point of the researcher, the world is considered as a social construction which has been built accumulatively by generations of social actors (which Burrell and Morgan called life history). According to the subjective approach, an individual’s nature results from experience within society and communal values they decide to adopt. To understand the investigated society under this approach, the researcher adopts a methodology that concentrates on human as single beings, each one of them having varied historical experience and differing future views, thus, the researcher needs to see things from an individual’s point of view (Taylor and Bogdan, 1984).

The nomothetic approach to social science is opposite to the ideographic approach and it “lays emphasis on the importance of basing research upon systematic protocol and technique” (Burrell and Morgan, 1979, p. 6). This approach tends to use the natural science methods and approaches; thus, the social world is considered as “being hard, real and external to the individual” (Burrell and Morgan, 1979, p. 2). In this approach, the researcher draws from an ontological assumption that society has evolved in identical manner as nature social interaction and outcomes follow a set rules. To gain knowledge about the social phenomena, therefore, a researcher must examine multiple data points.

Epistemological assumptions underpinning the nomothetic approach are deemed to be positivistic by Burrell and Morgan (1979, p. 6). These epistemologies lead to view that human nature is such that (individuals’ actions) are identical and predictable because they are determined by the society. Hence, the objective researcher methodology in the social sciences will not be greatly different from that of natural sciences researcher focusing upon testing hypotheses by constructing and using quantitative techniques for gathering and analysing data (Burrell and Morgan, 1979,

p. 7).<sup>54</sup> Burrell and Morgan (1979, p. 9) emphasise that both ideographic and nomothetic methodologies can be used in inductive and deductive logic.

#### 4.2.2 Assumptions about the nature of society

Burrell and Morgan (1979, p. 10) also outline two assumptions regarding the nature of the society which is being researched. Researchers who deal with a society as a result of logical interactions (unaffected by the human actions), are interested in explaining the social phenomena concluded from the organisational concept of the society. On the other hand, researchers who deal with the society as reflection of the individuals' conflicts are intended to investigate the periodical changes within the society specifically influenced powers that affect the development of the society. Adopting considerations which concerned the nature of society has developed into "order-conflict debate" (Burrell and Morgan, 1979, p. 10). Burrell and Morgan (1979) use two headings (order and conflict) to categorise alternative views regarding the nature of society (Table 4.1).<sup>55</sup>

**Table 4.1 Two theories of society: 'order' and 'conflict'**

| <i>The 'order' or 'integrationist' view of society emphasises:</i> | <i>The 'conflict' or 'coercion' view of society emphasises:</i> |
|--|---|
| Stability  | Change  |
| Integration  | Conflict  |
| Functional co-ordination   | Disintegration  |
| Consensus  | Coercion  |

Source: Burrell and Morgan (1979, p. 13).

#### 4.2.3 Burrell and Morgan Paradigms

Categorisation of the assumptions of nature of society within the 'order' and 'conflict' paradigm (Table 4.1) has many limitations and restrictions. To overcome these limitations, Burrell and Morgan (1979) presented the 'regulation' and 'radical change' (Table 4.2) as a second principle dimension of their scheme for analysing social

<sup>54</sup> Burrell and Morgan (1979, p. 7) emphasise that "surveys, questionnaires, personality tests and standardised research instruments of all kinds are prominent among the tools which comprise nomothetic methodology".

<sup>55</sup> Developing 'order' and 'conflict' theories by Burrell and Morgan (1979) has been preceded by Dahrendorf (1959) and Lockwood (1956) works, as they distinguished between the two approaches which concentrated upon explaining equilibrium within the nature of social order, and the problems in the social structure such as change, conflict and coercion.

theories, which in turn, enables a clear separated manners between the different interests of the investigated social areas of research (Burrell and Morgan, 1979, p. 17).

**Table 4.2 The regulation – radical change dimension**

| <i>The sociology of REGULATION</i><br>is concerned with: | <i>The sociology of RADICAL CHANGE</i><br>is concerned with: |
|--|--|
| (a) The status quo                                       | (a) Radical change   |
| (b) Social order   | (b) Structural conflict                                      |
| (c) Consensus  | (c) Modes of domination                                      |
| (d) Social integration and cohesion                      | (d) Contradiction  |
| (e) Solidarity   | (e) Emancipation   |
| (f) Need satisfaction                                    | (f) Deprivation  |
| (g) Actuality  | (g) Potentiality   |

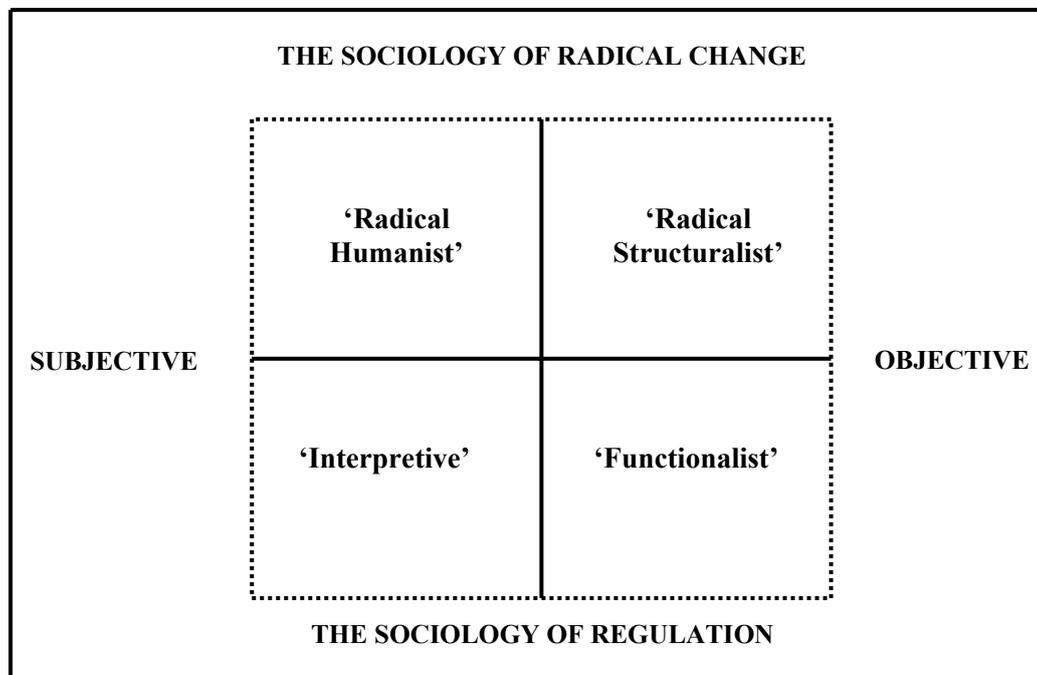
Source: Burrell and Morgan (1979, p. 18).

Researchers who adopt assumptions of the ‘sociology of regulation’ tend to focus on understanding and highlighting the elements of society that maintain the social order and organise human activities (Burrell and Morgan, 1979, p. 17). The opposite of the ‘sociology of regulation’ arises where researchers subscribe to the notion of ‘sociology of radical change’. Under this approach researchers focus on freeing individuals from oppressive focus in social structures, rejecting the status quo and investigating who the status quo serves (Burrell and Morgan, 1979, p. 17). ‘Sociology of radical change’ seeks to find an explanation for radical change, thus, “[i]t is often visionary and Utopian, in that it looks towards potentiality as much as actuality; it is concerned with what is possible rather than with what is; with alternatives rather than with acceptance of status quo” (Burrell and Morgan, 1979, p. 17).

By combining the two previous dimensions (the subjective – objective dimension and the regulation - radical change dimension) Burrell and Morgan (1979) introduced four paradigms under which social research can be categorised (see Figure 4.2).

In identifying the four paradigms of social theory, Burrell and Morgan (1979) suggested that it is meaningful to examine research in terms of four sets of basic assumptions. This means that each particular paradigm views the social world rest upon different meta – theoretical assumptions regarding the nature of science and

society (Burrell and Morgan, 1979, p. 24). Burrell and Morgan (1979) describe the ‘Four-paradigms’ like “[a]ny other map, it provides a tool for establishing where you are, where you have been and where it is possible to go in the future. It provides a tool for mapping intellectual journeys in social theory” (p. 24).



Source: Burrell and Morgan (1979, p. 22).

**Figure 4.2 Four paradigms for the analysis of social theory**

#### 4.2.4 Chua Classifications

Chua (1986)<sup>56</sup> identified three paradigms that had simulated various areas of accounting research: mainstream, interpretive, and critical. These approaches have been based on three sets of beliefs that tend to derive means of investigating the social world (beliefs about knowledge, beliefs about physical and social reality, and assumptions about the relationship between theory and practice).<sup>57</sup> Table 4.3

<sup>56</sup> Chua (1986, p. 605) distinguished between her classification and Burrell and Morgan (1979) paradigms. Chua's classification was intended to be using as a tool to evaluate the strengths and weakness of accounting perspectives, in contrast to Burrell and Morgan's (1979) framework that was non-evaluatory. She also emphasised, that her classification did not make use of mutually exclusive dichotomies, and it was merely attempting to identify the current accounting perspectives which were emerging (Chua, 1986, p. 605).

<sup>57</sup> This group of beliefs were illustrated into a table 'A classification of Assumption' (Chua, 1986, p. 605). This classification highlighted three sets of meta – theoretical assumptions. The first set relates to the conception of knowledge 'beliefs about knowledge', these assumptions were divided into two sets of epistemological and methodological assumptions (Chua, 1986). The second set 'beliefs about physical and social reality' is concerned assumptions of: ontology, human intention and rationality, and

illustrates the three paradigms connected with the three sets of philosophical assumptions.

**Table 4.3 Chua's (1986) categorisation of accounting research**

| Classification of Philosophical (Meta – Theoretical) Assumptions            | Classification of Accounting Research  |   |  |
|---|--|---|--|
|   | Mainstream   | Interpretive  | Critical   |
| <b>Beliefs about Knowledge (Epistemological Assumptions)</b>                | <ul style="list-style-type: none"> <li>- Theory and observation are independent of each other</li> <li>- Quantitative methods of data collection are favoured to provide a basis for generalisations</li> </ul>  | <ul style="list-style-type: none"> <li>- Theory is used to provide explanations of human intentions</li> <li>- Theory adequacy is assessed via logical consistency, subjective interpretation, and agreement with the actors' common - sense interpretations</li> </ul>   | <ul style="list-style-type: none"> <li>- Criteria for judging theories are always temporal and context bound</li> <li>- Social objects can only be understood through a study of their historical development and change within the totality of relations</li> </ul>   |
| <b>Beliefs about Physical and Social Reality ( Ontological Assumptions)</b> | <ul style="list-style-type: none"> <li>- Empirical reality is objective and external to the subject (and the researcher)</li> <li>- Human actors are essentially passive objects, who rationally pursue their assumed goals</li> <li>- Society and organisations are basically stable, and dysfunctional behaviour can be managed through the design of control systems</li> </ul> | <ul style="list-style-type: none"> <li>- Reality is socially created and objectified through human interaction</li> <li>- Human action is intentional and has meaning grounded in the social and historical context</li> <li>- Social order is assumed and conflict mediated through shared meanings</li> </ul> | <ul style="list-style-type: none"> <li>- Empirical reality is characterised by objective, real relations, but is transformed and reproduced through subjective interpretation</li> <li>- Human intention and rationality are accepted, but have to be critically analysed because human potential is alienated through false consciousness and ideology</li> <li>- Fundamental conflict is endemic in society because of social injustice</li> </ul> |
| <b>Relationship between Theory and Practice</b>                             | <ul style="list-style-type: none"> <li>- Accounting is concerned with means, not ends – it is value neutral, and existing institutional structures are taken for granted</li> </ul>  | <ul style="list-style-type: none"> <li>- Accounting theory seeks to explain action and to understand how social order is produced and reproduced</li> </ul>   | <ul style="list-style-type: none"> <li>- Theory has a critical imperative; in particular the identification and removal of domination and ideological practices</li> </ul>   |

Source: Drawn from Chua (1986, pp. 605 – 622).

Chua's (1986) classification of accounting research assumed that mainstream accounting researchers believe that "there is a world of objective reality that exists independently of human beings and that has a determinate nature or essence that is knowable" (p. 606). This ontological assumption leads to the belief that social research hypotheses can be formed and tested in a similar way that natural sciences, with quantitative techniques being employed to collect and analyse data, preceded by a high level of theorising prior undertaking the investigation process (Chua, 1986;

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societal order/conflict. Whereas, the third set 'relationship between theory and practice' is highlighted the relationship between knowledge and the empirical world (Chua, 1986).

Laughlin, 1995).<sup>58</sup> In contrast interpretive accounting researchers believe that social reality is a consequence of human behaviour and, therefore, acceptance that reality is conditioned by individuals' experiences (Chua, 1986, pp. 613-614).<sup>59</sup> The critical accounting researchers, also assume that social reality is created by humans, but, they do not agree with interpretive researchers perspective regarding judgement of social phenomena on the strength of "actor agreement"(Chua, 1986, p. 618). Critical researchers consider the varied forms of accounting as a mechanism aiming to restrict individuals from recognising their full potential, and demonstrating how accounting promotes the interests of powerful groups (Chua, 1986, p. 619).<sup>60</sup> As a result they would seek to change society in what they see to be positive ways.

#### 4.2.5 Laughlin Framework

Despite of its usefulness in categorisation of accounting research, it has been argued that some of the preceded paradigms (such as Burrell and Morgan, 1979) did not identify other dimensions relating to methodologies of accounting research (Ryan *et al.*, 2002, p. 45). To overcome this limitation, Laughlin (1995), drawing from the Burrell and Morgan framework, highlighted three dimensions which require consideration before undertaking empirical social research. The first dimension within the framework is related to 'change'. This dimension is concerned the assumptions about the nature of society and the need for change.<sup>61</sup> The two other dimensions, 'theory' and 'methodology', are both concerned with the level of theorising and assumptions about social science (Laughlin, 1995, p. 68). When outlining the three

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<sup>58</sup> Chua (1986, p. 608) argue that the mainstream accounting research usually begins with a statement of hypothesis, followed by "a discussion of empirical data and concluded with an assessment of the extent to which the data 'supported' or 'confirmed' the hypothesis". Within this methodology, the data collection and analysis are focused on the 'discovery' of generalisable relations, hence, "there is a relative neglect of 'soft' methods such as the case study, and instead a widespread use of large samples, survey methods, experimental laboratory research designs, and statistical and mathematical methods of analysis" (Chua, 1986, p. 608).

<sup>59</sup> The epistemological assumptions of interpretive researchers are similar to those adopted by mainstream researchers, as interpretive researchers assume that phenomena can be investigated and explained using common sense approach (Chua, 1986; Laughlin, 1995). Chua (1986, p. 614) emphasise that it is difficult to specify precise methods or procedures for the conduct of interpretive research, but observation, awareness of linguistics, and a careful attention to detail are some of the research procedures that may be employed in this context.

<sup>60</sup> In respects of methods being employed within this approach, the critical researchers tend to exclude mathematical or statistical modelling. In general, the research is "sited in organisations and their societal environments", thus, a greater emphasis on detailed historical explanations, therefore, quantitative methods of data collection and analysis are less employed (Chua, 1986, p. 620).

<sup>61</sup> Laughlin (1995, p. 67) argues that 'change' is complex and uncertain, and it refers to "[a]ttitudes by the researcher concerning the worth or otherwise of maintaining the current situation that is being investigated as well as views about the necessity for actually doing something about this situation".

dimensions, Laughlin (1995) used three levels (high, medium, and low) as a scaling tool for researchers while undertaking their projects. Laughlin (1995, p. 68) emphasises that “the ‘theory’ dimension refers to high to low levels of usage of prior theorising before undertaking any investigation. The ‘methodology’ dimension ranges from high to low levels of theoretical closure on the methods of investigation. The ‘change’ dimension relates to high to low levels of critique with regard to the status quo and the need for change in the phenomena being investigated”. Laughlin (1995, p. 68) also emphasises that the descriptors levels (high, medium, and low) are not precise, definable or measurable.

Laughlin (1995) contrasted mainstream accounting research with a middle – range thinking approach, which is itself derived from Habermas (1972) - see Laughlin, (1995). Ryan *et al.*, (2002, p. 46) claimed that Laughlin’s contrasting illustrates the importance of theorisation levels in distinguishing different methodological approaches in accounting research, and it also emphasises the importance of researchers determining, whether the used theory is appropriate for their research methodology.

### **4.3 Objectives and philosophical assumptions of the study**

In the recent years, numerous companies around the world have started reporting on their non-financial performance (Kolk, 2003, 2004; KPMG, 2005). Accompanying the increased stand-alone reporting has been a rise in the proportion of reports with assurance statements provided by external assurance providers attached to them (O’Dwyer and Owen, 2005, p. 206). It is argued that the move to assuring corporate stand-alone reports has been driven by the demand for credible information about the performance (both within and outside) of the reporting companies (ACCA and AccountAbility, 2004, p. 15). In addition, it could be argued that assurance also benefits reporting companies because it improves overall management of performance, improves risk management, and assists to gain better understanding of emerging issues (ACCA and AccountAbility, 2004, p. 16).

The UK occupies a leading position in terms of incidence of assurance on the corporate stand-alone reports. For the financial year 2003/04, overall 53% of the stand-alone reports produced by the UK top 100 companies were externally assured;

against 31% and 38% respectively in the next most prolific assuring companies Japan and The Netherlands (KPMG, 2005, p. 31).

The current study aims to address several objectives (see also section 1.3), primarily it aims to investigate disclosures of assurance statements and suggest factors that are associated with aspects of assurance. To achieve these objectives, assurance statements that were provided for stand-alone reports produced during a five years period (from 2000 – 2004) for the UK FTSE100 companies have been examined. To answer group of research questions (see section 1.2), a detailed research instrument has been designed and then employed as a framework for analysis of the assurance statement's characteristics. This work, like all pieces of research, is underpinned by philosophical assumptions.

Regarding the assumptions of the social science, this study assumes that there is no pre-defined reality in the social world and it accepts that 'reality' is the result of individual consciousness (see also O'Dwyer, 1999). Assurance statements are viewed as constructing 'social reality' with respect to the practice and outcome of assurance. Reality therefore, is subjectively created. The ontological assumptions of this study, as a result, tend towards the nominalistic position (Burrell and Morgan, 1979). Furthermore, the current study places itself in the interpretive school of thoughts as described by Chua (1986). This corresponds with medium level of 'theory' usage and low level of 'change' (critique) adoption as suggested by Laughlin (1995).

While there is a belief that knowledge comes from exploring individuals' perceptions as well as their actions (as evidenced by the social phenomena created in this case on assurance statement), the current study focuses on the assurance statements themselves taken as a whole. The epistemological assumptions, therefore, of this study tends towards a positivism approach to knowledge creation because it focuses in gathering together a large data set (Burrell and Morgan, 1979). At the same time, however, this data is interpreted as describing the outcomes of a process of social construction.

Regarding the human nature assumptions, the current study believes that the human beings have some control over their environment and they are sometimes (but not always) conditioned by their external circumstances. These beliefs place the current

research at a point somewhere along of continuum ranging from voluntarism to determinism (Burrell and Morgan, 1979). In this study, assurance statements which were produced by different types of assurance providers are analysed in light of above assumptions, recognising that while assurance providers have some free will their environment has the capability to influence their behaviour.

The current study is also informed by views on the “sociology of regulation” or the “sociology of radical change” continuum regarding those assumptions relating to the nature of society (Burrell and Morgan, 1979). Since this study is concerned with analysing the content of the assurance statements attached with the corporate stand-alone reports, it is hoped that it will reveal, to some extent, the quality of the assurance statements. While society appears to be ordered, the current study believes the potential exists for conflict in the structure of the society, with attendant possibility that society may change. As a result, while the current study attempts to investigate the ‘status quo’, it does this on the premise that it may prompt change in the future. It is the case, however, any such change is unlikely to be radical but evolutionary as a device of exploring or determining the possibility to create and promote some change in specific circumstances. Desired changes are likely to be associated with issues of accountability and transparency that assurance practice may create to the organisational stakeholders (Ball *et al.*, 2000; O’Dwyer and Owen, 2005).

As it was previously outlined, the choice of methodology underpins any research study and relies on the researcher’s ontological, epistemological, and human nature assumptions. The assumptions that have been emerged in the context of the current study point to a particular perspective on the social world. In particular, these assumptions suggest that this study tends to an ideographic approach as it seeks to examine the content of assurance statements through measuring different aspects. In conclusion, it is clear that the current study uses a largely ideographic but that in discussing the findings of the analysis a more interpretive approach.

#### **4.4 Research methods**

Research methods are concerned with the means by which data of the investigated phenomena can be collected and/or analysed (Creswell, 2003, p. 17), with research

approaches being either: qualitative and quantitative in nature (Creswell, 1994). Strauss and Corbin (1990, p. 18) argued that most of the research projects, and researchers, place an emphasis on one or the another “partly out of conviction, but also because of training and the nature of the problem studied”. Although it is acceptable to use a combination of the two, each of the two approaches has its own nature, required skill set and specific assumptions (Creswell, 1994, p. 5). The next part of this section outlines the nature and the basic elements of qualitative and quantitative methods.

#### **4.4.1 Qualitative research methods**

Philosophically the qualitative paradigm is an alternative term for a phenomenological paradigm (Hussey and Hussey, 1997, p. 77) and it is defined as “[a] paradigm which assumes that social reality is in our minds; a reaction to the positivistic paradigm. Therefore, the act of investigating reality has an effect on that reality and considerable regard is paid to the subjective state of the individual” (Hussey and Hussey, 1997, p. 77). The previous definition emphasises that qualitative methodology is usually used where a researcher believes that social reality is subjective (Creswell, 1994, p. 5).

Strauss and Corbin (1990, p. 17) state that the qualitative research can refer to an investigation about individuals’ lives, stories, behaviour, organisational functioning, social movements, or interactional relationships. Under its umbrella, the term ‘qualitative methods’ has many techniques such as: case study; participatory inquiry; visual methods; participant observation; descriptive observation; and unstructured and semi – structured interviewing (Taylor and Bogdan, 1984; Denzin and Lincoln, 2003). Denzin and Lincoln (2003, p. 5) emphasise that the qualitative research involves gathering various empirical materials that describe problematic moments and meanings in the live routine of the individuals. As a result, qualitative researchers organise multi types of interconnected interpretive practices, seeking to get a better understanding of the subject investigated phenomena (Denzin and Lincoln, 2003, p. 3).

Through the qualitative research process, the researcher often obtains the first hand knowledge of the social phenomena by listening to people expressing what is on their minds, therefore, qualitative methods will never be reliable in the way that this is

often considered in the natural science (Creswell, 1998, p. 201).<sup>62</sup> Qualitative researchers are generally concerned with ‘accurate description’, therefore, they develop a description of the phenomena, analyse data for themes, and present an interpretation or conclusion from the data (Creswell, 2003, p. 182).

Some qualitative researchers are also concerned with building theory, as they believe that reality will be more understood if it is theoretically informed (Diesing, 1971; Glaser, 1978). Qualitative researchers who are concerned with building theory through ‘doing description’ also believe that “theories represent the most systematic way of building, synthesising, and integrating scientific knowledge” (Strauss and Corbin, 1990, p. 22).

#### 4.4.2 Quantitative research methods

A quantitative methodology is often (but not always) based on the nomothetic philosophical assumptions of social science. Flick (1998, p. 2) observed that the quantitative approach has been used to isolate causes and effects of operationalising theoretical relations, as well as measuring and quantifying social phenomena and arriving at generalisation of findings. In contrast to the qualitative approach (which emphasises the qualities of entities and on processes and meanings that are not experimentally examined or measured in terms of quantity, amount or frequency), the quantitative approach emphasise the measurement and analysis of underlying relationships between the variables (Denzin and Lincoln, 2003, p. 13).<sup>63</sup>

The quantitative approach seeks the knowledge through various methods such as: questionnaires, inventories and other empirical methods and materials (Denzin and Lincoln, 2003, p. 16). Quantitative researchers in general tend to use ‘empirical

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<sup>62</sup> Hussey and Hussey (1997, p. 78) define validity as “the extent to which the research findings accurately represent what is really happening in the situation”. One of the key characteristics of qualitative research is the high level of validity, since the research takes place in the natural setting - usually the researcher conducts this research in the site being researched such as, the office, the home (Creswell, 2003, p. 181). Creswell (1998, p. 201) suggested a full approach of verification process instead of validity because verification underscores qualitative research as a distinct approach, and a legitimate mode of investigation in its own right. This frame had been developed relying on the earlier work of (Lincoln and Guba 1995; Latter 1991, 1993). For more details see Creswell (1998).

<sup>63</sup> In this context, Hussey and Hussey (1997, p. 20) simply define the quantitative research as “[a]n objective approach which includes collecting and analysing numerical data and applying statistical tests”. In the quantitative research approach, reliability of the research tools is verifiable. Reliability in this context means “being able to obtain the same results if the research were to be repeated by any researcher” (Hussey and Hussey, 1997, p. 78).

evidence' that relies on the data which based on observation or experience and often this process allows testing of existing conceptual and theoretical structures (Creswell, 2003, p. 18). Thus, knowledge could be obtained through using the deductive approach (which emphasises on deducting the particular instances from general inferences- see Hussey and Hussey, 1997, p. 19).<sup>64</sup>

#### 4.4.3 Mixed methods approach

Both types of research (qualitative and quantitative) can be, and have been used in the same study (Easterby – Smith *et al.*, 1991; Flick, 1998; Creswell, 2003). It is also likely that research projects lie somewhere on the continuum between the quantitative and qualitative approaches (Newman and Benz, 1998 in Creswell, 2003, p. 4). Creswell (2003) writes of a Mixed Methods Approach that employs “strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problems” (Creswell, 2003, p. 18). This approach involves gathering the data of a numerical nature (such as measurements and instruments) and a text basis (such as interviews) with research database containing both quantitative and qualitative information (Creswell, 2003, p. 20). Table 4.4 illustrates nature of the three research approaches in respects of data collection and analysis process.

**Table 4.4 Quantitative, qualitative and mixed methods procedures**

| <b>Quantitative research methods</b>  | <b>Qualitative research methods</b>  | <b>Mixed methods</b>   |
|---|--|--|
| <ul style="list-style-type: none"> <li>- Predetermined</li> <li>- Instrument based questions</li> <li>- Performance data, attitude data, observational data, and census data</li> <li>- Statistical analysis</li> </ul> | <ul style="list-style-type: none"> <li>- Emerging methods</li> <li>- Open-ended questions</li> <li>- Interview data, observation data, document data, and audiovisual data</li> <li>- Text and image analysis</li> </ul> | <ul style="list-style-type: none"> <li>- Both predetermined and emerging methods</li> <li>- Both open- and closed-ended questions</li> <li>- Multiple forms of data drawing on all possibilities</li> <li>- Statistical and text analysis</li> </ul> |

Source: Creswell (2003, p. 17)

<sup>64</sup> This process concentrates on measurement and analysis of relationships between the variables, through testing the hypotheses. Therefore, quantitative researchers usually tend to use mathematical models, statistical tables, and graphs, as well as writing about their investigation impersonal (Creswell, 1994; Denzin and Lincoln, 2003).

#### 4.5 The research methods for the current study

Creswell (2003, p. 3) claims that the researcher needs to consider three elements while designing the research framework: philosophical assumptions about creating knowledge; general procedures of research, (called strategies of inquiry or methodologies); and detailed procedures of data collection and analysis, (called methods). In section 4.3 the philosophical assumptions for the current study have been highlighted as was the methodological approach adopted. This section concentrates on research methods, the data collection process as well as the procedures for data analysis (Creswell, 2003).

Previous studies had adopted different approaches to examining assurance practices. Several of these studies have adopted a content analysis approach, using some disclosure instrument to capture data on aspects of assurance statements (see Ball *et al.*, 2000; CPA Australia, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). Other studies have involved interviewing assurance providers and stand-alone reporters (Park and Brorson, 2005) while others have used a mix of research methods (Kamp-Roelands, 2002; Wilson, 2003).<sup>65</sup>

In the light of the research objectives and questions of this study a quantitative approach has been taken through designing a research instrument. The development of this instrument relied upon the previous literature in the field (Ball *et al.*, 2000; Kamp-Roelands, 2002; Wilson, 2003; O'Dwyer and Owen, 2005) as well as a review of assurance statements. Thus, both a deductive and inductive approach to designing the research instrument was used. Data on assurance statements' characteristics was gathered using content analysis and it is to this approach that attention now turns.

Content analysis has been used to gather details of the content of the assurance statements. This element of the study has identified the presence of certain pre-defined characteristics. In addition, content analysis was also employed within the research instrument to investigate the amount of space devoted to each element of the assurance statement. This approach was undertaken to allow the evolution of the shape and contents of the assurance statement to be captured. This section describes

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<sup>65</sup> Kamp-Roelands (2002) had employed two research methods in her research project: verbal protocol content analysis and questionnaire, whereas Wilson (2003) employed: the participatory qualitative research approach (case study) in addition to content analysis.

the nature of content analysis as well as providing a description of the way in which this method is used in the study.

Content analysis has been used frequently in accounting research (see for example, Zéghal and Ahmed, 1990; Dirsmith and Haskins, 1991; Gray *et al.*, 1995a, 1995b; Deegan and Rankin, 1996; Hackston and Milne, 1996; Kolk, 2003; Fisher *et al.*, 2004; Freedman and Patten, 2004; Unerman and Bennett, 2004; Murray *et al.*, 2006). In the context of investigating the assurance practice, content analysis has been used to analyse the content of the assurance statements by Ball *et al.*, (2000), Kamp-Roelands (2002), Wilson (2003), and O'Dwyer and Owen (2005).

Various definitions have been proposed by different authors for the content analysis. Stone *et al.*, (1966, p. 5) state that content analysis “is any research technique for making inferences by systematically and objectively identifying specified characteristics within text”. Krippendorff (1980, p. 21) defines the content analysis as a “research technique for making replicative and valid inferences from data to their context”. Krippendorff (1980) also emphasised the relationship between the content of texts and their institutional, societal, or cultural contexts. Another definition was offered by Abbott and Monsen (1979 in O'Dwyer, 1999, p. 215) who define content analysis as a “technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to drive quantitative scales at varying levels of complexity”. Weber (1990) emphasised that content analysis provides the opportunity for inferences to be drawn about the issuer of the text (sender of the message), the text for itself (the message) and/or the audience (receiver of the message).

Content analysis can be employed as a research method for many purposes. Weber (1990, p. 9)<sup>66</sup> outlined many examples of these purposes, such as: comparing the media or ‘level’ of communication, identifying the intentions and any other characteristics of the communicator, reflecting the cultural patterns of group of actors, institutions, or societies, revealing the focus of individual, group, institutional, or societal attention, and describing the trends in communication content. In comparison

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<sup>66</sup> Weber (1990) relied on the earlier work of Berelson (1952) who outlined nine purposes for content analysis, most of these purposes concerned the communication process (communicator, text, and audience).

with other research techniques, content analysis usually generates ‘unobtrusive’ measures in which, neither the sender nor the receiver of the text is aware is being analysed (Weber, 1990, p. 10). Hence, there is less chance that the measurement actions itself will act as a force for change that confounds the data (Weber, 1990).

There are several research techniques can be used to perform the content analysis. These techniques include (Krippendorff, 2004, pp. 44-45):

- (i) Pragmatical content analysis: this method focuses in the procedures which classify events and signs according to their probable causes or effects (for example, counting the number of times that something is said which is likely to have the effect of producing favourable attitudes toward sustainability issues in an identified audience).
- (ii) Semantical content analysis: this technique focuses in those procedures which classify event and signs according to their meanings (for example, counting the number of times that sustainability is referred to, irrespective words that used to make this reference). Semantical procedures may include: (a) designations analysis (this analysis provides the frequency with which certain objects (persons, things, groups, or concepts) are referred to; (b) attribution analysis (this analysis provides the frequency with which certain objects are characterisations are referred to), and (c) assertions analysis (this analysis provides the frequency with which certain objects are characterised in a particular way, namely, thematic analysis).
- (iii) Sign-vehicle analysis: this technique relies on procedures which classify content according to the psychophysical properties of the signs (for example, counting the number of times the word ‘sustainability’ appears).

To adopt any of the above techniques a researcher needs to decide the basic unit of text to be classified (Weber, 1990, p. 21). In this context, there are six frequently used coding units: word; word sense; sentence; theme; paragraph; and the whole text (Weber, 1990, pp. 22-23).<sup>67</sup>

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<sup>67</sup> In order to make a valid inference from a text, the words, phrases, or any other units of the text classified into a category are supposed to have similar meaning (Weber, 1990, p. 12). This similarity may be based on the precise meaning of the word (for example, grouping synonyms together) or may be based on words sharing similar connotations (Weber, 1990, p. 12).

Making valid inferences from the text depends on the reliability of the classification procedures (Krippendorff, 2004). This simply means conducting a consistent procedure on the classification process and that “different people should code the same text in the same way” (Weber, 1990, p. 12). At the same time, classification procedures should also generate valid variables. This form of validity concerns the extent to which the generated variable measures or represents what the researcher intends to measure (Weber, 1990, p. 12).

As with any research method, content analysis has limitations. The key issue is how to deal with the subjectivity inherent in the method. Subjectivity arises because the same text can mean different things to different researchers (Carney, 1972 in O’Dwyer, 1999, p. 220). Thus, the central problem of content analysis is how to ensure that the data reduction process is robust (Weber, 1990, p. 15). The second issue concerns the validity of inferences that were sought from the data. In particular, the variables used in content classification have to have some defined relationship to the research questions. To overcome these problems and to minimise their effects, researchers usually develop and pre – test their research instruments (Weber, 1990). Establishing the reliability of the instruments as well as specified decision categories would enhance confidence in the results (Milne and Adler, 1999, p. 239 and see section 4.6.3 that addresses reliability of the instrument used in this study).

#### **4.6 Research instrument**

As indicated earlier (section 4.3), the purpose of this study is to investigate assurance practices within the UK. Attention is given particularly to disclosures related to dimensions of the assurance process (as identified in this study) as well as those factors associated with the investigated dimensions. To achieve this purpose, the content of the assurance statements within the UK FTSE100 corporate stand-alone reports for the years (2000-2004) were analysed using an interrogation instrument. This instrument was developed by drawing on previous studies, specifically: Ball *et al.*, (2000); Kamp-Roelands, (2002); Wilson, (2003); and O’Dwyer and Owen, (2005).

There is no agreed definition of the assurance statement in the literature.<sup>68</sup> For the purposes of the current study, an assurance statement was defined as any statement appearing in a stand-alone reporting information and issued by an external party who used a “specified set of principles and standards to assess and evaluate the quality of an organisation’s subject matter and underlying systems, processes and competencies” that underpin its non-financial performance (ACCA and AccountAbility, 2004, p. 7).

In addition to the assumed purpose of the assurance practice which is to enhance credibility of the information (ACCA and Accountability, 2004), there are various aspects considered to be crucial for value-adding of assurance engagement as identified in the literature (Ball *et al.* 2000; Kamp-Roelands, 2002; Park, 2004; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006) including: independence of the assurance provider, procedures undertaken to obtain evidence, engaging stakeholders and their issues, and results of the assurance engagement (opinion, findings and recommendations). These dimensions are addressed in the instrument of the study which will be used to collect the information data from the targeted assurance statements.

#### **4.6.1 Design of the instrument**

This section describes the process of the instrument design. The instrument relies mainly on the semantical-content analysis approach (Krippendorff, 2004). Creswell (2003, p. 157) states that a rigorous data collection requires the researcher to provide detailed information about the actual survey instrument to be used in the study. Thus, following Creswell (2003, p. 157-158) this section:

- (i) Describes the survey instrument used to collect data of the research study. In the current study, the instrument being used was developed specifically for this study drawing on the instrument used by O’Dwyer and Owen (2005).
- (ii) Describes how validity and reliability of the instrument (namely content analysis items) was established using inter-coder reliability coefficients (Cohen’s kappa and Scott’s pi). Details of the instrument’s reliability testing are covered in section 4.6.3.

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<sup>68</sup> CPA Australia (2004, p. 4) states that the assurance statement “outlines the assurance process and provides a statement or opinion about the level of assurance in the organisation’s reporting of environmental and related performance”.

- (iii) Includes sample items from the instrument (in order to allow the readers to see the disclosures categorised). Appendix 1 provides a full copy of the instrument used in this study.

The first draft of the instrument was prepared in February 2005, and was reviewed and modified several times before an instrument for testing on the pilot sample was developed. In order to perform the pilot test of the instrument design, 50 assurance statements were randomly selected (Diamond and Jefferies, 2001) from the whole population available at that time (May 2005).<sup>69</sup> Some items of the instrument were modified as a result of the pilot study, and a new version of the research instrument emerged (end of May 2005). The instrument was then subjected to judgement of two external referees (both of them are working in academia and familiar with research of the assurance of corporate stand-alone reporting).<sup>70</sup> In addition, a pilot reliability test was performed at that time (September 2005). Modifications were made to the design of the instrument after these two processes.<sup>71</sup> Finally, and after completing the assurance statements collection process, a sample of the whole set of the statements was randomly selected to perform the reliability test (which, in turn, was completed in November 2005) and the final version of the instrument was then approved. After completing the instrument design, analysis of content of the assurance statements was carried out using the research instrument.

#### **4.6.2 Sections of the research instrument**

This section describes content of the research instrument, which consists of three main parts: (i) descriptive information related to the reporting company, the stand-alone report, the assurance provider, and the assurance statement; (ii) an evaluative framework of the assurance process dimensions; and (iii) a section for describing the

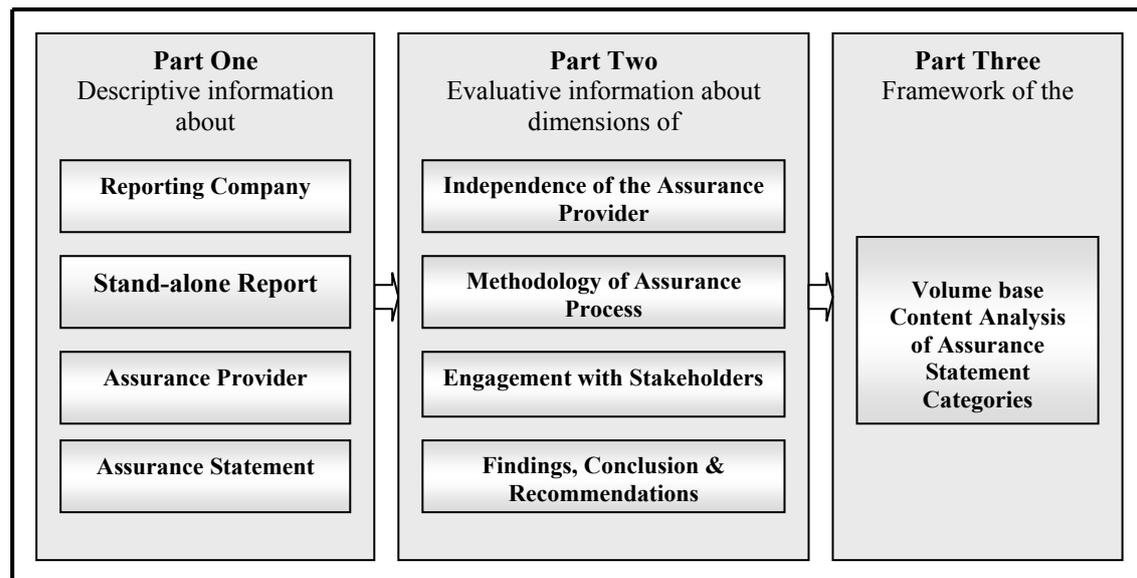
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<sup>69</sup> At that time, the majority of the targeted assurance statements were collected, but due to the timing of stand-alone reporting several targeted reporting companies had yet to publish their latest reports. As a result, the definitive size of population (number of assurance statements) to be investigated in the study was not completed at that period of time. As a consequence, normality testing of the population was not possible. Diamond and Jefferies (2001, p. 113) state that the sample size usually reflects the size of a population, but “will not usually be proportional to the population size”. However, as a rule of thumb, a sample size of 10 cases or more is needed were the population is normally distributed or 25 cases or more if the population is not normally distributed-skewed (Diamond and Jefferies, 2001, p. 117). Fifty cases were, therefore, deemed to be an adequate sample size for the pilot study.

<sup>70</sup> In addition to the academic and research experience, one of the referees is also a certified public accountant specialised in assurance of stand-alone ‘sustainability’ reports.

<sup>71</sup> In this stage, the item G.7 (related to the recommendations presented by the assurance providers regarding contents of the stand-alone report and its preparation process) was added to the instrument.

amount of space devoted to each element on the face of the assurance statement. The aim of this section of the thesis is to clarify the nature of the items included in the instrument as well as explaining the coding decisions for each item investigated. (details of the decision rules for analysis of the assurance statements are available in the instrument copy - Appendix 1). Figure 4.3 illustrates the general framework of the instrument used in the current research study.



**Figure 4.3 The General framework of the study instrument design**

### **Part one: the descriptive information<sup>72</sup>**

This part of the instrument was designed to provide some data for the first research question: how can the characteristics of the assurance statements appeared with the FTSE100 corporate stand-alone reports be described?. In order to answer this question and to present an appropriate interpretation of investigated phenomena, characteristics of: the reporting companies, their assured stand-alone reports, and the assurance providers need to be documented. This section captures descriptive information about:

**A- Characteristics of the reporting company and its stand-alone report:** data gathered under this section provides general information about the reporting company, as well as the stand-alone report issued by the company. This section consists of the following items:

<sup>72</sup> The codes (letters and numbers) given to the items included in this and following sections are those codes used in the research instrument.

**A.1 Serial number of the statement:** a number given to each assurance statement according to the appearance of the reporting company in the FTSE100 lists during the years (2000-2004). This is to enable tracing of the statements considered in the study.

**A.2 Name of the reporting company:** as it appears on the FTSE100 lists.

**A.3 Year of the report:** the year in which the assured stand-alone report is covered (rather than the year in which the assured stand-alone is issued). Usually an assured stand-alone report is issued on the following year of that covered by the reporting period (the financial year).

**A.4 Name of the report:** the title or the type of the assured stand-alone report/or the report in which the assurance statement was appeared. In the literature, different types of the assured stand-alone reports have been investigated. For example, some studies concentrated on one type of reporting such as environmental reports (Ball *et al.*, 2000; Kamp-Roelands, 2002), whereas different types of the assured stand-alone reports (for example, environmental, social, CSR, and sustainability) have also been considered (KPMG, 2002 and 2005; Wilson, 2003; O'Dwyer and Owen, 2005). In the current research instrument, ten different categories of reports were identified: Annual Report & Accounts, Sustainability or Sustainable Development (SD), Environmental (E), Social (S), Social and Environmental (SE), Health, Safety and Environment (H, S&E), Corporate Social Responsibility (CSR), Corporate Responsibility (CR), Corporate Citizenship, and Others (designed to capture any other name not already identified).

**A.5 Source of the assured stand-alone report:** the source from which the assurance statement was obtained. Companies produce stand-alone reports in either a web format or the more tradition hard-copy publication (ACCA and CorporateRegister.com, 2004). As a result, some of assurance statements could be expected to appear only on a web site. In terms of this distinction, the instrument identifies two main categories of assured stand-alone reports: hard-copy assured stand-alone report, and web-based assured stand-alone report (when the report is only published as a web-based document).<sup>73</sup>

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<sup>73</sup> In some cases, reporting companies may produce the same assured stand-alone report in two formats (web-based and hard-copy). For the purpose of the current study, attention is given to collect the

**A.6 Sector of the reporting company:** the industry/sector in which the reporting company belongs with the FTSE sectors classification being used. The industries/sectors of reporting companies have been examined in the literature (KPMG, 2002 and 2005; UNEP and SustainAbility, 2002; Wilson, 2003; Deegan *et al.*, 2006) and there is an assumption that industry type is associated with disclosure of information and that nature of that information. The current study uses the FTSE Global Classification - code of industry/sector (FTSE, 2002b). Appendix 3 shows the codes of the sectors to which each of the reporting companies belongs, whereas Appendix 4 provides further details about FTSE classification economic groups, sectors and sub-sectors of the companies listed in the FT.

**A.7 Size of the market capital:** a dummy variable representing size of the reporting company measured by the value of the company's market capital as it appears on the FTSE100 list in each year of analysis (see Appendix 2). This dummy variable will be used as an independent variable to test for associations between assurance statement's aspects and corporate characteristics. For the purpose of the current study, sizes of the market capital for the reporting companies were divided into three main categories (large, medium, and small) in each year of the study.<sup>74</sup>

**B- Characteristics of the assurance provider:** information provided under this section relates to the assurance provider who prepared the assurance statement. This section consists of the following items:

**B.1 Number of the assurance firms engaged in the assurance process:** in some cases different subject matters are being assured and therefore, the assurance engagement may be carried out by more than one assurance provider. This item captures whether the assurance engagement was performed by one or more assurance providers.

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assurance statements from the hard-copy published reports and from those assured stand-alone reports when they only published as web-based reports.

<sup>74</sup> In each year of the study there are 100 companies included in the FTSE list. Companies (1-33) are large-sized market capital, companies (34-67) are medium-sized, and companies (68-100) are small-sized companies.

**B.2 Name of the assurance provider:** this item captures the name of the party who was responsible for preparing content of the assurance statement (the name as it appears in the statement).

**B.3 Type of the assurance provider:** type or identification of the assurance provider who carried out the assurance engagement. O'Dwyer and Owen (2005, p. 214) state that the assurance providers are identifying themselves in the assurance statements namely by their names. This identification allows the readers to make distinctions between different types of the assurance providers and hence, their assured competencies or areas of interests. FEE (2002, p. 18) distinguish between three approaches in conducting the assurance engagements, these approaches include: accountancy; social audit; and consultancy.

Identities of the assurance providers have also been investigated in the literature (Ball *et al.*, 2000; Kamp-Roelands, 2002; KPMG, 2002 and 2005; UNEP and SustainAbility, 2002 and 2004; CPA Australia, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). The research instrument uses seven different categories to identify type of the assurance provider. These categories include: public accountancy/Big Four; other public accountancy firm; consultancy (any firm specialised in providing consultancy services on specific area such as, environmental consultancy, risk management, and CSR issues); certification body (any party specialised in providing certification and scaling services); non-profit organisation; individuals (any person, or expert who had performed an assurance engagement individually, without belonging to any identified assurance firm); and others (any assurance provider out of the aforementioned categories). Appendix 5 provides details about the different types of the assurance providers identified in the current research, the number of assurance statements provided by each of them and their areas of expertise.

**B.4 Competencies of the assurance provider:** this item indicates experience, expertise, and/or professional qualifications of the assurance providers. Possibly in order to increase the confidence of the statement's reader (especially when the assurance provider's experience, expertise and qualifications are relevant to the subject matter being assured) some assurance providers indicate their competencies within the assurance statements. This aspect has received limited attention in the literature, but see O'Dwyer and Owen, (2005) and Deegan *et al.*,

(2006). The research instrument identifies two different ways in which competencies may be disclosed. These include disclosures of professional qualifications and the use of multi-disciplinary team. A default position of no competencies being disclosed is also provided.

**C- Characteristics of the assurance statement:** various elements have been suggested as being appropriate to include in an assurance statement (FEE, 2002; GRI, 2002; IAASB, 2004). This section gathers information related to the general characterisations of the assurance statements (for example, title of the statement, number of the pages, date, and addressee of the statement). Additionally, information related to the assurance exercise (for example, standards used to govern the assurance engagement, level of assurance pursued, and terms used to express the assurance opinion) are also captured by this section of the research instrument. Each aspect is now considered in turn.

**C.1 Title of the statement:** a name or a title of the assurance statement. Choosing the title for the statement may help to signal the nature of the assurance engagement being provided, the nature of the statement and to distinguish the practitioner's statement from statements issued by others such as those who do not abiding by the same ethical and professional requirements as the practitioner (IFAC, 2000). Identifying types of the assurance statement have been investigated in a variety of ways in the previous literature. Some explored more categories of the assurance statement's titles (Wilson, 2003; Deegan *et al.*, 2006) while others did not focus a great deal in their work (Ball *et al.*, 2000; KPMG, 2002 and 2005; O'Dwyer and Owen, 2005). In the current research instrument six categories of assurance statements are identified. These include the words: audit, assurance, verification, validation, review and other terms. If no title is provided this information is also captured.

**C.2 Number of pages used for the assurance statement:** none of the previous literature except KPMG (2005) discusses the volume of the assurance disclosure. In the current study the volume of the assurance disclosure is measured by the length of the assurance statement (as measured by number of pages). Four categories are used to gather this information: less than one page, one page, two pages, and more than two pages.

**C.3 Addressee of the assurance statement:** this item aims to capture the party to who the assurance statement is addressed. IAASB (2006) states that the assurance statement should include an addressee and that such an addressee would identify “the party of parties to whom the assurance report is directed” (p. 1057). In the context of the assured stand-alone reporting, and for the purposes of accountability, it could be expected that the assurance statement is aimed to stakeholders (ACCA and AccountAbility, 2004). However, Adams and Evans (2004, p. 105) state that appointing the assurance providers by the management is an obvious difficulty to achieve accountability to stakeholders, since “an ideal situation may require them to be appointed by stakeholders”.

The issue of who reports are addressed to has been addressed in the literature (Wilson, 2003; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006). The research instrument identifies five different possible addressees including: the reporting company/the management, board of directors, general stakeholders, specific group of stakeholders, and more than one addressee. If no party is referred to, this data is also captured.

**C.4 Level of assurance pursued referred on the assurance statement:** this item seeks to determine the level of assurance pursued. The IAASB (2006, p. 295) requires the assurance providers to used one of two different levels of assurance (reasonable and/or limited) to inform the conclusions made and to indicate the assurance engagement’s risk. The level of assurance has been addressed in the literature (Kamp-Roelands, 2002; Wilson, 2003; ACCA and AccountAbility, 2004; CPA Australia, 2004; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006). The research instrument identifies four possibilities in relation to disclosing a level of assurance including: high-level, reasonable-level, limited-level, and no-level referred.

**C.5 Type of the guidelines or standards used during the assurance process:** this item seeks to capture which guidelines or standards, if any, were disclosed as being used by the assurance provider to govern the assurance exercise. FEE (2002, p. 29) emphasises that indicating standards used in the assurance process may help the readers of the statement to understand what had been done, as well as allowing “interested readers to consider whether they believe that appropriate standards were selected and applied” (Deegan *et al.*, 2006, p. 535). Standards have been addressed in the existing literature (see for example, Ball *et al.*, 2000;

SustainAbility and UNEP, 2002; ACCA and AccountAbility, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). In this context, it should be noted that some of the guidelines and standards (for example, AA1000/AS and GRI guidelines) have dual functionality (since it could be used as a criteria for stand-alone reporting and as an assurance standard). As a result, only where these standards are used in the context of assurance process is captured here. The research instrument uses ten different categories to gather data on standards used in the assurance process. These categories include: AA1000 Assurance Standard, GRI Guidelines, Financial Auditing Criteria, FEE Standard, ISAEs/3000, ISO14000s Series, SIGMA, emerging best practice, mixed standards (where the assurance provider used more than one standard on the same assurance engagement) and other standards (any other standards or guidelines not mentioned above). Once again the instrument captures the situations where no standards are referred to.

**C.6 Terms used to express the Opinion:** this item is designed to capture the terms and expressions used to express the opinion in the assurance statement. AccountAbility (2003a, p. 23) for example, requires the assurance provider to conclude whether the stand-alone report provides a 'fair and balanced' account of material aspects of the reporting company's performance for the period of reporting. Terms used to express the assurance opinion have been addressed in the previous literature (see for example, Kamp-Roelands, 2002; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). The research instrument uses several different categories of possible opinion expressions including: true and fair, fair and reasonable, fair and balanced, correct or substantially correct, true, fair, accurate, balanced, reasonable, consistent, and any other term used. The instrument also identifies if no any specific term is used to express the assurance opinion.

**C.7 Name of the assurance firm/assurance provider indicated in the statement:** this item focuses on describing which names are appeared at the foot of the assurance statement. The IAASB (2006, p. 1061) requires the name of the assurance firm or the practitioner to be included in the assurance statement in addition to the operating location of the assurance.<sup>75</sup> Further, the IAASB (2006) suggests that disclosure of the name of the assurance provider in the assurance statement will help a reader to identify the party who responsible for assurance

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<sup>75</sup> This location is ordinarily the city where "the practitioner maintains the office that has responsibility for the engagement" (IAASB, 2006, p. 1061).

engagement (p. 1061). The research instrument identifies four possibilities in this regard including: name of the assurance firm, name of the partner/practitioner, names of the assurance firm and the practitioner and no name appearing in the assurance statement.

**C.8 Signing the assurance statement:** this item aims to capture whether or not the assurance statement was signed by the assurance provider. Two cases are identified here: assurance statement is signed or assurance statement is unsigned.

**C.9 Place/address of the assurance statement:** this item aims to capture the incidence of disclosure of the place/address of the assurance provider. Two situations are captured here: place/address of the assurance provider is indicated or no place/address is indicated in the assurance statement.

**C.10 Additional information describing nature of the assurance provider:** this item is designed to capture whether or not the assurance statement provides additional information on the nature of the assurance provider. In addition to describing the competencies of the assurance provider, additional information may be provided on the assurance provider's expertise and fields of specialisation. Such disclosure may enhance the readers' confidence in the assurance process, especially when the areas of the assurance provider's specialisation are close to the nature of the subject matter being assured. Two situations are distinguished in the instrument of the study: additional information about the assurance provider is provided or no additional information is provided in the assurance statement.

**C.11 Dating of the assurance statement:** this item is designed to capture whether or not the assurance statement has been dated by the assurance provider. The IAASB (2006, p. 1061) requires the assurance provider to date assurance statements. Dating is assured to inform the intended users that the assurance provider has considered the "effect on the subject matter information and on the assurance report of events that occurred up to that date" (IAASB, 2006, p. 1061). Two situations are captured in the instrument: the assurance statement is dated or the assurance statement is not dated.

**C.12 Assurance fees:** this item is designed to capture whether or not the assurance statement contains disclosure of the amount of the assurance fees. The IAASB (2006, p. 130) emphasises that "disclosing to those charged with governance of the client the nature of services provided and extent of fees charged" is one of the safeguards that needs to be taken by the assurance providers

to maintain their independence. Assurance fees have not been examined to date, so this particular element will be an addition to an existing knowledge in the area. Two situations are captured in the instrument of the study: assurance fees are disclosed in the assurance statement or no assurance fees are disclosed.

### **Part two: the evaluative framework of the assurance process dimensions**

This part of the instrument captures information using a framework which will be used to explore dimensions of the assurance process. The four dimensions identified in this framework taken together provide the potential to explore the quality of assurance statements. This part of the instrument consists of four dimensions: independence of the assurance provider, methodology of the assurance process, engagement with the stakeholders and result of the assurance process (opinion, findings and recommendations presented in the assurance statement).

The four dimensions have been used in the existing literature on assurance (see for example, Ball *et al.*, 2000; Kamp-Roelands, 2002; Wilson, 2003; O'Dwyer and Owen, 2005). Ball *et al.*, (2000, p. 7) for example, state that “[t]here are a number of characteristics that can be gleaned from an EPR<sup>76</sup> and its 3PV<sup>77</sup> statement that might support inference about the nature of the attestation. These include the independence of the verifier, the nature of the attestation work undertaken, the content of the verifier’s report and, finally – and most significantly, the nature of what is being attested to”.

In order to determine location of the current research in comparison with the previous literature and to justify those dimensions and aspects addressed in the current research instrument, Table 4.5 illustrates the main dimensions and aspects addressed by (what is assumed to be the most relevant) previous studies, as well as those adopted by the current research study. The following sections describe instrument design around these four dimensions.

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<sup>76</sup> EPR: Environmental Performance Report (Ball *et al.*, 2000).

<sup>77</sup> 3PV: Third – Party Verification (Ball *et al.*, 2000).

Table 4.5 Key dimensions and aspects addressed by the previous studies

| Dimension  | Key aspects addressed within the previous literature   |   |   | The current research (2007)  |
|--|--|---|---|--|
|  | Ball <i>et al.</i> , (2000)  | Wilson (2003)   | O'Dwyer and Owen (2005)   |  |
| <b>Independence of the assurance provider</b>  | <ul style="list-style-type: none"> <li>- Independence the verifier from the corporate management</li> </ul>  | <ul style="list-style-type: none"> <li>- Management responsibility</li> <li>- Practitioner responsibility</li> </ul>  | <ul style="list-style-type: none"> <li>- Independence of AP from the organisation</li> <li>- Indicating any financial or commercial relationships between the two parties</li> <li>- Not involving in preparation of the non-financial report</li> <li>- Indicating relationships with the stakeholders</li> </ul>  | <ul style="list-style-type: none"> <li>- Independence of the assurance process</li> <li>- Responsibilities of the two parties</li> <li>- Compliance with ethical guidelines (IFAC)</li> <li>- Not involving in preparation of the report</li> <li>- Indicating any financial or commercial relationships between the two parties</li> </ul>  |
| <b>Nature of the assurance process (methodology)</b>   | Reference to any: <ul style="list-style-type: none"> <li>- Environmental standards-EMAS</li> <li>- Data review</li> <li>- Site(s) visit</li> <li>- Systems review</li> <li>- Interviews</li> </ul>   | <ul style="list-style-type: none"> <li>- Describing purposes or objectives of the engagement</li> <li>- Standards used on the engagement, if not, describing the process used</li> <li>- Indicating the criteria against which the collected evidence is compared</li> <li>- Indicating the subject matter – what was audited? And determining the time period for the review</li> <li>- Scope of assurance: blanket opinion, or it is just applied only to a selected sections or data.</li> </ul> | <ul style="list-style-type: none"> <li>- Does AP have assurance oversight: internal verification, assurance committee</li> <li>- Using any standards (e.g. AA1000), criteria</li> <li>- Assess relationship between financial and non - financial information</li> <li>- Describing scope &amp; purpose of the assurance</li> <li>- Visiting and inspecting the sites, validating any of the following: data in the report, systems including EMS, management claims, data collection systems, governance program</li> <li>- Staff interview, stakeholders interview</li> <li>- Responsiveness, materiality &amp; completeness</li> </ul> | <ul style="list-style-type: none"> <li>- Pre-assurance procedures: planning the assurance process; using criteria; describing objectives of the engagement, scope; role of the AP in developing the scope; use sampling.</li> <li>- Assurance (evidence-gathering) procedures: reviewing of: the internal assurance system, data &amp; figures in the report, documents, data collection system, EMS, and the non-financial governance routines.</li> <li>Site(s) visit, and employees' interviewing.</li> <li>Addressing issues of: materiality and completeness</li> </ul> |
| <b>Nature of assurance report</b>  | <ul style="list-style-type: none"> <li>- Weakness of data, and stated recommendations</li> <li>- Weakness of EMS, and stated recommendations</li> <li>- Weakness in Env. performance, and stated recommendations</li> <li>- Feedback of previous year recommendations</li> </ul> | <ul style="list-style-type: none"> <li>- Type of assurance: positive, negative or mixed.</li> <li>- Indicating clear opinion or conclusion - phrases such as, opinion, conclusion, we believe.</li> </ul>   | <ul style="list-style-type: none"> <li>- References to shortcomings/ weaknesses</li> <li>- Any recommendations relate to: report preparation process; report content; underlying processes and systems; competencies; environmental policy; social policy; compliance with the legislations; environmental, social or sustainability performance, an the stakeholders</li> </ul>  | <ul style="list-style-type: none"> <li>- Clear opinion, limitations of the scope</li> <li>- Findings: shortcomings/ weaknesses</li> <li>- Recommendations relate to: report content &amp; its preparation process, underlying processes &amp; systems, non-financial performance, data collection systems, quantifying targets &amp; objectives, and adoption of emerging best practices.</li> </ul>   |
| <b>Nature of what is being assured to (terms used to express the opinion, or type of the standards used)</b> | <ul style="list-style-type: none"> <li>- "True &amp; fair view"</li> <li>- Comparison to best practice.</li> <li>- Attest to veracity of the report</li> <li>- Coverage of relevant issues.</li> <li>- Link attest to the company environmental policy</li> </ul>                | <ul style="list-style-type: none"> <li>- FEE assurance standards</li> <li>- Opinion / conclusion expressed</li> </ul>   | Conclusion & opinion expressed in the AS: <ul style="list-style-type: none"> <li>- Using expressions of: true &amp; fair view; true &amp; fair; true, fair &amp; balanced; fair; and balanced.</li> <li>- Any other expressions provided in the AS.</li> </ul>  | <ul style="list-style-type: none"> <li>- Terms used to express the opinion (such as, fair, accurate, consistent, and true &amp; fair)</li> <li>- Level of assurance pursued</li> <li>- Assurance standards used</li> </ul>   |
| <b>Information relating to the assurance provider and the reporting company</b>                              | <ul style="list-style-type: none"> <li>- Verification statement addressed to three parties: both internal and external stakeholders, external stakeholders, and internal (RC)</li> </ul>   | <ul style="list-style-type: none"> <li>- Place of assurance provider</li> <li>- Date of AS, addressee</li> <li>- Title of the assurance statement</li> <li>- Name of assurance provider</li> </ul>  | <ul style="list-style-type: none"> <li>- Information concerning AP and the RC</li> <li>- Assurance statement's title,</li> <li>- Responsibilities of the two parties</li> <li>- AP's competencies</li> </ul>  | <ul style="list-style-type: none"> <li>- Characteristics of: the reporting companies, the assurance providers, and the AS</li> <li>- Title of the assurance statement</li> <li>- Assurance fees</li> </ul>   |

#### **D- Independence of the assurance provider**

In order to increase confidence in the objectivity of the conclusion presented in an assurance statement, assurance providers may choose refer explicitly to their independence or to describe the way in which they seek to ensure their independence. Independence is difficult to define since it is “a property of auditors’ relationships with their clients” (Antle, 1999, p. 65). Such relationships are complex and changing rapidly according to the technological and business changes (Antle, 1999, p. 65).

It could be argued that the most important element of independence is the independence of assurance judgement, since during the acceptance of the engagement, assurance process and the reporting on the engagement, the assurance provider continuously has to make judgements (Kamp-Roelands, 2002, pp. 68-69). It is important that these judgements are free of any bias due to the lack of independence. Taylor *et al.*, (2003, p. 257) assert that there are three fundamental elements to control subjectivity in assurance provider’s judgements and decision, these are: independence, integrity and expertise. Indeed, the IAASB (2006, p. 39) states that “for assurance engagements provided to clients that are not audit clients, when the assurance report is expressed restricted for use by identified users, the members of the assurance team are required to be independent of the client” (see also ACCA and CorporateRegister.com, 2004).

FEE (2003, p. 4) argues that statement issued by an independent external assurance provider should enable users of the reporting company non-financial (namely sustainability) information to place more credibility on this information. Further, it has been argued that the independence of the assurance provider is instrumental in determining the quality of the assurance process and hence any judgment made and communicated. In particular, Ball *et al.*, (2000, p. 7) suggest that possibly the most telling indication of the quality of an assurance engagement lies in the degree to which the assurance provider’s independence is exhibited.

The degree of assurance provider independence could be inferred from certain disclosures in the assurance statement. The IAASB (2004, p. 923) states that an assurance statement should describe responsibilities of the reporting company (who are the responsible party for the subject matter) and the assurance provider (who is

responsible for expressing an independent conclusion regarding the information of the subject matter). In addition to identifying responsibilities of the two parties, independence of the assurance engagement would be maintained by avoiding threats of independence (ICAEW, 2003, p. 5). In the traditional financial auditing practice, self-interest is deemed as one of the strongest threats to independence of the assurance engagement where the assurance provider “could benefit from a financial interest in, or other self-interest conflict” with the reporting company (ICAEW, 2003, p. 5).<sup>78</sup> Such threat might be created when for example, a “direct financial interest or material indirect financial interest” existed between the assurance provider and assurance client; and where there is an undue dependence on fees from an assurance client, or from having a close business relationship with the assurance client (ICAEW, 2003, p. 5). Furthermore, the ICAEW (2003, p. 5) stressed that a self-review threat might be created when the assurance provider is involved in preparation of original data used to generate the subject matter being assured.

Building on this framework, the research instrument captures relevant aspects of independence by addressing the following questions: (i) is the independence of the assurance process explicitly asserted in the assurance statement? (ii) have separated responsibilities for both (the assurance provider and the reporting company) been clearly determined? (iii) does the assurance statement indicate clearly that the assurance provider complies with the independence requirements set out in specific professional guidelines (such as IFAC or ICAEW)? (iv) is it clearly stated in the assurance statement that the assurance provider is not involved in preparing the assured stand-alone report? and (v) is it explicitly indicated within the assurance statement that there is no financial or commercial relationship between the assurance provider and the reporting company?

### **E- Methodology of the assurance process**

Assurance statements have also in the past indicated the nature of investigation undertaken by the assurance provider (Ball *et al.*, 2000, p. 10). In the traditional financial audit it is argued that the audit engagement generally is supported by identification three particular elements (Kamp-Roelands, 2002, p. 71): (i) the subject

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<sup>78</sup> In addition to the self-interest threat, ICAEW (2003, pp. 5-6) identifies other four sources of independence threats including: self-review threat; advocacy threat; familiarity threat; and intimidation threat (for details, see the ICAEW, 2003).

matter of the audit, which could be the policy, plans, systems, actions (behaviour) or results of these actions (performance); (ii) audit objectives in relation to the different kinds of subject matter (for example effectiveness, efficiency, integrity, reliability, completeness, and accuracy); and (iii) audit criteria that are “necessary to assess whether the subject matter complies with the requirements as set by means of the audit objectives” (Wilschut, 1994 in Kamp-Roelands, 2002, p. 75).<sup>79</sup>

In the context of assurance of corporate stand-alone reporting it could be argued that the extent of the assurance procedures employed in the assurance exercise is influenced by a group of factors (CPA Australia, 2004, p. 9). These factors include: objectives of the assurance engagement, expectations of the reporting company about assurance needs, expectations of the reporting company’s stakeholders about assurance needs, and risks in not uncovering inaccuracies in the stand-alone report (CPA Australia, 2004, p. 9). In addition to these factors, standards being used in the assurance engagement may also have an influence in the assurance practice (for example Ball *et al.*, (2000, p. 10) state that “our findings indicate that environmental audit standards, particularly EMAS, are having considerable influence on EPR verification practice”).

By setting the subject matter and deriving the assurance objectives, assurance criteria and scope of the assurance process, an assurance exercise could then be undertaken by the assurance provider. Any assurance process has many steps that need to be undertaken and documented by the assurance provider, starting with accepting the engagement, obtaining evidence, and preparing the assurance statement (GRIVWG, 2001; IAASB, 2004). Park and Brorson (2005, pp. 7-8) emphasise that an assurance engagement typically consists of the following steps:

1. Planning the assurance process:<sup>80</sup> this step includes an agreement between the assurance provider and the reporting company on the scope of the assurance exercise (which could be developed either by the reporting company or the

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<sup>79</sup> Kamp-Roelands (2002, p. 76) claims that principle sources of the criteria could be: laws and regulations; specific criteria developed by the client; specific criteria developed by the users; professional literature; comparable situations and/or prior experience.

<sup>80</sup> Adams and Evans (2004, p. 109) assert that planning of the assurance engagement involves two main stages: assessment of ongoing issues, and risks and planning the assurance work.

assurance provider), the criteria of the assessment, number of site visits and other practical details.

2. Background work: this step normally includes site visit(s), interviews with management and assessment of reporters' data collection systems.
3. Interrogation of the database: in this step the assurance provider analyses the data presented by the reporting company and make recommendations to any corrections required.
4. Examining the company stand-alone report to check whether or not the presentation of the report is balanced.
5. Discussing the feedback: the assurance provider and the reporting company arrange for a meeting to discuss the future improvements of the company's reporting scheme.

Further, in presenting an assurance conclusion evidence is needed to support that conclusion since "no assurance can be given for assertions made by management without supporting evidence" (CPA Australia, 2004, p. 9). The IAASB (2004, p. 917) requires the assurance provider to obtain sufficient appropriate evidence in order to draw an assurance conclusion.<sup>81</sup> In deciding what evidence needs to be obtained assurance providers should consider "the reliability of different types of information and their sources" (GRIVWG, 2001, p. 10). The GRIVWG (2001, p. 10) identifies two main sources for obtaining an assurance evidence: internal sources such as an examination of records and documents; field or facility observations; tests and enquiries; representations by the management and board of directors; and external sources to the reporting company such as evidence from an independent expert.

Previous studies (Ball *et al.*, 2000; CPA Australia; 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006) have examined whether assurance statements disclosed performance of certain assurance procedures such as: validation of data in the report, validation of data collection systems, reviewing of achievement of targets, validation of governance arrangements, site visits, staff interviewing, and stakeholders' interviewing.

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<sup>81</sup> The IAASB (2004, p. 917) requires the assurance provider to consider sufficiency and appropriateness of the evidence gathered with attention being given to "the relationship between the cost of obtaining evidence and the usefulness of the information obtained".

Consistent with the arguments outlined in the literature and the requirements of the standards and guidelines such as GRI, FEE, ISAEs, and AA1000AS, there is an assumption that applying more rigorous assurance procedures by the assurance provider would result in more robust assurance evidence and hence will allow a clearer opinion regarding the subject matter to be given. Therefore, the study seeks to capture disclosures with respect to the following questions: (i) is there evidence in the assurance statement indicating that the assurance assignment has been planned? (ii) has the assurance statement clearly described the criteria to be used during the assurance process? (iii) have the purposes and objectives of the assurance process been determined? (iv) has the scope of the assurance process been clearly described? (v) has the assurance provider involved in developing this scope? (vi) has the sampling approach used during the assurance process? (vii) have the following approaches been reviewed: the internal assurance system, the data and figures of the stand-alone report, the documentary system, the data collection systems and processes, the environmental management system, and the corporate non-financial governance routine? (viii) have sites of the reporting company been visited? and (ix) have employees within the reporting company been interviewed?

In order to answer these questions the study identifies two stages of assurance procedures to be examined in the assurance statements: the pre-assurance procedures and evidence-gathering procedures. Materiality and completeness are also important issues within the assurance process. In the traditional financial audit, materiality level is linked to the audit risk and as a result, this influences the evidence gathering procedures (see IAASB, 2006). The issues of materiality and completeness therefore are included within the methodology within the context of assurance of corporate stand-alone reports.

#### **F- Engagement with the stakeholders**

It is often argued within the CSR literature that corporate stakeholders have the right to know what contribution reporting companies are making to society (Idowu and Towler, 2004). The provision of information which satisfies this need is believed to disclose accountability relationships (Idowu and Towler, 2004, p. 422). It may be argued that assurance also has the potential to enhance accountability and transparency for organisational stakeholders (O'Dwyer and Owen, 2005, p. 205). In

particular, it is often asserted that assurance providers should engage with stakeholder within the assurance process. Adams and Evans (2004, p. 97) for example assert that stakeholders involvement is required to enhance credibility and completeness of the stand-alone reporting. This principle is also at the heart of the AA1000 framework.

Despite the various obstacles that face engaging stakeholders from the perspective of organisations,<sup>82</sup> stakeholders' dialogue could be considered as a cornerstone of many recent developments in accountability practices and corporate social and environment governance (Unerman and Bennett, 2004, p. 685). Stakeholders may request more than one type of assurance in order to rely on the company reported information. Woodward (2001, p. 74) argues that, in some cases, while internal assurance (which achieved through internal control process) may be sufficient to meet stakeholders' needs, other types of stakeholders may require externally provided assurance .

Two main types of stakeholders have emerged in the domain of stand-alone reporting: internal stakeholders and external stakeholders. Engagement with stakeholders groups internally or externally requires participation of these groups on the assurance process. Woodward (2001) argues that stakeholders can be involved in assurance process through, "identifying and/or selecting the assurance provider that will deliver the assurance, making recommendations to the board for their involvement, and involving in the design of data collection systems and in the data collection process" (pp. 75-76).

Few studies explore stakeholders' engagement in the assurance process. O'Dwyer and Owen (2005) investigate the amount of stakeholders engagement in the assurance process through evaluating the extent to which assurance statements address the core assurance principles (completeness and responsiveness) emphasised by AccountAbility's AA1000AS. These two principles particularly focus on evaluating whether the reporting company has an effective process in place for identifying and understanding stakeholder views and responding to these views (AccountAbility, 2003a).

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<sup>82</sup> Unerman and Bennett (2004, p. 685) claim that stakeholders' engagement initiatives have been associated with two key problems: "identifying and reaching a wide range of stakeholders; and determining a consensus set of stakeholder expectations from a range of potentially mutually exclusive views held by different stakeholders".

In the context of stakeholders' engagement within the assurance engagement, an assurance provider may also investigate whether the reporting company has determined interests and concerns of the stakeholders and how it has sought to respond for these concerns (AccountAbility, 2003a). Additionally, an assurance provider may investigate whether sets of targets and indicators for the stakeholders concerns have been established, as well as checking whether the non-financial material issues concerning stakeholders have been adequately disclosed by the reporting company. To perform these assurance activities effectively, assurance provider needs to undertake some procedures while carrying out the assurance exercise. These procedures may include, for example, "checking the output from stakeholders survey for compliance with the intended sample frame misinterpretation or understatement in the reported results; ... consulting stakeholders representatives where necessary (e.g. staff trade-union representatives) to corroborate stakeholder survey findings or their interpretation by the company" (Adams and Evans, 2004, p. 110).

Drawing from the literature outlined above, the current study seeks to capture the extent to which assurance provider address stakeholders' issues and engaged them while performing the assurance assignment. To capture this information the research instrument asks the following questions: (i) have specific stakeholders groups been interviewed by the assurance provider? (ii) has the assurance provider investigated whether the reporting company has determined interests and concerns of its stakeholders, and how it is sought to respond to these interests and concerns? (iii) has the assurance provider assessed whether or not the reporting company created sets of targets and indicators towards stakeholders concerns? (iv) has the assurance provider investigated weaknesses and shortcomings in the determined stakeholders' concerns? (v) have any recommendations concerning the stakeholders been presented in the assurance statement? and, (vi) have achievements of the past recommendations concerning the stakeholders during the past reported periods been evaluated by the assurance provider?

#### **G- Result of the assurance engagement (findings, opinion and recommendations)**

This section of the instrument is specifically designed to capture disclosures related to assurance findings (specifically weakness or shortcoming of the underlying processes

and systems), the opinion expressed and recommendations presented by the assurance provider. Adams and Evans (2004, p. 114) state that “consideration must be given to the nature of audit opinion and how it should relate to the scope of the audit and finding of the audit”.

The IAASB (2004, p. 920) stresses that the assurance provider is required to report the conclusion of the assurance assignment in a written assurance statement which in turn, should “contain a clear expression of the practitioner’s conclusion about the subject matter information”. Furthermore, it is expected that this conclusion “should inform the intended users of the context in which the practitioner’s conclusion is to be read” (IAASB, 2004, p. 924). See also Kamp-Roelands (2002).

Previous studies have concentrated on evaluating opinions presented on the assurance statements, particularly, terms of the expressions used by the assurance providers to articulate their opinions (for example, Ball *et al.*, 2000; CPA Australia, 2004; Deegan *et al.*, 2006). Other studies (for example, O’Dwyer and Owen, 2005) have addressed further issues in respect of the assurance findings (namely the extent to which weaknesses in the underlying processes and systems, non-financial performance, and reporting procedures are identified), as well as recommendations and commentary offered especially into those areas where weaknesses are highlighted (O’Dwyer and Owen, 2005, p. 214).

Findings of the assurance process also have a function beyond offering recommendations. Findings are also considered to be important for allowing an assessment of ongoing issues and risks as assurance providers may undertake an independent review of “findings from earlier assurance engagements with the company, taking account of previous assurance statements, working papers and reports to directors” (Adams and Evans, 2004, p. 109).

Building on the previous literature (mainly, O’Dwyer and Owen, 2005) the current study investigates not only the expressions and terms used to introduce the assurance opinion (addressed in item C.6 of the instrument), but also findings that related to weaknesses identified and recommendations offered by the assurance providers. Findings, opinions and recommendations will be investigated by asking the following questions: (i) has a clear opinion towards the subject matter been expressed on the

assurance statement? (ii) have the weaknesses and shortcomings concerning: the non-financial performance, the reporting systems, and the underlying processes and systems been highlighted? (iii) have any recommendations in the areas of: stand-alone report contents and its preparation process, underlying process and systems, non-financial performance, and the stakeholders been presented? and, (iv) have any recommendations that exhort the reporting company, to adopt emerging best practice or any reporting standards, or quantify its objectives and targets been presented?

### **Part three: framework of the content analysis**

This part of the instrument seeks to capture the volume of disclosure related to each element of the assurance statement. This section of the instrument relies on the semantical and sign-vehicle content analysis approach (Krippendorff, 2004). Within the previous literature, content analysis was employed to make inferences from the text of the assurance statements regarding the investigated aspects (see for example, Ball *et al.*, 2000; Kamp-Roelands, 2002; Wilson, 2003). This analysis was done without considering the amount of space devoted to particular aspects. One objective of the study (section 4.3) is to investigate development of the form of the assurance statement over the period of the study. To achieve this objective a different approach to content analysis has been adopted. In addition to making inferences from counts of certain elements within the assurance statement, the study employs content analysis to measure the space devoted to various aspects covered in the assurance statement. In order to carry out this analysis, a transparent sheet (A4 size) was divided into 100 identical squares representing in total 100% of the page.<sup>83</sup> This sheet was used to measure percentage of the page devoted for each aspect of assurance (for example, objectives of the engagement, scope, methodology and conclusion). The results obtained from this analysis were documented in a separate page in the research instrument (see Appendix 1).

#### **4.6.3 Reliability of the instrument**

Weber (1990, p. 12) emphasises that “to make valid inferences from the text, it is important that the classification procedure be reliable in the sense of being consistent:

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<sup>83</sup> Due to variation of the sizes of the collected assurance statements, two different scales of this sheet have been used. The first one contains 100 squares and was designed to be used with statements published in one page format. The second scale contains 200 squares and was used to analyse those statements published in two pages.

different people should code the same text in the same way". There is growing recognition in the research literature that reliability should be established and is a necessary criterion for valid and useful research when human coding is employed (Neuendorf, 2002, p. 142).<sup>84</sup> Milne and Adler (1999, p. 239) argue that, where the "social and environmental accounting literature has shown concern with the reliability of the content analysis of social and environmental disclosures, it has almost exclusively focused on the reliability of the data being used" rather than focusing on the reliability of the coding instruments used in such studies. Reliability is defined in this context as "the extent to which a measuring procedure yields the same results on repeated trials" (Carmines and Zeller, 1979 in Neuendorf, 2002, p. 141). Krippendorff (2004, p. 214) distinguishes between three different types of reliability: stability, reproducibility, and accuracy. These types are distinguished not by the way of agreement is to be measured, but by the way the reliability data are obtained.

Stability (intraobserver - test-retest) is defined as "the degree to which a process is unchanging over time" (Krippendorff, 2004, p. 215). Stability is measured as "the extent to which a measuring of coding procedure yields the same results on repeated trials. The data for such assessments are created under test-retest conditions; that is, one observer rereads, recategorises, or reanalyses the same test, usually after some time has elapsed, or the same measuring device repeatedly applied to one set of objects" Krippendorff (2004, p. 215). Reproducibility (previously called intercoder reliability) is defined as "the degree to which a process can be replicated by different analysts working under varying conditions, at different locations, or using different but functionally equivalent measuring instruments" (Krippendorff, 2004, p. 215). Accuracy is defined as "the degree to which a process conforms on its specifications and yields what it is designed to yield" (Krippendorff, 2004, p. 215).<sup>85</sup>

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<sup>84</sup> In average, only about 15-20% of the published studies report the reliability of their analysis (Berelson, 1952 in Milne and Adler, 1999, p. 238).

<sup>85</sup> Reproducibility requires reliability data that are obtained via test-test conditions (for example, when two or more individuals, working independently, and applying the same recording instructions to the same units of analysis (Krippendorff, 2004, p. 215). Compared with stability, reproducibility is a stronger measurement of reliability (Krippendorff, 2004, p. 215). To reach accuracy, data must be obtained under test-standard conditions, as the analysts should compare "the performance of one or more data-making procedures with the performance of a procedure that is taken to be correct" (Krippendorff, 2004, p. 216). Such conformity to the test-standard requires the standard to be a truth, or at least "what is known to be true" (Krippendorff, 2004, p. 216).

Among those three types of reliability, reproducibility arguably is the strongest and most feasible type to trial (Krippendorff, 2004). Complexity of choosing an index of reliability (between the researchers) is the reason often cited for avoiding an accuracy based approach to measure reliability (Hayes and Krippendorff, 2007, p. 78). In the light of absence a generally accepted level of reliability for the instruments being employed in accounting research, the current study has employed reproducibility and stability approaches together to measure reliability of the instrument of the study.

There are various coefficients could be used to measure the reliability. Lombard *et al.*, (2005) emphasise that “there are literally dozens of different measures, or indices, of intercoder reliability”, the most widely used indices are: Percent of agreement, Holsti’s method, Scott’s pi ( $\pi$ ), Cohen’s kappa ( $\kappa$ ), and Krippendorff’s alpha ( $\alpha$ ). It is most likely that researchers tend to avoid using the percentage of agreement coefficient<sup>86</sup> because of its failure to account for the agreement that may happen by chance, as “probability tells us that, in any situation, without any training or familiarity with the coding framework, coders will agree half the time even if the choices they make are random” (Murphy *et al.*, 2006). For this reason, other indices or coefficients are often used, where the proportion of agreement between the two raters is considered after incorporating chance (such as Scott’s pi, 1955; Cohen’s kappa, 1960; or Krippendorff’s alpha, 1980 – see Murphy *et al.*, 2006).

Hayes and Krippendorff (2007, pp. 79-81) assert that reliability coefficients (namely Scott’s pi, Cohen’s kappa, and Krippendorff’s alpha) fulfil the properties of a suitable index of reliability. Cramer (1994, p. 269) notes that Cohen’s kappa coefficient is the most widely recommended index of agreement between two or more judges. The current study has used two of the coefficients (Scott’s pi and Cohen’s kappa) to test reliability of the instrument of the study (for the pilot sample only), while Cohen’s kappa is used to test sample drawn from the whole-data.

Milne and Adler (1999, p. 242) argue that, calculation of the reliability’s coefficients requires “the total number of coding decisions each coder makes, and the coding

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<sup>86</sup> Hayes and Krippendorff (2007, p. 80) define the percent of agreement as “the proportion of units with matching descriptions on which two observers agree”. It is simply calculated by adding up the number of cases that were coded the same way by the two coders and dividing by the total number of cases. Despite of its easy measurement, percentage of agreement is limited only for measuring the agreement between two coders (Hayes and Krippendorff, 2007, p. 80).

outcome of every one of those coding decisions be known". The measurement process was performed in two rounds (pilot sample and the whole data-set sample). In the first round, 15 assurance statements (out of 50 entries included in the pilot sample) have been randomly selected to be analysed by two coders (the supervisor and the researcher). In the second round, 35 assurance statements (17% of the full sample) were randomly chosen to be analysed by using the instrument (ten by the two coders, and 25 by the researcher only on a test-retest basis).<sup>87</sup>

Results of the reliability tests indicated that in total, 32 of the 48 items targeted by the testing process have achieved full agreement (Scott's pi = 1.00 or Cohen's kappa = 1.00) in the first round analysis.<sup>88</sup> In the second round (sample = 35 statement), results indicate that, 29 out of the 49 tests carried out in this round have achieved full agreement (Cohen's kappa = 1.00), while 16 tests of the remaining tests have ranged between (0.832-0.942). In the two rounds carried out, only eight out of (97) tests have achieved less than 0.8.<sup>89</sup> However, the overall results would conclude to relying on the instrument of the study as reliability exists on this instrument (evident by results of both intercoder and intracoder reliability-tests). Appendix 6 reports the results of the instrument's reliability tests for both intercoder and test-retest bases using Scott's pi and Cohen's kappa coefficients.

#### 4.7 Data gathering process

This section describes the data gathering process and seeks to justify the population selected in the study (FTSE100 companies) and to explain how the targeted data (assurance statements) were collected.

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<sup>87</sup> For those 25 assurance statements analysed by the researcher, two rounds of analysis have been performed. The first round was in July 2005, while the second one was in October 2005. The size of the sample included in the reliability test can vary and depending on the size of the project. As a rule of thumb, a representative sample, not less than 50 units or 10% of the full sample need to be chosen in random or any other justifiable procedure (Lombard *et al.*, 2005).

<sup>88</sup> Scott's pi coefficient tests have been carried out through statistical tools available in a software called (SimStat v.1.0.0.0/2005), whereas Cohen's kappa coefficient tests performed by using (SPSS v.10/2000).

<sup>89</sup> Krippendorff (2004, p. 241) emphasises that there is no agreement on the acceptable level of reliability, but, researchers should rely on variables with reliabilities ( $\alpha = 0.800$ ), while, variables with reliabilities between  $\alpha = 0.667$  and  $\alpha = 0.800$  should be considered only for drawing tentative conclusions. On the other hand, Kvalseth (1989 in Stemler, 2001) suggests that a kappa coefficient of 0.61 represents reasonably good overall agreement, whereas, Landis and Koch (1977, in Stemler, 2001) have suggested the following benchmarks for interpreting kappa statistic: <0.00: poor; 0.00-0.20: slight; 0.21-0.40: fair; 0.41-0.60: moderate; 0.61-0.80: substantial; 0.81-1.00 almost perfect.

#### 4.7.1 Population of the study

Gray *et al.*, (1995b, p. 87) identify four approaches to sample selection that have been used in the CSR literature: selection of the largest companies; selection of large, medium and unlisted companies; broader selection from *The Times 1000*; and selection of what is called ‘interesting’ or ‘best practice’ exemplars. Gray *et al.*, (1995b, p. 87) note that although each of these approaches “offers the possibility of different inferences ... none can be said to be representative of UK companies as a whole”. However, and despite the fact of difficulty of identifying the size effect, it seems that a sample of large companies (such as the largest UK companies) is preferable; since such sample is more likely to (Gray *et al.*, 1995b, p. 88): (i) demonstrate innovative examples than an equivalent sample of medium or small companies; (ii) provides more comparable (on size at least) with a majority of other studies which sample from the largest companies; and (iii) proves to be much more reliable than other sample in terms of obtaining the annual reports and any other reports and documents.

In the extent literature, numerous studies have pointed out to the size effect in the stand-alone reporting (see for example, Guthrie and Parker, 1990; Hackston and Milne, 1996; and Adams *et al.*, 1998), as “trends and switch points would consequently be expected to be more pronounced in larger companies than in smaller ones” (Campbell *et al.*, 2003, p. 564). Companies which are members of the FTSE100 have been considered as a sample by various studies and surveys in the accounting discipline generally and stand-alone reporting particularly (see for example, ERM, 2000 and 2001; Campbell *et al.*, 2003; Linsley and Shrives, 2006).

Different types of samples have been used in the assurance of corporate stand-alone reporting literature. Some researchers have considered the assurance statements of reports that have been short-listed in the UK and European ACCA reporting schemes (Ball *et al.*, 2000; O’Dwyer and Owen, 2005). Others have extended their analysis to cover different areas around the world (KPMG, 2002 and 2005; Wilson, 2003; CPA Australia, 2004; Deegan *et al.*, 2006). Since the current study is a UK focused, and given the issues identified by Gray *et al.*, (1995b), it analyses the UK companies as represented by those companies listed in the FTSE100 for the years 2000-2004. It should be noted in this context, that the whole population is being investigated in this

study as all entries included within the FTSE100 during the period of the study were targeted.

Two main reasons exist for selecting the years 2000-2004 as the period of the study. First, the majority of the previous studies covered 2002 or earlier (see Ball *et al.*, 2000; Kamp-Roelands, 2002; Wilson, 2003; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006),<sup>90</sup> and the analysis in all these studies only one or two years of data was analysed. This study, in contrast, considers data analysis over five years. Second, different assurance standards (namely, AA1000AS and ISAE3000), as well as reporting criteria were released after 2002. These standards have gained considerable attention by both reporting companies and assurance providers. The current study, therefore, allows an examination of the assurance practices in the light of these new standards. Such an investigation is likely to reveal whether or not these standards have affected assurance practice.

#### **4.7.2 Collecting the assurance statements**

The data gathering process involved collecting assurance statements found in corporate stand-alone reports issued by the FTSE100 companies during the years 2000-2004. Only those statements provided by an external third-party in which a systematic assurance process was conducted (full definition of the assurance statement for the purpose of the current study is available in section 4.6). Consistent with the definition of assurance developed for the purpose of this study, those statements issued by the reporting company's internal audit or assurance division, benchmark statements (such as London Benchmark Group-LBG or Business in The Community BITC), or any other commentary statements provided by non-assurance providers (such as opinion leaders or experts) were excluded from the data gathering process. During the data gathering process, a number of assurance statements provided by internal audit departments were noted (see Appendix 2). The ICAEW (1989 in Vinten, 1999, p. 410) state that "an internal auditor, being on the payroll of a company with a particular management, could not be said to be truly independent".

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<sup>90</sup> All these studies covered the year 2002 or the years before, except Deegan *et al.*, (2006) who include 11 assurance statements out of the 170 statements included in the database from 2003.

The process of gathering data followed three stages. First, the names of the targeted reporting companies were identified by obtaining the FTSE100 lists for the years 2000-2004 (included in the FTSE European Monthly Reviews - December 2000-2004). In total, 500 companies (100 entries in each year) were considered as the population to be investigated. Second, each company included in the population of the study was investigated to identify whether or not the listed company has issued an assured stand-alone report for each year. The reporting company's web site and CorporateRegister.com web site were used for this purpose.<sup>91</sup> Priority was given to checking the company's web site and where information about the reports was not found (in limited cases), that company was checked in the CorporateRegister.com database. In this stage, 192 assured stand-alone reports were identified out of 342 stand-alone reports issued by the 500 reporting companies. Third, within the 192 assured stand-alone reports the search process identified 196 assurance statements (Appendix 3 provides details of these statements).<sup>92</sup> These statements have been gathered during the period from November 2003 to October 2005 through the web sites of the reporting companies (over 95% of the statements). Those assured stand-alone reports which could not be obtained because they are not available any more on the reporting companies' web sites were collected from the CorporateRegister.com web site with only three assurance statements being unobtainable from any of the two web-sources. These statements were obtained from hard-copy assured stand-alone reports. Details of the assured stand-alone reports and the statements included in these reports in each year of the study can be found in Appendix 2.

This stage of the research faced particular challenges. In particular dealing with leavers and joiners of the FTSE100 in each month of the year was a challenge. To overcome this problem the December list in each year was used as the point of

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<sup>91</sup> The CorporateRegister.com describes itself as "the world's most comprehensive directory of corporate non-financial reports. Established as a free service by Next Step Consulting in 1998, the site aims to provide access to all current reports, as well as developing an archive of all reports published since 1990" (ACCA and CorporateRegister.com, 2004, p. 59). CorporateRegister.com is currently feature over 13,000 reports from 3,709 different companies a cross 91 countries. Retrieved April 13, 2007 from <http://www.corporateregister.com/>.

<sup>92</sup> The difference between number of the assurance statements and number of the assured stand-alone reports is related to the fact that, two stand-alone reports have contained more than one assurance statements (details available in section 5.2)

membership. Thus, companies included within December's list for each year of the study (2000-2004) were considered to be included in the population of the study.<sup>93</sup>

#### **4.8 Conclusion**

In this chapter, the philosophical assumptions that underpin any social research project were outlined. In particular, assumptions relating to social science and the nature of society were discussed. Attention was given to the research frameworks offered by Burrell and Morgan (1979), Chua (1986), and Laughlin (1995).

This study has adopted the ideographical methodology (Burrell and Morgan, 1979), and the interpretive accounting research (Chua, 1986). This methodological approach leads the current research to adopt a quantitative approach to collecting data and analysing it. A quantitative research instrument was used to collect the data from the targeted assurance statements.

The research instrument was then outlined in three main parts. These parts seek to capture data about: (i) the reporting company, the assured stand-alone report, assurance provider, and characteristics of the assurance statement; (ii) the presence of various aspects of the assurance process; and (iii) space devoted to various aspects on the face of the assurance statement. To ensure that the designed instrument would achieve objectives of the current research, reliability tests have been carried out using appropriate coefficients (Scott's pi and Cohen's kappa). The results of these tests have suggested that the use of the research instrument is robust.

Finally, this chapter covered the data collection process that were undertaken to locate the assurance statements. In total 196 assurance statements were collected. These statements were analysed by using the instrument of the study. The next two chapters outline the results of the data analysed in this study.

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<sup>93</sup> To come into this conclusion, lists of the FSTE100 included within FTSE European Monthly Review for the year 2002 (as a middle year of the study) from January to December were obtained. A detailed comparison between the lists of 12 months had been performed to determine the degree of consistency in the names of the companies. The results showed that, in average only five companies have been changed (as 95 companies out of 100 still existed in the list between January to December). Thus, the December list in each year (2000-2004) has been used for determining the population of the study.

## Chapter Five

### Descriptive Analysis of Data of the Study

#### 5.1 Introduction

In order to introduce an appropriate framework for the data interpretation, results of the data analysis will be discussed in two parts: the descriptive data results and the analytical data results. This chapter focuses on the results of the descriptive analysis.

The results in this section focus on answering the first three research questions: what is the incidence of assurance practice? Who produced the assured reports and who provided the assurance statements? And how could the general characteristics of the assurance statements be described? In order to answer these questions, it is important firstly to present the characteristics of the different parties involved in the assurance engagement. As a result, the characteristics of the reporting companies, the stand-alone reports, the assurance providers, and the assurance statements are described in the chapter.

#### 5.2 The stand-alone reporting and assurance practice of the FTSE100

This section addresses the research question: what is the incidence of the assurance practice within the stand-alone reporting of FTSE100 companies? Stand-alone reporting on the non-financial aspects of the FTSE100 companies has increased significantly during the period of the study. Results of the current study indicate that the number of stand-alone reporters, reports, assured stand-alone reports, and assurance statements have risen between 2000 and 2004.<sup>94</sup> Table 5.1 presents the general trends in stand-alone reporting and assurance practice of the FTSE100 companies for the years 2000-2004.

As Table 5.1 indicates, the number of the stand-alone reports which were produced by the FTSE100 companies has risen from 41 reports in 2000 to 82 reports in 2004. These findings are broadly consistent with the CorporateRegister.com (2006), who

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<sup>94</sup> Full details of the reporting companies (as listed by FTSE for the years 2000-2004), type of the stand-alone reports and number of the assurance statements can be found in Appendix 2.

suggests that 85% of the FTSE100 companies produce non-financial information.<sup>95</sup> In parallel with the increase in stand-alone reporting, the number of the assurance statements appearing with those reports has also risen from 24 assurance statements in 2000 to 51 assurance statements in 2004.

**Table 5.1 Stand-alone reporting and assurance practice (FTSE100/Years 2000-2004)**<sup>96</sup>

| Practice                           | Year |      |      |      |      | Total      | %                       |
|------------------------------------|------|------|------|------|------|------------|-------------------------|
|                                    | 2000 | 2001 | 2002 | 2003 | 2004 |            |                         |
| Stand-alone reporters              | 41   | 58   | 68   | 80   | 77   | <b>324</b> | <b>64.8<sup>a</sup></b> |
| Stand-alone reports                | 41   | 59   | 74   | 86   | 82   | <b>342</b> | -                       |
| Stand-alone assured reports        | 24   | 32   | 41   | 44   | 51   | <b>192</b> | <b>56.1<sup>*</sup></b> |
| Number of the assurance statements | 24   | 32   | 42   | 47   | 51   | <b>196</b> | -                       |

<sup>a</sup> Percentage of the stand-alone reporters as a percentage of the FTSE100 population (324/500 company = 64.8%). <sup>\*</sup> Percentage of the assured stand-alone reports as a percentage of the total number of stand-alone reports (192/342 = 56.1%).

The percentage of assured stand-alone reports in the UK FTSE100 (56%) is higher than the percentage assured at the global level. KPMG (2005, p. 30) note that on average only (33%) of the stand-alone reports produced by the top National100 companies (N100) in 16 countries have been assured.<sup>97</sup> In the remaining sections the characteristics of the reporting companies, the stand-alone reports, and the assurance providers will be explored.

<sup>95</sup> In the 'web report' titled *Non-financial reporting status of the FTSE100: March 2006*, CorporateRegister.com classifies disclosure of the FTSE100's non-financial reporting into four main categories: short corporate responsibility section on the web site of the company (7%), short statement (< 6 pages in the annual report) related to the non-financial aspects (5%), reporting via a partner or a subsidiary (3%), and non-financial stand-alone reporting (85%). The last category is defined as "the production of stand-alone CSR, environmental, social, community report or similar section of 6 pages or more in an annual report within the last two years". Retrieved March 2, 2006 from (<http://www.corporateregister.com/charts/FTSE.htm>).

<sup>96</sup> The differences between the total number of the stand-alone reports and the assurance statements in 2002 and 2003 are because some stand-alone reports contain more than one assurance statement. In 2002 Rio Tinto plc produced a *Social and Environment Review 2002* which contained two assurance statements, whereas in 2003, Rexam plc produced an *Environmental and Social Report 2003* which contained four assurance statements.

<sup>97</sup> KPMG (2005, pp. 30-31) point out that, 27% and 33% of the stand-alone reports issued by the N100 in 2002 and 2005 (respectively) were assured. The KPMG's survey (2005, p. 31) also indicates that, on average, 53% of the stand-alone reports produced by the top 100 UK companies in 2002 (26/49=53%) were assured. The results of the current study found that 55% (41/74) of the stand-alone reports produced by the FTSE100 companies in 2002 were assured. The variance of the results between the two studies could be attributed to the difference of components of each sample included in the study. As the current study investigates the top 100 UK companies (FTSE100) by their market capitalisation, KPMG (2002) did not identify clearly what they meant by top 100 companies in the UK (e.g. the size for example might be measured according to, annual turnover, market capital or number of employees, see Gray *et al.*, 2001).

### 5.3 Characteristics of the reporting companies

Various studies in the literature on corporate responsibility disclosure have explored the relationships between the amount or level of disclosure and characteristics of the corporation (for example, Spicer, 1978; Trotman and Bradley, 1981; Cowen *et al.*, 1987; Freedman and Wasley, 1990; Guthrie and Parker, 1990; Roberts, 1992; Gray *et al.*, 1995a; Hackston and Milne, 1996; Pava and Krausz, 1996; Ahmed and Courtis, 1999; Adams *et al.*, 1998; Cormier and Gordon, 2001; Gray *et al.*, 2001; KPMG, 2002 and 2005; Brammer and Pavelin, 2006 and 2007; Garcia-Sánchez, 2007). The majority of these studies have pointed out that, in addition to many other influences (such as, societal values, political and legal system, industry, type of the ownership ‘public vs. private’, profit and country), non-financial disclosure is substantially associated with firm size and industry. The largest organisations and those in what may be seen as ‘dirty’ or ‘environmentally sensitive’ industries are more likely to be providing non-financial information. For example, Hackston and Milne (1996, p. 98) point out that size and industry are variables that are significantly associated with the amount of social disclosure. Accordingly, it would be expected that producing assured stand-alone reports also be related to these firm characteristics (that is size and industry) and country of incorporation.

Given the current study is UK focused, attention will be given only into the two main factors (size of the companies, and sector/industry in which they operate).<sup>98</sup> These characteristics are explored in the next two sections.

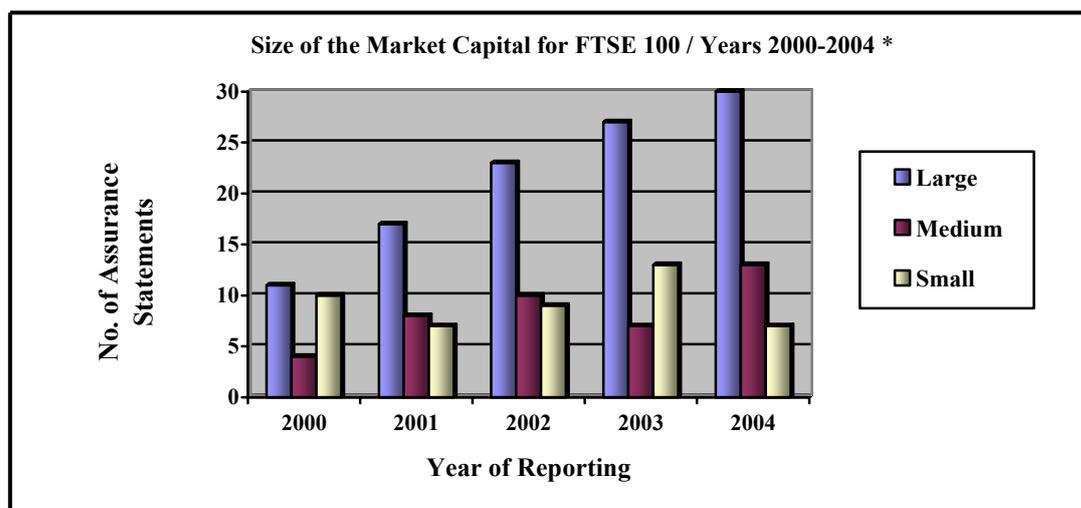
#### 5.3.1 Size of the reporting companies

Adams *et al.*, (1998, p. 1) conclude that ‘super large’ companies are significantly more likely to disclose all types of non-financial information. Within previous studies, different measurements have been used to measure size of the reporting corporation, such as: turnover, capital employed and number of the employees (see for example, Adams *et al.*, 1998; Taurigana and Clarke, 2000; Gray *et al.*, 2001). For the purpose of the current study, size of the reporting company is measured by market

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<sup>98</sup> Most of the previous assurance studies (for example KPMG 2002 and 2005; SustainAbility and UNEP, 2002) also considered sector and country of the reporting company. As this research focuses on the UK market, no consideration has been given to the country of origin of the reporting company.

capitalisation. Firms are divided into three different sizes: large, medium, and small.<sup>99</sup> Consistent with most of the previous studies' conclusions, the results (as shown in Figure 5.1) indicate that the majority of the 196 assurance statements were produced by the large companies (55%). The number of assurance statements from companies of medium or small size is 21% and 23% respectively. Watts and Zimmerman (1978, in Cormier and Gordon, 2001, p. 589) argued that larger companies have greater visibility and are more politically sensitive than smaller ones, then larger companies would be expected to make more disclosures.



**Figure 5.1 Market capitalisation of the assured FTSE100/Years 2000-2004**

\* Market capital sizes used here are representing a dummy variable for the purpose of the current study. Actual sizes of the FTSE100 market capitals in each year can be found in the Appendix 2.

The provision of assurance statements in the stand-alone reports by large (as measured by market capitalisation) companies has shown an increase over the time period (from 11 assurance statements in 2000 to 30 assurance statements in 2004). Assurance statements in the stand-alone reports by the medium and small companies were more variable over the years.

<sup>99</sup> Although it is recognised that companies included in the FTSE100 are all large (in comparison with other FTSE categories such as FTSE250, FTSE500), a significant difference was identified between the sizes of the market-capital of the FTSE100 in each year of the study. For example in the year 2002, the size of the market capital of the first company listed 'BP plc' is £95,424 million and is £1,150 million for the last company listed (Alliance UniChem). For the purpose of comparison between the sizes of the reporting companies included in the current study, companies (as listed on FTSE 100 in each year) have been divided into three equal groups.

### 5.3.2 Sectors of reporting companies

Industry/sector is another corporate characteristic that has an association with the amount and type of the non-financial information disclosed. The reason for this association has been suggested to derive from the fact that industry type (sector) may be an indicator of the relative pressure (real and potential) which companies face from social and environmental activists (Hackston and Milne, 1996, p. 102).

**Table 5.2 Sectors of the assured FTSE100 companies/Years 2000-2004**

| Sector Name                         | FT Code | Frequency in the FTSE100 | Stand-alone Reporters | Assured reports | Total No. of AS (%) <sup>a</sup> |
|-------------------------------------|---------|--------------------------|-----------------------|-----------------|----------------------------------|
| Banks                               | 81      | 48                       | 40                    | 29              | 29 (14.8)                        |
| Mining                              | 04      | 19                       | 18                    | 18              | 19 (9.7)                         |
| Oil and Gas                         | 07      | 17                       | 16                    | 17              | 17 (8.7)                         |
| Transport                           | 59      | 15                       | 15                    | 13              | 13 (6.6)                         |
| Electricity                         | 72      | 18                       | 14                    | 13              | 13 (6.6)                         |
| Real Estate                         | 86      | 14                       | 11                    | 12              | 12 (6.1)                         |
| Telecommunication Services          | 67      | 22                       | 17                    | 11              | 11 (5.6)                         |
| Utilities – Other                   | 77      | 17                       | 13                    | 10              | 10 (5.1)                         |
| Food Producers and Processors       | 43      | 15                       | 11                    | 9               | 9 (4.6)                          |
| Tobacco                             | 49      | 13                       | 12                    | 7               | 7 (3.6)                          |
| Beverage                            | 41      | 19                       | 15                    | 6               | 6 (3.0)                          |
| General Retailers                   | 52      | 31                       | 14                    | 6               | 6 (3.0)                          |
| Pharmaceuticals and Biotechnology   | 48      | 18                       | 13                    | 6               | 6 (3.0)                          |
| Chemicals                           | 11      | 13                       | 8                     | 5               | 5 (3.0)                          |
| Aerospace and Defence               | 21      | 15                       | 14                    | 5               | 5 (2.5)                          |
| Personal Care and Household Prod.   | 47      | 7                        | 5                     | 5               | 5 (2.5)                          |
| Media and Entertainment             | 54      | 44                       | 19                    | 4               | 4 (2.0)                          |
| Support Services                    | 58      | 25                       | 4                     | 1               | 4 (2.0)                          |
| Life Assurance                      | 84      | 25                       | 18                    | 4               | 4 (2.0)                          |
| Leisure and Hotels                  | 53      | 21                       | 8                     | 3               | 3 (1.5)                          |
| Food and Drug Retailers             | 63      | 17                       | 10                    | 3               | 3 (1.5)                          |
| Insurance                           | 83      | 7                        | 6                     | 3               | 3 (1.5)                          |
| Steel and Other Metals              | 18      | 2                        | 2                     | 2               | 2 (1.0)                          |
| Construction and Building Materials | 13      | 10                       | 5                     |                 | -                                |
| Electronic and Electrical Equipment | 25      | 3                        | -                     |                 | -                                |
| Engineering and Machinery           | 26      | 3                        | -                     |                 | -                                |
| Automobiles and Parts               | 31      | 3                        | 2                     |                 | -                                |
| Health                              | 44      | 6                        | 5                     |                 | -                                |
| Investment Companies                | 85      | 6                        | 2                     |                 | -                                |
| Speciality and Other Finance        | 87      | 14                       | 6                     |                 | -                                |
| Information Technology Hardware     | 93      | 2                        | -                     |                 | -                                |
| Software and Computer Services      | 97      | 11                       | 1                     |                 | -                                |
| <b>Total</b>                        |         | <b>500</b>               | <b>324</b>            | <b>192</b>      | <b>196 (100%)</b>                |

<sup>a</sup> This percentage represents number of assurance statements provided within each sector divided by total number of the assurance statements (196) collected in the study.

The Financial Times (FT) in its FTSE Global Classification System (2002) identifies 10 economic groups which contain 37 main sectors, and 101 sub-sectors.<sup>100</sup> This

<sup>100</sup> Details of this classification can be found in Appendix 4.

classification is used in the current study to classify the reporting companies who produced assurance statements. In the current study the 196 assurance statements were produced by 60 different companies over through the period of the study and these reporting companies are classified into 23 different sectors. Table 5.2 illustrates the number of companies in each sector. These frequencies are then compared to the incidence of stand-alone reports and assured reports by sector.

Table 5.2 shows that the most active sectors in term of producing assurance statements are: banks (14.8%); mining (9.7%); and oil and gas (8.7%). To some extent, this result is consistent with the earlier expectation that the UK top reporters would be close to those ‘high profile’ global reporters (Hackston and Milne, 1996; KPMG, 2005). KPMG (2005, p. 32) conclude that utilities; finance, securities and insurance; and oil and gas are the industries who are most likely to include assurance statements with their stand-alone reports.<sup>101</sup>

Form the results presented in Table 5.2, it could be argued that the incidence of assurance statements in each of the FTSE sectors is affected by two main factors: the number of the companies in each sector and the number of the stand-alone reports produced by these companies. Thus, the results in the ‘banks’ sector for instance, could be partly due to the high number of companies in this sector in the FTSE100. In some industries, almost all the reporting companies produced assured stand-alone reports (such as, oil and gas, mining and transport). However, in some cases a sector may have a large number of companies, but only few assured stand-alone reports produced (for example in the media and entertainment sector of the 44 companies which are in the FTSE lists, only 19 of these companies produced stand-alone reports and only 4 of these were assured). The sectors of general retailers, life assurance, and support services also contain few examples of assured reports.

#### **5.4 Characteristics of stand-alone reports**

Previous literature (for example, Guthrie and Parker, 1990; Deegan and Gordon, 1996; KPMG, 2002 and 2005; ACCA and CorporateRegister.com, 2004; Adams and

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<sup>101</sup> According to the investigation of the N100 companies in 16 countries, the most assured corporate stand-alone reports were produced by: utilities (26 assured reports); financial and insurance (24 reports); and oil and gas (18 reports), whereas, utilities and mining are the only two sectors where more than 50% of the stand-alone reports include an assurance statement (KPMG, 2005, p. 32).

Frost, 2006) has explored the titles used to describe stand-alone reports. In the current study, two main characteristics of the assured stand-alone reports (type of the stand-alone report and source of the report) are investigated. Type of the stand-alone report will be used as an independent variable in the next chapter, while source of the stand-alone report will be used in this chapter to discuss the issue of accessibility of the stand-alone reports.

#### 5.4.1 Type of the stand-alone report

Stand-alone reports have had a variety of titles over the years. During the 1990s reports were typically described as environmental reports (ACCA and CorporateRegister.com, 2004, p.10). As organisations adopted a wider corporate responsibility and sustainability approaches the names of the stand-alone reports have also changed to reflect these wider aspects. The current study identifies eight different types of assured stand-alone reports issued by the FTSE100 companies during the period of the study (see Table 5.3).

**Table 5.3 Types of assured reports for FTSE100 companies/Years 2000-2004**

| Type of the stand-alone report  | Year      |           |           |           |           | Total      | %            |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|------------|--------------|
|                                 | 2000      | 2001      | 2002      | 2003      | 2004      |            |              |
| Environment                     | 10        | 10        | 10        | 5         | 4         | 39         | 19.9         |
| Social & Environmental          | 5         | 9         | 13        | 9         | 2         | 38         | 19.4         |
| Corporate Responsibility (CR)   | 1         | -         | -         | 7         | 21        | 29         | 14.8         |
| Corporate Social Responsibility | -         | 1         | 5         | 9         | 7         | 22         | 11.2         |
| Sustainability (SD)             | 1         | 2         | 5         | 5         | 7         | 20         | 10.2         |
| Environment, Health & Safety    | 4         | 4         | 3         | 4         | 3         | 18         | 9.2          |
| Social                          | -         | 1         | 2         | 2         | 2         | 7          | 3.6          |
| Corporate Citizenship           | 1         | 2         | -         | 1         | 1         | 5          | 2.6          |
| Others <sup>a</sup>             | 2         | 3         | 4         | 5         | 4         | 18         | 9.1          |
| <b>Total</b>                    | <b>24</b> | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100.0</b> |

<sup>a</sup> This category includes different names and titles. Examples of reports identified in this category include: HSBC in the Community 2002; People, planet and profits, The Shell Report 2001; National Grid Transco 'Operating Responsibly' 2003/04.

As an aside, KPMG (2005, p. 30) emphasises that “it is interesting to note that companies include CR information as part of their annual (financial) reports have started seeking assurance on the CR section in their annual report (6 of the global top 250- G250) along with the audit of the financial statements”. In this context, the current study has identified 6 assurance statements (3%) which were related to the disclosed non-financial sections in the annual reports. Five of these statements

presented by BAA plc on their Annual Reports during the years 2000-2004, and one assurance statement appeared within section entitled ‘operating responsibly’ of the National Grid Transco’s Annual Report and Accounts 2002/03.<sup>102</sup>

In the light of the results in Table 5.3, two trends with respect to assured stand-alone reporting practice can be identified. First, there is an increase in the production of assured stand-alone reporting over the period of the study with the largest increase arising between 2001 and 2002. The names of the reports have also changed over the period of the study with corporate responsibility (CR) reports becoming the dominant description of the total reports produced (from 4% in 2000 to 41% in 2004). This may reflect the reporting companies’ tendency to disclose information in various aspects of their performance rather than the environmental concerns. Sustainability ‘SD’ reports also rose from 4% of the total reports in 2000 to 14% in 2004 with the corporate social responsibility title also being 14% of the total in 2004. Second, and despite constituting a fair proportion of the assured reports (almost 40% over the whole period) the use of titles such as environmental and social, and environmental reduced over that period. The diversity of the stand-alone reports’ titles during this relatively short period of investigation would suggest “a far from homogenous response to whatever it is that is driving this voluntary reporting” (Erusalimsky *et al.*, 2006, p. 13). However, these results are consistent with the findings of ACCA and CorporateRegister.com (2004) and KPMG (2005). For example KPMG (2005, p. 9) note that almost 70% of the global organisations’ (G250) and almost 50% of the national organisations’ (N100) reports are published as corporate responsibility reports.

#### **5.4.2 Source of stand-alone report**

In recent years demands for information has come from a diverse set of stakeholders and this demand could not be satisfied through the traditional annual report. As a result, companies have adopted alternate means of reporting such as brochures, printed stand-alone reports, and web-reporting (Zéghal and Ahmed, 1990; Adams and Frost, 2004 in Adams and Frost, 2006).

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<sup>102</sup> During the years 2000-2004, within each “Annual Report and Accounts” report issued by BAA plc, there was an assured “Sustainability Section”, in 2005 BAA plc has changed its reporting practice through issuing a stand-alone Corporate Responsibility Report. National Grid Transco has also changed its reporting scheme in which a stand-alone report was issued for the reporting year 2003/04 and after.

It has been argued that how the reporting company makes information accessible to the stakeholders is an important issue (Adams and Frost, 2006). Accessibility simply relates “to the broader audience that can access the company” (Adams and Frost, 2006, p. 277), and one way to increase accessibility is to use web-based reporting. Indeed, ACCA and CorporateRegister.com (2004, p. 9) noted that the reporting companies in the early 1990s produced non-financial reports exclusively in hard copy format, but by the mid 1990s the web formats were accompanying these hard copies more recently organisations have opted only to use HTML format for reporting (for example the BT Group plc).

Using a different way to communicate the non-financial information (such as the web), may offer an extra advantage to the reporting companies and enhance accessibility. ACCA and CorporateRegister.com (2004, p. 9) emphasise that “the use of HTML means companies are no longer constrained by the number of pages in the printed report - they can make large amounts of information available on the internet”.

The current study documented two forms of reporting (hard copy and web-based) and all assurance statements on these reports were either hard copy or web-based. Table 5.4 presents the number of assurance statements in each reporting format.

**Table 5.4 Sources of the assurance statements /Years 2000-2004**

| Source of the report | Year      |           |           |           |           | Total      | %           |
|----------------------|-----------|-----------|-----------|-----------|-----------|------------|-------------|
|                      | 2000      | 2001      | 2002      | 2003      | 2004      |            |             |
| Hard Copy            | 21        | 27        | 38        | 41        | 44        | <b>171</b> | <b>87.2</b> |
| Web-Based Only       | 3         | 5         | 4         | 6         | 7         | <b>25</b>  | <b>12.8</b> |
| <b>Total</b>         | <b>24</b> | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100</b>  |

As can be seen, there is a small amount of web-based reporting over the period of the study, but the majority of reports that have assurance statements have been accessed in hard copy. It should be noted here that, none of the previous literatures has addressed accessibility of the assurance statements. For example, investigate the impact of different forms of disclosures (e.g. hard-copy versus web-based) on accessibility and value-adding of assurance in these cases.

## 5.5 Characteristics of the assurance providers

This section describes the characteristics of the assurance providers engaged by reporting companies to provide an assurance statement. In this context, three main characteristics have been investigated: type of the assurance provider, number of assurance firms/practitioners engaged in the assurance process, and competencies of the assurance providers.

### 5.5.1 Type of assurance provider

At the present time, there is no consensus as to who should undertake stand-alone reporting assurance engagements and what competencies the assurance provider should possess (Deegan *et al.*, 2006, p. 336). FEE (2002, p.18) identifies three potential approaches to provision of the assurance: accountancy, social audit, and consultancy each of which are associated with a particular assurance provider. Previous studies (O'Dwyer and Owen, 2005; KPMG, 2005) identify two categories of assurance providers: accountants and consultants, with Ball *et al.*, (2000) identifying three categories (accountants, environmental consultants, and non-profit organisations). In contrast, Deegan *et al.*, (2006) identified five different types of assurance providers: accounting firms, environmental consultants, environmental and engineering consultants, management systems and certification consultants, and social/ethical performance consultants. From the perspective of the current study, and although consultancies have specific areas of interest, categorising consultancies into four or three sub-categories seems too great a level of detail as it appears that the majority of these firms use the same methodologies in their assurance engagements.

In order to allow for a comparison with the previous studies, the current study identifies four different types of assurance providers: accountancy firms, consultancies, certification bodies, and non-profit organisations (these organisations have been described in more depth in section 4.6.2). Table 5.5 presents the details of the number of the assurance statements provided by the different types of the assurance providers during the period of the study.<sup>103</sup>

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<sup>103</sup> Details about all assurance providers included in this study (full name, areas of specialisation, and number of assurance statements provided by each AP) are available in Appendix 5.

**Table 5.5 Types of AP's of the FTSE100 assured S-A reports/Years 2000-2004**

| Type of the assurance provider | Year      |           |           |           |           | Total      | %            |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|------------|--------------|
|                                | 2000      | 2001      | 2002      | 2003      | 2004      |            |              |
| Consultancy                    | 13        | 15        | 29        | 32        | 35        | <b>124</b> | <b>63.2</b>  |
| Accountancy                    | 8         | 11        | 7         | 9         | 10        | <b>45</b>  | <b>23.0</b>  |
| Certification Body             | 3         | 5         | 6         | 6         | 6         | <b>26</b>  | <b>13.3</b>  |
| Non-Profit Organisation        | -         | 1         | -         | -         | -         | <b>1</b>   | <b>0.5</b>   |
| <b>Total</b>                   | <b>24</b> | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100.0</b> |

The key finding that could be inferred from the above table is that the majority of the UK FTSE100 companies engage consultancy firms (63%) to conduct assurance of their stand-alone reporting. In contrast with results drawn from the Global and European contexts, the level of participation of the UK accountancy firms (23%) is lower than the level of involvement of European accountancy firms in the assurance engagements (Deegan *et al.*, 2006, p. 337). In addition, KPMG (2005, p. 33) noted that an average of 58% of the assurance statements issued by the top 100 companies, in 16 countries worldwide, were provided by major accountancy firms, while only 20% of these assurance statements were provided by consultancy and technical expert firms. It would, therefore, appear that large UK firms have different preferences to their peers elsewhere.

The results also indicate that the assurance statements provided by accountancy firms (in total 45) were all from the 'Big Four' firms.<sup>104</sup> Knechel *et al.*, (2006, p. 157) emphasise that expertise is an attribute that determines the type of the assurance service provided and that "[a]ccountants are perceived as more likely to be preferred service provider for assurance over information systems and/or when professional reputation and integrity is important for providing a service" (p. 143). Whilst investigation the factors that may influence the selection of assurance providers is outside of the scope of the current thesis, a key future research question emerges from Table 5.5: what are the incentives behind the trend in large UK companies for appointing consultants in order to conduct assurance of their stand-alone reports?

### 5.5.2 Number of assurance providers engaged in the assurance practice

Most commonly one assurance provider was appointed by the sample companies to undertake an assurance engagement. In some cases reporting company may contract

<sup>104</sup> The Big Four accountancy firms are: Deloitte & Touche, Ernst & Young, KPMG, and PriceWaterhouseCoopers.

more than one assurance provider to conduct the assurance exercise and in these cases, it is usual that each assurance provider will assure a specific element of the stand-alone report (for example health and safety issues or environmental issues). Engaging more than one assurance provider in the assurance practice has not been addressed by the previous literature. Therefore, the current study sheds light in this aspect of assurance. The overall results show that the majority (96%) of the assurance engagements have been carried out by just one assurance provider.

In eight cases (4% of total assurance statements) more than one assurance provider has been used. These assurance statements are those related to: Royal Dutch-Shell Group (who commissioned KPMG and PwC to provide assurance of their annual *Shell Report* for the years 2000-2004),<sup>105</sup> Rio Tinto plc (who commissioned The Prince of Wales International Business Leaders Forum and Synergy to assure their *Social and Environmental Performance Report 2001*) and The British Land Company plc (who commissioned Arup and Addison to assure their *Environmental and Social Report 2002*). In one example, separate duties were set out for each of the assurance providers engaged, specifically, the verification statement provided by Arup and Addison to The British Land Company plc on its *Environmental and Social Report 2002*, clearly indicate that “Arup and Addison were commissioned by British Land to assist in the development of this Report and to evaluate the relevant data. Arup has been responsible for the environmental aspects and Addison for the social aspects of the report”.<sup>106</sup>

In some cases, it might be appropriate for the assurance provider to engage an expert partner to carry out together an assurance engagement. In such cases, it would be expected that the assurance statement indicates the names of both assurers, and their duties regarding the assurance engagement. The only example in the current study which reflected this approach is the external assurance statement within Rio Tinto’s plc *Social and Environmental Performance Highlights Report 2001*, where the assurance providers say “The Prince of Wales International Business Leaders Forum, in partnership with the consulting firm Synergy, was contracted by Rio Tinto to make

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<sup>105</sup> Due to changing the reporting policy, Shell Group has produced two stand-alone reports in 2001. These reports were assured by KPMG and PwC, hence, two assurance statements were provided.

<sup>106</sup> Since all examples provided in chapters five and six of this thesis were quoted from one page of the stand-alone report (which is the assurance statement), no reference has been made to the number of the page in all such examples.

an external assurance review of the reporting of policies and programmes in its social and environmental reviews for the years 2000 and 2001”. Engaging an expert within the assurance assignment is covered by assurance standards. In this context, IAASB (2006, p. 1052) notes that the assurance provider “[s]hould be involved in the engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the practitioner to accept responsibility for the conclusion on the subject matter information”.

In summary, the majority of stand-alone reports are assured by a single assurance provider. Due to the lack of information with regard to the incidence of experts’ engagement within the assurance statements in the current study it is not possible to ascertain if this practice is widespread.

### **5.5.3 Competencies of the assurance providers**

The IAASB (2006, p. 121) emphasises that the principle of professional competence imposes on the assurance provider a duty to “maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service”.<sup>107</sup> Furthermore, the ICAEW (2002, p. 255) emphasise that the assurance provider “should undertake professional work only where [he/she] has the necessary competence required to carry out that work, supplemented where necessary by appropriate assistance or consultation”. In this context, Power (1997, p. 123) claims that “other form of expertise, such as in the field of the applied sciences, must be subordinated within an audit process which is controlled by the accountant”, it is expected therefore, that accountants are gaining additional skills to their traditional financial audit. It is important therefore, that assurance providers (despite of their identity e.g. accountants or consultants) to gain knowledge, experience and skills appropriate to deal with the subject matter being assured. AccountAbility (2003a, p. 6) emphasises that one of the key characteristics of the AA1000 Assurance Standard is that, it “[r]equires disclosure by assurance providers covering their competencies and relationships with the reporting organisation”. Disclosing competencies of the assurance provider within the assurance statement may also increase the confidence of

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<sup>107</sup> Section 130: Professional Competence and Due Care of “Code of Ethics for Professional Accountants” (IFAC, 2006).

the statement's reader, if the assurance provider's experience, expertise and qualifications are relevant to the subject matter being assured.

The results of the current study indicate that 27% of the assurance statements provide data on assurance provider's competencies. Generally, two types of competencies have been identified within the assurance statements (as shown in Table 5.6). The first type is related to professional qualifications (where the assurance provider indicates particular area of expertise or professional qualifications of the assurance team). Within this category, there are many examples provided. The certification body, SGS UK Ltd included a paragraph (in almost all their assurance statements) entitled "Independence and Competencies". The verification statement attached to Imperial Tobacco Group's *CR Review 2004* provides an example of this disclosure, as SGS UK Ltd indicate that "[t]he SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification... The verification team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised EMAS verifiers, a GHG Lead Assessor and Lead Auditors registered with IRCA and IEMA".

The other type of competencies that were disclosed relate to what is termed in the statements as 'multi-disciplinary team'. This type of disclosure is mainly found in assurance statements provided by accountants with 22% of all assurance statements provided by them. This is may be an indication that they have extra competencies beyond their accountancy skills. Deloitte and Touche's 'independent assurance' to Vodafone Group plc on their *Corporate Responsibility Report 2004/05* is an example of such reporting, where they state that "[a] multi-disciplinary team of CR and assurance specialists performed the engagement in accordance with Deloitte's independence policies".

**Table 5.6 Competencies of the assurance providers/Years 2000-2004**

| Competencies disclosed      | Number of assurance statements issued by |             |              |          |                   |
|-----------------------------|--|-------------|--------------|----------|-------------------|
|                             | Accountants                              | Consultants | Cert. Bodies | N-P Org. | Total (%)         |
| Professional qualifications | 4  | 26          | 11           | 0        | 41 (21%)          |
| Multi-disciplinary team     | 10                                       | 0           | 2            | 0        | 12 (06%)          |
| No competencies disclosed   | 31                                       | 98          | 13           | 1        | 143 (73%)         |
| <b>Total</b>                | <b>45</b>                                | <b>124</b>  | <b>26</b>    | <b>1</b> | <b>196 (100%)</b> |

In contrast with the findings of O'Dwyer and Owen (2005, p. 215) who suggested that consultancy firms were more likely to disclose their past assurance experience, areas of expertise and qualifications for carrying out the assurance, it is evident in the current study that certification bodies are more likely to disclose their competencies (50% of the assurance statements provided by them, against 31% and 21% for accountants and consultants respectively). It should be noted here that information disclosed regarding competencies of the assurance providers has increased over the period of the study. Only three assurance statements (12% of the total statements) indicated competencies of the assurance provider in 2000, whereas by 2004, 21 assurance statements (41% of the total statements) in 2004 have some indication of competencies.

## **5.6 Characteristics of the assurance statements**

In the absence of a generally accepted assurance framework for the stand-alone reports, there is no standard form that assurance statements are expected to take. Most of the proposed assurance standards (discussed in sections 2.4.2 and 2.4.3 including AA1000AS, GRI and FEE Guidelines) require an assurance statement to comply with a minimum set of content. Various characteristics of the assurance statement have also been recently investigated in the literature (CPA Australia, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). This section presents the findings on characteristics of the assurance statements relating to: the shape of the assurance statements (such as title of the statement; name and signature of the assurance provider; use of symbols; and date of the assurance statement), as well as other components such as level of assurance pursued, standards used during the assurance process, disclosure of assurance fees, and the terms used to express the assurance opinion.

### **5.6.1 Title/name of the assurance statement**

Apart from ISAE3000,<sup>108</sup> issued by the IAASB, there is no standard that requires assurance providers to call their statements by a specific term. ACCA and AccountAbility (2004, p. 30) argue that the “variety in use of terms to describe

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<sup>108</sup> ISAE3000 requires that assurance statements should be titled as an ‘independent assurance report’. The ISAE3000 is only mandatory for professional accountants (IFAC, 2003, p. 28).

‘assurance’ and related statements may continue and will obviously vary according to the subject matter in question”.

**Table 5.7 Titles used to label the assurance statements/Years 2000-2004**

| <b>Major Terminology</b> | <b>Names used for the statements</b>  |
|--------------------------|---|
| <b>Assurance</b>         | Assurance Statement, Independent Assurance, Assurance Report, Independent Assurance Report, Independent Assurance Statement, External Assurance Statement & Commentary, External Assurance, Assurance, External Assurance Statement, Statement of External Assurance.                               |
| <b>Attestation</b>       | Attestation Statement   |
| <b>Audit</b>             | Auditor’s Verification Statement, Independent Auditor’s Report, External Audit Verification Statement, Auditors Statement.  |
| <b>Review</b>            | Independent Review, Independent Review Statement, Independent Review Report, Independent External Review, Review Statement, Independent Review Statement.   |
| <b>Validation</b>        | Data Validation, Validation, Validation Statement.  |
| <b>Verification</b>      | Independent Verification, Verification Statement, Report from Verifiers, Verifiers’ Report, Verification, Data Quality Verification, Independent Verifier’s Report, Verifier’s Statement, Independent Verification Statement, External Verification Statement, Verifiers Report, External Verifier. |
| <b>Others</b>            | Independent Report, Independent Accountant’s Report, <sup>109</sup> External Assessment, External Commentary, Commentary – route to assurance, Consultant’s Statement, Advisor’s Statement, Statement from Advisors, External Commentary, Strategic Commentary from our Verifiers.                  |

The results of the current study indicate that assurance providers have used 46 different titles to label their statements.<sup>110</sup> These titles are categorised under seven main headings (assurance, attestation, audit, review, validation, verification and others) and Table 5.7 describes these categories.

As shown in Table 5.7, there is a variety of terms being used to label the statements being prepared by the assurance providers. It should be noted here that, 30% of the different 46 titles referred above have used the term ‘independent’ in some way. In the same vein, 26% of the 46 titles have also used the term ‘external’. Thus, it could

<sup>109</sup> Only one assurance statement used one term related to ‘accounting’, this was the ‘Independent Accountants’ Report’ provided by Deloitte & Touche to Vodafone Group plc on their *Corporate Social Responsibility Report 03/04*.

<sup>110</sup> The same variety of titles exists in a different reporting environment. Deegan *et al.*, (2006, p. 337) report that within the European context, 26 different titles were used across a sample of 52 statements issued in nine different countries, they also note that the term ‘auditor’s opinion’ was the most commonly used title with 6 out of 52 statements issued by the assurance providers.

be inferred that assurance providers are keen to indicate to the statements' readers that independence is a key element that they wish to emphasise in these statements.

Table 5.8 below summarises the frequencies of the different terms used to label the statements prepared by the assurance providers during the period of the study. This table clearly demonstrates that the majority (nearly 98%) of the statements which appeared with the stand-alone reports have been given a title.

**Table 5.8 Major terms used to label the assurance statements/Years 2000-2004**

| Term used          | Year      |           |           |           |           | Total      | %            |
|--------------------|-----------|-----------|-----------|-----------|-----------|------------|--------------|
|                    | 2000      | 2001      | 2002      | 2003      | 2004      |            |              |
| Verification       | 16        | 17        | 21        | 17        | 14        | 85         | 43.4         |
| Assurance          | -         | 2         | 9         | 22        | 30        | 63         | 32.1         |
| Independent Review | 2         | 6         | 4         | 2         | 2         | 16         | 8.2          |
| Others             | 2         | 4         | 6         | 2         | 3         | 16         | 8.2          |
| Audit              | 1         | -         | 2         | 1         | -         | 4          | 2.0          |
| Validation         | 2         | 1         | -         | -         | 1         | 4          | 2.0          |
| Attestation        | 1         | 1         | 1         | -         | -         | 3          | 1.5          |
| No title given     | -         | 1         | -         | 3         | 1         | 5          | 2.6          |
| <b>Total</b>       | <b>24</b> | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100.0</b> |

The results in Table 5.8 suggest that there is no consensus regarding terminology of the statements appeared with the stand-alone reports. Despite the wide usage of the term 'verification' in labelling the statements (43%), it is also the case that 'assurance' is becoming the more prevalent term over the years. This result to some extent is inconsistent with the findings of CPA Australia (2004); O'Dwyer and Owen (2005). O'Dwyer and Owen (2005, p. 215) note that 'verification statement' or 'verifier's report' are the terms used to title 49% of the statements included in the sample, against 15% of the statements used the term 'assurance' in their titles. Deegan *et al.*, (2006, p. 337-339), however, note that the term 'verification' was the most commonly used to label these statements included in the UK sample with a percentage of 56% (27 out of 48 statements), followed by the term 'assurance' with 10% of the statements issued. In order to investigate whether or not using the above terms was associated with the type of the assurance provider, Table 5.9 represents the data by types of the assurance providers.

Table 5.9 indicates that the accountants are more likely to use the term 'assurance' to label their statements (46% of the statements issued, against 16% of the statements

used the term ‘verification’). This practice by the accountancy firms might reflect a more cautious approach to the terms used (Deegan *et al.*, 2006, p. 339), or it might be constrained by the requirements of the standards issued by the IAASB (namely ISAE3000). Indeed, accountants avoided using the term ‘audit’, since the assurance assignment relating to a stand-alone report is different than an audit of financial accounts. PwC’s ‘Independent Review’ statement appeared with Abbey National’s plc *Corporate Citizenship Report 2001*, stating “[i]n preparing the findings below, we have not conducted an audit, as defined in auditing standards, and we do not express an audit opinion, on the performance data and information in the Report”. Thus, it is unsurprisingly that the term ‘audit’ was used to title only 4 statements (2% of the total sample), as all these statements were issued by consultants. The results point out that certification bodies and consultants are more likely to employ the term ‘verification’ to title their statements, with 77% and 47% of the statements provided by each type respectively. In comparison with accountants, certification bodies and consultants are less likely to use the term ‘assurance’ with only 23% and 28% of the statements provided by the two types respectively.

**Table 5.9 Terms used by the AP’s to label the assurance statements/Years 2000-2004**

| Statement’s Title  | Number of assurance statements issued by |             |              |          | Total      |
|--------------------|--|-------------|--------------|----------|------------|
|                    | Accountants                              | Consultants | Cert. Bodies | N-P Org. |            |
| Verification       | 7  | 58          | 20           | -        | 85         |
| Assurance          | 21                                       | 35          | 6            | 1        | 63         |
| Independent Review | 14                                       | 2           | -            | -        | 16         |
| Others             | -  | 16          | -            | -        | 16         |
| Audit              | -  | 4           | -            | -        | 4          |
| Validation of Data | -  | 4           | -            | -        | 4          |
| Attestation        | 2  | 1           | -            | -        | 3          |
| No title given     | 1  | 4           | -            | -        | 5          |
| <b>Total</b>       | <b>45</b>                                | <b>124</b>  | <b>26</b>    | <b>1</b> | <b>196</b> |

To conclude, the inconsistency in titles given (verification, assurance, audit, and review) to the statements provided (Table 5.7) may cause confusion to readers who are comparing the statements being released by different reporting companies or by the same company for more than one reporting period. It is assumed that these statements purporting to provide ‘assurance’ to the users of the stand-alone reports (O’Dwyer and Owen, 2005), but variation of the terminologies used can potentially cause great confusion to readers where they may presume that the different terms convey different levels of ‘assurance’ (CPA Australia, 2004, p. 22).

### 5.6.2 Addressee of the assurance statements

In contrast with the audit of the financial reports where legal requirements stipulate that the audit report should be addressed to a specific group of stakeholders (exclusively shareholders), no such requirement exists in relation to who should be the addressee for the stand-alone reports' assurance statements (Deegan *et al.*, 2006). In the context of the stand-alone reporting, it could be assumed that the reports (and hence the assurance statements) are aimed at stakeholders (ACCA and AccountAbility, 2004, p. 61). Thus, it could be expected that the assurance statements would be addressed to general stakeholders.

The IAASB (2006, p. 1057) asserts that the assurance statement should include an addressee. Such an addressee would identify "the party of parties to whom the assurance report is directed. Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users" (p. 1057).

In contrast to this expectation, Table 5.10 demonstrates that the majority of the assurance statements provided (75%) do not identify an addressee. To some extent, this result is consistent with O'Dwyer and Owen (2005) who found that only 27% of the statements have an addressee, and Deegan *et al.*, (2006) who found that 21% of the UK assurance statements in their sample indicated an addressee. In the current study, the results show that the 49 assurance statements were addressed to either the reporting company/the management (35 statements), or to the board of directors (14 statements).

As shown in Table 5.10, 86% of the addressed assurance statements were provided by the accountants,<sup>111</sup> four assurance statements (8%) were provided by certification bodies, two statements (4%) provided by the consultancy firms, and one assurance statement was provided by non-profit organisation.<sup>112</sup> It is striking that consultancy firms do not provide addresses as a matter of course.

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<sup>111</sup> Deegan *et al.*, (2006) note that 90% of those UK addressed statements were provided by accountants.

<sup>112</sup> The certification body Bureau Veritas addressed three assurance statements (one of them to the board of directors) to British American Tobacco plc during the years 2002, 2003 and 2004 and one assurance statement to the management of AstraZeneca plc in year 2004. Consultancy firms: Arthur D Little and ICF Consulting addressed two assurance statements to Rio Tinto plc in the years 2000 and 2002 respectively, whereas the non-profit organisation Prince of Wales IBLF in partnership with the

**Table 5.10 Addressees of the assurance statements/Years 2000-2004**

| Addressees' of the assurance statement's | Number of assurance statements issued by |             |              |          | Total      |
|--|--|-------------|--------------|----------|------------|
|  | Accountants                              | Consultants | Cert. Bodies | N-P Org. |            |
| Reporting company/Management             | 32                                       | -           | 3            | -        | 35         |
| Board of Directors                       | 10                                       | 2           | 1            | 1        | 14         |
| General Stakeholders                     | -  | -           | -            | -        | -          |
| Specific Group of Stakeholders           | -  | -           | -            | -        | -          |
| More than one addressee                  |  | -           | -            | -        | -          |
| No-party addressed                       | 3  | 122         | 22           | -        | 147        |
| <b>Total</b>                             | <b>45</b>                                | <b>124</b>  | <b>26</b>    | <b>1</b> | <b>196</b> |

As the Table 5.10 indicates, in total, 93% of the assurance statements provided by the accountancy firms have been given an addressee, 32 of these statements (74%) have been addressed to the reporting company directly or to the management of the company while 22% of the assurance statements provided by the accountancy firms were addressed to the board of directors of the reporting companies.

Various reasons for the variation in addressees of assurance statements compared to audit of financial reports have been identified in the literature. One of them is the possible issues associated with perceived legal implications of nominating different addressees (Deegan *et al.*, 2006, p. 341). In order to overcome this problem, the assurance assignment could specify who is to be the nominated addressee or indicate a restriction in terms of the extent to which stakeholders can rely upon the assurance statement. An example of the latter approach was found in the URS Verification Ltd's statement which appeared with Unilever's plc *Environmental Report 2004*, where they state that "The verification statement provided herein by URSVL is not intended to be used as advice or as the basis for any decisions, including, without limitation, financial or investment decisions". This cautious approach to provide assurance to the stakeholders, especially in relation to investing decisions is may be related to the fact that this 'unregulated' practice still premature to give high level of assurance regarding historical or future performance of organisations.

What is striking from the data in Table 5.10 is that there are no assurance statements addressed to the stakeholders in general or to a specific group of stakeholders. In a few cases, the assurance provider may indicate indirectly that the assurance statement is addressed to the stakeholder. A clear example could be seen in Casella Stanger's

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consultancy Synergy addressed their statement to the board of directors of Rio Tinto plc in the year 2001.

‘External Assurance Statement’ which appeared with Liberty International’s plc *Corporate Social Responsibility Report 2003*, where the assurance provider says “[t]he overall aim of the assurance statement is to provide confidence to Liberty International’s stakeholders that the information and data provided in the Report is accurate, reliable and objective”. Such a statement, however, did not lead to the assurance statement being formally addressed to stakeholders.

In conclusion, where addressees are indicated they are without exception those within the company. This suggests that there is some reluctance to specify who the stand-alone report is for and/or for whom assurance could be given. Where addressees are identified they are internal not external parties. The absence of a stakeholder addressee (for example employees, customers, community) within the assurance statement, despite the clear addressing of their issues within the stand-alone report, provides little assurance to “organisational stakeholders regarding the reliance they may place on the stand-alone report contents”, which in turn, necessitates the reconsideration of fundamental issues of the corporate governance in the context of non-financial reporting practice (O’Dwyer and Owen, 2005, p. 215).

### **5.6.3 Level of the assurance pursued**

The “International Framework for Assurance Engagements” issued by the IAASB (in which compliance is required when applying the ISAE3000 standard) identifies two levels of assurance: ‘reasonable’ and ‘limited’ assurance. It is required that these two levels are used by the practitioners<sup>113</sup> (that is assurance providers) to inform the conclusion made and to reduce the assurance engagement risk (IAASB, 2006, p. 295). Assurance engagement risk is defined as “the risk that practitioner expresses inappropriate conclusion when the subject matter information is materially misstated” (IAASB, 2006, p. 295, more details on this element was provided in section 2.4.2).<sup>114</sup>

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<sup>113</sup> The IAASB prefers using the term ‘practitioner’ to the term previously used ‘auditor’ in the professional accountancy domain, as the term is wider and reflects a multiple range of subject matters that are being asked of the accountants.

<sup>114</sup> In the paragraph 49 of the “International Framework for Assurance Engagements” (the Framework) three different components of assurance engagement risk are identified: inherent risk, control risk and detection risk. The degree to which the assurance provider considers each of these components is affected by the assignment circumstances, in particular the nature of the subject matter and the level (reasonable or limited) of assurance pursued (IAASB, 2006, p. 296). In this context, IAASB (2006, p. 297) emphasises that reducing assurance risk to zero is very rarely attainable or cost beneficial as a result of factors (e.g. the use of selective testing, the inherent limitations of internal control).

IAASB note that the “objective of the reasonable assurance engagement is a reduction in assurance engagement risk to an acceptable low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner’s conclusion” (IFAC, 2004, p. 7). In contrast, “the objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner’s conclusion” (IFAC, 2004, p.7). Thus, the level of assurance engagement risk is “higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence – gathering procedures” (IAASB, 2006, p. 295).

AccountAbility (2003a, p. 13) also describes that the manner in which the AA1000 principles (materiality, completeness and responsiveness) are applied depends on the level of assurance pursued. Without identifying any practical techniques (as how to distinguish between assurance levels or what the term ‘assurance levels’ mean), AccountAbility (2003a, p. 13-14) noted that assurance levels may depend on the extent and quality of: information available, sufficiency of evidence, underlying systems and processes, internal assurance systems, existing assurance for specific aspects of performance reporting, resources allocated for assurance by the reporting company, legal or commercial constraints, and competencies of the assurance provider.

In the current study, four different positions with regard to expressing assurance levels have been identified. Table 5.11 illustrates the number of the assurance statements in which the levels of assurance were disclosed.

**Table 5.11 Levels of assurance disclosed/Years 2000-2004**

| Level of Assurance     | Number of assurance statements issued by <sup>a</sup> |           |           |           |           | Total      | %            |
|------------------------|---|-----------|-----------|-----------|-----------|------------|--------------|
|                        | 2000  | 2001      | 2002      | 2003      | 2004      |            |              |
| Reasonable-Level       | 4   | 6         | 3         | 5         | 4         | 22         | 11.2         |
| Limited-Level          | 1   | 1         | 2         | 2         | 4         | 10         | 5.1          |
| Other levels indicated | -   | -         | 1         | 1         | 2         | 4          | 2.0          |
| No level referred      | 19  | 25        | 36        | 39        | 41        | 160        | 81.6         |
| <b>Total</b>           | <b>24</b>   | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100.0</b> |

<sup>a</sup> In three different cases (where more than one subject matter was being assured) there were two levels of assurance (reasonable and limited) have been described in the assurance statements.

In summary, 81% of the assurance statements made no reference to any level of assurance pursued. In addition to those 32 assurance statements where a reasonable or a limited-level was indicated, four assurance statements have described other levels of assurance pursued. In a few cases, assurance providers have also explained the difference between two levels of assurance on the face of the assurance statement (all of them concerned the distinction between reasonable and limited-levels).

Disclosing the level of assurance pursued may clarify the aim of the assurance practice in the mind of the statement's reader, through assisting him/her to understand the 'level of risk' that the engagement faced, circumstances of the engagement, and as a consequence justifying the procedures used to gather the assurance evidence. As a result, disclosure of these statements may illuminate the degree of reliance that the reader may place on the stand-alone report contents. In this context, Deloitte & Touche's review of the Rolls-Royce's plc *Environment, Health and Safety 2004 - update Report*, state that "[a] limited assurance engagement is primarily limited to inquiries of company personnel and analytical procedures together with tests at Group and a sample of business units of the operation of gathering and reporting processes relating to the specified performance data and targets. We were not required to carry out substantive testing of the data and therefore our report provides less assurance than a reasonable assurance engagement".<sup>115</sup>

Accountants were more likely to indicate the level of assurance pursued, (they provided 67% (25 out of 36) of the assurance statements where the assurance-level was disclosed. Of the remaining statements where levels of assurance have been addressed, eight were provided by the certification bodies (four related to a reasonable-level, and four related to other different levels), and only three assurance statements were provided by the consultancy firm Aon limited (all related to a reasonable-level of assurance) to ITV's plc (formerly known as Granada plc) on their *Corporate Responsibility Annual Reports* in 2002, 2003 and 2004.

There was one example of assurance provider developing its own approach to describing assurance levels. The certification body Bureau Veritas provided four

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<sup>115</sup> In addition to this comment, Deloitte & Touche has added a footnote defining the difference between the two levels of assurance, where they state that "[a]he levels of assurance engagement are

assurance statements that indicated assurance levels in a manner different from those levels identified by the IAASB.<sup>116</sup> In its assurance statement addressed to the British American Tobacco Group's plc (on their *Social Report 04/05*), Bureau Veritas have used three different symbols<sup>117</sup> to indicate the "provision of three levels of assurance over selected information within the report", these levels are:

- **Advanced assurance** : the information presented is supported by underlying evidence, the activities have been observed by the assurator and the activities described are aligned to the requirements of AA1000.
- **Positive assurance** : information reported is supported by underlying evidence and no material errors or omissions were identified.
- **Basic assurance** : during the course of the review nothing came to attention to indicate that there was any material error, omission or misstatement.

What is may be interesting to see in such developed assurance protocols (like for example, these introduced by Bureau Veritas), is a symbol that deals with the performance of organisation to reflect any negative issues in this regard.

In some cases, where it was agreed between the reporting company and the assurance provider, two levels of assurance may also be carried out in one assurance assignment. The accountancy firms KPMG and PwC, in their review of *The Shell Report 2004* have indicated that in addition to the engagement designed to provide reasonable assurance regarding the safety and environmental data (pages 27-29), the data for Total Shareholders Return (TSR), and the selected financial data in the report (pages 24, 26 and 29), they also "have been engaged to provide limited assurance as to whether the other information contained in the Report is consistent with the findings of our works". Thus, two different forms of opinion were expressed (in

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defined in ISAE3000. A reasonable level of assurance is similar to the audit of financial statements; a limited level of assurance is similar to the review of a six-monthly interim financial report".

<sup>116</sup> These four statements are related to assuring the British American Tobacco Group's plc *Social Report* for the years 2002-2004, and one assurance statement related to assuring AstraZeneca's *Corporate Responsibility Summary Report 2004*.

<sup>117</sup> In contrast with the financial statements' audit report, using the symbols is one of the characteristics found in the assurance statements attached with the stand-alone reports. Of the assurance statements examined in the current study, 15 statements (8%) have used different symbols to indicate: level of assurance, methodology, or scope covered in the assurance exercise (for example, including the symbol on the pages of the report being assured). Eight of these statements were provided by accountants, while six of them provided by certification bodies and one statement provided by consultancy firm.

compliance with the IFAE)<sup>118</sup> in this assurance statement with respect to the subject matter identified positive: in the case of reasonable assurance level, and negative: in the case of limited assurance level.

#### 5.6.4 Standards used during the assurance process

Providing information about the standards or guidelines used in the assurance practice may help readers to understand the nature of the assurance provided. FEE (2002, p. 29) note that “if reference is made to the assurance provider carrying out the work in accordance with a particular named set of standards, the user may examine those standards to gain an understanding of what had been done”. Over the last five years new assurance standards have been introduced. In addition to a number of national standards in different countries, two global standards in the field of assuring stand-alone reports have also been released, namely ISAE3000 and AA1000AS.<sup>119</sup> Table 5.12 presents data on disclosures of types of the standards used to govern the assurance engagements in this data set.

**Table 5.12 Standards/guidelines used in assurance engagements/Years 2000-2004**

| Type of Guidelines/Standards used       | Number of assurance statements issued in |           |           |           |           | Total      | %           |
|---|--|-----------|-----------|-----------|-----------|------------|-------------|
|   | 2000                                     | 2001      | 2002      | 2003      | 2004      |            |             |
| More than one standard <sup>a</sup>     | -  | 1         | 5         | 11        | 13        | <b>30</b>  | <b>15.3</b> |
| AA1000AS                                | -  | -         | 2         | 7         | 12        | <b>21</b>  | <b>10.7</b> |
| ISAEs, ISAE3000                         | -  | 6         | 2         | 5         | 5         | <b>18</b>  | <b>9.2</b>  |
| Emerging Best Practice                  | 2  | 2         | 4         | 4         | 3         | <b>15</b>  | <b>7.7</b>  |
| ISO 14000s Series                       | 5  | 2         | 2         | -         | -         | <b>9</b>   | <b>4.6</b>  |
| Financial Auditing Criteria             | 2  | 1         | 1         | 1         | 1         | <b>6</b>   | <b>3.1</b>  |
| GRI Guidelines                          | 0  | 1         | 1         | 1         | 1         | <b>4</b>   | <b>2.0</b>  |
| EMAS (EC 761/2001)                      | -  | -         | 1         | 1         | -         | <b>2</b>   | <b>1.0</b>  |
| ISA920 <sup>b</sup>                     | -  | -         | 1         | 1         | -         | <b>2</b>   | <b>1.0</b>  |
| Principles of Auditing Procedures       | -  | 1         | 1         | -         | -         | <b>2</b>   | <b>1.0</b>  |
| Firm specific standard/ protocol        | -  | 1         | -         | -         | 1         | <b>2</b>   | <b>1.0</b>  |
| FORGE Guidelines                        | 1  | -         | -         | -         | -         | <b>1</b>   | <b>0.5</b>  |
| Inter. Environmental Auditing Practices | 1  | -         | -         | -         | -         | <b>1</b>   | <b>0.5</b>  |
| No standards referred to                | 13                                       | 17        | 22        | 16        | 15        | <b>83</b>  | <b>42.4</b> |
| <b>Total</b>                            | <b>24</b>                                | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100</b>  |

<sup>a</sup> Details of this category are outlined in Table 5.13. <sup>b</sup> This standard is related to the International Standard for Agreed-Upon Procedures 920.

<sup>118</sup> IFAE: International Framework for Assurance Engagements (IFAC, 2004).

<sup>119</sup> There are also national level initiatives. For example Standards Australia has released the Standard DR03422: General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports, the Japanese Institute of Certified Public Accountants (JICPA) published in 2001 the “Environmental Report Assurance Services Guidelines”, and other standards have been released in some countries such as Germany, Netherlands and Sweden (see KPMG, 2005).

The results of the current study indicate that 58% (113) of the assurance statements have made a clear reference to (at least one) standard or guidelines used to govern the assurance engagement. This is broadly consistent with Deegan *et al.*, (2006) who found that 40% of the UK sample, and 63% of the European sample provided information on standards used. In contrast, O'Dwyer and Owen (2005, p. 218) found that 29% of the UK and European ACCA's short-listed assurance statements indicated that a particular standard had provided a criteria used in the assurance engagement. It would appear, therefore, that the use of standards is increasing over time.

In total, 26% of the 113 assurance statements (where assurance standards used) have indicated that the assurance providers had employed more than one standard to govern the assurance engagement (almost similar to the 21% of the UK sample found to do this in Deegan *et al.*, 2006). In these cases AA1000AS and the principles of assurance identified within the GRI Guidelines (2002) were the most common standards referred to. In three cases in the current study, AA1000AS and ISAEs/3000 were used together in the assurance engagement (Table 5.13 shows frequencies of the standards included in those statements where two or more standards are used in the assurance engagement).

**Table 5.13 Frequencies of combined standards used in assurance/Years 2000-2004**

| Type of Guidelines/Standards used               | Number of assurance statements issued in |      |      |      |      | Total     |
|---|--|------|------|------|------|-----------|
|   | 2000                                     | 2001 | 2002 | 2003 | 2004 |           |
| AA1000AS  | -  | -    | 5    | 9    | 13   | <b>27</b> |
| GRI Guidelines (2002)                           | -  | -    | 3    | 7    | 10   | <b>20</b> |
| ISO 19011                                       | -  | -    | 2    | 3    | 4    | <b>9</b>  |
| International Accreditation Forum (IAF) – G. 66 | -  | 1    | 2    | 3    | 1    | <b>7</b>  |
| Association of British Insurers (ABI)           | -  | -    | 1    | 2    | 1    | <b>4</b>  |
| ISAEs   | -  | -    | 1    | 2    | -    | <b>3</b>  |
| ISAE3000  | -  | -    | -    | 1    | 1    | <b>2</b>  |
| ISRS 4400 <sup>a</sup>                          | -  | -    | -    | 1    | -    | <b>1</b>  |
| ISO 14010, 14011                                | -  | 1    | -    | -    | -    | <b>1</b>  |

<sup>a</sup> This standard is related to the International Standard for Agreed-Upon Procedures 4400

There are a number of trends that are evident in Table 5.14. There is a disappearance of use of the technical standards (such as ISO 14010 and 14011, and EMAS) over time. Such decline could be inferred to be influenced by the release of new standards in the context of assurance of corporate stand-alone reporting (especially AA1000AS and ISAE3000). This result suggests that while Ball *et al.*, (2000), found that

“environmental audit standards, particularly EMAS, are having considerable influence on EPR verification practice”, it seems that this is no longer the case. Further, while it was thought that “environmental audit standards are becoming the guide promoted by both verifiers and reporters for public accountability processes” (Ball *et al.*, 2000, p. 10),<sup>120</sup> this has not come to pass.

**Table 5.14 Total No. of the standards/guidelines used in assurance/Years 2000-2004**

| Type of guidelines/standards used              | Number of assurance statements issued in |      |      |      |      | Total     |
|--|--|------|------|------|------|-----------|
|  | 2000                                     | 2001 | 2002 | 2003 | 2004 |           |
| AA1000AS                                       | -  | -    | 7    | 16   | 25   | <b>48</b> |
| GRI Guidelines (2002)                          | 0  | 1    | 4    | 8    | 11   | <b>24</b> |
| Emerging Best Practice                         | 2  | 2    | 4    | 4    | 3    | <b>15</b> |
| ISAEs <sup>a</sup>                             | -  | 6    | 3    | 4    | 1    | <b>14</b> |
| ISO 14000s Series (14010, 14011)               | 5  | 3    | 2    | -    | -    | <b>10</b> |
| ISAE3000                                       | -  | -    | -    | 3    | 6    | <b>9</b>  |
| ISO 19011                                      | -  | -    | 2    | 3    | 4    | <b>9</b>  |
| International Accreditation Forum (IAF) G.66   | -  | 1    | 2    | 3    | 1    | <b>7</b>  |
| Financial Auditing Criteria                    | 2  | 1    | 1    | 1    | 1    | <b>6</b>  |
| Association of British Insurers (ABI)          | -  | -    | 1    | 2    | 1    | <b>4</b>  |
| Principles of Auditing Procedures              | -  | 1    | 1    | -    | -    | <b>2</b>  |
| ISA920   | -  | -    | 1    | 1    | -    | <b>2</b>  |
| Firm specific standard/ protocol               | -  | 1    | -    | -    | 1    | <b>2</b>  |
| EMAS (EC 761/2001)                             | -  | -    | 1    | 1    | -    | <b>2</b>  |
| ISRS 4400                                      | -  | -    | -    | 1    | -    | <b>1</b>  |
| FORGE Guidelines                               | 1  | -    | -    | -    | -    | <b>1</b>  |
| International environmental auditing practices | 1  | -    | -    | -    | -    | <b>1</b>  |

<sup>a</sup> International Standards on Assurance Engagements.

The results of the combined data regarding use of the assurance standards indicate clearly that the AA1000AS and GRI Guidelines are the standards most often employed by the assurance providers to govern their engagements. The ISAE3000 is also employed as an assurance standard to complete nine assurance engagements.

In contrast with the findings of O’Dwyer and Owen (2005),<sup>121</sup> the results of the current study (see Table 5.15) indicate that accountants (84% of the statements provided) are the most likely to make reference in the assurance statements to standards that govern the assurance process. Conversely, 69% and only 46% of the assurance statements provided by the certification bodies and the consultancy firms, respectively, disclosed information related to the use of standards.

<sup>120</sup> In Ball *et al.*, (2000, p. 10) results show that 15 out of the 56 assurance statement (27%) included in the study made a reference to EMAS or another environmental standards.

<sup>121</sup> Of the 41 assurance statements in the ACCA (UK and Europe) short listed reports, only 12 statements (29%) made a reference to specific assurance standards, nine of these statements were

**Table 5.15 Frequency of disclosure of assurance standards by AP/Years 2000-2004**

| Type of Guidelines/Standards              | Number of assurance statements issued by |             |              |          | Total      |
|---|--|-------------|--------------|----------|------------|
|   | Accountants                              | Consultants | Cert. Bodies | N-P Org. |            |
| Mixed Standards                           | 2  | 21          | 7            | -        | 30         |
| AA1000AS                                  | 5  | 14          | 2            | -        | 21         |
| ISAEs, ISAE3000                           | 18                                       | -           | -            | -        | 18         |
| Emerging Best Practice                    | 7  | 8           | -            | -        | 15         |
| ISO 14000s Series                         | -  | 3           | 6            | -        | 9          |
| Financial Audit Criteria                  | 3  | 3           | -            | -        | 6          |
| GRI Guidelines                            | -  | 4           | -            | -        | 4          |
| EMAS (EC 761/2001)                        | -  | -           | 2            | -        | 2          |
| ISA920                                    | 2  | -           | -            | -        | 2          |
| General Principles of Auditing Procedures | -  | 2           | -            | -        | 2          |
| Firm specific standard/ protocol          | -  | 1           | 1            | -        | 2          |
| FORGE Guidelines                          | 1  | -           | -            | -        | 1          |
| International Env. Auditing Practices     | -  | 1           | -            | -        | 1          |
| No standards referred to                  | 7  | 67          | 8            | 1        | 83         |
| <b>Total</b>                              | <b>45</b>                                | <b>124</b>  | <b>26</b>    | <b>1</b> | <b>196</b> |

The standards disclosed by the accountants (40% of all statements provided) relate to the International Standards on Assurance Engagements (ISAEs namely ISAE3000 in the last two years). Surprisingly, in three assurance statements (6%) accountants stated that financial auditing criteria have been used to govern the assurance process. For example, PwC in their external verification report that appeared with Barclays' *Social and Environmental Report 2000* indicate that "[i]n completing this review, we have adopted the principles that underpin international standards on financial auditing and reporting. This approach brings rigour throughout the review process including detailed consideration of the design and operation of the environmental process".

In context of standardisation of the assurance practice, it should be noted that the non-professional standards (such as AA1000AS) might not be optionally employed by a specific group of assurance providers (e.g. the accountants). Instead, the reporting company may request the assurance provider to use such standards when carrying out the engagement. In this respect, Deloitte & Touche in their independent assurance to Vodafone Group's plc *Corporate Responsibility 2004/05*, state that "[w]e conducted our work in accordance with: the International Standard on Assurance Engagement 3000 (ISAE3000)...and the AccountAbility 1000 Assurance Standard (AA1000AS) issued by AccountAbility as requested by the Company".

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provided by consultants (representing 41% of the whole statements provided by the consultants) and three statements provided by accountants (16% of the statements provided by the accountants).

In few cases it was found that assurance providers have developed their own standards (or protocols) to be used in the assurance exercise. The certification body Bureau Veritas indicated that they used VeriSEAAR<sup>122</sup> as standard to make their assessment of the Social Report of the British American Tobacco's plc. In the same context, the consultancy firm csrnetwork<sup>TM</sup> indicated that they had developed their own standard which they used in the assurance of Standard Chartered's plc *Corporate Responsibility Report 2004*, stating "Standard's Chartered accountability has been assessed using the Accountability Rating<sup>®</sup> developed by csrnetwork and AccountAbility".

### 5.6.5 Terms used to express the assurance opinion

In this section the terms used to communicate the assurance opinion are presented. Special attention is given to the evolution of opinion's terms, and which assurance providers adopted what phrases to express their opinions. Further discussion about assurance opinion is offered in section (6.2.4.1).

In terms of identifying specific words to be used in expressing an assurance opinion, IAASB (2006, pp. 1060-1061) propose two expressions that may be used by the assurance providers to express their opinions regarding those assurance engagements other than audits or review of historical financial information, these are: fairly stated and not materially misstated.<sup>123</sup> Moreover, AccountAbility (2003a, p. 23) emphasise that the assurance provider is required to conclude whether "the report provides a fair and balanced representation of material aspects of the reporting organisation's performance for the period in question".

The overall results show that, in the 183 assurance statements where an assurance opinion clearly expressed, the assurance providers have used 47 different terms to convey their opinions regarding the subject matter. Accurate, fair and balanced, and

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<sup>122</sup>VeriSEAAR<sup>®</sup> (Social and Ethical Accounting, Auditing and Reporting) as described by Bureau Veritas on their independent assurance statement appeared with British American Tobacco Group's plc *Social Report 02/03* is "a structured quantitative assessment tool based on interpreting the requirements of AA1000 and modelling a sophisticated checklist which requires extensive documentary and verbal evidence".

<sup>123</sup> To use one of these expressions whether in a limited or reasonable assurance engagement, IAASB (2006, p. 1061) has distinguished between two types of conclusions, the first "is worded in terms of the responsible party's assertion", here the expression being use for example in a qualified opinion is that "assertion is not fairly stated, in all material aspects". The second conclusion is "worded directly in terms of the subject matter and the criteria", in this case the expression being used in a qualified

consistent are the most commonly used phrase by the assurance providers to express their conclusions. Table 5.16 presents the full set of terms used by the different types of the assurance providers to express their assurance opinion. In their opinions, accountancy assurance providers frequently used terms such as; consistent (15 cases), fairly stated/presented/or described (7 cases), and materially misstated (7 cases). The latter term was used (only by the accountant assurance providers) to express negative format of an assurance opinion.

Consistent with O'Dwyer and Owen (2005, p. 222), the results of the current study indicate that none of the assurance statements provided by accountancy firms have used the term 'true and fair' in the opinions expressed,<sup>124</sup> despite its ubiquity in financial audit opinions. Accountant assurance providers also tended to use contrasting terms in the same assurance statement (e.g. consistent vs. not inconsistent).<sup>125</sup> Such practices are usually used in those cases where an assurance engagement comprised of more than one subject matter, and especially when these matters are subjected to different levels of assurance. As a result, the multitude of opinion terms could be seen to arise from the need for the assurance provider to provide a more nuanced opinion. For example in KPMG's independent assurance report attached to Anglo American's plc *Report to Society 2003*, two forms of opinion were expressed: positive "[i]n our opinion, the Group's total fatal injuries, carbon dioxide emissions from processes... are fairly stated", and negative "nothing has come to our attention that causes us to believe that the information reported about the Group's total lost-time injury frequency rate, ...in not fairly stated".

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opinion would be for example "the subject matter information is materially misstated" (IAASB, 2006, p. 1061).

<sup>124</sup> Within this study, the results show that only two assurance statements have used the term 'true and fair'. These two statements were written by consultancies (AEA Technology to GUS plc in 2000, and Enviros Aspinwall to ICI plc also in 2000).

<sup>125</sup> Five assurance statements provided by accountancy firms have used the term "not inconsistent", against one case provided by consultancy firm.

**Table 5.16 Terms used to express the assurance opinion by AP/Years 2000-2004**

| Term used                  | Number of assurance statements provided by |             |               |          |       |
|----------------------------|--|-------------|---------------|----------|-------|
|                            | Accountants                                | Consultants | Certification | N-P Org. | Total |
| Accurate                   | 3  | 37          | 16            | -        | 56    |
| Fair and balanced          | 1  | 24          | 3             | -        | 28    |
| Consistent                 | 15   | 11          | -             | -        | 26    |
| Reliable                   | 4  | 10          | 6             | -        | 20    |
| Fair                       | -  | 11          | 5             | -        | 16    |
| Balanced                   | 5  | 8           | 2             | -        | 15    |
| Robust                     | -  | 15          | -             | -        | 15    |
| Fairly <sup>a</sup>        | 7  | 4           | -             | -        | 11    |
| Correct                    | 1  | 8           | -             | -        | 9     |
| True                       | -  | 7           | -             | -        | 7     |
| Complete                   | 1  | 5           | -             | -        | 6     |
| Materially misstated       | 6  | -           | -             | -        | 6     |
| Not inconsistent           | 5  | 1           | -             | -        | 6     |
| Properly reflect           | 6  | -           | -             | -        | 6     |
| Fair and reasonable        | -  | 5           | -             | -        | 5     |
| Appropriate                | 1  | 1           | 2             | -        | 4     |
| Not fairly                 | 4  | -           | -             | -        | 4     |
| True and accurate          | -  | 1           | 3             | -        | 4     |
| Comprehensive and balanced | -  | 3           | -             | -        | 3     |
| Factual                    | -  | -           | 3             | -        | 3     |
| Reasonable                 | -  | 3           | -             | -        | 3     |
| Reasonable and balanced    | -  | 3           | -             | -        | 3     |
| Relevant                   | -  | 2           | -             | 1        | 3     |
| Comprehensive              | -  | 2           | -             | -        | 2     |
| Consistent and complete    | -  | 2           | -             | -        | 2     |
| Credible                   | -  | 2           | -             | -        | 2     |
| Fair and accurate          | -  | 2           | -             | -        | 2     |
| Good                       | -  | 2           | -             | -        | 2     |
| Not effective              | 2  | -           | -             | -        | 2     |
| Representative             | -  | 2           | -             | -        | 2     |
| True and fair              | -  | 2           | -             | -        | 2     |
| Accord with good practice  | -  | 1           | -             | -        | 1     |
| Accurately reflect         | -  | 1           | -             | -        | 1     |
| Adequately represented     | -  | 1           | -             | -        | 1     |
| Balanced and accurate      | -  | 1           | -             | -        | 1     |
| Clear                      | -  | 1           | -             | -        | 1     |
| Complete and accurate      | -  | 1           | -             | -        | 1     |
| Effective                  | -  | 1           | -             | -        | 1     |
| Ineffectively              | 1  | -           | -             | -        | 1     |
| Not complete               | -  | 1           | -             | -        | 1     |
| Not materially misstated   | 1  | -           | -             | -        | 1     |
| Reasonably complete        | -  | -           | -             | 1        | 1     |
| Representative account     | -  | 1           | -             | -        | 1     |
| Sound                      | -  | 1           | -             | -        | 1     |
| Systematic and robust      | -  | 1           | -             | -        | 1     |
| Transparent                | -  | 1           | -             | -        | 1     |
| Valid representation       | -  | -           | 1             | -        | 1     |

<sup>a</sup> This term has come in different expressions (fairly presented; fairly described; fairly reflect; fairly stated).

In addition to the latter example, there were also 12 instances of negative opinion expressed by the accountants which represents 93% of the negative terms identified in the sample. However, some of these terms (such as ‘not materially misstated’) are required by professional standards (ISAE3000) to be used when it is appropriate to

reflect a limited assurance, which suppose that there are uncertainties implicitly exist within the subject matter being assured but, did not come to the attention of the assurance provider. Overall, this cautious approach of assurance's expression would reflect accountants' hesitation to provide high level of assurance in the non-financial performance of organisation (see also O'Dwyer and Owen, 2005).

In contrast with accountancy firms, consultancies as well as certification bodies preferred the term 'accurate' to express their opinions, with the term 'fair and balanced' also being used (mostly by the consultancies). In addition to its wide usage by the accountants, the term 'consistent' was also employed in 11 assurance statements which were issued by consultancies. Interestingly, the term 'robust' was used exclusively by consultant assurance providers (in 15 assurance statements).

**Table 5.17 Terminology of the assurance opinion/Years 2000 and 2004**

| Term used                  | Number of assurance statements provided in |       |       |       |      |       |       |       |
|----------------------------|--|-------|-------|-------|------|-------|-------|-------|
|                            | 2000                                       |       |       |       | 2004 |       |       |       |
|                            | Acc.                                       | Cons. | Cert. | Total | Acc. | Cons. | Cert. | Total |
| Accurate                   | 1  | 4     | 3     | 8     | -    | 12    | 4     | 16    |
| Balanced                   | 2  | 2     | 2     | 6     | 2    | -     | -     | 2     |
| Consistent                 | 4  | -     | -     | 4     | 1    | 4     | -     | 5     |
| Reliable                   | 1  | 2     | -     | 3     | 1    | 1     | 3     | 5     |
| Robust                     | -  | 3     | -     | 3     | -    | 4     | -     | 4     |
| Fairly                     | 1  | 1     | -     | 2     | 2    | 3     | -     | 5     |
| True and fair              | -  | 2     | -     | 2     | -    | -     | -     | -     |
| Complete                   | -  | 2     | -     | 2     | -    | 1     | -     | 1     |
| Not inconsistent           | 1  | -     | -     | 1     | 1    | -     | -     | 1     |
| Adequately represented     | -  | 1     | -     | 1     | -    | -     | -     | -     |
| Credible                   | -  | 1     | -     | 1     | -    | -     | -     | -     |
| Fair and accurate          | -  | 1     | -     | 1     | -    | -     | -     | -     |
| Not materially misstated   | 1  | -     | -     | 1     | -    | -     | -     | -     |
| Properly reflect           | 1  | -     | -     | 1     | -    | -     | -     | -     |
| Sound                      | -  | 1     | -     | 1     | -    | -     | -     | -     |
| Fair and balanced          | -  | -     | -     | -     | -    | 9     | 2     | 11    |
| Materially misstated       | -  | -     | -     | -     | 3    | -     | -     | 3     |
| True                       | -  | -     | -     | -     | -    | 3     | -     | 3     |
| Appropriate                | -  | -     | -     | -     | -    | 1     | 1     | 2     |
| Balanced and accurate      | -  | -     | -     | -     | -    | 2     | -     | 2     |
| Comprehensive              | -  | -     | -     | -     | -    | 2     | -     | 2     |
| Correct                    | -  | -     | -     | -     | 1    | 1     | -     | 2     |
| Fair                       | -  | -     | -     | -     | -    | 1     | 1     | 2     |
| Not fairly                 | -  | -     | -     | -     | 2    | -     | -     | 2     |
| Reasonable                 | -  | -     | -     | -     | -    | 2     | -     | 2     |
| Accurately reflect         | -  | -     | -     | -     | 1    | -     | -     | 1     |
| Clear                      | -  | -     | -     | -     | -    | 1     | -     | 1     |
| Comprehensive and balanced | -  | -     | -     | -     | -    | 1     | -     | 1     |
| Consistent and complete    | -  | -     | -     | -     | -    | 1     | -     | 1     |
| Effective                  | -  | -     | -     | -     | -    | 1     | -     | 1     |
| Fair and reasonable        | -  | -     | -     | -     | -    | 1     | -     | 1     |
| Not effective              | -  | -     | -     | -     | 1    | -     | -     | 1     |
| Relevant                   | -  | -     | -     | -     | -    | 1     | -     | 1     |
| Representative             | -  | -     | -     | -     | -    | 1     | -     | 1     |

It is apparent that harmonisation of the assurance opinion's terminology has not happened yet. In this regard, a snapshot of the years 2000 and 2004 has been taken to measure degree of variation in the terminology of the assurance opinion at the start and end of the period of this study. Between the two years (2000 and 2004) the variation of the terms used to express the opinion has increased (see Table 5.17).

The results indicate that instead of rationalising the terminologies of the assurance opinion it seems that assurance providers have expanded their use of the terms to express the assurance opinion. In 2000, assurance providers have used 15 different terms to express their opinions, whereas, in 2004 there was more diversity in the terms used with 19 new terms being introduced. Consultants are more likely to use a wide variety of terms (21 different terms have been used in 2004) to express their assurance opinions. Table 5.17 shows the different terms that were used by the different types of the assurance providers in those assurance statements provided within two comparative years (2000 and 2004).

#### **5.6.6 Assurance fees**

Audit fees have been widely investigated within the financial auditing literature. In particular, associations between size of the audit fees and aspects of corporate activities (such as characteristics of audit committee, audit quality, auditor change, audit effort, and non-audit services) have been examined (see for example, Simon and Francis, 1988; Davis *et al.*, 1993; Gerrard *et al.*, 1994; Firth, 2002; Abbott *et al.*, 2003; Geiger and Rama, 2003; Carson *et al.*, 2004; Goodwin-Stewart and Kent, 2006). In contrast with the audit of financial statements where it is legally required to disclose audit fees, the disclosure of the size of the assurance fees within the stand-alone report or within the annual report and accounts is not well established practice.

In the current study only nine assurance statements (less than 5% of the whole sample) indicated the level of assurance fees. In five statements the amount of the audit fees was disclosed as an absolute figure (either in Stirling Pounds or US Dollars) while the remaining four statements indicated assurance fees as a percentage of the assurance provider's turnover. None of those who disclosed fees were accountancy firms, rather seven were provided by consultancies and two were provided by certification bodies. Table 5.18 demonstrates assurance fees disclosed in the assurance

statements in addition to the financial statements' audit fees for the same period of reporting (as disclosed in the annual reports and accounts of the reporting companies in which assured stand-alone reports were produced).

**Table 5.18 Disclosed assurance fees/Years 2000-2004**

| Company Name              | Year of Report | Audit/Assurance Provider |                | Audit/Assurance Fees (1) |             |
|---------------------------|----------------|--------------------------|----------------|--------------------------|-------------|
|                           |                | Financial                | Non-financial  | F (000)                  | N-F (000)   |
| Rio Tinto plc             | 2003           | PwC LLP                  | ERM            | £ 2920.0                 | £ 215.2     |
| National Grid Transco plc | 2004           | PwC LLP                  | URSVL          | £ 8700.0                 | 10%         |
| BHP Billiton Ltd          | 2004           | KPMG Audit plc           | URS Pty Ltd    | £ 4240.0                 | £ 706.0 (2) |
| BAT plc                   | 2003           | PwC LLP                  | Bureau Veritas | £ 6300.0                 | £ 390.0     |
| BAT plc                   | 2004           | PwC LLP                  | Bureau Veritas | £ 6900.0                 | £ 183.0     |
| United Utilities          | 2004           | Deloitte&Touche LLP      | JustAssurance  | £ 90.0                   | £ 29.0      |
| The British Land Co. plc  | 2004           | Deloitte&Touche LLP      | Ashridge       | £ 400.0                  | 5% (3)      |
| Xstrata plc               | 2004           | Ernst &Young LLP         | URSVL          | £ 2950.0                 | 6% (4)      |
| Next plc                  | 2004           | Ernst &Young LLP         | TheReassurance | £ 300.0                  | 10%         |

(1) F: financial audit fees, N-F: non-financial assurance fees. Amounts in highlighted cells were disclosed originally in US Dollar and converted into Sterling by using the exchange rates disclosed within the annual reports for these companies. (2) Annual fees US\$ 1.3 million. This represents less than 0.1% of annual URS gross revenue based on 2003 reporting year. (3) The fees amount represents 5% of the Ashridge Centre for Business and Society's turnover in the period of reporting, and less than 0.1% of the total turnover for Ashridge which was £ 27.0m in 2003. (4) Fees were less than 6% of the total turnover's value of URS group of companies. URS Corporation's operating revenues in (000), 2003: \$3,186,714; 2004: \$3,381,963 (URS Corporation's Annual Report 2004, p. 26).

The results show that stand-alone reporting assurance fees are all small percentages of the financial audit fees (ranging between 2.5% - 16% of the financial audit fees level). Disclosing the assurance fees as a percentage of the turnover of assurance provider (within the assurance statement) may be considered as evidence of the assurance provider's independence (especially when the assessor provides more service to the reporting company, such as, developing the reporting systems, assisting in the preparation of the assured stand-alone report).<sup>126</sup>

Disclosing assurance fees may also assist the assurance statement's reader to judge the quality of the opinion expressed within the assurance statement. O'Dwyer and Owen (2005, p. 223) argue that the ability of readers to judge assurance quality "would be easier to ascertain if details of fees paid for such assurance work were routinely disclosed, as is the case with financial engagements". It would appear from the data in this sample that the ability to make this assessment is not possible given the meagre level of disclosure of this matter.

<sup>126</sup> Further details of this issue are available in section 6.2.1.

### 5.6.7 Additional information disclosed on the assurance statements

This study also found that a variety of additional information in the assurance statements relating to: the assurance provider (for example nature of the assurance provider and areas of specialisation), the name of the assurance firm, signing the assurance statement, indicating the place/address of the assurance provider, and dating the assurance statements. Table 5.19 illustrates data relating to these issues as indicated in the assurance statements.

**Table 5.19 Additional information provided in the AS/Years 2000-2004**

| Characterisations of  | Number of assurance statements provided by |             |               |          | Total      |
|---|--|-------------|---------------|----------|------------|
|   | Accountants                                | Consultants | Certification | N-P Org. |            |
| <b>Names indicated on assurance statement</b>                             |  |             |               |          |            |
| The assurance firm  | 45   | 31          | 6             | -        | 82         |
| The assesor   | -  | -           | 1             | -        | 1          |
| Both the assurance firm and assesor                                       | -  | 91          | 19            | 1        | 111        |
| No name appears   | -  | 2           | -             | -        | 2          |
| <b>Total</b>  | <b>45</b>                                  | <b>124</b>  | <b>26</b>     | <b>1</b> | <b>196</b> |
| <b>Signing the assurance statement</b>                                    |  |             |               |          |            |
| Assurance statement signed  | 12   | 65          | 19            | -        | 96         |
| Assurance statement unsigned  | 33   | 59          | 7             | 1        | 100        |
| <b>Total</b>  | <b>45</b>                                  | <b>124</b>  | <b>26</b>     | <b>1</b> | <b>196</b> |
| <b>Place/address of the assurance firm/assesor</b>                        |  |             |               |          |            |
| Place/address indicated   | 40   | 49          | 5             | -        | 94         |
| No place/address indicated  | 5  | 75          | 21            | 1        | 102        |
| <b>Total</b>  | <b>45</b>                                  | <b>124</b>  | <b>26</b>     | <b>1</b> | <b>196</b> |
| <b>Additional information describing nature of the assurance provider</b> |  |             |               |          |            |
| Additional information provided   | 1  | 45          | 8             | -        | 54         |
| No additional information provided  | 44   | 79          | 18            | 1        | 142        |
| <b>Total</b>  | <b>45</b>                                  | <b>124</b>  | <b>26</b>     |          | <b>196</b> |
| <b>Dating the assurance statement</b>                                     |  |             |               |          |            |
| Assurance statement dated   | 45   | 84          | 20            | -        | 149        |
| Assurance statement undated   | -  | 40          | 6             | 1        | 47         |
| <b>Total</b>  | <b>45</b>                                  | <b>124</b>  | <b>26</b>     | <b>1</b> | <b>196</b> |

In total, 54 assurance statements (27%) have provided some additional information describing the nature of the assurance provider, 45 of these statements were provided by consultants. None of the assurance statements provided by accountants contained this type of information, but one has indicated the nature of the assurance firm and its history in auditing and assurance area.<sup>127</sup> Provision of information relating to the assurance provider has taken two different forms: in the context of the assurance

<sup>127</sup> At the end of their 'Independent Review Statement' to Anglo American's plc *Safety, Health and Environment Report 2000*, KPMG state "KPMG, a partnership established under English Law, is a member of KPMG International, a Swiss association. KPMG is registered to carry on audit work and

statement body or as a separate paragraph usually appearing on the bottom of the assurance statement. Disclosing such additional information about the assurance provider may also enhance the reader's perception about the competencies of the assurance provider.

Some standards and guidelines (such as FEE 2002; GRI 2002; ISAE3000, 2004) require the assurance statement to indicate some information that does not relate to, or affect, the subject matter being assured (for example date, name and location of the assurance provider).<sup>128</sup> It seems that not all of the assurance statements (specifically those provided by the consultants) complied with these requirements. In terms of the name appearing in the assurance statements, almost all the assurance statements (99%) disclosed the name of the assurance firm or (at least) name of one member of the assurance team. Consistent with the traditions of the financial statements audit, all the assurance statements provided by the accountancy firms (45 cases) indicated the name of the assurance firm, but without indicating name of the partner or the senior assurance provider who was responsible for providing the assurance opinion. In terms of signing the assurance statements, the results show that (49%) of the assurance statements have been signed. Additionally, results indicate that 73% of the assurance statements provided by the accountancy firms were not signed.

In respect of providing information relating to the place where the assurance statement was issued, the results indicate that 48% of the assurance statements contained the place/address where the assurance statement was issued. Indicating the place/ address varies between different types of the assurance providers, with 40 (88%) of the assurance statements provided by accountancy firms indicated the place/address where these statements were provided against only 40% and 19% of the assurance statements provided by the consultancy firms and the certification bodies respectively.

The final element to be explored in this section relates to dating the assurance statements. Dating an assurance statement may increase the value of non-financial reported information. Timeliness is one of the key principles of the organisational

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authorised to carry on investment business by the Institute of Chartered Accountants In England and Wales. The principle place business is... where a list of partners' names is open to inspection?.

non-financial reporting framework identified by GRI (2002). This principle concerns the time it takes for stand-alone reports to become available. Thus, stand-alone reports “should provide information on a regular schedule that meets user needs and comports with the nature of information itself” (GRI, 2002, p. 30). On the other hand, the IAASB (2006, p. 10) assert that dating an assurance statement is informing the intended users that the assurance provider has “considered the effect on the subject matter information and on the assurance report of events that occurred up to that date”. Results of the current study show that the majority (76%) of the assurance statements were dated. This result is consistent with the findings of O’Dwyer and Owen (2005). Accountants are the only type of assurance providers in which all statements provided were dated, against 77% and 67% of the assurance statements provided by the certification bodies and the consultants respectively.

The current study also considered the gap between the dates of assurance statements and the dates in which the assured stand-alone reports were released. The results indicate that half (51%) of the assured stand-alone reports (97 out of 192) have been released within the same month or the month after the date of the assurance statement<sup>129</sup>. Details of the dated assurance statements and dates of releasing those assured stand-alone reports are available in Appendix 7).

## 5.7 Conclusion

This chapter has focused on describing the characteristics of the assurance statements considered in this study. Additionally, characteristics of the reporting companies and the assurance providers for these statements were also investigated. Special attention has been given to investigate aspects related to assurance practice, specifically: type of assurance provider, standards used to govern the assurance exercise, level of assurance pursued, competencies of the assurance provider, expressions of the assurance opinion and fees of the assurance engagements.

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<sup>128</sup> Details of the standards’ minimum requirements that need to be disclosed in the assurance statement are available in section 2.4.2.

<sup>129</sup> To come into this result, dates of the assurance statements have been matched with dates of releasing those assured stand-alone reports where the dated-statements are included. Dates of releasing (only for assured reports) were obtained from the web site of the corporateRegister.com, as it is the only updated and comprehensive database (to the best of the researcher’s knowledge) in which such information are available. The results indicate that 39 stand-alone reports have been released within the same month in which the assurance statements were issued, whereas, 58 reports were released on the next month of the date indicated in the assurance statements.

The results revealed that almost 65% of the companies listed in FTSE100 during the period of the study have produced stand-alone reports with 56% of these reports containing an assurance statement. The total number of the assurance statements collected was 196 statements. Three main types of assurance providers have been engaged to carry out the assurance assignments. In contrast with the global and European trends (see for example, Kamp-Roelands, 2002; Wilson, 2003; CPA Australia, 2004; Deegan *et al.*, 2006), the UK top 100 companies are inclined to commission consultancy firms (with 63% of the statement provided) to perform assurance on their stand-alone reports. Accountants (all of which were from ‘the Big Four’) and certification bodies had provided 23% and 13% of the assurance statements identified in this study respectively.

Consistent with previous literature (namely Kamp-Roelands, 2002; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006) different variations in the assurance disclosure have been identified within the UK assurance practices. For example, verification and assurance are the most favoured terms used by assurance providers as titles of their statements with the latter being preferred during years 2003 and 2004 with many other terms used during the period of study. The term ‘true and fair’ which is commonly used in the financial audit domain to express the audit opinion was missing in the assurance of stand-alone reports (see also O’Dwyer and Owen, 2005). Furthermore, there is a notable variation in the terms used to express the assurance opinion between the different types of the assurance providers with a preference for accurate, fair and balanced, and consistent being evident for assurance providers as a whole. Standards and guidelines used to govern the assurance engagement such as AA1000AS, GRI, and ISAE3000 are the most standards used by the UK assurance providers to perform their assurance engagements. These findings however, consistent with the earlier impression that the UK assurance practices would suffer the same concerns recognised in other reporting domains which were identified in the previous literature (see for example, Kamp-Roelands, 2002; Wilson, 2003; O’Dwyer and Owen, 2005; Deegan *et al.*, 2006). Table 5.20 illustrates the key findings of the descriptive analysis results revealed in this chapter as well as the key questions addressed in each section of the chapter.

Table 5.20 Key findings of the descriptive analysis of the study

| Research Question  | Key Findings  |
|--|---|
| Who produce the assured stand-alone reports in the context of FTSE100 companies? | - In average, overall 65% of the listed companies<br>- Most 'stand-alone assured' reporters: banks (14.8%), mining (9.7%), and oil & gas (8.7)  |
| What is the incidence of the assurance practice?                                 | - Over 56% of the stand-alone reports were assured – 196 assurance statements collected   |
| What are the types of assured stand-alone reports?                               | - Environmental (20%),<br>- Social & environmental (19.4%), and<br>- Corporate responsibility (14.8%)   |
| Who provides the assurance statements?   | - Consultancy firms (63%),<br>- Accountancy firms (23%), and<br>- Certification bodies (13%)  |
| What are the major characteristics of the assurance statements provided?         | <p><b>Name/title given:</b></p> <ul style="list-style-type: none"> <li>- Verification (43.4%),</li> <li>- Assurance (32.1), and</li> <li>- Independent review (8.2%)</li> </ul> <p><b>Addressee:</b></p> <ul style="list-style-type: none"> <li>- The reporting company/management (17.9%),</li> <li>- The board of directors (7.1%)</li> </ul> <p><b>Level of assurance:</b></p> <ul style="list-style-type: none"> <li>- Reasonable-level (11.2%),</li> <li>- Limited-level (5.1%), and</li> <li>- Other levels (2%)</li> </ul> <p><b>Standards used in assurance process:</b></p> <ul style="list-style-type: none"> <li>- More than one standard (15.3%),</li> <li>- AA1000AS (10.7%), and</li> <li>- ISAEs (9.2%), and</li> <li>- Emerging best practice (7.7%)</li> </ul> |

In the next chapter, attention is turned to addressing results of data analysis which relating to: dimensions of the assurance process, the content analysis of the assurance statements, and the statistical tests.

## Chapter Six

### Results of the Content Analysis and the Statistical Tests

#### 6.1 Introduction

This chapter of the thesis presents the results of data analysis linked to the dimensions of the assurance process, the content analysis undertaken and the results of various tests for association between elements.<sup>130</sup> The following research questions are addressed: (i) to what extent do assurance statements disclose information about dimensions of the assurance practice? (ii) how much space is devoted to various aspects of assurance on the face of the assurance statements and how have contents of these statements developed over the period studied? and (iii) to what extent are contents of assurance statements associated with: type of the stand-alone report, size of the market capital of the reporting company, sector/industry, standards, type of the assurance provider and level of assurance?

The chapter consists of three parts. The first part considers the results of analysing the information disclosed in the assurance statements related to dimensions of: (i) independence of the assurance provider; (ii) methodology used in the assurance process; (iii) engagement with stakeholders disclosures; and (iv) result of assurance (as captured by opinion/conclusion given, findings, and recommendations expressed within the assurance statement). The second part of the chapter describes the results of the content analysis, where the structure of the assurance statements was recorded and the space devoted to each element of the assurance statement was captured. Finally, the chapter outlines the results of the statistical analysis which sought to investigate the relationships (if any) that exist between the contents of the assurance statements and (i) characteristics of the reporting company (such as, sector and size of the market capital); (ii) type of the stand-alone report produced; (iii) type of the assurance provider; (iv) type of the standards used in the assurance process; and (v) level of assurance.

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<sup>130</sup> The set of data being analysed in this chapter is drawn from the information collected from the assurance statements by using those dimensions and sub-dimensions included within the second and the third part of the instrument of the study (see Appendix 1).

## 6.2 Dimensions of the assurance process

This section focuses on analysing the information disclosed within the assurance statements, as captured by the assurance dimensions. As indicated in chapter five, the data capture instrument was designed to investigate the extent to which assurance statements contain information on four main dimensions. These dimensions cover:<sup>131</sup> independence of the assurance provider, methodology used during the assurance process, engagement with stakeholders, and the result of the assurance process (findings, opinion/conclusion expressed, and recommendations provided in the assurance statements). The incidence of disclosure around each of these areas is now presented.

### 6.2.1 Independence of the assurance provider

Assurance engagements are designed to increase credibility of the reported information through enhancing intended users' degree of confidence about the outcome of the evaluation of a subject matter against criteria (IAASB, 2006, p. 145). Such confidence is thought to be enhanced by increasing the degree of independence between the assurance provider and the reporting company (as is the practice in traditional financial audit). Indeed, some writers suggest that independence is the most important indication of the quality of assurance (Ball *et al.*, 2000, p. 7), whereas, IAASB (2006) stressed that fulfilling the professional and ethical requirements for independence would enhance reliability of the assurance provider.

Given independence is a factor that has exercised the accounting profession, it is pertinent to draw on this literature here. Independence is seen by the Chairman of the AICPA as “the cornerstone of the accounting profession and one of its most precious assets” (Mednick, 1997, in Beattie *et al.*, 1999, p. 67). Independence has two distinct dimensions: independence in fact, which is an unbiased mental attitude of the auditor/assurance provider, and independence in appearance, which is “the perception by a reasonable observer that the auditor has no relationship with an audit client which would suggest a conflict of interest” (Beattie *et al.*, 1999, p. 67).<sup>132</sup>

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<sup>131</sup> Details of the addressed dimensions, and the sub-elements included in each of the main dimensions can be found in sections D, E, F and G (Appendix 1).

<sup>132</sup> On their review of the independence regulatory frameworks (Australia, ICAA, 2002; UK, CAJEC, 1996; USA, SEC, 2000; and IFAC, 2001), Fearnly and Beattie (2004, p. 120, emphasis in original)

Within the independence dimension, the current study identified five key elements that are likely to be associated with the independence of the assurance process. Table 6.1 summarises the incidence of disclosure of these items.

**Table 6.1 Independence of the assurance process - frequencies for (2000-2004)**

| Item #                     | Description  |                |           |          |           |          |           |          |           |          |            |          |
|----------------------------|--|----------------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|------------|----------|
| D.1                        | Independence of the assurance process is explicitly asserted   |                |           |          |           |          |           |          |           |          |            |          |
| D.2                        | Separate responsibilities for both (the assurance provider and the reporting company) have been clearly determined                                 |                |           |          |           |          |           |          |           |          |            |          |
| D.3                        | The assurance provider is required to comply with the independence requirements set out in specific professional guidelines (e.g. IFAC, ICAEW)     |                |           |          |           |          |           |          |           |          |            |          |
| D.4                        | It is explicitly stated that the assurance provider is not involved in preparing the assured report  |                |           |          |           |          |           |          |           |          |            |          |
| D.5                        | It is explicitly indicated that there is no financial or commercial relationship existing between the assurance provider and the reporting company |                |           |          |           |          |           |          |           |          |            |          |
| Results - Year/Frequencies |  |                |           |          |           |          |           |          |           |          |            |          |
| Item #                     | 2000   |                | 2001      |          | 2002      |          | 2003      |          | 2004      |          | Overall    |          |
|                            | n  | % <sup>a</sup> | n         | %        | n         | %        | n         | %        | n         | %        | ∑n         | %        |
| <b>D.1</b>                 | 8  | 33.33          | 18        | 56.25    | 25        | 59.52    | 25        | 53.19    | 34        | 66.67    | 110        | 56.12    |
| <b>D.2</b>                 | 13   | 54.16          | 20        | 62.50    | 17        | 40.47    | 25        | 53.19    | 31        | 60.78    | 106        | 54.08    |
| <b>D.3</b>                 | -  | 00.00          | -         | 00.00    | 1         | 02.38    | 3         | 06.38    | 6         | 11.76    | 10         | 05.10    |
| <b>D.4</b>                 | 3  | 12.50          | 5         | 15.62    | 12        | 28.57    | 14        | 29.78    | 16        | 31.37    | 50         | 25.51    |
| <b>D.5</b>                 | 2  | 08.33          | 2         | 06.25    | 5         | 11.90    | 9         | 19.14    | 14        | 27.45    | 32         | 16.32    |
| <b># n</b>                 | <b>24</b>  | <b>-</b>       | <b>32</b> | <b>-</b> | <b>42</b> | <b>-</b> | <b>47</b> | <b>-</b> | <b>51</b> | <b>-</b> | <b>196</b> | <b>-</b> |

(∑ n = 196). <sup>a</sup> In all columns related to the years 2000-2004 in this table as well as forthcoming tables, this percentage represents number of cases in each investigated item on the year of reporting, divided by total number of the assurance statements identified in that year.

The results show that, on average over the five years, 56% of the assurance statements contained statements that explicitly asserted that the assurance process was independent and that the incidence of such disclosures by and large increased during the period. A typical type of disclosure that fits within this category would be that expressed by KPMG and PwC in their assurance report of *The Shell Report 2004*, where they state “[w]e have been engaged to express an independent opinion on information contained in the 2004 Shell Report”.

In the light of absence Generally Accepted Assurance Standards (GAAS) in the area of assurance the stand-alone reports, there are no formal requirements related to independence. There are, however, requirements that some assurers should adhere to and this is evidenced by disclosures around D3 above. While average disclosure of

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emphasise that the frameworks use “the term *independence of mind* when referring to independence in fact and the term *objectivity* is generally preferred to independence”.

this item only comes to 5% of the assurance statements, disclosure of this item has witnessed significant improvement between the year 2002 (2%) to almost (12%) in the year 2004. Given that these standards only have directly applicability to those who are governed by their issuing bodies, it is not surprising that in all incidents of D3 disclosure came from accountancy firms. It should also be noted that these standards (namely, ISAE3000) came into force in 2004, which accounts for adoption rising from that year or earlier. An example of disclosure of this sort can be found in Ernst & Young's assurance statement on BP's plc *Sustainability Report 2004*, where they state that "[a]s auditors to BP plc,<sup>133</sup> Ernst & Young are required to comply with the independence requirements set out in the Institute of Chartered Accountants in England and Wales (ICAEW) Guide to Professional Ethics. Ernst & Young's independence policies, which address and in certain places exceed the requirements of the ICAEW, apply to the firm, partners and professional staff. These policies prohibit any financial interests in our clients that would or might be seen to impair independence".

Within traditional financial audit it is generally accepted that management of the reporting company is responsible for the contents and preparation of the financial statements, whereas the auditor is solely responsible for the contents of the audit report (Deegan *et al.*, 2006, p. 342). Such separation of responsibilities is an essential element of the auditor independence. This principle can also be applied to assurance practice of stand-alone reports (see, Deegan *et al.*, 2006, p. 342). In this context, two forms of words could be expected: (i) the respective roles of report preparer and assurance provider could be outlined and/or (ii) the fact that the assurance provider has not been involved in report preparation could be spelled out. Indeed, the GRI (2002, p. 78) follows this approach and states that the effectiveness of an independent assurance process is strengthened when the directors of the reporting company: (i) recognise explicitly that they are responsible for the content of the sustainability (stand-alone) report; and (ii) recognise explicitly that the assurance provider alone is responsible for the content of the independent assurance report and will agree, at the beginning of the engagement, to publish the assurance report in full. In addition, the

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<sup>133</sup> In addition to their engagement of assuring the sustainability report, Ernst & Young LLP has been also commissioned by BP plc to audit their annual accounts for the year ended 31 December 2004.

IAASB (2006, Section 290 - “Independence - Assurance Engagement”)<sup>134</sup> adopts the same view.

Item D2 (Table 6.1) indicates that on average over five years 54% of the assurance statements indicated that responsibilities for the two parties have been clearly identified (with a rising trend, especially in the last three years of the study). Item D4 (an alternative way of expressing the same thing as D2) was reported by, on average, 25% of the sample (with the vast majority of these disclosures being provided by consultancy firms). In 38 assurance statements (19% of the sample) a clear indication for both (D2 and D4) together is included (33 of these statements were issued by consultants, whereas the remaining five statements were provided by certification bodies).

The final element linked to independence captured by the research instrument relates to whether or not assurance providers explicitly provide information about the commercial or financial relationships that exist between them and the reporting company, either at present or previously. Independence is thought to be compromised if there is a material relationship between the two parties.

It could be argued that level of audit/assurance fees is one of the most important measures to indicate whether or not a material relationship exists between the two parties. The ICAEW’s guidance on audit independence notes that “if the recurring fees from a client company or group of companies constitutes a substantial proportion of the fee income of an audit firm, a self-interest threat is likely to arise” (ICAEW, 2003, p. 22). Therefore, an assurance provider should not accept an assurance engagement from a client who regularly provides the assurance firm with an unduly large proportion of income (ICAEW, 2003, p. 22). An unduly large proportion of income “would normally be 15%, or, in the case of listed public interested companies 10%”, but the assurance firm should initiate a review of safeguards at 5% of its income (ICAEW, 2003, p. 22).

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<sup>134</sup> In their Section - 290.15 (titled “Other Assertion-Based Assurance Engagements”) the IAASB states that “[i]n an assertion-based assurance engagement where the client is not a financial statement audit client, the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter). Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in apposition to exert direct and significant influence over the subject matter information” (IAASB, 2006, p. 148).

Assurance providers some times make it clear whether or not they have commercial or financial relationships with the reporting company. This approach might be used by the assurance providers to indicate the independence of their assurance assignments. The IAASB (2006, p. 148) emphasises that “consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter”. Furthermore, Section 220.2 of the “Code of Ethics for Professional Accountants” issued by the IAASB, also emphasises that a “professional accountant in public practice should evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether the professional accountant in public practice has any business interests, or relationships with the client or a third party that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level” (IAASB, 2006, p. 136).

As is evident from Table 6.1, over the survey period only 32 assurance statements (16.3%) indicated clearly that they do not have a commercial or financial relationship with the reporting company. At the same time, a few assurance statements contained disclosures that indicated relationships existed between the two parties (with the majority of these statements being provided by consultancy firms). Despite the slight decline of disclosure in this element between the years 2000 (8%) and 2001 (6%), the results show that there is an increased trend in disclosing information regarding this element after the year 2001 (from 6% in 2001 to 27% in 2004). One of the most rigorous examples in this context is created by URS Australia Pty Ltd on their assurance statement emerged with *BHP Billiton Health Safety Environment and Community Report 2004*, where they stated “URS, its parent companies and related companies (collectively the “URS Group”) have previously been engaged by BHP Billiton and its subsidiary companies and anticipates further engagements in relation to the provision of consultancy advice... URS does not make any direct investment in any member of the BHP Billiton Group or their business interests and has no commercial interests or its securities other than as a service provider to BHP Billiton”.

It may be argued that provision of other types of assurance (such as, audit of financial statements) in addition to assurance of stand-alone report would create interest relationship between the two parties (see also Ball *et al.*, 2000). In the current study 27 assurance statements (60% of the accountants' sample) were provided by the financial auditors of the reporting company's annual report and accounts in the same reporting period. Details of these cases are presented in Appendix 8.

In the same context, it is arguable that disclosing assurance fees may provide concrete evidence of the independence of the assurance provider. In addition to the guidance provided by ICAEW (2003), Section 290.206 of the "Code of Ethics for Professional Accountants" issued by the IAASB indicates that "when the total fees generated by an assurance client represent a large proportion of a firm's total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat" (IFAC, 2006, p. 187). In a small number of cases (only four assurance statements, representing 2% of the total sample) assurance providers disclosed fees received from their assurance clients as a percentage of the total revenue gained during the same reporting period.<sup>135</sup> In those four cases in which the assurance fees were disclosed, the percentage of the fees was between 5-10% of the annual revenue of the assurance provider. This could be a further indication by assurance providers as to their independence. One of those few examples in this context is the indication disclosed by The Reassurance Network on their independent review statement of Next's plc *Corporate Social Responsibility Report to January 2005*, where they state "the assurance assignment for Next constitutes less than 10% of The Reassurance Network's annual turnover. The Reassurance Network does not have other commercial involvement in Next, its subsidiaries or franchises".

In conclusion, it could be argued that disclosures regarding independence of the assurance practice have improved dramatically over the period of the study, but that disclosure still falls short of 100%, with 29% of assurance statements not including disclosure of any of the elements identified in the instrument of the study.

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<sup>135</sup> Details of the disclosed assurance fees are available in section 5.6.6.

## 6.2.2 Methodology of the assurance process

Under this dimension 16 assurance activities have been investigated. For analysis, assurance procedures have been divided into two main stages (IAASB, 2006): pre-assurance procedures and the assurance procedures related to conduct of the assurance assignment.

### 6.2.2.1 Pre-assurance procedures

Pre-assurance procedures could be defined as the activities that should be undertaken by the assurance provider before carrying out evidence gathering procedures. Pre-assurance is an essential stage in the assurance engagement since it could be argued that if the pre-assurance process is robust it is more likely that the assurance process will also be robust. Within this stage there are several procedures that should be undertaken. In addition to specifying objectives and purposes of the assurance engagement, pre-assurance procedures also include: planning the assurance process, determining the criteria to be used in the assurance process, and determining the scope of the assurance. All of these elements have been investigated in the current study.

Table 6.2 presents the incidence of disclosure of pre-assurance procedures. The overall results indicate that the disclosure related to the practice of pre-assurance procedures has slightly improved over the period of the study.

**Table 6.2 Pre-assurance procedures – frequencies for (2000-2004)**

| Item #                            | Description   |       |      |       |      |       |      |       |      |       |         |       |
|-----------------------------------|---|-------|------|-------|------|-------|------|-------|------|-------|---------|-------|
| <b>Pre-assurance procedures</b>   |   |       |      |       |      |       |      |       |      |       |         |       |
| E.1                               | The assurance process has been planned                                      |       |      |       |      |       |      |       |      |       |         |       |
| E.2                               | Specific criteria to be used on the assurance process are clearly described |       |      |       |      |       |      |       |      |       |         |       |
| E.3                               | Purposes and objectives of the assurance process are clearly described      |       |      |       |      |       |      |       |      |       |         |       |
| E.4                               | Scope of the assurance process has been clearly described                   |       |      |       |      |       |      |       |      |       |         |       |
| E.5                               | The described assurance scope has been developed by the assurance provider  |       |      |       |      |       |      |       |      |       |         |       |
| <b>Results - Year/Frequencies</b> |   |       |      |       |      |       |      |       |      |       |         |       |
| Item #                            | 2000  |       | 2001 |       | 2002 |       | 2003 |       | 2004 |       | Overall |       |
|                                   | n   | %     | n    | %     | n    | %     | n    | %     | n    | %     | ∑n      | %     |
| E.1                               | 4   | 16.66 | 6    | 18.75 | 7    | 16.66 | 10   | 21.27 | 11   | 21.56 | 38      | 19.38 |
| E.2                               | 6   | 25.00 | 11   | 34.37 | 16   | 38.09 | 21   | 44.68 | 26   | 50.98 | 80      | 40.81 |
| E.3                               | 20  | 83.33 | 28   | 87.50 | 37   | 88.09 | 43   | 91.48 | 48   | 94.11 | 176     | 89.79 |
| E.4                               | 22  | 91.66 | 30   | 93.75 | 35   | 83.33 | 43   | 91.48 | 47   | 92.15 | 177     | 90.30 |
| E.5                               | -   | -     | 4    | 12.50 | 4    | 09.52 | 6    | 12.76 | 4    | 07.84 | 18      | 9.18  |
| # n                               | 24  | -     | 32   | -     | 42   | -     | 47   | -     | 51   | -     | 196     | -     |

(∑ n = 196)

### **Planning the assurance assignment**

Assurance provider should plan the assurance engagement, so that it will be performed effectively (IAASB, 2006, p. 1048). The IAASB (2006) also emphasises that planning of a non-financial assurance engagement involves: (i) developing an overall strategy for the scope, emphasise, timing and conduct of the engagement, and (ii) an engagement plan, which consists of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be carried out, and the reason for selecting them (p. 1048).<sup>136</sup>

In contrast with the traditions of the financial auditing, and despite the growing proportion of the assurance statements that disclose information related to the planning of the assurance process (especially in the last two years - 2003 and 2004), the majority of the assurance statements (over 80%) do not disclose any information about planning the assurance engagements. In total, 63% of the disclosures that were made in respect of assurance planning were produced by accountancy firms, but even here disclosures were limited to a simple description (usually a statement that the assurance engagement was planned) without any further details about nature of the planning process (for example, justifications for selecting evidence-gathering procedures).

### **Criteria used in the assurance assignment**

The criteria used within the assurance process are a cornerstone in the provision of assurance conclusion. Eilifsen *et al.*, (2006, p. 632) define the criteria as “the benchmarks used to evaluate or measure the subject matter”. Indeed, the IAASB (IAASB, 2006, p. 1050) requires the assurance provider to assess the suitability of the criteria to evaluate or measure the subject matter.<sup>137</sup> Furthermore, FEE (2006, p. 22)

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<sup>136</sup> The IAASB (2006, p 1048) emphasises that “adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organise and manage the engagement”. It also assists the practitioner (assurance provider) to properly assign work to engagement team members, and facilitates their direction and supervision and reviewing their work (IAASB, 2006). The IAASB (2006, p. 1048) also emphasises that the nature and extent of planning process will vary with the assurance engagement circumstances (such as, size and complexity of the assured organisation and the assurance provider’s previous experience with it).

<sup>137</sup> The IAASB (2006, p. 1050) state that an assurance provider should not accept an assurance engagement unless the assurance provider’s preliminary knowledge of the engagement circumstances indicates that the criteria to be used are suitable. They also emphasise that “after accepting the engagement, however, if the practitioner concludes that the criteria are not suitable, the practitioner

emphasises that the reporting criteria is the responsibility of the management of the reporting company. Thus, if the reporting company states that its stand-alone report is prepared “in accordance with” the GRI Guidelines the assurance provider is presumably to base the assurance engagement on those guidelines.

Despite the growing number of the assurance statements that clearly described the criteria to be used in the assurance assignment (from 25% in 2000 to 50% in 2004), the overall results clearly show that almost 60% (against 85% in Wilson, 2003) of total number of the statements identified in this study did not say anything about the criteria.<sup>138</sup> Criteria that were disclosed within the assurance statements can be divided into two main categories: (i) externally-established criteria such as: GRI Index, AA1000 Principles, and EMAS Regulations; and (ii) internally-established criteria including any type of criteria established by the reporting company in order to be used as a basis to evaluate the subject matter. Examples of this type of criteria include the group’s objectives and targets, business commitments, CSR objectives, and CR process and practices.

It should be noted in this context that the increasing incidence of using specific criteria has been influenced by the release of new guidelines and initiatives which have been used in guiding preparation of the stand-alone reports (for example, GRI Guidelines, AA1000 principles). The results indicate that 23 assurance engagements (representing 11.7% of total number included in the sample of the study) out of 80 criterion-disclosed engagements were performed against GRI or AA1000 principles, and that 17 of these 23 engagements were carried out during the years 2003 and 2004.

One example where the criteria used consisted of internal as well as external sources is found in the assurance statement provided by Ernst & Young LLP to Marks & Spencer’s plc *Corporate Social Responsibility Report 2004*. Ernst & Young LLP state that they performed series of assurance procedures including “testing the balance of the Report in comparison with: Issues raised in the CSR Forum and CSR Committee minutes; Outputs of the ‘customer expectations survey’; Topics raised in a selection

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expresses a qualified or adverse conclusion or disclaimer of conclusion. In some cases the practitioner considers withdrawing from the engagement” (IAASB, 2006, p. 1050).

<sup>138</sup> Except in few cases where assurance providers stated that the subject matter was reviewed against emerging best practice.

of external media sources; and Targets set out in last year's Corporate Social Responsibility Review 2003".

In some cases disclosing criteria being used within the assurance engagement was problematic. A major shortcoming lies in the fact that confusion may exist when the assurance provider does not make a clear distinction between the standards and criteria used in the assurance process.<sup>139</sup> An example of this confusion can be found within the Lloyd's Register Quality Assurance Limited's (LRQA) assurance statement appeared with BT Group's plc *Social and Environmental Report 2004*- web report, where they state that "[t]he assurance was undertaken against: Assurance Standards AA1000AS, 2003; Global Reporting Initiative (GRI), 2002; GRI Telecommunications Sector Supplement".

In contrast with this example, Ernst & Young LLP in their assurance statement addressed to the management of BP plc on their *Sustainability Report 2003*, make a clear distinction between assurance standards and criteria used during the assurance engagement,<sup>140</sup> where they state that "[t]his year we have further aligned our assurance process to AccountAbility's AA1000 Assurance Standard and have reviewed whether in our opinion the Report is in accordance with the Global Reporting Initiative's 2002 Sustainability Reporting Guidelines (GRI)".

### **Objectives and purposes of the assurance assignment**

In financial auditing practice the objective of an audit is "to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework" (ISA 200).<sup>141</sup> In contrast, a 'uniform objective' is not identified by assurance providers with

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<sup>139</sup> In other situations such confusion may also involve the criteria, scope and standards used in the assurance process. A clear example is articulated in the URSVL's assurance statement provided with Xstrata's plc *Sustainability Report 2004*, where the assurance providers state that "URSVL has performed this assurance process following two of three principles of the AA1000 Assurance Standard (AA1000AS) – materiality and completeness. Responsiveness to stakeholders did not form part of the scope of our assurance process this year. Our opinions are presented against the principles of AA1000AS within our scope".

<sup>140</sup> Another example can be found in the URS Australia's Ltd assurance statement attached with BHP Billiton's plc *HSE&C Report 2004* where they state that "URS assessed the 2004 HSEC Report against the GRI Sustainability Reporting Guidelines 2002 and to confirm that the Report has been prepared in accordance with these Guidelines".

<sup>141</sup> International Standard on Auditing 200: Objective and General Principles Governing an Audit of Financial Statements, issued by the IAASB (2006).

respect to stand-alone reports (Deegan *et al.*, 2006, p. 344). However, Deegan *et al.*, (2006, p. 344) note that various objectives may be agreed upon (between the reporting company and the assurance provider) within different assurance engagements, since it is the responsibility of the reporting company to determine the purpose and objective of the assurance engagement. Specifying objective and purpose of the assurance engagement precisely may help reader's understanding of the function of the assurance statement and hence what they may rely upon in the report itself (Deegan *et al.*, 2006).

Table 6.2 demonstrates that the majority of the assurance statements disclose the objective and purpose for the assurance assignment (rising from 83% in 2000 to 94% in 2004). In total, 176 assurance statements (almost 90%) determined the objective(s) of the assurance engagement being carried out. Expressing an opinion on the material within the stand-alone report was the most common objective identified in the assurance statements.

What was absent from statements, however, are disclosures of whether or not a consultative approach between the reporting company and its stakeholders exists with the purpose of determining the objectives of the assurance engagement. One example of where the objective of the assurance assignment is linked to the criteria is provided by Casella Stanger in its external verification statement provided with Legal & General's plc *Interim Environmental Report- March 2002* where they state that "Legal & General established environmental objectives and targets for January to December 2001. This external verification statement provides reassurance to stakeholders that performance against these targets, as presented in Legal & General's Interim Environmental Report, has been audited by an independent third party".

### **Scope of the assurance assignment**

In order to understand the assurance statement the areas of the stand-alone report covered by the assurance exercise must be clear (KPMG, 2006, p. 14). Incomplete corporate stand-alone reporting systems and associated internal processes might be a reason for limitation the scope of the assurance assignment (Park and Brorson, 2005, p. 1101). For example, the scope may be limited to the environmental section of the stand-alone report in some cases due to the incomplete reporting systems for social

and economic issues (Park and Brorson, 2005, p. 1101). Moreover, for specific types of reported information (such as case studies), assurance practice may require a disproportionate amount of time and money (specifically in evidence gathering procedures, KPMG, 2006, p. 14). This in turn may place restriction in the scope of the assurance practice.

According to the KPMG 2005 survey only 22% of the companies who have their stand-alone reports assured instruct the assurance provider to assess the whole report. KPMG (2006, p. 14) emphasises that assurance practice that does not cover the entire stand-alone report poses a risk that the company being assured only has those parts evaluated that best suit it. This sometimes can confuse the intended users of the assurance statement as “many of them [are] accustomed to the fact that an auditor’s report covers the financial statements as a whole” (KPMG, 2006, p. 14). It would appear that the reporting company, as opposed to the assurance provider, decides on the scope of assurance (Park and Brorson, 2005, p. 1101). In conclusion, and regardless of why companies limit scope of assurance, any limitation should be communicated within the assurance statement.

Describing the scope of the assurance engagement has become the norm over the years in this study with a total of more than 90% of the assurance statements clearly specifying the scope of the assurance assignments. Information disclosed on scope has taken several forms including describing scope in terms of: systems and frameworks (including HS&E governance and management systems, data collection systems, reporting processes, and internal assurance system); offices and locations of the business (this includes local premises of the business, national offices, and international locations and/or offices); targets on achievements in specific areas (such as, community, employees, building design, waste management); specific technical parameters (this may include for example: lost-time injury frequency rate, fatalities, sulphur dioxide emissions, energy consumption, environmental incidents); entire stand-alone report or section included (such as a sustainability report, an environment section of a stand-alone report, case studies presented within the social part of a stand-alone report); and time (where the assured data covers a specific period of time).

Despite the large proportion of assurance statements disclosing information on scope, it seems that reporting companies affect the scope of assurance as evidenced by the

fact that almost 60% of the assurance statements referred to imposition of limitations and restrictions on the scope of the assurance assignment (for example, on the elements at the stand-alone report that are to be assured).<sup>142</sup> Furthermore, none of the assurance statements explicitly or implicitly indicated to any sort of stakeholder engagement in developing or determining the scope of the assurance assignments. Finally, less than 10% of the total number of the assurance statements referred to the participation of the assurance provider in developing scope of the assurance assignment. This reflects the managerial capture over the assurance practice, and thus, would increase doubts about ability of assurance to enhance accountability to the organisational stakeholders (see also Ball *et al.*, 2000; O'Dwyer and Owen, 2005).

### 6.2.2.2 Assurance procedures

Eilifsen *et al.*, (2001, p. 193) assert that after a long re-examination of audit methods a new emphasis on assessment of business and processes risks has emerged in conducting an audit or assurance exercise. The assurance provider should obtain an understanding of the subject matter (for example stand-alone report being assured and/or the non-financial reporting and governance systems) and other engagement circumstances (IAASB, 2006). Such an understanding should be sufficient to identify and assess the risks of the subject matter information being materially misstated, and also allow for the design and performance of evidence-gathering procedures (IAASB, 2006, p. 1049).

Assurance procedures as identified in this study, relate to how evidence is gathered. Deegan *et al.*, (2006, p. 352) state that “appropriate evidence needs to be available and collected to support any judgements or conclusion to be made about the information” articulated in the stand-alone report. The IAASB (2006, p. 1053) emphasises that the assurance provider “should obtain sufficient appropriate evidence on which to base the conclusion”.<sup>143</sup> Furthermore, the IAASB (2006, pp. 1053-1054) argues that sufficient appropriate evidence (in a reasonable assurance engagement for

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<sup>142</sup> Details related to limitations of the assurance scope are provided under section 6.2.4.1 that explores opinion/conclusion expressed in the assurance statement.

<sup>143</sup> The IAASB (2006) recognises two characteristics of evidence, sufficiency and appropriateness. Sufficiency is the measure of the quantity of evidence and appropriateness is the measure of quality of evidence, such characteristics represent relevance and reliability (IAASB, 2006, p. 1053). To support the assurance statement, assurance providers need to use professional judgment and exercise professional skepticism in evaluating the quantity and quality of the gathered evidence (IAASB, 2006, p. 1053).

instance) is obtained as part of systematic engagement process involving: obtaining an understanding of internal control; assessing the risks that the subject matter information may be materially misstated; responding to assessed risks, including developing overall responses and determining the nature, timing and extent of further procedures; carrying out further procedures clearly linked to the identified risks, using a combination of: inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry; and evaluating the sufficiency and appropriateness of evidence.

In the current study nine assurance procedures have been identified to be investigated (items within E6-E16). Additionally, core aspects of materiality and completeness within the assurance practice are also considered under this section.

**Evidence-gathering procedures/techniques:** despite the proposed assurance framework which identifies procedures to be used in gathering assurance evidence (IAASB, 2006), there is no generally accepted framework to be used in gathering evidence. As a result, assurance techniques and procedures identified in this study reflect those procedures addressed in the literature (Ball *et al.*, 2000; Kamp-Roelands, 2002; ACCA and AccountAbility, 2004; O'Dwyer and Owen, 2005; KPMG, 2006).

The important question to explore in this context is the quality of evidence that would emerge from each procedure and a consideration of what may constitute more appropriate evidence (IAASB, 2006). To conduct assurance there are numerous techniques that may be used by the assurance provider (KPMG, 2006, p. 19) including document review (such as research reports, minutes of meetings, inspection reports); review the processes and systems; site visits; requesting reports from business sites that have been not visited; interviews with key personnel; and statistical analysis (to highlight connections in the figures and to assess the correctness of the figures' trends). However, it could be argued that reviewing data and figures in the report, reviewing the data collection systems, and the documentary review are more likely to generate 'sound' evidence, while interviewing people in the reporting company and visiting business sites generate more subjective evidence.

The results of the current study (see Table 6.3) reveal that the assurance procedures varied among the assurance statements and through the period of the study. In

general, however, there have been improvements in the extent to which procedures are described in the assurance statement.

Percentages of the assurance statements that indicated various procedures used to gather evidence are extremely varied over the period of the study, this suggests that there are no coherent trends in this data. Although disclosing of some assurance procedures (for example, interviewing employees, reviewing the documents or documentary systems, using the sampling approach) has improved during the years 2002-2004, other disclosures such as reviewing data and figures of the stand-alone report have noticeably declined (from 47% in 2002 to 37% in 2004).

**Table 6.3 Assurance procedures – frequencies for (2000-2004)**

| Item #                            | Description   |       |           |       |           |       |           |       |           |       |            |       |
|-----------------------------------|---|-------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|------------|-------|
| <b>Assurance Procedures</b>       |   |       |           |       |           |       |           |       |           |       |            |       |
| E.6                               | Sampling approach has been used during the assurance process                                  |       |           |       |           |       |           |       |           |       |            |       |
| E.7                               | The internal audit approach and procedures have been reviewed                                 |       |           |       |           |       |           |       |           |       |            |       |
| E.8                               | Data and figures in the company report have been reviewed                                     |       |           |       |           |       |           |       |           |       |            |       |
| E.9                               | Sites of the reporting company have been visited  |       |           |       |           |       |           |       |           |       |            |       |
| E.10                              | Employees have been interviewed   |       |           |       |           |       |           |       |           |       |            |       |
| E.11                              | A documentary review has been performed   |       |           |       |           |       |           |       |           |       |            |       |
| E.12                              | The data collection systems and process have been reviewed                                    |       |           |       |           |       |           |       |           |       |            |       |
| E.13                              | The environmental management system has been reviewed   |       |           |       |           |       |           |       |           |       |            |       |
| E.14                              | Materiality issues have been addressed explicitly in the assurance statement                  |       |           |       |           |       |           |       |           |       |            |       |
| E.15                              | Completeness of the assured report has been addressed   |       |           |       |           |       |           |       |           |       |            |       |
| E.16                              | The environmental, social, or sustainability corporate governance routines have been reviewed |       |           |       |           |       |           |       |           |       |            |       |
| <b>Results - Year/Frequencies</b> |   |       |           |       |           |       |           |       |           |       |            |       |
| Item #                            | 2000  |       | 2001      |       | 2002      |       | 2003      |       | 2004      |       | Overall    |       |
|                                   | n   | %     | n         | %     | n         | %     | n         | %     | n         | %     | ∑n         | %     |
| E.6                               | 14  | 58.33 | 20        | 62.50 | 20        | 47.61 | 26        | 55.31 | 29        | 56.86 | 109        | 55.61 |
| E.7                               | 7   | 29.16 | 7         | 21.87 | 11        | 26.19 | 9         | 19.14 | 13        | 25.49 | 47         | 23.97 |
| E.8                               | 8   | 33.33 | 16        | 50.00 | 20        | 47.61 | 19        | 40.42 | 19        | 37.25 | 82         | 41.83 |
| E.9                               | 15  | 62.50 | 15        | 46.87 | 21        | 50.00 | 30        | 63.82 | 32        | 62.74 | 113        | 57.65 |
| E.10                              | 17  | 70.83 | 26        | 81.25 | 31        | 73.80 | 36        | 76.59 | 44        | 86.27 | 154        | 78.57 |
| E.11                              | 12  | 50.00 | 23        | 71.87 | 21        | 50.00 | 26        | 55.31 | 36        | 70.58 | 118        | 60.20 |
| E.12                              | 21  | 87.50 | 21        | 65.62 | 27        | 64.28 | 28        | 59.57 | 35        | 68.62 | 132        | 67.34 |
| E.13                              | 12  | 50.00 | 12        | 37.50 | 9         | 21.42 | 15        | 31.91 | 12        | 23.52 | 60         | 30.61 |
| E.14                              | 3   | 12.50 | 3         | 09.37 | 4         | 09.52 | 13        | 27.65 | 17        | 33.33 | 40         | 20.40 |
| E.15                              | 6   | 25.00 | 9         | 28.12 | 11        | 26.19 | 19        | 40.42 | 22        | 43.13 | 67         | 34.18 |
| E.16                              | 4   | 16.66 | 8         | 25.00 | 4         | 09.52 | 7         | 14.89 | 6         | 11.76 | 29         | 14.79 |
| # n                               | <b>24</b>   | -     | <b>32</b> | -     | <b>42</b> | -     | <b>47</b> | -     | <b>51</b> | -     | <b>196</b> | -     |

(∑ n = 196)

Consistent with O'Dwyer and Owen (2005), the results in the current study indicate that interviewing employees (79%) and reviewing data collection systems (67%) are

the most common evidence-gathering procedures disclosed in the assurance statements. In contrast with Ball *et al.*, (2000) and O'Dwyer and Owen (2005) the results also indicate that only 42% of the assurance statements indicated that the data and figures in the stand-alone report have been reviewed (compared to 70% in Ball *et al.*, 2000 and 93% in O'Dwyer and Owen, 2005). In comparison with Ball *et al.*, (2000), it could be stated that the disclosure related to assurance procedures in general has improved as shown in the results of the current study. Table 6.4 illustrates the key findings of the current study compared with the most relevant previous studies in respects of the evidence gathering procedures.

**Table 6.4 Key findings of the evidence gathering procedures compared to previous studies**

| Assurance procedure                | Ball <i>et al.</i> , 2000 | O'Dwyer and Owen, 2005 | Deegan <i>et al.</i> , 2006 <sup>a</sup> | The current study, 2007 |
|------------------------------------|---------------------------|------------------------|--|-------------------------|
| Sites visit                        | 32%                       | 56%                    | 37%                                      | 57%                     |
| Staff interview                    | 61%                       | 85%                    | 64%                                      | 78%                     |
| Review the data collection systems | 43%                       | 85%                    | N/A                                      | 67%                     |
| Review the governance routines     | N/A                       | 17%                    | N/A                                      | 15%                     |
| Document review                    | N/A                       | N/A                    | 69%                                      | 60%                     |
| Use sampling approach              | N/A                       | N/A                    | 61%                                      | 56%                     |
| Review the internal systems        | N/A                       | N/A                    | 55%                                      | 24%                     |
| Review data in the report          | 70%                       | 93%                    | N/A                                      | 42%                     |

<sup>a</sup> Data in this column relate to the UK and European samples included in the study, no data is provided on the Japan sample.

In conclusion, it seems that there are no clear patterns in disclosures on procedures used to gather evidence within the assurance practice. Such “poor description of the underlying procedures performed clearly contributes to an undermining of the value that such statements might add” (Deegan *et al.*, 2006, p. 353).

One of the most significant developments in context of assurance of corporate stand-alone reporting was the released AA1000 Assurance Standard (AA1000AS) by AccountAbility in 2003. To assist the assurance provider in reaching an opinion AA1000AS provides guidance on a three core principles, those of: materiality completeness, and responsiveness. Through undertaking an assurance exercise it would be expected that the assurance provider to address the material issues included in the stand-alone report as well as the completeness of the report. Within this section attention is now turns to aspects of materiality and completeness (responsiveness is included in the next section).

## Materiality

Materiality within audit and assurance practice may take different meanings because the “exact interpretation of materiality differs for each topic and requires a high level of professional judgment” (KPMG, 2006, p. 19). KPMG (2006) also states that the term ‘materiality’ is being used widely in the assurance context and it means: (i) that an assurance provider must recognise and assess the most important issues; and (ii) that if the assurance provider discovers an error in the information, the error only needs to be corrected if it is significant enough to potentially change the opinion the reader has about the company.<sup>144</sup>

The IAASB (2006, p. 1051) requires the assurance provider to consider materiality and risk of the assurance engagement when performing an assurance engagement. Such consideration requires the assurance provider “understand and assess what factors might influence the decisions of the intended users”. Furthermore, the IAASB (2006, p. 1051) emphasises that the assurance provider should consider materiality when “determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of misstatement”.<sup>145</sup> Materiality has been widely addressed within the financial auditing literature (see for example, Mautz, 1966; Stephen, 1989; Colbert, 1996; Martinov and Roebuck, 1998; Makkawi and Abdolmohammadi, 2004; DeZoort *et al.*, 2006)

Within stand-alone reporting practice the materiality principle is often considered from the stakeholders’ perspective. The materiality principle requires the assurance provider declares whether the reporting company’s stand-alone report includes “information about its ‘sustainability performance’ required by its stakeholders for them to be able to make informed judgements, decisions and actions” (AccountAbility, 2003a, p. 14). AccountAbility (2003a, p. 15) also argues that the information is considered material if “its omission or misrepresentation in the Report

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<sup>144</sup> As a consequence of applying this meaning of materiality, KPMG (2006, p. 19) emphasises that the entire stand-alone report (data and information) do not need to be checked by the assurance provider especially “if only because the cost of assurance would be unacceptably high”. It is therefore important to establish which parts of the stand-alone report are the most significant for assurance.

<sup>145</sup> Information is considered material “if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful” (the International Accounting Standards Board – ‘Framework for the Preparation and Presentation of Financial Statements’, in IAASB, 2006, p. 490).

could influence the decisions and actions of the Reporting Organisation's Stakeholders".

The current study found specific reference being made to issues related to materiality in 40 assurance statements (20% of the sample of the study). Consistent with the findings of O'Dwyer and Owen (2005), disclosures regarding materiality were very broad assertions rather than explicit indications of how materiality had been determined or what exactly 'material' implied (O'Dwyer and Owen, 2005, p. 220). For those statements where materiality had been clearly addressed, the majority described the reporting company's duty of identifying material issues of their business (rather than its stakeholders, as required by the standards such as AA1000AS). A clear example is contained in Ernst & Young's LLP assurance statement of mmO2's plc *Corporate Responsibility Report 2003* where the assurance provider states "[t]he board has received regular briefings on corporate responsibility issues considered by the Executive Committee to be material to mmO2. Those issues considered material by senior managers interviewed during our work are included in the content of the report".

In some cases assurance providers disclosed more detail on materiality and linked this to the opinion expressed in the assurance statement. Ernst & Young LLP presented an example in their assurance statement for BP's plc *Sustainability Report 2003* where they say "[w]e are not aware of any material issues excluded or misstatements made in relation to the information on which BP has made judgements in respect of the content of the report... BP does not have a standardised method at group level for documenting and collating the outputs of stakeholder engagement. Therefore materiality judgements on the basis of issues raised by this process may not be made on complete information".

Indirectly assurance statement may also contain information describing the extent to which had the stakeholders engaged in the process of identifying materiality. In few cases assurance statements addressed the issue of materiality from a stakeholder perspective. For example, Bureau Veritas' assurance of AstraZeneca's plc *Corporate Responsibility Summary Report 2004* emphasises that "AstraZeneca consults with its stakeholders in some countries and is largely addressing issues of common

concern...The reported information can be used by the organisation and its stakeholders as a reasonable basis for their opinions and decision-making”.

In the current study, information disclosure on materiality has improved (from 9.5% in 2002, to 33% in 2004). Such improvement is likely to have been influenced by new standards and frameworks produced over that time in the area of reporting and assuring the stand-alone reports (namely AA1000 framework which was released in 1999).<sup>146</sup> Although results indicated that almost 60% of the (40) statements in which materiality was addressed were provided by consultancy firms, it seems that there is no difference between various types of the assurance providers in this respect. Generally, accountancy firms (24% of the statements provided in accountancy sample) and certification bodies 23% were more likely to address aspect of materiality against 18% offered in the consultancy sample. For details see Appendix 9.

### **Completeness**

Completeness is a fundamental issue within the traditional financial auditing. The IAASB (2006, p. 526) emphasises that “when information produced by the entity is used by the auditor to perform audit procedures, the auditor should obtain audit evidence about the accuracy and completeness of the information”.<sup>147</sup> In the context of the assurance of the stand-alone reports, KPMG (2006, p. 14) emphasises that the assurance provider has a duty regarding completeness of the stand-alone report. In particular, users of the report are “interested in what they should have been told, but which does not appear in the report” (KPMG, 2006, p. 14). In the same vein, AccountAbility (2003a) identified completeness as a core principle of its framework. AccountAbility (2003a, p. 17) state that the completeness principle concentrates on evaluating “the extent to which the Reporting Organisation can identify and understand material aspects of its Sustainability Performance” This includes “activities, products, services, sites and subsidiaries for which the reporting company has management and legal responsibility” and which are also material for the stakeholders’ of the reporting company.

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<sup>146</sup> The majority of those statements where materiality and completeness were addressed also indicate that the stand-alone reports were assured against AA1000 principles.

<sup>147</sup> The IAASB (2006, p. 528) emphasises that completeness means that “all transactions and events that should have been recorded have been recorded”.

In the current study, 67 assurance statements (34% of the sample of the study) offer explicit comments on the extent to which reporting companies identified and understood their own non-financial performance. In this context, few examples linked opinions regarding completeness with stakeholders' engagement in the assurance statement. LRQA's opinion articulated within their assurance statement to BT Group's plc web-based *Social and Environmental Report 2004* however, emphasises that "reporting of sustainability performance was appropriate, processes are in place for identifying and understanding activities, performance impacts and stakeholder views" they also state that "no material omissions were identified with respect to those issues determined from stakeholder engagement".

In some cases assurance providers may express clear reservations relating to the incompleteness reporting policy or accessibility of the stand-alone report (O'Dwyer and Owen, 2005, p. 220). An example of this type of disclosure was found within the csrnetwork verifier's statement to United Utilities' plc *Social and Environmental Impact Report 2000* where they state that "the report is not complete in its coverage of the company's relationships with all its stakeholder groups, although there is detailed analysis of the employee stakeholder group".

The overall results, however, indicate that addressing completeness matters within the assurance statements improved after 2002 with the proportion of the assurance statements that address completeness of the stand-alone reports rising from (26%) in 2002, to (40%) in 2003 and then to (43%) in 2004. In general, it is noted that consultancy firms (38% of the statements included in their sample) are more likely to offer observations and comments on completeness, against (33%) offered by accountancy firms and (15%) by certification bodies.

### **6.2.3 Engagement with the stakeholders within the assurance process**

Involving stakeholders in the assurance process is assumed to have a potential to make the assurance process more robust, and to make the assurance task part of an accountability process (Park, 2004). It is asserted that this approach would change the nature of assurance exercise from tick-box exercise to the relationship building exercise (Park, 2004, p. 62). Stakeholders' engagement in assurance is also one of the principles included within AccountAbility framework for assurance. In particular,

AccountAbility (2003a) specified a principle of responsiveness that requires “the assurance provider evaluate whether the reporting organisation has responded to stakeholder concerns, policies and relevant standards, and adequately communicated these responses in its report” (p. 18). Specifically, AA1000AS’s responsiveness principle requires an assurance provider to form an opinion with respect to responsiveness of the reporting company based on the available evidence. Details of assurance procedures required to form such opinion can be found in section 2.4.2.

The results of the study suggest that although there is an increase in the proportion of assurance statements which refer to involving stakeholders and their issues within the assurance practice, stakeholders’ engagement remains a minority activity in assurance practices with almost 80% making no reference to stakeholders (see Table 6.5). In total 67% of those that do refer to stakeholders are consultancy firms and these consultancies were ahead of accountancy firms and certification bodies in this matter.<sup>148</sup>

The current study found that whilst 79% of the assurance statements made a reference to interviewing staff as a part of assurance exercise only 25 (12% compared to 10% in O’Dwyer and Owen, 2005) assurance statements clearly indicate that stakeholders have been interviewed. In terms of evaluating whether or not the reporting companies have clearly identified stakeholders’ interests and concerns, the overall results indicate that almost 24% (as opposed to 29% in O’Dwyer and Owen, 2005) of the assurance statements have indicated that an assessment has been made of this nature. These two findings suggest that if stakeholders are involved in assurance this has yet to be reflected on the face of the assurance statement.

In contrast, over 17% of assurance statements indicated that an evaluation had been carried out by the assurance provider to assess the approach adopted by the reporting company as it sought to respond to its stakeholders. Once again this suggests that companies and assurance providers are not focusing on company responsiveness to stakeholders. This is not to say that these issues are entirely absent. For example, Lloyd’s Register Quality Assurance Limited’s assurance statement to BT Group’s plc web *Social and Environmental 2004* report noted that “LRQA reviewed BT’s

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<sup>148</sup> Stakeholders’ issues were mentioned by 14% and 18% of accountancy firms and certification bodies respectively.

stakeholder engagement processes which continually collect views on BT’s social and environmental issues” and that “stakeholder concerns, as identified from the engagement process, have been responded to either via BT’s material KPIs or through site indexes which permit navigation direct to the indicator of interest”.

**Table 6.5 Engagement with the stakeholders –frequencies for (2000-2004)**

| <b>Item #</b>                     | <b>Description</b>  |          |             |          |             |          |             |          |             |          |                       |          |
|-----------------------------------|---|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-----------------------|----------|
| F.1                               | Specific stakeholder groups have been interviewed   |          |             |          |             |          |             |          |             |          |                       |          |
| F.2                               | Determining the stakeholders interests and concerns by the reporting company has been evaluated                               |          |             |          |             |          |             |          |             |          |                       |          |
| F.3                               | The assurance provider has assessed whether the reporting company has determined how to respond to the stakeholders’ concerns |          |             |          |             |          |             |          |             |          |                       |          |
| F.4                               | Establishing sets of targets and indicators with regard the stakeholders’ concerns has been assessed                          |          |             |          |             |          |             |          |             |          |                       |          |
| F.5                               | The reporting company response to the past stakeholder issues has been addressed  |          |             |          |             |          |             |          |             |          |                       |          |
| F.6                               | Clear references to weaknesses and shortcomings in determining stakeholders’ concerns has been made                           |          |             |          |             |          |             |          |             |          |                       |          |
| F.7                               | The achievements of the past recommendations concerning the stakeholders during the past reported periods have been evaluated |          |             |          |             |          |             |          |             |          |                       |          |
| <b>Results - Year/Frequencies</b> |   |          |             |          |             |          |             |          |             |          |                       |          |
| <b>Item #</b>                     | <b>2000</b>   |          | <b>2001</b> |          | <b>2002</b> |          | <b>2003</b> |          | <b>2004</b> |          | <b>Overall</b>        |          |
|                                   | <b>n</b>  | <b>%</b> | <b>n</b>    | <b>%</b> | <b>n</b>    | <b>%</b> | <b>n</b>    | <b>%</b> | <b>n</b>    | <b>%</b> | <b>∑n<sup>a</sup></b> | <b>%</b> |
| <b>F.1</b>                        | -   | 00.00    | 3           | 09.37    | 4           | 09.52    | 9           | 19.14    | 9           | 17.64    | 25                    | 12.75    |
| <b>F.2</b>                        | 1   | 04.16    | 4           | 12.50    | 9           | 21.42    | 14          | 29.78    | 19          | 37.25    | 47                    | 23.98    |
| <b>F.3</b>                        | -   | 00.00    | 2           | 06.25    | 4           | 09.52    | 11          | 23.40    | 17          | 33.33    | 34                    | 17.34    |
| <b>F.4</b>                        | -   | 00.00    | -           | 00.00    | 3           | 07.14    | 3           | 06.38    | 8           | 15.68    | 14                    | 07.14    |
| <b>F.5</b>                        | -   | 00.00    | -           | 00.00    | 1           | 02.38    | 2           | 04.25    | 8           | 15.68    | 11                    | 05.61    |
| <b>F.6</b>                        | -   | 00.00    | 1           | 03.12    | 2           | 04.76    | 3           | 06.38    | 8           | 15.68    | 14                    | 07.14    |
| <b>F.7</b>                        | -   | 00.00    | 1           | 03.12    | 3           | 07.14    | 3           | 06.38    | 5           | 09.80    | 12                    | 06.12    |
| <b># n</b>                        | <b>24</b>   |          | <b>32</b>   |          | <b>42</b>   |          | <b>47</b>   |          | <b>51</b>   |          | <b>196</b>            |          |

(∑ n = 196). <sup>a</sup> Within those assurance statements provided in each item of this column, accountancy firms had provided 8%, 13%, 15%, 21%, 9%, 21%, and 8% respectively

While noting a relatively low level of disclosure around stakeholders’ between 2001 and 2004, there was an increase over this period for all elements in Table 6.5. In addition, it would appear that AA1000 is having an impact on the development of disclosures concerning stakeholders. In particular, in all those statements where stakeholders’ issues were disclosed, AA1000AS was noted as being the assurance standard used by the assurance providers. This suggest that uptake of AA1000AS is the main driver for disclosure about stakeholders involvement and responsiveness.

#### 6.2.4 Results of the assurance engagement

This section explores disclosure on the results emerging from assurance engagements. It is commonly recognised that the ultimate role of the assurance statement is to provide an opinion with respect to the subject matter (IAASB, 2006). In contrast with the financial statement audit, assurance statements may also contain statements that move beyond expressing an assurance opinion. Additional statements may include: findings, praise<sup>149</sup> and comments on elements of reporting and practice, as well as recommendations for ways in which practices could be improved. The IAASB (2006, p. 1057) emphasises that in addition to describing details of the engagement terms and the criteria being used, a ‘long-form’ of assurance statement may contain “findings relating to particular aspects of the engagement and, in some cases, recommendations, as well as the basic elements”.<sup>150</sup> The most important issue in this context is that such findings and recommendations are clearly separated from the assurance provider’s opinion on the subject matter and “the wording used in presenting them makes it clear they are not intended to affect the practitioner’s conclusion” (IAASB, 2006, p. 1057).

O’Dwyer and Owen (2005, p. 222) argue that if a detailed commentary is included in the assurance statement it may be regarded as ‘adding value’ for the stand-alone report readership. At the same time, they note that “[q]uestions are inevitably raised as to whether combining what is essentially a consultancy function with a separate ‘arm’s length’ assurance exercise compromises the integrity of the latter, particularly when no indication of fee levels for the respective commissions is offered” (O’Dwyer and Owen, 2005, p. 222). Deegan *et al.*, (2006, p. 364) found that approximately 42% (against 12% in the European sample) of the UK assurance statements included some form of praise. Furthermore, the study also pointed out that majority of assurance statements in the UK indicated areas for improvement, with some statements identifying up to six areas for improvement (Deegan *et al.*, 2006).

In the current study the results of the assurance engagement encompass three issues: first, the expression of an assurance opinion; second, findings of the engagement

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<sup>149</sup> Deegan *et al.*, (2006, p. 364) define praise as a positive comment about the reporting organisation’s stand-alone report (for example, commending the reporting company because of its innovative systems to manage and report the generation of waste products).

<sup>150</sup> Details of the basic elements that should be included in the assurance statement can be found in section 2.4.2.

relating to areas of weakness or shortcomings identified; and third, and as a result of shortcomings, recommendations for future improvements. Indeed, O'Dwyer and Owen (2005) note that over 95% of those assurance statements in which weaknesses in the organisations' underlying systems, reporting procedures or overall performance were noted, have recommendations of some sort for future improvements. Each aspect will now be examined.

#### 6.2.4.1 Opinion expressed in the assurance statement

The IAASB (2006, p. 1056) emphasise that the assurance statement should contain a clear expression of the assurance provider's conclusion on the subject matter of the assurance. Moreover, where the subject matter information is made up of various aspects, separate opinions may be provided in each aspect.<sup>151</sup> The GRI guidelines (2006, p. 38) also state that an opinion or set of conclusions are one of the key qualities for external assurance of corporate stand-alone reports.

**Table 6.6 Opinion expressed in the AS – frequencies for (2000-2004)**

| Item #                     | Description  |       |      |       |      |       |      |       |      |       |         |       |
|----------------------------|--|-------|------|-------|------|-------|------|-------|------|-------|---------|-------|
| G.1                        | The assurance statement is divided into main sections/headings such as: scope, methodology or work undertaken, and opinion |       |      |       |      |       |      |       |      |       |         |       |
| G.2                        | A clear opinion or conclusion concerning the subject matter has been expressed   |       |      |       |      |       |      |       |      |       |         |       |
| G.3                        | A reference to limitation of the scope has been clearly made   |       |      |       |      |       |      |       |      |       |         |       |
| Results - Year/Frequencies |  |       |      |       |      |       |      |       |      |       |         |       |
| Item #                     | 2000   |       | 2001 |       | 2002 |       | 2003 |       | 2004 |       | Overall |       |
|                            | n  | %     | n    | %     | n    | %     | n    | %     | n    | %     | ∑n      | %     |
| G.1                        | 19   | 79.16 | 23   | 71.87 | 31   | 73.80 | 32   | 68.08 | 44   | 86.27 | 149     | 76.02 |
| G.2                        | 23   | 95.83 | 31   | 96.87 | 37   | 88.09 | 44   | 93.61 | 48   | 94.11 | 183     | 93.36 |
| G.3                        | 10   | 41.66 | 16   | 50.00 | 23   | 54.76 | 32   | 68.08 | 36   | 70.58 | 117     | 59.69 |
| # n                        | 24   |       | 32   |       | 42   |       | 47   |       | 51   |       | 196     |       |

(∑ n = 196)

In total 183 assurance statements (93% of the sample) express a clear opinion on the subject matter (Table 6.6). As indicated earlier (section 6.2.2.1), almost 90% of the

<sup>151</sup> The IAASB (2006, p. 1060) argues that in the multi-aspect assurance engagement, not all conclusions rely on the same level of evidence-gathering procedures. As a result, each conclusion is expressed that "is appropriate to either a reasonable-assurance or a limited assurance engagement". In a "reasonable assurance" engagement, the conclusion should be expressed in the positive form (for example, in our opinion internal control is effective, in all material respects, based on XYZ criteria", whereas, in a "limited assurance" engagement, the conclusion should be expressed in the negative form (for example, based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on XYZ criteria" (IAASB, 2006, p. 1060).

assurance statements have made reference to the objectives of the assurance engagements, with 'providing an independent third- party opinion' being the most common objective. In most of the assurance statements examined, the assurance opinion was articulated in a separate section within the assurance statement.

It could be argued that assurance opinions are influenced by a number of considerations, namely: the level of assurance pursued, the objective of the assurance assignment, and limitations of the assurance exercise (CPA Australia, 2004; IAASB, 2006). The IAASB (2006, p. 1061) state that the assurance provider should not express an unqualified opinion when "there is a limitation on the scope of the practitioner's work, that is, circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level". Thus, the assurance provider in such cases should express a qualified opinion or a disclaimer of opinion (IAASB, 2006, p. 1061).

The existence of limitations on the assurance process (whether they are inherent or related to the scope of the engagement) will naturally affect the course of the entire assurance exercise and in turn, the conclusion able to be reached. A number of assurance statements in the sample pointed to limitations arising from the nature of the subject matter (inherent limitations) as well as the scope of the assurance engagement. For example, KPMG & PwC in their independent assurance report on *Shell's Report 2004* state that "environmental and social data and assertions are subject to more inherent limitations than financial data, given their nature and the methods used for determining, calculating or estimating such data. It is important to read the data and statements in the context of the basis of reporting provided by management ... and the notes on the data".

This limitation of scope disclosure was found in almost 60% of the assurance statements and has increased over the period of the study (from 41% in 2000 to 70% in 2004). Limitations accompanying the assurance opinions took different forms, such as: excluding section(s) of the stand-alone report from the assurance exercise, excluding site(s) of the reporting company from assurance visits, excluding specific areas related to the reporting company's business activities, or excluding the reporting and/or data collection systems. For example, under a section titled 'Our conclusions',

Ernst & Young on their assurance statement on mmO<sub>2</sub>'s plc *Corporate Responsibility Report 2003*, say “[o]ur scope of work did not include the processes for gathering or reporting the various data presented in the Report and therefore we provide no assurance on the quality and accuracy of it”.

It was not usual for assurance providers to indicate reasons for the existence of such limitations. However, in a rare example of this, KPMG’s independent assurance report addressed to Anglo American plc on their *Report to Society 2003*, points out that “as Anglo is in the process of developing a measurement methodology for methane emissions from open cast coal mines in South Africa it is not in a position to have these emissions reviewed and accordingly we are unable to draw any conclusions on methane emissions data”.

Likewise, some assurance providers also presented an opinion that excluded unauditables aspects from the scope of the assurance assignment. Specifically, Bureau Veritas on their assurance statement in British American Tobacco’s plc *Social Report 2004/05* pointed out that they had excluded from the scope of their work information relating to: “activities outside the 2004/05 social reporting period; statements of commitment, or intention to undertake action in the future (except for British American Tobacco’s responses to the points raised in stakeholders’ dialogue); and statements of opinion, belief and/or aspiration”. Further, Bureau Veritas also emphasised that “the corporate reporting agenda is increasingly emphasising the ‘auditability’ of information. British American Tobacco should ensure that it can always provide information supported by adequate and relevant objective evidence and that its personnel incorporate the management of such information into business activity”.

It could be argued that the conclusion presented within the assurance statement is the key element of the statement and hence it is hoped that “the meaning to be attributed to the conclusion will be free of ambiguity” (Deegan *et al.*, 2006, p. 359). In the light of absence commonly accepted terminology for opinions, these take various forms (see section 5.6.5 for more details).

In the current study, opinions fall under any of three categories: first, opinions where no specific terms are used. In total 22 assurance statements (11% of the sample) have

specified no terms to be used in expressing the opinion.<sup>152</sup> For example, under a paragraph titled ‘Opinion and recommendations’, Casella Stanger on their external assurance statement on Liberty International’s plc *Corporate Social Responsibility Report 2003* conclude that “we continue to be impressed that Liberty International undertakes CSR related initiatives as part of its normal business activities ... the information and data that was collected and reviewed as part of Casella Stanger’s CSR audit process substantiate this”. Second, opinions were offered where one term is used; either in a single word (for example, data is accurate) or dual-structured term that may be expressed also in negative form (for example, the reporting system is accurate and reliable, or nothing has come to our attention that... is not materially misstated). Results show that 91 (46% of the sample) assurance statements fall into this category. Finally, opinions with more than one term being used (for example, the report is accurate, reliable, and presents a fair representation) were found in 83 assurance statements (42% of the sample). In these various forms, the assurance statements that contain a clear opinion used 47 different expressions with the terms; accurate (56 cases), fair and balanced (28 cases) and consistent (26 cases) being the most common terms used.<sup>153</sup>

Deegan *et al.*, (2006, p. 364) argue that “[i]n a reporting regime such as those in the UK and Europe, where the use of assurance providers, and the disclosure of their conclusions, is predominantly not required by law, then it is perhaps questionable whether management would be inclined to disclose conclusions that question the accuracy or completeness of the TBL reports”. They also suggest that “the reporting organisation might elect not to include a qualified assurance statement with its TBL report when the report is issued publicly”. In this study three assurance statements (1.5% of the sample) contained a qualified opinion. These three assurance statements were provided by consultancy firm (csrnetwork) to Railtrack Group plc, United Utilities plc in 2000; and British Airways plc in 2001. For example, csrnetwork in

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<sup>152</sup> In this category, there are 13 assurance statements in which a clear opinion was not provided. In some cases, assurance provider may indicate that the assurance engagement is not intended to convey an assurance opinion and, therefore, no specific terms are used. For example, PwC in their independent review report on Reckitt Benckiser’s plc *Environmental Report 2001*, state “[i]n preparing the findings below, we have not conducted an audit as defined in auditing standards, and we accordingly do not express an audit opinion” and they concluded with “on the basis of our review we are not aware of any material modifications that should be made to the information presented”.

<sup>153</sup> Details of these terms (frequencies, and their usage by different types of assurance provider) are available in section 5.6.5.

their verification statement on Railtrack's Group plc *Corporate Responsibility Report 2000/2001*, state that "some of our interviews revealed the existence of data and information in Railtrack's policies, performance and achievements, positive and negative, that are not fully reflected in the report ... the systems for collection of data for social and environmental performance as a whole are not robust in all areas". As a result, they concluded that "in our opinion the report therefore does not present a complete or balanced account of the social and environmental performance of Railtrack".

In conclusion, 93% of the assurance statements clearly presented an assurance opinion. In contrast with the financial statements audit traditions there are numerous terms being used by the assurance providers to express their opinions. In only a small number of cases was a qualified assurance opinion expressed, although a number of opinions explicitly noted limitations surrounding their opinions. In addition, the assurance statements contained two additional pieces of information: findings of various sorts and recommendations. It is to these two areas that attention now turns.

#### **6.2.4.2 Findings of the assurance engagement**

Data on the incidence of disclosure on shortcomings and weaknesses in assurance statements was captured under three headings: non-financial performance; reporting systems; and data collection systems and underlying processes and systems. Identification of weaknesses may assist assurance providers to present recommendations, as well as being linked to the opinion expressed in the assurance statement. Table 6.7 records the incidence of shortcomings and weaknesses disclosed in the assurance statements. O'Dwyer and Owen (2005, p. 221) point out that 54% of the assurance statements included in their study sample made specific reference to weaknesses in the reporting companies' "underlying systems, management practices, reporting procedures or overall performance". The most commonly areas in which weaknesses were noted in that study were underlying processes and systems (39% of the cases), followed by issues related to contents of the stand-alone report (34%) and the preparation process of the report (22%).

Weaknesses in reporting systems were the most commonly noted area of weakness with 46 (23% of the study sample) statements making specific reference to this type

of weaknesses. In total, 37 of these statements (30% of the consultancy sample) were provided by consultancy firms, whereas only 6 (13% of the accountancy sample), and 3 (11%) of these assurance statements were provided by accountancy firms and certification bodies respectively. See Appendix 9 for more details about the other aspects of the assurance dimensions.

**Table 6.7 Findings disclosed in the AS – frequencies for (2000-2004)**

| Item #                     | Description  |       |           |       |           |       |           |       |           |       |            |       |
|----------------------------|--|-------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|------------|-------|
| G.4                        | Shortcomings and weaknesses in the sustainability performance have been highlighted                  |       |           |       |           |       |           |       |           |       |            |       |
| G.5                        | Weaknesses in the reporting systems have been highlighted  |       |           |       |           |       |           |       |           |       |            |       |
| G.6                        | Weaknesses in the data collection systems and underlying processes and systems have been highlighted |       |           |       |           |       |           |       |           |       |            |       |
| Results - Year/Frequencies |  |       |           |       |           |       |           |       |           |       |            |       |
| Item #                     | 2000   |       | 2001      |       | 2002      |       | 2003      |       | 2004      |       | Overall    |       |
|                            | n  | %     | n         | %     | n         | %     | n         | %     | n         | %     | ∑n         | %     |
| G.4                        | -  | 00.00 | 5         | 15.62 | 5         | 11.90 | 9         | 19.14 | 4         | 07.84 | 23         | 11.73 |
| G.5                        | 6  | 25.00 | 8         | 25.00 | 13        | 30.95 | 9         | 19.14 | 10        | 19.60 | 46         | 23.46 |
| G.6                        | 4  | 16.66 | 4         | 12.50 | 12        | 28.57 | 9         | 19.14 | 10        | 19.60 | 39         | 19.89 |
| # n                        | <b>24</b>  |       | <b>32</b> |       | <b>42</b> |       | <b>47</b> |       | <b>51</b> |       | <b>196</b> |       |

(∑ n = 196)

In the same vein, 39 assurance statements (representing 20% of the study sample, in contrast with 39% in Ball *et al.*, 2000) addressed shortcomings and weaknesses in the data collection systems and other underlying processes and systems. In total, 30 (24% of the consultants sample) of these statements were provided by consultancy firms, against 5 (11%) and 4 (15%) statements provided by accountancy firms and certification bodies respectively.

There are two possibilities to interpret the lower level of disclosure of weaknesses and shortcomings in the assurance statements. First, it might be that the practice of reporting as well as supporting systems (data collection and other underlying systems) have improved over the time and hence disclosures of weaknesses will naturally decline. Second, there may be a reduced propensity to disclose shortcomings which is happening cannot be ascertained from this data.

An example of where weaknesses of the data collection systems are clearly articulated is provided by the accountancy firm PwC's LLP independent review statement to Reckitt Benckiser's plc *Environmental Report 2002*, where the assurance providers

(under a section entitled “Our findings”) state “[b]ased on the two sites visited, there are site level processes for the collection, review and reporting to Group of energy and fines and prosecutions data for discharges to water, atmospheric emissions and waste management. However, weaknesses were identified in site level controls for collating and reviewing energy and subsequent greenhouse gas emissions data reported by individual sites”.

The lowest level of disclosure of weaknesses and shortcomings related to the sustainability performance of the reporting companies where only 23 (11% of the sample) assurance statements made specific reference to instances of weaknesses. Almost 83% of these statements were provided by consultancy firms (15% of their sample). There was just one instance of an accountancy firm disclosing this particular weakness, specifically Ernst & Young LLP on their attestation statement to the BP’s plc on *Environmental and Social Review 2001*, where they state “on the basis of our review, in accordance with the terms of reference for our work, we conclude that: There is variation in regional and business unit implementation of the non-financial policies. For examples, we observed increased management effort on the Ethical Conduct Policy implementations in areas where the risks are perceived to be most significant. At some sites we observed that work had been undertaken to increase the proportion of local employees in the workforce, but not all visited sites had set formal targets relating to wider diversity issues”.

Where weaknesses or shortcomings were noted it was usual for assurance statements to contain recommendations of how improvements could be achieved. It is to these disclosures that attention now turns.

#### **6.2.4.3 Recommendations presented in the assurance statement**

AccountAbility (2003a, p. 24) emphasises that an assurance statement complying with AA1000AS should include additional commentary which could cover “[s]uggestions for improvements in the reporting organisation’s sustainability reporting, and their underlying processes, systems and competencies in the next cycle”. Furthermore, the IAASB (2006, p. 1057) assert that in addition to the basic elements, an assurance statement may contain recommendations. Providing recommendations within the assurance statement is deemed to ‘add-value’ from the assurance process for the

reporting company. This section of the study investigates the extent to which assurance providers present recommendations on the assurance statements and, if the do, what areas these recommendations are focused on. Data on seven different types of recommendations were gathered and Table 6.8 presents the frequencies of each type of recommendations.

**Table 6.8 Recommendations presented in the AS – frequencies for (2000-2004)**

| Item #                     | Description   |       |      |       |      |       |      |       |      |       |         |       |
|----------------------------|---|-------|------|-------|------|-------|------|-------|------|-------|---------|-------|
| G.7                        | Recommendations on the report's contents and it's preparation process are made  |       |      |       |      |       |      |       |      |       |         |       |
| G.8                        | Recommendations on sustainability performance made  |       |      |       |      |       |      |       |      |       |         |       |
| G.9                        | Recommendations on reporting systems and processes are made   |       |      |       |      |       |      |       |      |       |         |       |
| G.10                       | Recommendations on data collection systems and underlying processes and systems are made                                |       |      |       |      |       |      |       |      |       |         |       |
| G.11                       | Recommendations concerning the stakeholders are made  |       |      |       |      |       |      |       |      |       |         |       |
| G.12                       | Recommendations that the reporting company to adopt emerging best practice or standards (e.g. AA1000, and GRI) are made |       |      |       |      |       |      |       |      |       |         |       |
| G.13                       | Recommendations that the reporting company to quantify its objectives and targets are made                              |       |      |       |      |       |      |       |      |       |         |       |
| Results - Year/Frequencies |   |       |      |       |      |       |      |       |      |       |         |       |
| Item #                     | 2000  |       | 2001 |       | 2002 |       | 2003 |       | 2004 |       | Overall |       |
|                            | n   | %     | n    | %     | n    | %     | n    | %     | n    | %     | Σn      | %     |
| G.7                        | 6   | 25.00 | 5    | 15.62 | 14   | 33.33 | 11   | 23.40 | 17   | 33.33 | 53      | 27.04 |
| G.8                        | 6   | 25.00 | 7    | 21.87 | 12   | 28.57 | 10   | 21.27 | 11   | 21.56 | 46      | 23.46 |
| G.9                        | 11  | 45.83 | 12   | 37.50 | 14   | 33.33 | 14   | 29.78 | 25   | 49.01 | 76      | 38.77 |
| G.10                       | 7   | 29.16 | 8    | 25.00 | 7    | 16.66 | 14   | 29.78 | 13   | 25.49 | 49      | 25.00 |
| G.11                       | 4   | 16.66 | 5    | 15.62 | 11   | 26.19 | 15   | 31.91 | 20   | 39.21 | 55      | 28.06 |
| G.12                       | 2   | 08.33 | 2    | 06.25 | 2    | 04.76 | 1    | 02.12 | 1    | 01.96 | 8       | 04.08 |
| G.13                       | -   | 00.00 | 2    | 06.25 | 5    | 11.90 | 3    | 06.38 | 4    | 07.84 | 14      | 07.14 |
| # n                        | 24  |       | 32   |       | 42   |       | 47   |       | 51   |       | 196     |       |

(Σ n = 196)

The results show that the aspect where a recommendation is most frequently offered relates to reporting systems and processes (39% of the sample), followed by recommendations related to the stakeholders (28%), contents of the stand-alone report and its preparation process (27%), and data collection systems along with other underlying processes and systems (25%). Consultancy firms are more likely to provide recommendations in these areas rather than accountants or certification bodies. See Appendix 9 for more details.

It seems to be the case that accountants tend to provide an assurance opinion alone without adding recommendations. An example of an accountancy firm providing detailed recommendations regarding the data collecting and reporting systems was

PwC LLP in their Independent Review to J Sainsbury's plc *Environment Report 2002*, where they point out that "further work is required to strengthen the framework for gathering and reporting environmental information from Group business including, for example: developing of a detailed, comprehensive and consistent set of Group-wide environmental reporting guidelines including roles and responsibilities, definitions, conversion factors, calculation methods and internal review procedures to improve the consistency, accuracy and completeness of information reported by Group businesses". Another example where a recommendation relating to stakeholders is articulated is found in PwC's independent external review to BG Group's *Social and Environment Report 2001*, where they confirmed that, further work is required in "development of a systematic Group-wide approach to engaging with relevant stakeholders groups to confirm the material social issues for the BG and communication of the results of this engagement in future reports".

O'Dwyer and Owen (2005, p. 221) found that in all assurance statements (except one) where weaknesses identified in the sample of their study, some form of recommendation for improvement was provided. In this study, while less than 12% of the assurance statements refer to weaknesses in non-financial performance for example, the proportion of assurance statements in which recommendations provided in this area is 23%. This was also the case for the other two areas where weaknesses identified. Table 6.9 illustrates the links between weaknesses and recommendations in this study.

**Table 6.9 Weaknesses versus recommendations provided in the AS**

| Area/aspect                                  | Percentage of the assurance statements where |                          |
|--|--|--------------------------|
|  | Weaknesses identified                        | Recommendations provided |
| Non-financial (sustainability) performance   | 11.70%                                       | 23.46%                   |
| Reporting systems and processes              | 23.46%                                       | 38.77%                   |
| Data collection systems underlying processes | 19.89%                                       | 25.00%                   |

( $\Sigma n = 196$ )

In addition, 14 assurance statements (7% of the sample) provided recommendations vis-à-vis quantifying the reporting companies' objectives and targets, and eight statements (4%) recommended that reporting companies adopt emerging best practices and initiatives. For example, LRQA's verification statement to BT's web-based *Social and Environmental Report 2001*, states that "the following areas are

suggested for future improvements: ... continue to extend the use made of GRI Guidelines in determining what is to be reported and how”.

In general, assurance providers couch their recommendations in fairly general terms (see also, O’Dwyer and Owen, 2005). In few occasions in this data set, however, assurance providers created a link between observations and recommendations. An example is articulated in Casella Stanger’s external verification statement to Legal & General’s plc *Interim Environmental Report 2002*, where they point out that “[o]bservation: Legal & General established a target for removal of Halon 1301 from sites which has not proven to be achievable during 2001, but will be completed in 2002. Recommendation: Legal & General should ensure that realistic timescales are set for targets which take into consideration the operational difficulties and cost implications of some strategies”.

In addition, in a number of cases assurance providers point to a separate report that contains observations and recommendations which has been delivered directly to the reporting company. The contents of such reports are not publicly obtainable, which mirrors the financial audit letter to management as well as illustrating the managerial focused nature of some assurance practices. An example of this was provided in PwC’s verification statement on J Sainsbury’s plc *Environment Report 2000*, where the assurance providers say “during the verification process, we made a number of observations and recommendations on the reporting process and the wider development of environmental management at J Sainsbury plc, which we reported to management”.

In summary, the provision of recommendations in assurance statements follows a mixed pattern with no specific trends evident over the period of the study. Whilst the proportion of assurance statements in which recommendations in particular areas (such as data collection systems, and adoption of initiatives and guidelines) has slightly declined during the years 2002-2004, the proportions of statements that include recommendations related to other areas (such as stakeholders, and report’s contents) have witnessed an increase. It may be the case that an increasing proportion of assurance statements containing recommendations (particularly for stakeholders) are influenced by the use of assurance standards that emphasise stakeholders’ involvement. For example, 24 assurance statements (of those 55 statements where

recommendations related to stakeholders' issues included) were prepared using AA1000AS (alone or accompanied with other assurance standards such as ISAE3000 and ISO) and thus, it could be argued that the use of a particular standard for assurance may be associated with particular types of recommendations. A lack of direct knowledge of whether or not recommendations should be made, however, limits the ability to make definitive conclusions in this area (see also section 6.4.2.4).

### **6.3 Results of the content analysis**

This section presents the results of the content analysis of the assurance statements that focused on the space devoted to various elements in the assurance statement. The aim of the investigation was to study the evolution of the assurance statements' structure over the period of the study. Different approaches to content analysis (e.g. number of words, sentences, or percentage of pages) have been widely used by numerous accounting researchers to explore non-financial (namely social and environmental) disclosure in annual reports and accounts (see for example, Abbott and Monsen, 1979; Guthrie and Parker, 1990; Zéghal and Ahmad, 1990; Gray *et al.*, 1995a; Gary *et al.*, 1995b; Deegan and Rankin, 1996; Milne and Adler, 1999; Moneva and Llana, 2000; Gray *et al.*, 2001).

Gray *et al.*, (1995b, p. 83) argue that there are two ways to conduct the content analysis: the number of disclosure and the amount of disclosure. In respect of the units used to perform a content analysis, Gray *et al.*, (1995b, p. 83) argue that words, sentences, and pages are possible units of analysis in the written communications. Sentences are the preferred unit of the analysis if "one is seeking to infer meaning" (Gray *et al.*, 1995b, p. 84). In contrast, the page is preferred as a unit to reflect "the amount of total space given to a topic and, by inference, the importance of that topic" (Gray *et al.*, 1995b, p. 84).

Previous studies in the area of assurance of the corporate stand-alone reports have used content analysis (namely simple counts of the investigated variables) to gather data from assurance statements (see for example, Ball *et al.*, 2000; Kamp-Roelands, 2002; Wilson, 2003). In this study, semantical and sign-vehicle content analysis approaches (Krippendorff, 2004) were employed together to make inferences and

determine space devoted to specific aspects in the assurance statements (details of the content analysis approaches are available in section 4.5).

To explore the contents of the assurance statements two forms of content analysis were considered in this study. First, the amount of space taken by assurance statements was gathered as measured by the page length of assurance statement. Additionally, a content analysis framework has been used to measure the percentage of assurance statement devoted to each of the assurance aspects (such as, responsibilities of the two parties, scope, methodology, and recommendations). Results of these two forms of analysis are presented in the next two sub-sections.

### 6.3.1 Number of pages of the assurance statement

KPMG (2005, p. 35) argue that the form and the content of assurance statements have changed during recent years with longer reports becoming common. It could be assumed that larger assurance statements could make assurance process more transparent to users. Furthermore, CPA Australia (2004, p. 9) indicate that most of the assurance statements they examined range from a paragraph to a page in length. In the current study the length of the assurance statements was measured by using the following scales: less than one page; one page only; two pages; and more than two pages and Table 6.10 summaries the incidence in each of these categories.

**Table 6.10 Number of pages of the assurance statements for the years 2000-2004**

| Number of pages        | Number of AS issued in the year |           |           |           |           | Total      | %            |
|------------------------|---------------------------------|-----------|-----------|-----------|-----------|------------|--------------|
|                        | 2000                            | 2001      | 2002      | 2003      | 2004      |            |              |
| Less than one page     | 7                               | 6         | 4         | 9         | 5         | 31         | 15.8         |
| One page               | 13                              | 20        | 29        | 25        | 27        | 114        | 58.2         |
| Two pages              | 4                               | 4         | 6         | 7         | 15        | 36         | 18.3         |
| Three pages or more    | -                               | 2         | 3         | 6         | 4         | 15         | 7.7          |
| Average length of AS * | 1.02                            | 1.16      | 1.24      | 1.31      | 1.42      | -          | -            |
| <b>Total no. of AS</b> | <b>24</b>                       | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> | <b>196</b> | <b>100.0</b> |

\* This percentages have been calculated assuming that category of 'less than one page' = 0.5 page, and there was a statement in 2004 in a four pages format while the other statements in this category were in three pages format.

The pattern of disclosure in Table 6.10 indicates that the majority of the assurance statements (58%) are one-page statements. The most notable trend in this data, however, is the increase in assurance statements taking the two-page format (rising from 4 statements (17%) in 2000 to 15 statements (29%) in 2004). Only 15 assurance

statements (7.7%) were more than two pages in length. In addition, between 2000 and 2004 there was a change in the average length of assurance statements with the average length of the statement in 2000 being 1.02 pages and the average length in 2004 being 1.42 pages. Moreover, the proportion of assurance statements in less than one page format declined from 29% in 2000 to 10% in 2004. Table 6.11 shows the length of assurance statements categorised by assurance providers.

**Table 6.11 Assurance statement length by type of the AP for (2000 and 2004)**

| Number of pages    | Number of assurance statements issued <sup>a</sup> |           |          |                 |           |           |          |                  |
|--------------------|--|-----------|----------|-----------------|-----------|-----------|----------|------------------|
|                    | 2000   |           |          |                 | 2004      |           |          |                  |
|                    | Acc  | Cons      | Cert     | Total (%)       | Acc       | Cons      | Cert     | Total (%)        |
| Less than one page | 2  | 5         | -        | 7 (29%)         | -         | 5         | -        | 5 (10%)          |
| One page           | 6  | 4         | 3        | 13 (54%)        | 6         | 19        | 2        | 27 (53%)         |
| Two pages          | -  | 4         | -        | 4 (17%)         | 3         | 9         | 3        | 15 (29%)         |
| Three pages-more   | -  | -         | -        | -               | 1         | 2         | 1        | 4 (08%)          |
| <b>Total</b>       | <b>8</b>   | <b>13</b> | <b>3</b> | <b>24(100%)</b> | <b>10</b> | <b>35</b> | <b>6</b> | <b>51 (100%)</b> |

<sup>a</sup> Acc: accountants; Con: consultants; Cert: certification bodies.

### 6.3.2 Results of the content analysis framework

The IAASB (2006, p. 1056) does not require a standardised format for reporting on all assurance engagements because assurance statements are tailored to the specific circumstances of the engagement. For example, they state that an assurance provider may choose to report the assurance engagement in a ‘short form’ or ‘long form’ style of assurance reporting “to facilitate effective communication to the intended users” (IAASB, 2006, p. 1057).<sup>154</sup> Whether a short or long format of assurance statement is selected, assurance provider may “use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report” (IAASB, 2006, p. 1057). Although the expanded format of the assurance statement may create a more transparent assurance process (depending on the contents disclosed), “accessibility of the assurance disclosure might be negatively affected, as the increasing length of the assurance statement may also lead to more statements only being published in full on the reporting company’s web site rather than in the printed ‘stand-alone’ report” (KPMG, 2005, p. 35).

<sup>154</sup> The ‘short-form’ statements include only the basic elements which were identified in the ISAEs, while the ‘long-form’ statements ordinarily describes in detail “the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement and, in some cases recommendations , as well as the basic elements” (IAASB, 2006, p. 1057).

In the current study a content analysis framework was designed to measure the percentage of a page devoted to specific elements covered by the assurance statement (Gray *et al.*, 1995b; Milne and Adler, 1999). A transparent sheet (A4-size) consisting of 100 squares was employed to quantify contents of each page (details of the content analysis framework used in this study is available in section 4.6.2.). The measurement process focused only on the textual part of the assurance statement with empty spaces and margins of the page being excluded from the analysis. It should be also noted that the items investigated in this section (as shown below) were induced from the assurance statements themselves. As a result, the data in Table 6.12 is based on the presence of, and the space devoted to, various elements related to assurance. Items in this table are ordered according to the order in which they are presented in the assurance statements.

The results demonstrate that a wider range of topics were disclosed in 2003 and 2004 compared to the years before 2002. New aspects of assurance practice (such as, materiality, completeness, level of assurance, and independence and competencies of the assurance provider) emerged over this time. Table 6.12 also suggests that there is relative homogeneity in assurance statements in terms of the space devoted to assurance methodology and assurance opinion (accounting for an average of 8.88% and 5.89% respectively). Despite the slight decrease in percentage of a page devoted to methodology during the period, this category remained largest element disclosed in the assurance statements followed by opinion/conclusion and recommendations. The use of separate sections devoted to the methodology and opinion would appear to provide a clear indication that the assurance providers consider that the methodology (as an evidence-gathering approach) and opinion are of key importance to the users of the assurance statements. MacArthur (1988, in Deegan and Rankin, 1996, p. 56) noted that one of the assumptions of content analysis is that the significance of a disclosure is assumed to be linked to the quantity of disclosure.

Although the commentary section lags behind the sections of methodology and opinion in terms of the spaces devoted to it, the results suggest that one of the most distinct trends has been an increase in space devoted to comments/commentary (which was increased from 2.46% in 2000 to 4.48% in 2004).

**Table 6.12 Contents of the assurance statements for the years 2000-2004**

| Sections/aspects included in the assurance statement | Average percentage of page (%) devoted to each aspect <sup>a</sup> |           |           |           |           |
|--|--|-----------|-----------|-----------|-----------|
|  | 2000   | 2001      | 2002      | 2003      | 2004      |
| Title of assurance statement                         | 2.13   | 2.19      | 2.00      | 1.70      | 2.27      |
| Addressee/address of the company                     | 0.58   | 0.56      | 0.45      | 0.26      | 0.10      |
| Introduction by the reporting company                | 1.13   | 1.53      | 0.43      | 0.81      | 0.45      |
| Introduction by the assurance provider               | 0.83   | 1.13      | 0.98      | 1.11      | 1.27      |
| Objectives of assurance                              | 4.17   | 4.28      | 3.12      | 2.74      | 2.31      |
| Responsibilities of the two parties                  | 0.71   | 1.44      | 1.50      | 1.66      | 2.02      |
| Scope  | 3.30   | 4.06      | 2.33      | 3.36      | 3.49      |
| Methodology  | 10.13  | 10.91     | 7.83      | 8.32      | 7.22      |
| Findings   | 1.00   | 1.59      | 1.45      | 2.55      | 2.35      |
| Completeness   | -  | -         | 0.52      | 1.72      | 2.14      |
| Materiality  | -  | -         | 0.14      | 0.87      | 1.24      |
| Responsiveness                                       | 0.12   | -         | 0.07      | 1.02      | 1.10      |
| Opinion/Conclusion                                   | 8.71   | 5.37      | 5.38      | 5.19      | 4.80      |
| Observations/Notes                                   | 0.12   | 1.56      | 2.83      | 0.49      | 0.61      |
| Comment/Commentary                                   | 2.46   | 2.91      | 3.57      | 3.30      | 4.48      |
| Recommendations                                      | 7.08   | 5.09      | 5.21      | 3.98      | 4.20      |
| Level of assurance                                   | -  | 0.12      | -         | 0.11      | 0.24      |
| Limitations of the process                           | 0.21   | 0.91      | 0.71      | 1.13      | 0.71      |
| Areas of progress since last year                    | -  | 0.28      | 0.55      | 0.11      | 0.61      |
| Standards used/ Basis of opinion                     | 1.12   | 0.78      | 0.90      | 1.30      | 1.16      |
| Additional information                               | 0.63   | 0.56      | 1.00      | 0.53      | 0.56      |
| Pictures and figures                                 | -  | 0.22      | 1.86      | 0.96      | 0.90      |
| Independence/Competencies                            | -  | 0.13      | 0.30      | 1.02      | 1.20      |
| Name, date, signature                                | 4.54   | 3.53      | 3.50      | 3.21      | 2.60      |
| Response from the reporting company                  | 0.42   | -         | 0.24      | 0.42      | 0.65      |
| Margins and empty spaces                             | 50.61  | 50.85     | 53.13     | 52.13     | 51.32     |
| Total (%)  | 100.00   | 100.00    | 100.00    | 100.00    | 100.00    |
| <b>Total number of the AS</b>                        | <b>24</b>  | <b>32</b> | <b>42</b> | <b>47</b> | <b>51</b> |

( $\Sigma n = 196$  cases). <sup>a</sup> The average percentage of each aspect/section in the year X = all space (squares) devoted to the aspect in all statements issued in the year X divided by number of the assurance statements provided in the year X. Highlighted cells in this table are related to aspects that achieved high incidence within the assurance statements examined.

Of all the assurance statements provided in 2004, 16 (31%) contain a section addressing the issue of completeness (with an average 2.14% of the page). Additionally, 13 (25%) of the statements also had a section devoted to the issue of materiality (with an average 1.24% of the page). Such developments may be caused by a trend of employing newly released standards in the area of assurance of corporate stand-alone reports (namely AA1000AS which was issued in 2003). This provides evidence of the impact of standard setting processes on the development of assurance.

In addition to the variation of the assurance statements' volume indicated earlier, there was still considerable variation in format and type of information provided in

the assurance statements (as indicated in Table 6.12), which “may not improve accessibility to any but the most dedicated users” (KPMG, 2005, p. 35). Even if a generally accepted assurance framework is approved, it seems from the data presented here that standardisation of the assurance statements content is still to be achieved.

In terms of paragraphs found in the assurance statements, assurance providers tend to use headings to identify different aspects of assurance process (IAASB, 2006). Results of the current study indicate that using of the headings by the assurance providers was constant over the period of the study (75% of the statements provided in 2000 included headings against 78% in 2004). Accountants are more likely to use headings in their assurance statements (specifically in 2003 and 2004) rather than consultants and certification bodies. To show the extent to which has the assurance statement’s form has changed over the years of the study, Appendix 10 presents typical accountancy – provided assurance statements in the years 2000 and 2004 for a single company. This provides a glimpse into the changing form of the assurance statement.

#### **6.4 Results of the statistical analysis**

This element of the study presents the results of the statistical analysis of disclosures in the assurance statements. The aim of this section is to investigate whether any relationships exist between a number of independent variables and dimensions of the assurance process. This section of the study addresses the following research question: which factors appear to be associated with the assurance process (as disclosed within the assurance statements)?

Previous literature suggests that corporate disclosures (either in the annual reports or in the stand-alone reports) are mainly associated with: company size and industry (see for example, Hackston and Milne, 1996; Adams *et al.*, 1998; Gray *et al.*, 2001). In the context of assurance of stand-alone reporting, Wilson (2003) examined the degree to which assurance statements’ contents conformed with the FEE (2002) template. Wilson (2003) asserts that relationships exist between a group of variables (country of reporting; industry; type of the assurance provider; and type of the report) and

components of the assurance statement (as proposed in FEE 2002 template)<sup>155</sup> such as: title of the statement; objective of the engagement; identification of the AP and the RC responsibilities; identification of criteria; providing an assurance opinion; and dating the assurance statement.

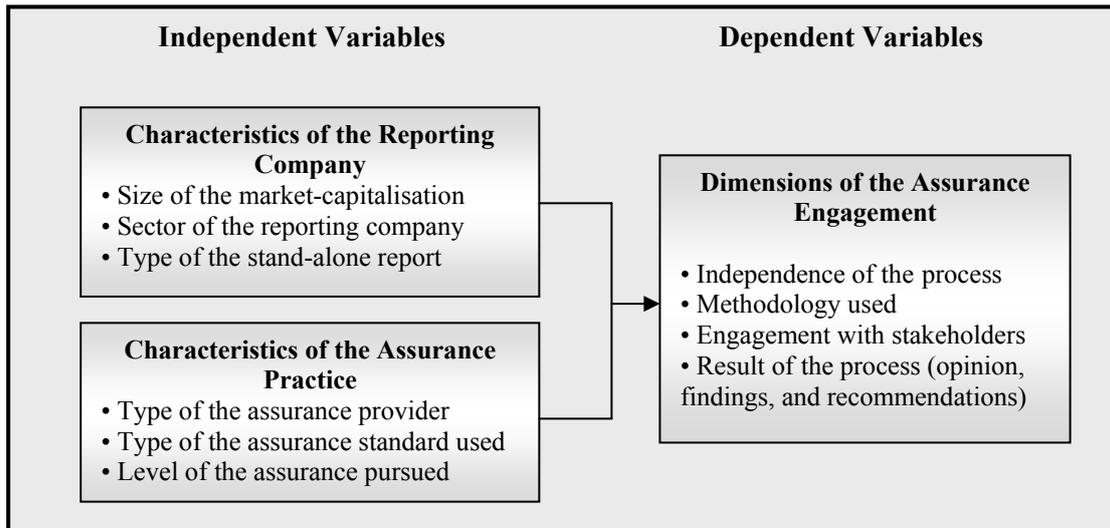
In contrast to Wilson (2003), the current study investigated relationships that relate to the procedural dimensions of the assurance process rather than to content of a professional standard. Additionally, the current study considers six independent variables that relate, not only to the characteristics of the reporting company, but also to the assurance practice itself. The current study proposes that the content of the assurance statement (which reflects dimensions of an assurance engagement) may be influenced by a number of factors. Such factors relate to: characteristics of reporting company (size, sector), type of stand-alone report; and characteristics of the assurance practice (type of the assurance provider, type of standards used and level of assurance pursued). These are the independent variables. Tests of association were conducted between these variables and dimensions of the assurance engagement. For the purpose of the current study the assurance engagement is classified into four dimensions (as measured by the study instrument): independence of the assurance provider; methodology used; engagement with stakeholders; and results of the assurance engagement (opinion/conclusion, findings and recommendations presented in the assurance statement). Figure 6.1 summarises the relationships being tested.

#### **6.4.1 Framework for hypotheses development and statistical analysis**

To investigate whether or not the proposed factors influence the content of the assurance statements, the current study develops four hypotheses (related to the four dimensions of the assurance process) aimed at investigating associations between those six variables identified above and the content of the assurance statements. Details of these hypotheses are available in section 6.4.2. Before presenting the results of the hypotheses testing, it is relevant to explore the structure of the hypotheses and the statistical tools being employed to carry out the statistical tests.

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<sup>155</sup> These components include (FEE, 2002, pp. 55-56): title; addressee; description of objective; identification of the subject matter; statement to identify the responsible party and the practitioner responsibilities; identification of the parties to whom the assurance statement is restricted; standards under which the engagement was conducted; the practitioner's conclusion; statement date; the name of the firm or the practitioner; and place of issue the assurance statement.



**Figure 6.1 Proposed independent variables and dimensions of the assurance process**

#### 6.4.1.1 Developing the research hypotheses

A hypothesis is regarded as a “statement of the empirical relationship between a set of variables” (Ryan *et al.*, 2002, p. 130). Theories are usually the source of hypotheses formulation, but making predictions of possible relationships among variables is also source of hypotheses formulating (Chrstitensen, 1988, p. 98). Anderson *et al.*, (2003, pp. 351-352) argue that there are three main steps of hypothesis testing, including: development of the null and alternative hypotheses; specification the level of significance ( $\alpha$ ); and selecting the test statistic that will be used to test the hypotheses (Anderson *et al.*, 2003).

There are two main types of research hypotheses: the null hypothesis ( $H_0$ ) and the alternative hypothesis ( $H_a$ ).<sup>156</sup> For the purpose of the current study the influence of a group of factors (the six independent variables) on the content of the assurance statement is being investigated. The hypotheses (null and alternative) are therefore the same for each test that relates to each of the investigated factors. Thus, one-form of the research hypotheses are developed as follow:

<sup>156</sup> The null hypothesis ( $H_0$ ) could be defined as a “maintained hypothesis that is held to be true until sufficient evidence to the contrary is obtained”, whereas the alternative hypothesis ( $H_a$ ) is defined as a “hypothesis against which the null hypothesis is tested and which will be held to be true if the null is held false” (Newbold, 1991, p. 352).

*H<sub>0</sub> = There is no significant statistical relationship between the independent variable being tested and the investigated dimension of the assurance process*

*H<sub>1</sub> = There is a significant statistical relationship between the independent variable being tested and the investigated dimension of the assurance process*

#### **6.4.1.2 Statistical tests used in the study**

Statistical testing is related primarily to determining whether enough statistical evidence exists to enable the researcher to conclude that a belief or hypothesis about a parameter is supported by the data (Keller, 2005, p. 326). In general, the process of choosing an appropriate statistical test depends upon: the research question, the design of the research, and the type of the data being analysed (Kinnear and Gray, 2000, p. 6). All data (including any measured variables) can be classified as one of the two general types: quantitative data and qualitative data. To be more specific, such data would be classified into four sub-classifications: interval, ratio, nominal, and ordinal data (McClave *et al.*, 2005, p. 16).

As indicated above, the research questions investigate the possible association between a group of independent variables and content of the assurance statements. There are various statistical tools applicable to test such relationships. Selecting an appropriate statistical test depends primarily on the nature of the data being tested (whether this data is normally distributed or not). Cramer (1997, p. 79) argues that the extent to which a set of data deviates from a normal or ‘bell-shaped’ distribution (the standard normal distribution is one with a mean of 0 and standard deviation of 1) is estimated by two statistical tests called Skewness and Kurtosis.<sup>157</sup> The results of these two ‘normality-tests’ confirmed that almost all of the data related to the dependent variables were not normally distributed (see Appendix 11). As a result, nonparametric tests are used in testing the hypotheses.

In general, and for the cases (like the current study), where all variables (either independent or dependent) are qualitative variables, and where most of the measured variables result in one of two responses (such as, yes or no), the data (the counts) can

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<sup>157</sup> Skewness is defined as “a measure of the extent to which the distribution is not symmetrical”, while Kurtosis is “an index of the degree to which there are either too many or too few cases in the middle of the distribution” (Cramer, 1997, p. 79).

be analysed using the binominal probability distribution (known as Testing Category Probabilities: One-Way Table) which take the following general form:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where: O = observed value, and E = expected value

On the other hand, qualitative variables (usually result from multinomial experiment) that allow for more than two categories for a response must be analysed using different method - known as Testing Category Probabilities: Two-Way ‘Contingency’ Table (McClave *et al.*, 2005, p. 644). For nominal data (like that in the current study), the chi-square statistics ( $\chi^2$ ) is used for determining the presence of an association between two variables (Kinnear and Gray, 2005, p. 307). Given that the independent variables used have more than two sub categories (multinomial count data classified on two scales) and where preparing contingency table is enabled for each variable, the most appropriate statistical test in this case is the Contingency Table Analysis [Chi-Square ( $\chi^2$ )] (McClave *et al.*, 2005, p. 659).<sup>158</sup> Taking in account the conditions required for a valid ( $\chi^2$ )-Test<sup>159</sup>, the general form of the Contingency Table Analysis (hereafter Chi-Square or  $\chi^2$ ) is contained in Figure 6.2.

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<sup>158</sup> Chi-Square test takes its name from the Greek letter  $\chi$  (pronounced “Kye”). Depending on the relationships being investigated, there are different types of Chi-Square tests might be used, such as: Pearson’s chi-square; Chi-square goodness-of-fit test; Likelihood ratio chi-square; and Mantel-Haenszel chi-square test. Chi-square goodness-of-fit is a test usually used to “test if any observed distribution conforms to any other distribution”, such as testing conformity of observed values to theoretical distribution ([http://www.statisticssolutions.com/Chi\\_square\\_test.htm](http://www.statisticssolutions.com/Chi_square_test.htm), date of retrieval 18 February 2007).

<sup>159</sup> To conduct a valid Chi-Square-Test: Contingency Table, two main conditions need to be fulfilled: (i) the (n) observed counts are a representative (random) sample from population of interested, and (ii) the sample size (n) is large enough, so that, for every cell the expected count ( $E_{ij}$ ), should be equal to 5 or more (McClave *et al.*, 2005, p. 660). The representativeness of the current research sample (n = 196) from the original population (500 FTSE entries) has been calculated by chi-square goodness-of-fit test. Two measures were used to conduct these tests: size of the market capital (chi-square = 42.73; df = 2; p value = <0.0001), and sector of the reporting company (chi-square = 58.73; df = 7; p value = <0.0001). Results of these tests suggest that the sample fits the population of the study, hence, results of the research can be generalised to the set of population.

$H_0$ : The two classifications (variables) are independent  
 $H_a$ : The two classifications (variables) are dependent

Test statistic:  $\chi^2 = \sum \frac{[n_{ij} - E_{ij}]^2}{E_{ij}}$

Where:  $E_{ij} = \frac{R_i C_j}{n}$

$R_i$  = total for row  
 $C_j$  = total for column  
 $n$  = sample size

Rejection region:  $X^2 > X^2_{\alpha}$  where  $X^2_{\alpha}$  has  $(r-1)(c-1)$  df.

Source: Adapted from McClave *et al.*, (2005, p. 660)

**Figure 6.2 The general form of chi-square ( $\chi^2$ ) test - (Contingency Table Analysis)**

In testing the research hypotheses there are two ways (always give the same results) to perform this work: using the test statistic or using the p-value.<sup>160</sup> The later approach (which is also called the observed level of significance)<sup>161</sup> is based on a probability called p-value. Assuming that the null hypothesis is true; the p-value is the probability of obtaining a sample result that is at least as unlikely as what is observed (Anderson *et al.*, 2003, p. 348). The current study uses the Chi-Square as a statistical tool and the p-value approach to test the research hypotheses at 5% ( $\alpha = .05$ ) level of significance.

All statistical tests have been carried out using techniques available within the Statistical Package for the Social Sciences (SPSS 10/2000). The ‘Pearson’s Chi-Square’ within the SPSS tests the hypothesis that the row and column variables in the table are independent. The lower the ‘Asymp. Sig.’ value the less likely it is that these two variables are independent and this would cause the null hypothesis to be rejected.

The chi-square test is unable to measure the strength of the association between the variables. To compensate for this, several measures of strength of association for

<sup>160</sup> In the large-sample case with the population standard deviation ( $\sigma$ ) assumed known; test statistic could be used if the sampling distribution is a standard normal probability distribution (Anderson *et al.*, 2003, p. 347).

<sup>161</sup> Newbold (1991, p. 352) defines the significant level as “the probability of rejecting a null hypothesis that is true”. This probability is sometimes expressed as a percentage, so a test of significance level  $\alpha$  is referred to as a 100%  $\alpha$  -level test (Newbold, 1991, p. 352).

nominal data have been proposed such as: phi coefficient; Cramér's V; and Goodman & Kruskal's lambda (Cramer, 1997; Anderson *et al.*, 2003; McClave *et al.*, 2005). One measure of association strength, for example, is the phi coefficient ( $\phi$ ), obtained by dividing the value of chi-square by the total frequency and taking the square root (Cramer, 1997, p. 251). For two – way contingency tables involving variables with more than two categories another statistic (Cramér's V) is preferred because with more complex tables Cramér's measure (unlike the phi coefficient) can still achieve its maximum value of unity in the 2 by 2 case (Kinnear and Gray, 2005, p. 308). In the current study in all investigated cases contingency tables are greater than 2 X 2. Therefore, Cramér's V is considered a measurement scale of the strength of the association between the investigated variables. Cramér's V takes the following formula (Cramer, 1997, p. 253):

$$V = V(X, Y) = \sqrt{\frac{\chi^2}{n \min(M - 1, N - 1)}}$$

Some of the assumptions underlying the chi-square test are questionable especially in small sample cases. As a result, statisticians commonly suggest a rule of thumb that all expected frequencies be at least 5 in order for the chi-square test to be considered reliable (Kirkpatrick and Feeney, 2000, p. 103). In general, chi-square would be accepted as a valid test if its results fulfil two main conditions (Kinnear and Gray, 2005, p.311): (i) in the 2 X 2 tables, any of the expected frequencies are more than 5, and (ii) in larger tables, any of the expected frequencies are more than 1 or not more than 20% of frequencies for all cells are less than 5. As a rule, ( $\chi^2$ ) results would be invalid if; more than 20% of the table's cells have expected cell frequencies less than 5.<sup>162</sup>

In order to obtain valid results of ( $\chi^2$  - test) as much as possible, current study has applied the following rules:

1. Carry out a first-term calculation of ( $\chi^2$ ) for the whole set of data. All results with - an expected value in each cell > 1 and frequencies of the expected values (less than 5) are < 20% of all cells – were accepted.

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<sup>162</sup> If all or more than 20% of the expected frequencies have values less than 5, in some cases, results of chi-square might be accepted but such results should be interpreted with great caution (Kirkpatrick and Feeney, 2000, p. 103).

2. For the cells where expected value is too small due to low frequency of the observed count (for example, low frequency of the reporting companies observed under the independent variable 'sector/industry') a decision to collapse categories has been taken in relation to those variables where low frequencies were noted. For example, the variable for sector/industry has been collapsed from 23 to 7 categories. In the variable of 'type of assurance provider', frequency (1 entry) related to the 'non-profit' assurance provider has been excluded from the analysis as it is impracticable to add this entry to other type of the assurance providers.
3. After these two steps were undertaken and if there were any cells where the expected value was less than 5 for over 20% the cells, exact tests were carried out to obtain valid chi-square tests.

Overall, if none of the expected frequencies were less than 5, then 'asymptotic' p-values would be accepted. In other instances the 'exact' p-values, such as: 'Fisher's - Exact Test' in the case of 2 X 2 table, or 'Monte Carlo - Exact Test' in the case of multi r-c tables were relied upon (Kinnear and Gray, 2005, pp. 311-312). To obtain valid 'exact' p-values a series of tests have been carried out using techniques available within statistical package called "StatXact-7" (7.0.0/2005).<sup>163</sup> Results of these tests have been summarised within the tables included in the next section.

#### **6.4.2 Results of the hypotheses testing**

This element of the study seeks to examine whether or not the four measured dimensions (dependent variables) of the assurance process (independence, methodology, engagement with stakeholders, and result of the assurance process) are affected by a number of factors. Factors that may have an influence on the assurance process (as disclosed in the assurance statements) relate to, either the characteristics of the reporting company or the assurance practice itself. The rationales for these assumptions are now outlined in greater depth.

It is assumed that characteristics of the reporting company have an impact on its business environment which, in turn, depends on the size and extent of the business

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<sup>163</sup> During the period of performing the chi-square tests, Fisher's-exact coefficient was obtainable in the SPSS, whereas StatXact-7 has been used to calculate Monte Carlo's - exact coefficient.

operations as well as the degree of risk in which such business may experience (KPMG, 2005). The current study employs two independent variables to be used as ‘dummy variables’ in testing the research hypotheses: size of the market capital (as a way of measuring the size of the reporting company’s operations), and sector of the reporting company (as a variable representing type of the business risk). The type of stand-alone report (which reflects the stand-alone reporting policy of the reporting company) will also be used as an independent variable with this group of factors.

Additional factors related to assurance practice may also be influential in the assurance process. The current study employs three more independent variables to be used as dummy variables. These factors include: approach of the assurance (measured by the type of the assurance provider); standards used to govern the assurance practice; and degree of the risk related to the assurance engagement - represented by level of assurance pursued (IAASB, 2006).<sup>164</sup>

From this analysis, six factors have been identified as possible independent variables namely: industry; size of the company’s market capital; type of the stand-alone report; standards used; type of the assurance provider; and level of assurance. These six factors are used as independent variables to test whether or not there is a significant relationship between each of these factors and each item (separately) included within the four dimensions of the assurance engagement.<sup>165</sup> To facilitate the comparison between the proposed independent variables and the dimensions of the assurance engagement, results of the statistical test ( $\chi^2$ ’s p-value between two variables -  $\alpha = 0.05$ ) will be presented for the six independent variables versus each dimension of the assurance process separately. To explore these possible relationships, 246 Pearson’s chi-square tests (significance level = 0.05) were carried out to investigate whether or not there is a significant statistical relationship between each of the six factors

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<sup>164</sup> As indicated in section 2.3.3 (assurance levels), the IAASB (2006, p. 230) defines the assurance engagement risk as “the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated”. Level of assurance is determined according to the degree of the risk within the audit (assurance) process (limited level of assurance is being used in cases where assurance risk is high, whereas reasonable level of assurance is used in low risk cases – see IAASB, 2006).

<sup>165</sup> As a rule, a chi-square test should be performed on the data in its uncollapsed form (dependent variables). If the chi-square value achieved is significant then collapsing the categories to test subsequent refinements of original hypothesis is possible ([http://www.georgetown.edu/faculty/balle/webtools/web\\_chi\\_tut.html#collapsing](http://www.georgetown.edu/faculty/balle/webtools/web_chi_tut.html#collapsing), date of retrieval 16 July 2006).

identified above and each item included within each of the four dimensions of the assurance engagement.<sup>166</sup> Full results of the chi-square tests performed are available in Appendix 12.

#### 6.4.2.1 Independence of the assurance provider

To explore which of the six independent variables have a significant association with the independence of the assurance engagement, chi-square tests have been carried out to test the null and alternative hypotheses. The general form of null and alternative hypotheses for all tests related to this dimension is:

*H<sub>0</sub> = There is no significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within dimension of independence of the assurance provider*

*H<sub>1</sub> = There is a significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within dimension of independence of the assurance provider*

Table 6.13 presents the results of the Pearson's chi-square tests (summary of the p-values are provided).<sup>167</sup> Out of the 30 tests carried out within this dimension, 18 tests (60%) are statistically significant at the 0.05 sig. level. As a result, 12 of the null hypotheses are accepted (p value > 0.05), whereas 18 hypotheses are rejected (p value < 0.05).

In terms of the association between the two investigate variables, the results show that factors related to the exercise of assurance (namely standards used and level of assurance pursued) are more likely to be associated with disclosures that could be seen to relate to independence of the assurance engagement. In contrast, factors related to characteristics of the reporting company (such as sector, type of the stand-alone report and market capitalisation) are less significant. By looking at number of significant relationships (sig. p values) and strength of each relationship (Cramer's V

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<sup>166</sup> The number of the statistical ( $\chi^2$ ) tests depends on the number of investigated items in each dimension versus number of the independent variables being tested. Hence, the total number of the tests within each dimension was: 30 tests for the independence's dimension, 96 tests for the methodology's dimension, 42 tests for the engagement with stakeholders' dimension, and 78 tests for the results' dimension (findings, opinion/conclusion, and recommendations).

<sup>167</sup> Details of the chi-square results related to this and all other dimensions can be found in Appendix 12.

value)<sup>168</sup> the standards being used to govern the assurance process are the most significant and strongest factor among the six investigated factors. Factors such as, sector of the reporting company and type of the stand-alone report also have an influence which is bigger than influence of the other factors (namely type of the assurance provider, level of assurance, and size of the market capital).

**Table 6.13 P values of the Pearson's chi-square test – independent variables versus dimension of independence of the AP**

| Item #                 | Description  |         |           |         |         |
|------------------------|--|---------|-----------|---------|---------|
| D.1                    | Independence of the assurance process is explicitly asserted   |         |           |         |         |
| D.2                    | Separated responsibilities for both (the assurance provider and the reporting company) have been clearly determined                                |         |           |         |         |
| D.3                    | The assurance provider is required to comply with the independence requirements set out in specific professional guidelines (e.g. IFAC, ICAEW)     |         |           |         |         |
| D.4                    | It is explicitly stated that the assurance provider is not involved in preparing the assured report  |         |           |         |         |
| D.5                    | It is explicitly indicated that there is no financial or commercial relationship existing between the assurance provider and the reporting company |         |           |         |         |
| Independent variables  | Dependent variable: Independence of the assurance provider<br>P value (Asymp./Exact Sig. 2-sided) <sup>a</sup>                                     |         |           |         |         |
|                        | D.1  | D.2     | D.3       | D.4     | D.5     |
| Type of the standards  | 0.00025  | 0.00029 | 0.00118   | 0.00029 | 0.00029 |
| Level of assurance     | 0.077  | 0.000   | 0.0111    | 0.002   | 0.03667 |
| Sector of the RC       | 0.085  | 0.001   | 0.00933   | 0.000   | 0.1731  |
| Type of the AP         | 0.252  | 0.000   | 0.0007026 | 0.000   | 0.340   |
| Type of the S-A report | 0.02892  | 0.1329  | 0.07633   | 0.254   | 0.00029 |
| Size of the M-C        | 0.826  | 0.160   | 0.01658   | 0.546   | 0.482   |

[ $\Sigma n = 196$  - except factor of type of AP  $\Sigma n = 195$ , level of confidence = 0.95 - (Sig. level  $\alpha = 0.05$ )]

<sup>a</sup> In this table as well as in all forthcoming tables within this section (6.4.2) the highlighted cells represent significant relationships existed between the two variables. Furthermore, the independent variables in all tables are ordered according to number of the significant relationships existed between these variables and each item included within the four dimensions of the assurance process as well as strengthen of these relationships.

In relation to the investigated items within this dimension, complying with the independence requirements set out in specific professional guidelines, assurance provider's non-involvement in preparing the assured report, and disclosure of separate responsibilities for AP and RC<sup>169</sup> are the most strongly associated with independence disclosure. In contrast, indicating explicitly that the assurance process is independent

<sup>168</sup> As illustrated in Appendix 12.

<sup>169</sup> Item (D2), which is related to determining separate responsibility for both AP and RC is the most significant item within the independence dimension influenced by factor of standards (Cramer's  $V = 0.587$ ), followed by item (D5) which is also influenced by standards' factor (Cramer's  $V = 0.532$ ).

and that there is no financial or commercial existing between the two parties seems to be less significantly associated with the independent variables.

In short, it could be argued that disclosure of information related to the independence of the assurance engagement is affected most strongly by elements related to the assurance exercise, and especially the use of particular audit standards. Table 6.14 classifies the investigated factors according to their strength of association by aspects related to the independence of the assurance engagement.<sup>170</sup>

**Table 6.14 Factors associated with disclosures on the independence of the AP**

| <b>Factor</b>                     | <b># of Sig. relationships (<i>f</i>)</b> | <b>Key sub-categories that achieved significant results within this factor<sup>a</sup></b>   |
|-----------------------------------|---|--|
| <b>Standards</b>                  | 5   | Standards of: AA1000AS, mixed standards, the ISAEs   |
| <b>Level of assurance</b>         | 4   | Engagements without reference to level of assurance pursued, reasonable-level  |
| <b>Sector/industry</b>            | 3   | Sectors relate to: Non-cyclical services (food and drug retailers, telecommunication services), Utilities (electricity, utilities – Other) |
| <b>Type of assurance provider</b> | 3   | Assurance providers: certification bodies, accountants   |
| <b>Type of stand-alone report</b> | 2   | Stand-alone reports of: corporate responsibility, sustainability   |
| <b>Size of the market-capital</b> | 1   | Large – market capital   |

<sup>a</sup> Categories included here, are only those where significant relationship exists. Details of categories are available in Appendix 12.

#### **6.4.2.2 Methodology of the assurance process**

The next step of analysis was to investigate the extent to which disclosures on the methodology of the assurance process are associated with any of the six independent factors. Chi-square tests have been carried out to test the null and alternative hypotheses which search for an association between the six independent variables and items in the methodology dimension. The general form of null and alternative hypotheses for all tests related to this dimension is:

<sup>170</sup> Factors included in this table have been ordered in accordance with number of the significant relationships existing between each factor and the investigated items and strength of these relationships.

$H_0$  = There is no significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within dimension of methodology of the assurance process

$H_1$  = There is a significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within dimension of methodology of the assurance process

Within dimension of the methodology used, results of the analysis have been divided into two stages: pre-assurance procedures and assurance procedures. Table 6.15 summarises the results of the Pearson's chi-square tests (p values only) for the stage of the pre-assurance procedures. Of the 96 tests carried out within the methodology's dimension 30 tests relate to the pre-assurance procedures.

### Pre-assurance procedures

The results show that 14 tests (47%) are statistically significant at the 0.05 sig. level. As a result 16 of the null hypotheses are accepted (p value > 0.05), and 14 hypotheses are rejected (p value < 0.05). Table 6.15 summarises the results.

**Table 6.15 P values of the Pearson's chi-square test – independent variables versus dimension of methodology/pre-assurance procedures**

| Item #                          | Description   |        |           |         |         |
|---------------------------------|---|--------|-----------|---------|---------|
| <b>Pre-Assurance Procedures</b> |   |        |           |         |         |
| E.1                             | The assurance process has been planned  |        |           |         |         |
| E.2                             | Specific criteria to be used on the assurance process are clearly described                       |        |           |         |         |
| E.3                             | Purposes and objectives of the assurance process are clearly described                            |        |           |         |         |
| E.4                             | Scope of the assurance process has been clearly described   |        |           |         |         |
| E.5                             | The described assurance scope has been developed by the assurance provider                        |        |           |         |         |
| Independent Variables           | Dependent Variable: Methodology / pre-assurance procedures<br>P value (Asymp./Exact Sig. 2-sided) |        |           |         |         |
|                                 | E.1   | E.2    | E.3       | E.4     | E.5     |
| Type of the standards           | 0.0002995   | 0.1598 | 0.005109  | 0.01267 | 0.3091  |
| Type of the AP                  | 0.000   | 0.178  | 0.0002995 | 0.0421  | 0.3259  |
| Type of the S-A report          | 0.123   | 0.003  | 0.01468   | 0.04077 | 0.1493  |
| Level of assurance              | 0.000   | 0.379  | 0.4725    | 0.1107  | 0.01487 |
| Size of the M-C                 | 0.002   | 0.112  | 0.2015    | 0.06177 | 0.01026 |
| Sector of the RC                | 0.0001077   | 0.818  | 0.2382    | 0.1604  | 0.2605  |

[ $\Sigma$  n = 196 - except factor of type of AP  $\Sigma$  n = 195, level of confidence = 0.95 - (Sig. level  $\alpha$  = 0.05)]

The results suggest that the factors related to the assurance exercise (standards and type of the assurance provider) are more likely to be associated with disclosure of the

use of pre-assurance procedures.<sup>171</sup> This is in contrast to those factors related to the characteristics of the reporting company. The factor, type of the stand-alone report, also has a significant association with the disclosed items within the pre-assurance procedures stage (namely those reports entitled as: sustainability, and environmental, health & safety). Less significant relationships exist between other factors and disclosure of pre-assurance procedures.

In terms of the items investigated within this dimension, the results suggest that the activities of: planning the assurance engagement, describing the purposes and objectives of assurance, and describing the scope of the assurance engagement are, respectively, the most significant pre-assurance procedures associated with the independent variables.

In total there are five significant relationships between the six independent variables (except type of stand-alone report) and planning the assurance process. These relationships are varied in their strength, but it is worth noting that the level of assurance (which represents risk of the assurance engagement) is the strongest factor (Cramer's  $V$  value= 0.703) that planning of assurance process is associated with. Mulligan and Inkster (1999, p. 118) assert that auditors (namely the Big 4) tend to use more extensive analytical procedures in the planning stage, "as these procedures are important to highlight risk areas in order to adopt further testing procedures" and this finding would confirm this.

One of the key insights from this analysis relates to the criteria being used in the assurance engagement and involvement the assurance provider in developing the scope of the assurance engagement. In total only one significant relationship (Cramer's  $V = 0.351$ ) has been observed between describing specific criteria to be used in the assurance process and the type of the stand-alone report (with those assurance statements appeared with annual reports and accounts, sustainability, and social reports achieving the most significant incidences in this respect).<sup>172</sup> This result contrasts with Wilson (2003) who concluded that there is a relationship between

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<sup>171</sup> Within the standards factor, AA1000AS, GRI Guidelines and ISAEs have the most significant relationships. In respect of type of the assurance provider, accountants and certification bodies have the most significant relationships.

<sup>172</sup> It should be remembered here that six of the investigated assurance statements were attached to the Annual Report and Accounts of the reporting companies.

identification of the assurance criteria and factors of country, industry, type of the assurance provider, and type of the stand-alone report.

On the other hand, two significant relationships between assurance provider's involvement in developing scope of the assurance engagement and size of the market-capital (namely large and medium sized companies with Cramer's  $V= 0.216$ ) and level of assurance (Cramer's  $V= 0.215$ ) have been also observed. Although the latter result suggests that the assurance provider is involved in developing the scope of the engagements where the risk of the assurance is high, it seems that the assurance provider's role in developing the scope of the assurance is still limited. For example, it is apparent that scope may be decided by the reporting company (as only 9% of the assurance statements clearly indicated that the assurance provider has involved in developing the scope of the assurance process).<sup>173</sup> Such a result may suggest the absence of the principal's role in deciding the scope of the assurance process. As a result, the assurance engagement may be overly controlled by the (agent) reporting company (as suggested in Ball *et al.*, 2000, p. 18).

### **Assurance procedures**

The second level of analysis within dimension of the methodology used in the assurance engagement is concerned with the assurance procedures. In total 66 Pearson's chi-square tests have been carried out within this sub-dimension with 35 tests (53%) being statistically significant at the 0.05 sig. level. As a result, 31 of the null hypotheses are accepted ( $p \text{ value} > 0.05$ ) and 35 hypotheses are rejected ( $p \text{ value} < 0.05$ ). Table 6.16 illustrates the results of this part of the analysis.

Although standards are still the most significant factor among all investigated factors, the results this time suggest that the factors related to the characteristics of the reporting company (namely sector and type of the stand-alone report) also have an influence on disclosure of procedures used in the assurance engagement. Standards being used in the assurance engagement (namely the AA1000AS, GRI Guidelines and mixed standards) are the most significantly associated factor (with nine relationships),

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<sup>173</sup> Within pre-assurance procedures the results show that (15%) of the assurance statements provided by the certification bodies have indicated clearly that the assurance provider has been involved in developing scope of the assurance process, whereas this proportion was (11% and 7%) in the cases of accountancy firms and consultancies respectively.

followed by sector/industry of the reporting company (namely food and drug retailers, telecommunication services and utilities) and type of the stand-alone report (namely sustainability and environmental, health & safety).<sup>174</sup>

**Table 6.16 P values of the Pearson's chi-square test – independent variables versus dimension of methodology/assurance procedures**

| Item #                      | Description   |      |      |      |      |      |      |      |      |      |      |
|-----------------------------|---|------|------|------|------|------|------|------|------|------|------|
| <b>Assurance Procedures</b> |   |      |      |      |      |      |      |      |      |      |      |
| E.6                         | Sampling approach has been used during the assurance process                                  |      |      |      |      |      |      |      |      |      |      |
| E.7                         | The internal audit approach and procedures have been reviewed                                 |      |      |      |      |      |      |      |      |      |      |
| E.8                         | Data and figures in the company report have been reviewed                                     |      |      |      |      |      |      |      |      |      |      |
| E.9                         | Sites of the reporting company have been visited  |      |      |      |      |      |      |      |      |      |      |
| E.10                        | Employees have been interviewed   |      |      |      |      |      |      |      |      |      |      |
| E.11                        | A documentary review has been performed   |      |      |      |      |      |      |      |      |      |      |
| E.12                        | The data collection systems and process have been reviewed                                    |      |      |      |      |      |      |      |      |      |      |
| E.13                        | The environmental management system has been reviewed   |      |      |      |      |      |      |      |      |      |      |
| E.14                        | Materiality issues have been addressed explicitly in the assurance statement                  |      |      |      |      |      |      |      |      |      |      |
| E.15                        | Completeness of the assured report has been addressed   |      |      |      |      |      |      |      |      |      |      |
| E.16                        | The environmental, social, or sustainability corporate governance routines have been reviewed |      |      |      |      |      |      |      |      |      |      |
| Independent Variables       | Dependent Variable: Methodology / assurance procedures<br>P value (Asymp./Exact Sig. 2-sided) |      |      |      |      |      |      |      |      |      |      |
|                             | E.6   | E.7  | E.8  | E.9  | E.10 | E.11 | E.12 | E.13 | E.14 | E.15 | E.16 |
| Standards                   | 0.00  | 0.00 | 0.54 | 0.00 | 0.01 | 0.00 | 0.02 | 0.83 | 0.00 | 0.00 | 0.01 |
| Sector                      | 0.00  | 0.00 | 0.10 | 0.00 | 0.00 | 0.02 | 0.00 | 0.85 | 0.02 | 0.00 | 0.35 |
| S-A report                  | 0.01  | 0.04 | 0.00 | 0.00 | 0.02 | 0.08 | 0.00 | 0.02 | 0.08 | 0.04 | 0.09 |
| M-C size                    | 0.00  | 0.91 | 0.00 | 0.02 | 0.06 | 0.00 | 0.25 | 0.24 | 0.13 | 0.58 | 0.76 |
| Type of AP                  | 0.13  | 0.02 | 0.04 | 0.59 | 0.06 | 0.04 | 0.00 | 0.32 | 0.66 | 0.08 | 0.52 |
| AS. level                   | 0.08  | 0.06 | 0.21 | 0.67 | 0.40 | 0.02 | 0.00 | 0.66 | 0.50 | 0.86 | 0.22 |

[Σ n =196 - except factor of type of AP Σ n=195, level of confidence= 0.95 - (Sig. level α= 0.05)]

KPMG (2006, p.11) claim that an assurance provider that “is not bound by professional standards or that is not trained in assurance methodology, may use inferior quality work as a basis for claims that cannot be substantiated”. Thus, it could be expected that within the assurance statement there would be a clear distinction between methodologies employed by the various types of the assurance providers. In contrast to this expectation the type of the assurance provider is one of the weakest factors associated with disclosures of the assurance procedures.<sup>175</sup> If one assumes that

<sup>174</sup> Within each of these two factors, eight significant relationships exist. Those relationships related to the factor of sector/industry of the reporting company are stronger than those related to the factor of type of the stand-alone report (as evidenced by values of Cramer's V coefficient).

<sup>175</sup> For instance, relationships associated with the size of the market-capital are stronger than those for type of the assurance provider. Only four significant relationships (mainly related to accountants and certification bodies) have been identified within the factor of type of the assurance provider. The Cramer's V values in this factor were ranged between 0.179 to 0.224, whereas, those four significant relationships related to size of the market -capital factor ranged between 0.194 to 0.321.

disclosure is correlated with quality of actual practice (and this is an assumption) then KPMG's assertion does not appear hold.

In terms of the items within the sub-dimension of assurance procedures, the results suggest that different relationships exist that could be clustered into three main categories:<sup>176</sup>

(i) Activities that have highly significant associations with the independent variables (where five or four significant relationships exist). This includes:

- Reviewing of the data collection systems and processes;
- Performing a documentary review;
- Employing a sampling approach;
- Reviewing the internal audit routines and procedures; and
- Visiting sites and premises of the reporting company.

(ii) Activities that have medium-level significant associations with the independent variables (where three significant relationships exist). This includes:

- Addressing completeness of the assured stand-alone report;
- Interviewing employees of the reporting company; and
- Reviewing data and figures in the stand-alone report.

(iii) Activities that have low-level significant associations with the independent variables (where only one or two significant relationships exist). This includes:

- Addressing the materiality issues;
- Reviewing the environmental, social, or sustainability corporate governance routines; and
- Reviewing the environmental management system.

In short, despite the significant and strong association between assurance standards, and assurance procedures disclosed within the assurance statements, it seems that other factors such as type of the stand-alone report and sector of the reporting company also have significant association with disclosed assurance procedures. Table 6.17 categorises the investigated factors according to their strength of association with assurance activities included in dimension of methodology.

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<sup>176</sup> As indicated previously only activities with significant items are considered here. Activities within each category have been ordered according to number of the significant relationships (as determined by p values) and strength of these relationships (using Cramer's V values).

**Table 6.17 Factors associated with disclosing methodology of the assurance process**

| <b>Factor</b>                     | <b># of Sig. relationships (f)</b> | <b>Key sub-categories that achieved significant results within this factor</b>   |
|-----------------------------------|------------------------------------|--|
| <b>Standards used</b>             | 12                                 | AA1000AS; GRI Guidelines; and ISAEs  |
| <b>Type of stand-alone report</b> | 11                                 | Reports of: sustainability; E, H&S; and CR   |
| <b>Sector/industry</b>            | 9                                  | Sectors of: Non-cyclical services (food and drug retailers, telecommunication services); Utilities (electricity, utilities – others) Resources (mining, oil & gas) |
| <b>Type of assurance provider</b> | 7                                  | Assurance providers: accountancies; and certification bodies   |
| <b>Size of the market capital</b> | 6                                  | Large – market capital   |
| <b>Level of assurance</b>         | 4                                  | Reasonable – level of assurance  |

#### 6.4.2.3 Engagement with the stakeholders within the assurance process

This section explores the association between the six independent variables and those aspects related to disclosure on stakeholder issues in the assurance statement. Engaging stakeholders and addressing their issues is often asserted to be fundamental to assurance practice (AccountAbility, 2003a; Adams and Evans, 2004). To examine those factors associated with this dimension, chi-square tests have been carried out to test the null and alternative hypotheses.<sup>177</sup> The general form of null and alternative hypotheses for all tests related to this dimension is:

*H<sub>0</sub> = There is no significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within dimension of engagement with the stakeholders on the assurance process*

*H<sub>1</sub> = There is a significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within dimension of engagement with the stakeholders on the assurance process*

In total 42 statistical tests have been carried out within this dimension. Engagement with stakeholders' issues has the lowest levels of association with the independent variables found in the study. Only eight tests (19%) being statistically significant at the 0.05 sig. level. As a result, 34 of the null hypotheses are accepted (p value > 0.05) whereas 8 hypotheses are rejected (p value < 0.05). Table 6.18 illustrates the results of this part of the analysis.

<sup>177</sup> The seven items included within dimension of engagement with stakeholders' issues describe those activities in which assurance providers are assumed to carry out in order to make an assurance process more valuable from the stakeholders' perspective.

**Table 6.18 P values of the Pearson's chi-square test – independent variables versus dimension of engagement with stakeholders**

| Item #                 | Description   |       |       |        |       |        |       |  |
|------------------------|---|-------|-------|--------|-------|--------|-------|--|
| F.1                    | Specific stakeholders' groups have been interviewed   |       |       |        |       |        |       |  |
| F.2                    | Determining the stakeholders interests and concerns by the reporting company has been evaluated                               |       |       |        |       |        |       |  |
| F.3                    | The assurance provider has assessed whether the reporting company has determined how to respond to the stakeholders' concerns |       |       |        |       |        |       |  |
| F.4                    | Establishing sets of targets and indicators with regard the stakeholders' concerns has been assessed                          |       |       |        |       |        |       |  |
| F.5                    | The reporting company response to the past stakeholder issues has been addressed  |       |       |        |       |        |       |  |
| F.6                    | Clear references to weaknesses and shortcomings in determining stakeholders' concerns has been made                           |       |       |        |       |        |       |  |
| F.7                    | The achievements of the past recommendations concerning the stakeholders during the past reported periods have been evaluated |       |       |        |       |        |       |  |
| Independent Variables  | Dependent Variable: Engagement with stakeholders' issues<br>P value (Asymp./Exact Sig. 2-sided)                               |       |       |        |       |        |       |  |
|                        | F.1   | F.2   | F.3   | F.4    | F.5   | F.6    | F.7   |  |
| Type of the standards  | 0.117   | 0.000 | 0.000 | 0.002  | 0.006 | 0.238  | 0.690 |  |
| Type of the S-A report | 0.433   | 0.000 | 0.007 | 0.046  | 0.293 | 0.418  | 0.220 |  |
| Type of the AP         | 0.067   | 0.156 | 0.236 | 0.0316 | 0.236 | 0.8548 | 0.122 |  |
| Size of the M-C        | 0.061   | 0.717 | 0.359 | 0.069  | 0.504 | 0.186  | 0.078 |  |
| Sector of the RC       | 0.753   | 0.353 | 0.276 | 0.409  | 0.132 | 0.786  | 0.063 |  |
| Level of assurance     | 0.469   | 0.182 | 0.687 | 0.135  | 0.355 | 0.562  | 0.317 |  |

[Σ n =196 - except factor of type of AP Σ n=195, level of confidence= 0.95 - (Sig. level α= 0.05)]

Once again standards being used in the assurance process (namely the AA1000AS, and mixed standards) are the strongest and the most significant associated factor (four relationships, with Cramer's V values ranged from 0.363 to 0.581) with the items included within the dimension of engagement with stakeholders' issues. Other significant associations are type of the stand-alone report (namely those reports titled social and corporate citizenship) that has three associations and type of the assurance provider (namely certification bodies) which has one significant relationship. Within those seven items identified in this dimension, the results suggest that assurance provider's assessment as to whether or not the reporting company has established sets of targets and indicators regarding stakeholders' concerns seems to have the most significant association with the independent factors.

In summary, engaging stakeholders and their issues within the assurance practice has the lowest number of associations of all the independent variables. Where significant relationships exist the results indicate that this dimension is mainly affected by: type of the assurance standards (namely the AA100AS, the stakeholders' oriented

standard) and type of the stand-alone report (namely the social and corporate citizenship reports which are most likely covering social issues rather than environmental or economical issues). Table 6.19 classifies the investigated factors according to their strength of association with the items included within the dimension of engagement with stakeholders' issues.

**Table 6.19 Factors associated with items of engagement with stakeholders**

| Factor                     | # of Sig. relationships ( <i>f</i> ) | Key sub-categories that achieved significant results within this factor |
|----------------------------|--------------------------------------|---|
| Standards                  | 4                                    | The AA1000AS; and mixed standards                                       |
| Type of s-a report         | 3                                    | Reports of: social; and corporate citizenship                           |
| Type of assurance provider | 1                                    | Assurance providers: certification bodies; and accountancies            |
| Sector/industry            | -                                    | -   |
| Size of the market capital | -                                    | -   |
| Level of assurance         | -                                    | -   |

#### 6.4.2.4 Results of the assurance engagement

For purposes of the study, results of the assurance engagement are considered under three sub-dimensions: opinion/conclusion, findings and recommendations expressed in the assurance statement. This section explores associations that exist between the six independent variables, and those three sub-dimensions. To examine these relationships chi-square tests have been carried out to test the null and alternative hypotheses. The general form of null and alternative hypotheses for all tests related to this dimension is:

*H<sub>0</sub> = There is no significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within each dimension of: opinion, findings and recommendations expressed in the assurance statement*

*H<sub>1</sub> = There is a significant statistical relationship between each of the independent variables being tested (the six factors) and each investigated item within each dimension of: opinion, findings and recommendations expressed in the assurance statement*

In total 78 statistical tests have been carried out within this dimension.<sup>178</sup> The results for the whole sub-dimensions suggest that only 30 tests (38%) are statistically significant at the 0.05 sig. level. As a result, 48 of the null hypotheses are accepted (p

<sup>178</sup> The 78 tests carried out here, are distributed between the three sub-dimensions as follow: 18 tests for opinion, 18 tests for findings, and 42 tests for recommendations.

value  $> 0.05$ ), whereas 30 hypotheses are rejected ( $p$  value  $< 0.05$ ). Tables 6.20 and 6.21 illustrate the results from this analysis and each element will be discussed separately below.

### **Opinion and findings of the assurance engagement**

For the two sub-dimensions (opinion and findings) results of the statistical testing revealed that there are eight and six tests statistically significant relationships for opinion and findings sub-dimensions respectively. Within the ‘findings’ dimension, type of the stand-alone report (namely those reports entitled as: environmental, health & safety, sustainability, and social and environmental) is the most significant associated factor (with two sig. relationships), whereas, all other factors (except size of the market-capital) have one significant relationship with the items included within this dimension.

For dimension of opinion/conclusion expressed, the results show that there are eight significant relationships between the independent variables and those items included within this dimension. Each of the three independent variables (type of stand-alone report, sector, and type of the standards) has two significant relationships with investigated items. Type of standards used in the assurance process (namely the ISAEs, ISO series, and AA1000AS) is the most significant factor associated with items of this dimension (Cramer’s  $V = 0.401$  and  $0.377$ ) followed by the factors of sector of the reporting company and type of the stand-alone report. Each of the two remaining factors (type of assurance provider and level of assurance) has one significant relationship each (with  $0.219$  and  $0.208$  Cramer’s  $V$  value, respectively).

The results suggest that dividing the assurance statement into main sections (such as scope, methodology or work undertaken, and opinion) is the most significant associated assurance disclosure (with five significant relationships), followed by making a clear reference to limitation of the scope (with three significant relationships). In contrast, there are no significant relationships between any of the six independent variables and expressing a clear opinion or conclusion regarding the subject matter in the assurance statement. This result is contrasted with Wilson (2003) where he concludes that relationships exist between presence of assurance opinion

and variables of: country of reporting, type of the assurance provider, type of the report, and industry.

**Table 6.20 P values of the Pearson's chi-square test – independent variables versus sub-dimensions of opinion and findings of the assurance engagement**

| Item #                    | Description  |        |       |          |       |       |
|---------------------------|--|--------|-------|----------|-------|-------|
| <b>Opinion/Conclusion</b> |  |        |       |          |       |       |
| G.1                       | The assurance statement is divided into main sections/headings such as: scope, methodology or work undertaken, and opinion |        |       |          |       |       |
| G.2                       | A clear opinion or conclusion concerning the subject matter has been expressed   |        |       |          |       |       |
| G.3                       | A reference to limitation of the scope has been clearly made   |        |       |          |       |       |
| <b>Findings</b>           |  |        |       |          |       |       |
| G.4                       | Shortcomings and weaknesses in the sustainability performance have been highlighted  |        |       |          |       |       |
| G.5                       | Weaknesses in the reporting systems have been highlighted  |        |       |          |       |       |
| G.6                       | Weaknesses in the data collection systems and underlying processes and systems have been highlighted                       |        |       |          |       |       |
| Independent Variables     | Dependent Variable: Opinion/Conclusion & Findings<br>P value (Asymp./Exact Sig. 2-sided)                                   |        |       |          |       |       |
|                           | Opinion/ Conclusion  |        |       | Findings |       |       |
|                           | G.1  | G.2    | G.3   | G.4      | G.5   | G.6   |
| Type of the standards     | 0.000  | 0.269  | 0.000 | 0.387    | 0.027 | 0.065 |
| Sector of the RC          | 0.013  | 0.091  | 0.000 | 0.175    | 0.071 | 0.002 |
| Type of the S-A report    | 0.041  | 0.184  | 0.004 | 0.429    | 0.002 | 0.000 |
| Type of the AP            | 0.009  | 0.2532 | 0.407 | 0.066    | 0.025 | 0.140 |
| Level of assurance        | 0.015  | 0.621  | 0.109 | 0.192    | 0.046 | 0.263 |
| Size of the M-C           | 0.438  | 0.171  | 0.274 | 0.674    | 0.591 | 0.111 |

[ $\Sigma n = 196$  - except factor of type of AP  $\Sigma n = 195$ , level of confidence = 0.95 - (Sig. level  $\alpha = 0.05$ )]

In terms of the assurance activities investigated, weaknesses in the reporting systems of the company is most significantly associated with the independent factors (four relationships, three of them related to the factors of assurance exercise). Highlighting weaknesses in the data collection systems and underlying processes and systems is also associated with two factors (type of the stand-alone report and sector of the reporting company). There are no significant relationships between any of the six independent variables and highlighting shortcomings and weaknesses in sustainability performance of the reporting company.

### Recommendations provided

Out of the 42 tests carried out for this dimension, only 16 (38%) tests are statistically significant (sig. level = 0.05) as indicated in Table 6.21. Type of the assurance provider (namely consultants) is the most significant associated factor (six significant

relationships with Cramer's V values = 0.186 - 0.396) with items of the recommendations provided in the assurance statements. The sector/industry of the reporting company (with four significant relationships - Cramer's V values = 0.265 - 0.338) is the next most significant factor associated with recommendations disclosure. In contrast with the results observed in the other assurance dimensions, the factor type of standard used has only two significant relationships associated with items of the recommendations' dimension. Type of the stand-alone report and level of assurance have just one significant relationship each.

**Table 6.21 P values of the Pearson's chi-square test – independent variables versus sub-dimension of recommendations**

| Item #                 | Description   |       |       |       |       |       |       |
|------------------------|---|-------|-------|-------|-------|-------|-------|
| G.7                    | Recommendations on the report's contents and it's preparation process are made  |       |       |       |       |       |       |
| G.8                    | Recommendations on sustainability performance made  |       |       |       |       |       |       |
| G.9                    | Recommendations on reporting systems and processes are made   |       |       |       |       |       |       |
| G.10                   | Recommendations on data collection systems and underlying processes and systems are made                                |       |       |       |       |       |       |
| G.11                   | Recommendations concerning the stakeholders are made  |       |       |       |       |       |       |
| G.12                   | Recommendations that the reporting company to adopt emerging best practice or standards (e.g. AA1000, and GRI) are made |       |       |       |       |       |       |
| G.13                   | Recommendations that the reporting company to quantify its objectives and targets are made                              |       |       |       |       |       |       |
| Independent Variables  | Dependent Variable: Recommendations presented in the AS<br>P value (Asymp./Exact Sig. 2-sided)                          |       |       |       |       |       |       |
|                        | G.7   | G.8   | G.9   | G.10  | G.11  | G.12  | G.13  |
| Type of the AP         | 0.001   | 0.000 | 0.000 | 0.034 | 0.000 | 0.125 | 0.013 |
| Sector of the RC       | 0.033   | 0.195 | 0.001 | 0.161 | 0.006 | 0.548 | 0.012 |
| Type of the Standards  | 0.168   | 0.127 | 0.002 | 0.127 | 0.002 | 0.388 | 0.748 |
| Size of the M-C        | 0.038   | 0.873 | 0.373 | 0.621 | 0.156 | 0.897 | 0.026 |
| Type of the S-A report | 0.414   | 0.737 | 0.072 | 0.209 | 0.000 | 0.102 | 0.245 |
| Level of Assurance     | 0.074   | 0.005 | 0.089 | 0.099 | 0.106 | 0.128 | 0.187 |

[Σ n =196 - except factor of type of AP Σ n=195, level of confidence= 0.95 - (Sig. level α= 0.05)]

In terms of the items investigated within this dimension, among the seven different areas identified, recommendations related to stakeholders are the most significant area associated with the independent factors (with four sig. relationships). Recommendations (as disclosed in the assurance statements) could be classified into three main categories:<sup>179</sup>

<sup>179</sup> These categories have been identified according to: number of the significant relationships and strength of these relationships.

- (i) Recommendations with highly significant associations with the independent variables (where four significant relationships exist between the independent variables and the area of the assurance recommendations). Providing recommendations related to stakeholders is the only item included in this category.<sup>180</sup>
- (ii) Recommendations with medium-level of significant association with the independent variables (where three significant relationships exist between the independent variables and the area of the assurance recommendations). The areas of the recommendations identified under this category are: the reporting systems and processes; contents of the report and its preparation process; and quantifying objectives and targets determined by the reporting company.
- (iii) Recommendations with low-level of significant association with the independent variables (where two or less than two significant relationships exist between the independent variables and the area of the assurance recommendations). Areas of this category include: the sustainability performance (two significant relationships); the data collection systems and underlying processes and systems (one relationship); and endorsement the reporting company to adopt emerging best practice or standards related to its non-financial behaviour (no any significant relationship found).

In conclusion, disclosures with respect to findings of the assurance engagement are mainly associated with type of the stand-alone report. This may be due to the fact that the stand-alone reports contain different issues that are being assured (such as environmental aspects and social aspects). Expressing an assurance opinion is not significantly associated with any of the proposed six factors. Type of the assurance provider is the most significant factor associated with recommendations presented on the assurance statements with consultant assurance providers being more likely to provide recommendations. Table 6.22 categorises the investigated factors according to their strength of association, with the items included within those three sub-dimensions (opinion, findings, and recommendations) included in the results' dimension.

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<sup>180</sup> Among those four independent factors associated with this item, type of the stand-alone report is the strongest one (with Cramer's  $V = 0.434$ ).

**Table 6.22 Factors associated with sub-dimensions of: opinion, findings and recommendations presented in the assurance statement**

| Factor                                     | # of Sig. relationships ( <i>f</i> ) | Key sub-categories that achieved significant results within this factor   |
|--|--------------------------------------|---|
| <b>Dimensions of: opinion and findings</b> |                                      |   |
| Type of stand-alone report                 | 4                                    | Reports titled: E,H&S; sustainability; social   |
| Sector/industry                            | 3                                    | Non-cyclical services (telecommunication services, food & drug retailers); Basic and general industries (chemicals); Non-cyclical consumer goods (beverage) |
| Standards                                  | 3                                    | Standards of: AA1000AS; ISAEs, ISO Series   |
| Type of assurance provider                 | 2                                    | Consultants; accountants  |
| Level of assurance                         | 2                                    | Engagements with no assurance – level referred; limited-level of assurance.   |
| Size of the market capital                 | -                                    | -   |
| <b>Dimension of recommendations</b>        |                                      |   |
| Type of assurance provider                 | 6                                    | Consultants   |
| Sector/industry                            | 4                                    | Sectors of: Utilities (electricity and utilities-other); Basic & general industries (chemicals, aerospace and defence)                                      |
| Standards                                  | 2                                    | Standards of: AA1000AS; mixed standards   |
| Size of the market capital                 | 2                                    | Small- market capital; medium- MC   |
| Type of stand-alone report                 | 1                                    | Reports of: corporate responsibility; social  |
| Level of assurance                         | 1                                    | Engagements with no assurance – level   |

## 6.5 Conclusion

This chapter of the thesis has focused in analysis of the collected data. Three levels of data analysis were considered in this chapter: analysis of the dimensions of the assurance process; content analysis of the assurance statements; and statistical analysis of association between dimensions of assurance and independent variables.

With respect to the four assurance dimensions (independence, methodology, engagement with stakeholders, and results of assurance), the overall results suggest that although one third of the investigated statements made no reference to aspects of independence at the assurance statements examined, disclosure on independence dramatically improved over the time. In terms of methodology disclosures, accountants were more likely to concentrate on the pre-assurance procedures (namely activities of planning the assurance process; identifying assurance criteria and assurance scope). This may reflect their transfer of the financial audit risk approach to performance of assurance engagements of the stand-alone reports.

One of the key results in this stage is the limited amount of disclosures on assurance providers' participation in developing the scope of assurance engagements (with only

less than 10% of the statements indicating that assurance providers had participated in developing the assurance scope). Interviewing people working for the reporting company and examining data collection systems were the most common evidence gathering procedures disclosed by assurance providers, and reviewing internal control system, corporate non-financial governance routines, and the environmental management systems had the lowest level of disclosure in the face of the assurance statements.

A significant improvement has been witnessed in respect of addressing issues of materiality and completeness of the subject matter being assured (with 33% and 43% of the statements making reference to materiality and completeness in 2004 against 12% and 25%, respectively, in 2000). The majority of these statements were issued by consultants. Consistent with the findings of O'Dwyer and Owen (2005), the results of the current study show that disclosures on engagement with stakeholders within the assurance process has the lowest level of disclosure among the four assurance dimensions with less than 13% of the statements making reference to interviewing stakeholders.

Although almost all of the statements analysed provided a clear opinion with respect to the subject matter, nearly 60% of the reports referred to limitations on the scope of assurance. On average less than quarter of the statements made reference to weaknesses in the reporting systems, non-financial performance or data collections systems and underlying processes and systems. Recommendations on different aspects (such as reporting systems, report's contents and stakeholders) were provided in the assurance statements (mainly by the consultancy firms), but a decreasing trend in recommendations provision is evident.

In terms of the assurance statement's shape, results of the content analysis have shown that the length of the statement was increased (from 1.02 page in 2000 to 1.42 page in 2004). In average, most of the assurance statement space was devoted to aspects of: methodology, scope, opinion, recommendations, and commentary. It could be argued that the assurance statement's face has changed with more formal shape over time - with new aspects (such as materiality, completeness and responsiveness) being made a considerable transformation in the content as well as the shape of the assurance statement.

Finally, results of the statistical analysis suggest that disclosures of standards that have been used in the assurance exercise are the most significant associated factor with the dimensions of: independence, methodology, and engagement with stakeholders. This points to the pivotal role being played by standards development in assurance in the UK. The next most consistently significant associations are type of the stand-alone report and sector of the reporting company. The results also demonstrated that there is a strong association between type of the assurance provider and disclosure of results of the assurance process (especially in the area of recommendations made). In contrast with numerous previous studies (for example, Hackston and Milne, 1996; Adams *et al.*, 1998; Ahmed and Coustis, 1999; Gray *et al.*, 2001) results of the current study revealed that company size is the lowest associated factor with information disclosed with respect to dimensions of the assurance process. Further discussions of these results revealed in this chapter as well as those results presented in chapter six are undertaken in the final chapter of the thesis.

## Chapter Seven

### Conclusions

#### 7.1 Introduction

This chapter presents the conclusions and the practical implications of the thesis. In addition, areas for further research into the practice of assurance of corporate stand-alone reporting are outlined. The conclusions and the implications presented here are a synthesis of the findings drawn from chapters five and six. These conclusions are supported, as appropriate, by the arguments provided within the literature review chapters.

This chapter consists of three sections. First, conclusions emerging from the empirical investigation which are deemed to be the contribution of the research to knowledge are described. Two groups of conclusions are presented within this section. The first group relates to corporate stand-alone reporting practice and the second relates to the practice of assurance of this type of reporting. Second, the practical implications of the research are developed. Finally, areas for future research are also explored.

#### 7.2 Conclusions of the study

Literature suggests that reporting companies have various motivations for producing stand-alone reports. These motivations range from business drivers (particularly maintaining the organisational reputation) to ethical drivers (namely discharging accountability, see for example, Gray *et al.*, 1996; Kolk, 2004; GRI, 2006). In the literature there was evidence that producing stand-alone reports varies according to the size and industry of the company (see for example, Guthrie and Parker, 1990; Roberts, 1992; Gray *et al.*, 1995a; Hackston and Milne, 1996; Pava and Krausz, 1996; Ahmed and Courtis, 1999; Adams *et al.*, 1998; Cormier and Gordon, 2001; Gray *et al.*, 2001; KPMG, 2002 and 2005). In this study it was expected that (consistent with prior literature – see especially KPMG, 2005) there would be differences between FTSE100 companies in terms the production of assured stand-alone reports. Indeed, in the current study, what

Hackston and Milne (1996) called 'high-profile' industries were more likely to produce stand-alone reporters as were the larger of the FTSE 100 companies. Watts and Zimmerman (1978, in Cormier and Gordon, 2001, p. 589) emphasised that larger companies have greater visibility and are more politically sensitive than smaller firms, then these companies would be expected to make more disclosures. With respect to the reporters' activities, industries of oil and gas, mining, transportation and banking appear to be most likely to produce assured stand-alone reports. This is consistent (to some extent) with KPMG (2005) which concludes that industries of utilities, finance, oil and gas and electronics are the main producers of assured stand-alone reports.

Over the period studied, the proportion of FTSE100 companies who issued assured stand-alone reports has increased. Consistent with global trends (see for example, KPMG, 2002 and 2005; Adams, 2004; Kolk, 2004) the UK FTSE100 companies describe their stand-alone reports with a wide variety of titles (and by implication there is variety on the issues covered by the reports). The focus of reporting appears to have moved to cover economic and social performance rather than only environmental performance (see also KPMG, 2002 and 2005; Kolk, 2004).

Despite the increases in assurance (which theoretically is supposed to enhance accountability and transparency to stakeholders) over the study years, concerns still exist about the ability of these reports to enhance and promote these outcomes (Ball *et al.*, 2000; Owen *et al.*, 2000; Gray, 2001; ACCA and AccountAbility, 2004; Adams and Evans, 2004; O'Dwyer and Owen, 2005). It would appear that the debate around the value of stand-alone reporting and assurance practices will continue unless authoritative attempts to mandate and standardise these practices are made (see also Wilson, 2003; KPMG, 2006). Likewise, it has been asserted that "[t]he greater the potential sustainability reporting to be statutorily defined, the greater will be the drive towards assurance to ensure that reporting practices accord with the law" (AccountAbility, 2003 in Deegan *et al.*, 2006, p. 334).

The current study addressed various research questions. Examining the incidence of assurance within the stand-alone reports was the first aim of the study. It was evident in

the literature that UK companies are more likely to have their reports assured (with 53% of the reports produced in 2003/04 by the top national 100 companies being assured – see, KPMG, 2005). It is expected therefore, that the incidence of assurance within those reports produced by the FTSE100 would be higher than the global level. In this regard, results show that 65% of the FTSE100 companies produced stand-alone reports on their non-financial performance with 56% of them being assured (see section 5.2). This level of assurance is above the global levels of assurance practice (as measured by KPMG, 2005). KPMG (2005, p. 30) found that 30% of the stand-alone reports produced by the top 250 companies from the Global Fortune 500 (G250) and 33% of those produced by the top 100 companies in 16 industrialised nations (N100) were assured (KPMG, 2005, p. 30). The relatively high proportion of assurance in the FTSE100 companies may be because they are all large companies. Indeed, within the FTSE100 companies themselves, the results of this study show that companies with larger market capitalisation and those sensitive industries (e.g. mining, oil and gas) were more likely to produce assured stand-alone reports (see Appendix 2 for details about the FTSE100 companies' assurance practices).

One of the concerns raised in the prior literature is the variation in approaches to assurance which, in turn, is associated with the nature of the assurance provider. Some studies have made a distinction between two types of assurance approaches (i.e. accountancy versus consultancy - see for example, Ball *et al.*, 2000; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). Others dealt with three approaches or more of assurance (e.g. accountancy, consultancy, certification and a commentary approach – see for example, Kamp-Roelands, 2002; Wilson, 2003). In light of this observed variation in assurance approaches, it was expected that there would be a variety of approaches in the UK as well. In contrast with some of the previous studies such as Ball *et al.*, (2000); O'Dwyer and Owen (2005) and Deegan *et al.*, (2006), the current study identified three approaches to assurance: namely an accountancy, consultancy and certification approach. Although identity of the assurance providers was clear on the face of the assurance statements, only 27% of these statements made a reference to competencies, qualifications or experience

of the assurance provider. Given that there are different reference points for assurers it is perhaps unsurprising that assurance approaches are differentiated.

The accountancy approach focuses on providing assurance of the veracity of information contained in the stand-alone report. Thus, the accountants' concerns (as evidenced by disclosures in assurance statements) focus on assuring the systems that produce the reported information rather than identifying the potential weaknesses in these systems or in the non-financial performance (at least, if these concerns exist identified they are not found in the public domain). For that reason, accountancy approaches are more likely to disclose various procedures that are employed to gather the assurance evidence (such as checking the internal control system, documentary review, sites visits and reviewing data collection systems – see Appendix 11).

In contrast to the accountancy approach, consultants focus on highlighting (in the assurance statements) the weaknesses and shortcomings of the reporting systems, and other underlying processes and systems of the reporting companies. Indeed, in 15% of the statements provided by the consultancy firms, reference was made to the weaknesses of the non-financial performance (either environmental or social) of the reporting companies. Such references may add value for readers of the assured stand-alone reports, but at the same time may confuse them, specifically when a 'clean' opinion is also expressed (see also Wilson, 2003). Nevertheless, within the UK context, it seems that the consultancy approach is preferred by companies given 63% of the assurance statements were provided by consultancy firms against 23% and 13% provided by accountancy firms and certification bodies respectively. This conclusion, however, assumes that companies are aware of these three different approaches, something on which there is currently no information.

In relatively similar to the accountancy approach, the certification approach gives attention to verifying the data and figures disclosed in the stand-alone report as well as the systems that produce this data. This is in contrast to commenting on the performance of the firm itself. What distinguishes the certification approach is their disclosures of how they have developed the assurance scope as well as the clear distinction they tend to

make between criteria used to assess the report and standards used to guide the assurance exercise. Such an approach could be considered to add value for the readers of the stand-alone report because it suggests implicitly that management are not in control of the assurance process.

In the prior literature suspicions about possibility that assurance will enhance accountability and transparency for the stakeholders were evident (see Ball *et al.*, 2000; O'Dwyer and Owen, 2005). These concerns related primarily to the independence of the assurance provider; variations in the assurance procedures applied; an absence of stakeholder engagement; poor treatment of materiality and completeness (from a stakeholder perspective); a lack of focus on examining the reporter's performance; and ambiguity with respect to the opinion expressed (see for example, Ball *et al.*, 2000; Kamp-Roelands, 2002; Swift and Dando, 2002; Dando and Swift, 2003; Adams and Evans, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). Given that there are no generally accepted principles governing either stand-alone reporting or assurance practices, it is expected that assurance practice within the UK would face the same challenges, and thus, would suffer the same concerns and variations.

It has been argued that the value of assurance statements is enhanced by indicating the degree of independence of the assurance provider (Ball *et al.*, 2000; O'Dwyer and Owen, 2005; Knechel *et al.*, 2006). Within the UK context, there is variation in disclosures on independence among the assurance providers. Consistent with previous studies (Ball *et al.*, 2000; Kamp-Roelands, 2002; Deegan *et al.*, 2006) accountants and certification bodies were more likely to assert their independence in the assurance statements compared to consultancies. This may be due to the fact that accountants are required to comply with independence requirements and/or codes of practice (such as the Code of Ethics issued by the IFAC and the ICAEW Independence Requirements, see also KPMG, 2006), although few accountants disclosed information about their compliance with these standards. Another possibility is that some of the consultancies might have had undisclosed commercial relationships with the reporting companies, as only 19% of the statements provided by the consultancy firms disclosed that no commercial or financial relationships exist with the reporting companies. Existence of such relationships between

two parties is likely to threaten the objectivity of the assurance provider, specifically where the amount of the assurance fees is not disclosed (see also Ball *et al.*, 2000).<sup>181</sup> Furthermore, a managerial approach to assurance would be reinforced in this case, since “as long as the view of the consultancy model as norm continues [it is more likely that the assurance practices will] be based on an inherently managerial approach and, therefore, a managerial ‘turn’ in the verification statement” (Ball *et al.*, 2000, p. 18). In regard to independence of assurance, it is worth indicating that certification bodies more often seek to demonstrate their independence through compliance with internal protocols created specifically to govern the relationships with the responsible party. Where these protocols are used, they involve disclosure of existing relationships as well as indicating whether or not the assurance provider has participated or assisted in preparing the stand-alone report (see section 6.2.1).

As found in the European and the global contexts (see Ball *et al.*, 2000, O’Dwyer and Owen, 2005, Deegan *et al.*, 2006), assurance practice in the UK suffers from apparent managerial control over the practice. This is evident in the low levels of assurance provider participation in developing the scope of assurance (only 9% of the study sample assurance providers participated in developing the scope of the practice). Limitations imposed in the scope of the assurance engagement and the absence of any type of addressees other than the management of the reporting companies further compound this impression of managerial capture. There is also a lack of disclosure with respect to the standards used during the assurance process (with 42% of the assurance statements making no reference to any standards used to govern the assurance process), criteria used for assurance (with 60% of the statements making no reference to assurance criteria used) as well as level of assurance pursued (with 81% of the statements making no reference to the level of assurance). Furthermore, a lack of distinction between standards and criteria used is also another issue within assurance practices. All these shortcomings might lead to the possibility of the assurance practice becoming worthless from the perspective of the external constituencies (see also O’Dwyer and Owen, 2005; Deegan *et al.*, 2006).

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<sup>181</sup> In the current study only nine of the assurance statements (5%) have disclosed information on the assurance fee received. These disclosures ranged between disclosing the fees amount as a figure or as a percentage of the assurance provider’s annual turnover. Seven of these statements were provided by consultants and two provided by certification bodies. Details are provided in section 5.6.6.

Variation in the procedures applied (as inferred by disclosure of procedures) in assurance exercises is also a concern raised in the previous literature (see for example, Ball *et al.*, 2000; Kamp-Roelands, 2002; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). Within this data set, different procedures were used to obtain evidence with an emphasis on site visits and interviewing staff. While disclosure of assurance procedures improved in comparison with previous studies (namely Ball *et al.*, 2000; O'Dwyer and Owen, 2005), it is evident that some procedures (e.g. review data in the report, review internal assurance system) have gained less attention by the assurance providers (of if they are used, they are not noted in the assurance statements themselves). In the same vein, and consistent with previous literature (see for example, Ball *et al.*, 2000, Wilson, 2003; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006) a huge variation in the names used to describe assurance statements was also noted (with seven main groups of terms being used and 46 different titles). This variety in the titles of the statements would suggest that assurance is still far a way from being homogenous.

Prior literature has suggested that the assurance practice suffers from a lack of stakeholders' engagement (see for example, Park, 2004; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). One notable finding from the study is the absence of evidence on the face of the assurance statements of the engagement of stakeholders. Few statements in the current sample contain references to interviewing stakeholders (just 13% of the cases) or to activities aimed at assessing the reporting companies' efforts to identify and respond to stakeholders' interests and concerns (24% and 17% of the cases, respectively). What is interesting in this context is the unexpected level of disclosure of this type by certification bodies. These assurers emphasis the activities of: interviewing stakeholders, evaluating the extent to which have the reporting companies identified their interests and concerns and how companies have responded to these interests as well as evaluating the extent to which the reporting companies have established indicators regarding stakeholders' interests (see section 6.2.3).

Consistent with the previous literature (see Kamp-Roelands, 2002, Adams and Evans, 2004; O'Dwyer and Owen, 2005) and despite the increased number of assurance statements that address issues of materiality and completeness in the current sample,

there is still a failure to engage stakeholders in the process of identifying the material issues and/or the scope of the assured objects. In addition, less evidence is available about assurance providers' willingness to assess completeness of the stand-alone reports from stakeholders' point of view (see also Adams and Evans, 2004; O'Dwyer and Owen, 2005). Finally, none of the assurance statements in the sample of the study were addressed to general stakeholders or (at least) to any type of stakeholder. In contrast, 25% of the statements clearly identified the reporting company or its management as addressees. This finding appears to support the argument that the reluctance of assurance providers to address their assurance statements to external constituencies implies that "they are primarily providing 'value' to management thereby reflecting a perceived demand for assurance ...from management as opposed to stakeholders" (KPMG, 2002 in O'Dwyer and Owen , 2005, p. 224).

It could be expected that the assurance statement be addressed to various groups of stakeholders rather than the management of the reporting company (ACCA and AccountAbility, 2004). From the perspective of the current study the absence of stakeholder addressees may eliminate the function of the assurance statement to enhance the organisational accountability and transparency to the stakeholders (see also, Ball *et al.*, 2000; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). This challenge, however, might be overcome through establishing a genuine 'three-party' accountability relationship (as anticipated within the financial auditing and assurance model – see Power, 1999; Gill *et al.*, 2001; Eilifsen *et al.*, 2006; IAASB, 2006). This prospective relationship would bring together the stakeholders (as the principal), the reporting company (as an agent), and the assurance provider (as a third party). In order to preserve such accountability relationship, extensive engagement of the stakeholders within the assurance practice is likely to be required. This participation would include: selecting and commissioning the assurance provider; determining the scope of the assurance engagement; and choosing the criteria by which the stand-alone report needs to be assessed (see also, Dando and Swift, 2003; Adams and Evans, 2004). It could be argued that without a commitment in the emerging standards for assurance to create these

relationships, “assurance statement practice will fail to enhance accountability and transparency to organisational stakeholders” (O’Dwyer and Owen, 2005, p. 224).

Providing recommendations for future improvements within the assurance statement could also be seen to be evidence that the assurance practice is primarily focused on benefits for the reporting company (see Ball *et al.*, 2000), although it is evident in the current study that the recommendations are presented (sometimes) as a consequence of the identified weaknesses and shortcomings in the assured aspects. Where recommendations are found in assurance reports, they focus on the areas of reporting systems, some issues related to stakeholders and report content and its preparation process. Nevertheless, the existence of recommendations within the assurance statement might give the readers an expectation of seeing better stand-alone reports in the future (Wilson, 2003). Arguably, however, it is possible that these recommendations will not add anything to the historical reported information from the perspective of the readers of the stand-alone report (namely the external stakeholders).

In the current study the results indicate that disclosure of recommendations within assurance statements has declined during the study period. This may imply one of two outcomes. First, that the contents of FTSE100’s stand-alone reporting practices have improved during the period. If this is the case, the attention of the assurance providers is likely to move into other dimensions or aspects within the assurance practice (namely those that appear weak, such as engagement with the stakeholders and issues of materiality and completeness). It is not obvious, however, that this is happening. The second possibility is that the provision of recommendations in the public domain has decreased for other reasons that are not apparent. From a study of this nature it is impossible to ascertain which outcome it is.

Consistent with European and global trends, assurance practices within the UK provide clear assurance opinions regarding the subject matter being assured (an opinion is clearly expressed in over 93% of the assurance statements), but with the same degree of concern regarding the variation in the terms used to express the opinion. Within those statements where an assurance opinion is expressed there are 47 different terms used to convey these

opinions. Such variation was expected in light of concerns raised in the previous literature regarding this issue (see for example, Kamp-Roelands, 2002; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). In order to evaluate whether or not terms of the assurance opinion are consistently expressed over the years, a snapshot for the terms used in the first and the last year of the study shows that the assurance providers tend to employ more terms to express their opinions over the time. This trend away from standardisation is driven by an increase in opinion diversity of consultancy firms. Diversity of opinions may introduce an element of ambiguity into assurance and may cause further confusion for the readers of the assurance statements (see also Deegan *et al.*, 2006). It is expected that such variations would continue unless generally accepted standards for assurance of corporate stand-alone reports are approved and adopted by all assurance providers.

One of the research questions addressed in the study explores changes in the contents of the assurance statements developed over the period studied. In order to explore whether or not convergence in assurance practices exists (as judged by convergence in assurance statements) attention was given to investigating the structure of assurance statement over the period. Between 2000 and 2004 the structure and content of the assurance statements have changed dramatically, with longer statements being produced that contain more disclosures about aspects of the assurance engagement. Significantly, disclosure of aspects such as materiality, completeness, responsiveness, independence and competencies of the assurance provider has increased. In addition, elements of the assurance practice such as objective, scope, methodology, and opinion (while being disclosed over the entire period of the study) have smaller amounts of space devoted to them. It can be suggested that this transformation may be caused by the new guidelines and standards applicable for the assurance practices on the corporate stand-alone reports (namely AA1000AS and ISAE3000).

The current study also explored the extent to which a group of factors have associations with disclosures in the assurance statements. In this regard, six factors were explored, namely: size of the reporting company (measured by market capitalisation); sector of the reporting company (as classified within the FTSE100 lists); type of the assured stand-

alone report; type of the assurance provider; standards used to govern the assurance process; and degree of risk in the assurance engagement (measured by level of assurance pursued).

Consistent with the earlier impression that assurance standards have potentially influencing the assurance engagement as well as the assurance disclosure (see also O'Dwyer and Owen, 2005), it is evident in the current study that standards used in the assurance process are the most significant factor associated with information disclosure, followed by type of stand-alone report and sector of the reporting company. It was expected that there would be associations between the assurance approach (as represented by type of assurance provider) and contents of the assurance statement (following FEE, 2002; Wilson, 2003; CPA Australia, 2004). Except for recommendations presented, type of assurance provider was found generally to be weakly associated with assurance disclosures. Furthermore, and unexpectedly, risk of the assurance engagement (as represented by level of assurance pursued) and size of the reporting company (measured by market capitalisation) are not significantly associated with assurance disclosure.<sup>182</sup> The latter result contrasts with the findings of Hackston and Milne, (1996) and Adams *et al.*, (1998) who suggest that the corporate disclosures (either in the annual reports or in the stand-alone reports) are mainly associated with company size as well as sector of the reporting company. Table 7.1 illustrates all the significant associations found between the proposed factors in this study and disclosures of dimensions of the assurance process.

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<sup>182</sup> Within the methodology dimension, two relationships were found to be significant between level of assurance pursued and pre-assurance activities of: planning the assurance engagement and developing the assurance scope by the assurance provider. These two assurance activities are logically linked to the level of risk that the assurance engagement may face. Hence, planning the engagement and developing the scope of its activities are the key procedures carried out by the assurance provider (for more detail, see sections 6.2.2.1 and 6.4.2.2).

**Table 7.1 Summary of the significant factors associated with the four dimensions of the assurance process<sup>1</sup>**

| Factor  | Dimensions of the assurance process     |   |   |  | Overall<br>(sub-categories)                          |
|---|---|---|---|--|--|
|   | Independence                            | Methodology                                   | Stakeholders<br>engagement              | Result of the<br>assurance                         |  |
| <b>Standards used</b>                               |   |   |   |  |  |
| ∑ sig. relationships                                | 5 / (1) <sup>2</sup>                    | 12 / (1)                                      | 4 / (1)                                 | 5 / (3)  | <b>26</b>  |
| Most effective sub-categories within the factor     | AA1000AS<br>Mixed standards<br>ISAEs    | AA1000AS<br>GRI Guidelines<br>ISAEs           | AA1000AS<br>Mixed<br>standards          | AA1000AS<br>Mix. standards;<br>ISAEs; ISO          | <b>AA1000AS<br/>Mixed standards<br/>ISAEs</b>        |
| <b>Type of the Stand-alone Report</b>               |   |   |   |  |  |
| ∑ sig. relationships                                | 2 / (5)                                 | 11 / (2)                                      | 3 / (2)                                 | 5 / (4)  | <b>21</b>  |
| Most effective sub-categories within the factor     | CR<br>Sustainability                    | Sustainability<br>E, H&S; CR                  | Social; Corp.<br>Citizenship            | E, H&S; CR<br>Sustainability;<br>Social            | <b>Sustainability<br/>E, H&amp;S; CR;<br/>Social</b> |
| <b>Sector (Industry) of the Reporting Company</b>   |   |   |   |  |  |
| ∑ sig. relationships                                | 3 / (3)                                 | 9 / (3)                                       | -                                       | 7 / (2)  | <b>19</b>  |
| Most effective sub-categories within the factor     | Non-cyclical<br>services; Utilities     | Non-cyclical<br>ser.; Utilities;<br>Resources | -                                       | Non-cyclical S.;<br>Utilities; B &<br>G Industries | <b>Non-cyclical<br/>services; Utilities</b>          |
| <b>Type of the Assurance Provider</b>               |   |   |   |  |  |
| ∑ sig. relationships                                | 3 / (4)                                 | 7 / (4)                                       | 1 / (3)                                 | 8 / (1)  | <b>19</b>  |
| Most effective sub-categories within the factor     | Certification<br>bodies;<br>Accountants | Accountants;<br>Certification<br>bodies       | Certification<br>bodies;<br>Accountants | Consultants;<br>Accountants                        | <b>Certification<br/>bodies;<br/>Accountants</b>     |
| <b>Level of Assurance</b>                           |   |   |   |  |  |
| ∑ sig. relationships                                | 4 / (2)                                 | 4 / (6)                                       | -                                       | 3 / (5)  | <b>11</b>  |
| Most effective sub-categories within the factor     | No-level<br>Reasonable-level            | Reasonable-<br>level                          | -                                       | No-level<br>Limited-level                          | <b>No-level referred;<br/>Reasonable-level</b>       |
| <b>Size of the Market - Capital</b>                 |   |   |   |  |  |
| ∑ sig. relationships                                | 1 / (6)                                 | 6 / (5)                                       | -                                       | 2 / (6)  | <b>9</b>   |
| Most effective sub-categories within the factor     | Large-size                              | Large-size                                    | -                                       | Small-size<br>Medium-size                          | <b>Large-size<br/>Small-size</b>                     |
| <b># of items within each dimension<sup>3</sup></b> | <b>5</b>                                | <b>16</b>                                     | <b>7</b>                                | <b>13</b>  | <b>41</b>  |

<sup>1</sup> Information in this table has been summarised from results of the data analysis presented in section (6.4.2). <sup>2</sup> Total number of significant relationships / rank of the factor among all the six independent factors. <sup>3</sup> These numbers relate to items included within each dimension of assurance (see Appendix 1).

The results in Table 7.1 provide support for the argument that assurance practice might be harmonised in the future. This conclusion is offered on the basis of the existence of strong associations between two main influential factors: standards (which are the main guidance for assurance exercise) and type of stand-alone report (which represents the reporting companies' stand-alone reporting policy) and disclosures in the assurance statement. These factors are linked either explicitly or implicitly to the guidance used to prepare the stand-alone report as well as the assurance statement. These two factors appear to drive harmonisation of assurance practices, and also make assured stand-alone reporting practice more meaningful (see also Kamp-Roelands, 2002; Dando and Swift, 2003; Wilson, 2003; O'Dwyer and Owen, 2005; Deegan *et al.*, 2006). Combarros (2000,

p. 643) emphasises that “harmonised reporting seems likely to require auditing to be harmonised”. In this context, results of the current study revealed that in 24% of the assurance statements examined reference was made to AA1000AS as an assurance standard, and in almost 12% of the sample reference made to AA1000 or GRI principles as the criterion of assurance. In both cases, it was noted that the three principles of AA1000 (materiality, completeness and responsiveness) were used as a basis for assessing the reported information and also for drawing the assurance conclusion. Hence, it is suggested that the three principles of the AA1000 framework are valuable as criteria within the assurance process, whereas professional standards (such as ISAE3000) would be suitable to guide the assurance practice itself.

Further to the above discussion, and building on Power’s (1999) argument regarding characterisation the practice of auditing into programmatic/normative and technological/operational elements,<sup>183</sup> it could be argued that the practice of assurance of the corporate stand-alone reports (at this stage of development) is working better operationally rather than programmatically since it is too difficult currently to evaluate the programmatic element of the assurance practice.

At the operational level, elements of assurance relate “to the concrete tasks and routines of the [audit] practice such as, samples, checklists, and analytical methods” (Power, 1999, p. 6). In the current study, an increasing number of assurance statements disclose information about the technical aspects of assurance practice (such as standards used, criteria, sampling approach, scope and evidence-gathering procedures). This provides some evidence that the practice (regardless of the programmatic implication) is technically functional. Moreover, the operational element of assurance implies that practices are being codified and formalised over time (Power, 1999). This includes the shape of the assurance statement itself as well as the assurance stages and procedures. Although assurance appears to be ‘working’ at a technical level it should be noted that the potentiality of assurance to achieve the goals expected by public is limited under this level of assurance (Power, 1999).

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<sup>183</sup> For details see section 3.2.

At the programmatic level, the analysis is different since attention is given particularly to the ideas and concepts that form the mission of the assurance practice which “are attached to the broader policy objectives” (Power, 1999, p. 6). Power (1999) points out the difficulty of identifying a precise meaning of the programmatic element of auditing. He emphasises that auditing in the light of its programmatic dimension is “an ill-defined goal which it may serve only imperfectly but through which its daily routines make sense and have value” (Power, 1999, p. 7). Power (1999) emphasises that it is assumed at this level that “the practice is more likely to serve particular goals”, thus, assurance is demanded by regulatory systems (p. 6). From the perspective of the current study, the programmatic element of assurance in the context of corporate stand-alone reporting is difficult to examine. This belief is supported by the fact that the assurance practice is still voluntary and an accountability relationship between the organisations (as agent) and the stakeholders (as principal) appears to be weak. Furthermore, it is evident in the literature that the assurance practice in its current shape will not be able to enhance credibility of information, and consequently, will not be able also to enhance accountability and transparency for the public stakeholders (Ball *et al.*, 2000; O’Dwyer and Owen, 2005).

At this stage of the development of assurance practices, demanding assurance practice be compulsory would have considerable political and economic implications which, in turn, may contradict mainstream economic regimes. Given the fact that the practice of assurance (as well as stand-alone reporting) is voluntary, the results of the current study support the argument that the programmatic element of assurance is difficult to achieve, as engaging stakeholders (which may lead to an informal accountability relationship being established between two parties) is largely absent from assurance practices. Thus, a key question emerges – how can these organisations and their performance be auditable (assurable) in the long term?

Power (2007, p. 2) emphasises that auditability focuses on “a general analysis of how organisations and their routines become structured and presented to be ‘auditable’”. Under auditability theory the assurance provider (auditor)<sup>184</sup> can be “understood as a

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<sup>184</sup> According to Power (2007, p. 4), the theory of auditability - which is principally developed under the economic concept of audits - has three dimensions of variability which in turn need further empirical

vehicle for institutionalised values about the manner in which organisational and individual performance is represented” (Power, 2007, p. 4). From the perspective of the current study, this implies that the role of the assurance providers is not only to provide a statement that seeks to increase the credibility of the reported information, but they may also play a role in a learning process. In turn, this process may create an auditable organisation because those within the organisations will be more confident about the quality of the information they are presenting. Engaging stakeholders within the assurance practice might be one approach that the assurance provider uses to contribute to this process. Additionally, addressing the weaknesses and shortcomings of the reporting company’s performance, systems and internal processes may also help in transforming the reporting company into a more transparent and accountable stand-alone reporting position. Given that assurance practice has failed (currently) to enhance organisational accountability and transparency (O’Dwyer and Owen, 2005), it could be argued that the current assurance practice does not allow organisational auditability to be achieved at present.

### **7.3 Practical implications of the current study**

This research has a number of practical implications. First, given the fact that engaging a third-party assurance practice is beneficial primarily to the internal constituency (the management) it would be important to the reporting companies to utilise the assurance practice as a vehicle to improve its stand-alone reporting practices as well as enhance its performance in the non-financial aspects. Park and Brorson (2005) assert that reporting companies (especially those with under-developed stand-alone reporting practices) may commission third-party assurance primarily for improvement of their reporting systems. In the current study, results revealed that providing recommendations regarding the reporting systems, other underlying processes and systems, and the non-financial performance is mainly associated with the type of assurance provider (with emphasis on those statements provided by the consultancy firms). Hence, from the perspective of the

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exploration. The three components of auditability theory are: “the nature of the political economy of organisational performance; the micro-construction of the facts of performance via traces and trails; and the prevailing evidential culture of precision” (Power, 2007, p. 4). These three components might be used in future research in order to investigate how these components may help to achieve auditability of the organisations, particularly in stand-alone reporting.

current study, and for those companies with less developed stand-alone reporting practice, commissioning consultants to carry out the assurance practice may have a subsequent effect on the quality of reporting and other underlying systems.

Second, numerous variations in the assurance practices have been identified in the current study. Variation of titles given to the statements issued; methodologies used to gather assurance evidence; addressees; and wordings used to express the assurance opinion are a few examples of variations in the assurance practices. From the perspective of the current study, it is more likely that this variation is attributable not only to technical issues (such as absence of a generally accepted framework for stand-alone reporting practice and the lack of an agreed unit to measure the non-financial performance) but also to the lack of established business case for stand-alone reporting and assurance practices (FEE, 2004). Hence, working towards development of a generally accepted framework for stand-alone reporting practice is a pre-requisite to making the assurance practice more uniform.

Third, a distinction between criteria (in which subject matter information is assessed) and standards (in which an assurance engagement's procedures and outcomes are performed and documented) is essential to manage a successful assurance practice. In the current study it was found that such a distinction was sometimes absent (especially within statements provided by consultancy firms). This might confuse the prospective users of reports and assurance statements, particularly when making comparisons between companies. In addition, this limitation may increase the users' suspicion of the robustness of the process of matching evidence gathered with the criteria. To overcome this difficulty, standards setters should produce supplementary guidance in order to facilitate the application of existing standards. Moreover, standards setters should provide training for the assurance providers, especially around the issue of new standards. Nevertheless, a snapshot of some of the assurance statements that appeared with the FTSE100 stand-alone reports for the reporting year 2006 shows that a distinction between assurance criteria and assurance standards appears to be more clearly made.

Fourth, materiality within the assurance of stand-alone reporting is important, since it requires that the assurance providers have a basic understanding of the users information

needs (AccountAbility, 2003a; Wilson, 2003; Deegan *et al.*, 2006). One of the key issues identified in the study is combination of two notions of materiality. The first is concerned with the level of omissions in the reported information compared to what is supposed to be reported and generated from the reporting and data collection systems in place. In this instance the assurance provider is required to express an opinion regarding materiality by referring to any misstatement or omissions in the reported information (see IAASB, 2006). This conception of materiality is more likely to be adopted by accountancy firms.<sup>185</sup> In the second notion, materiality is related primarily to the information required (as assumed) by the stakeholders (see AccountAbility, 2003a and 2003c). In this case, the assurance provider is required to form an opinion regarding materiality by referring to any misrepresentations or omissions in the non-financial information reported in the stand-alone report (AccountAbility, 2003a).

From the perspective of the current study, expressing an opinion in the assurance statement about these two conceptions of materiality are important, as giving an opinion about the first conception is intended to provide confidence about the systems that generate the reported information. In contrast, an opinion presented about the second conception is important in providing confidence about the non-financial performance of the reporting company. Given that standards are the most significant associated factor in the assurance disclosure, it may be useful to revise the current assurance standards (specifically those designed to serve the stand-alone reporting area) in order to consider the two conceptions of materiality together and to present a unified concept of materiality that achieves both auditability of the reporting company and fulfilment of the needs of the organisational stakeholders. In this context, it is important that the desired conception of materiality has quantitative guidelines to assess the level of materiality (for both the reporting omissions and the performance misrepresentations - see also Wilson, 2003).

Finally, it is widely recognised that there are two key incentives for the corporate stand-alone reporting practice, those of business and ethical drivers (Gray *et al.*, 1996; KPMG,

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<sup>185</sup> The IAASB (2006, p. 490) emphasises that the auditor is required when designing the audit plan to establish “an acceptable materiality level so as to detect quantitatively material misstatements” in the reported information. It is required however, that both the quantity (amount) and quality (nature) of misstatements be considered in this context (IAASB, 2006, p. 490).

2005). To enhance and support the ethical ones, attention should be given to mandating those guidelines and standards which maximise the value of the assurance exercise for stakeholders. The steps in this long process might be to mandate the stand-alone reporting practice itself, as well as presenting an applicable framework to help different parties (such as the reporting companies and the assurance providers) to identify the most relevant stakeholder groups.<sup>186</sup> This, in turn, could improve both stand-alone reporting and assurance practices through increasing engagement of the stakeholders within these practices and, as a consequence, could enhance the accountability and transparency of organisations to society.

#### **7.4 Areas for future research**

There are several areas for future research that are prompted by the current work. It would be of interest to see efforts which investigate the following areas: First, researching the reasons why engaging stakeholders within the assurance process was the weakest element among all investigated elements of this process. Exploring the potential key users who may be interested in assurance statements attached to the corporate stand-alone reports and their perceptions of these statements as well as the possibility of engaging them (as stakeholders) in the stand-alone reporting and assurance practices would be useful. Moreover, this knowledge would allow us to refine the aims and formats of assurance statements. In this context, pursuing those parties or individuals who were frequently accessing the assured stand-alone reports within well-established databases (such as CorporateRegister.com) may also be useful. This may be a starting point for basically identifying different groups of stakeholders. Another source of what stakeholders are engaged in reporting might be obtained from reporting companies themselves through the pre-determined feedback form which often appear within stand-alone reports.

Second, it is evident in the current study that there are three approaches to carrying out assurance engagements – those of accountants, consultants and certification bodies (see also Ball *et al.*, 2000; Kamp-Roelands, 2002; KPMG, 2005; O'Dwyer and Owen, 2005;

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<sup>186</sup> Most of the issued standards (including those with stakeholders' orientation) do not determine how stakeholders would be engaged or determined. This is a weakness of these standards.

Deegan *et al.*, 2006). It is important to examine the incentives of the UK FTSE100 companies for engaging primarily consultants as key assurance providers of their stand-alone reports. In the sample of the current study almost two thirds of the UK FTSE100 companies (whose stand-alone reports were assured) used consultancy firms rather than accountants or certification bodies to perform the assurance engagements (see also Deegan *et al.*, 2006). This is in contrast with the European and global trends where almost 60% of the assurance statements were produced by accountancy firms (KPMG, 2005). In addition to determining choices of assurance provider, this investigation may also be useful to characterise and explain the barriers to demand for assurance services (specifically from accountancy firms) within the UK auditing and assurance market. From the perspective of the current study, the competency of the assurance provider and the potential of the existing financial and/or commercial relationships between the assurance providers and the reporting companies appear to be important variables in this context.

Third, almost half of the UK FTSE100 companies produced stand-alone reports that were not assured. It would be interesting to investigate the rationale for not assuring these reports. This may also help explore the ways in which reporting companies attempt to increase the credibility of their reports. In the same vein, some of the reporting companies who used to engage assurance providers suspended such engagement after many years of producing assured stand-alone reports. Such phenomena merits examination as this may contribute to exploration of potential barriers to assurance of stand-alone reports.

Fourth, building on the results presented (for example in section 6.4 - results of the associations found between the six independent factors and dimensions of the assurance process), and after a decade of assurance practice, it may be the right time to attempt to build predictive models of assurance practice. This may help determine when organisations are likely to adopt assurance. These models may also be useful, for example, in assisting assurance providers selecting the most appropriate standard among a group of standards when carrying out the assurance practice. For example, such a model may cluster several factors such as criteria; nature of the subject matter being assured; age of the reporting practice within the reporting company; scope of assurance; and

sector of the reporting company. Models may also be helpful for reporting companies as they select an assurance provider from group of choices (in this case considering scope; assurance fees; and competencies of the assurance provider).<sup>187</sup>

Finally, from the prior experience of the FTSE100 stand-alone reporting practices, there were always companies (such as BP plc, BAA plc, BT Group plc, and Shell Group) classified as world top reporters (see for example, SustainAbility and UNEP, 2002 and 2004). It should be noted that all these companies have engaged an external third party to assure their stand-alone reports. Thus, it may be useful to examine the extent to which these assurance practices have influenced (if indeed they have) the quality of stand-alone reporting practice. The call here is to investigate if companies have learned from the process of engaging third-party assurance.

In closing, this thesis has sought to create a summary of assurance practice in the UK. This study, therefore, seeks to contribute to an understanding of existing assurance practice as well as exploring possible associations between assurance statements disclosures and various characteristics of reporters and assurance practice itself (namely size and sector of the reporting company, type of stand-alone report, standards used, type of assurance provider and level of assurance pursued). In combination, this work will hopefully provide a benchmark against which assurance practices may be judged in the future.

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<sup>187</sup> In order to build such models, a group of proposed factors relating to different aspects in the area of assurance as well as an advanced statistical tool are required. Logistic regression is the most favoured tool to carry out this mission.

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## Appendix 1: Instrument of the study

- Items of the sections (A, B and C) below seek to explore the descriptive information concerning three elements: the reporting company (RC) and its stand-alone report; the assurance provider (AP); and the assurance statement (AS).

### A- Information on the reporting company and the stand-alone report

|            |   |  |
|------------|---|--|
| <b>A.1</b> | <b>Serial number of the report</b>                                    |  |
| <b>A.2</b> | <b>Name of the reporting company: .....</b>                           |  |
| <b>A.3</b> | <b>Year of the report</b>   |  |
|            | 2000 (1)  |  |
|            | 2001 (2)  |  |
|            | 2002 (3)  |  |
|            | 2003 (4)  |  |
|            | 2004 (5)  |  |
| <b>A.4</b> | <b>Name of the report (where the AS is appeared)</b>                  |  |
|            | Annual Report & Accounts (1)  |  |
|            | Sustainability, Sustainable Development, Env. Sustainability (2)      |  |
|            | Environment (3)   |  |
|            | Social (4)  |  |
|            | Social & Environmental (5)  |  |
|            | Environment, Health & Safety (E, H&S) (6)                             |  |
|            | Corporate Social Responsibility (CSR) (7)                             |  |
|            | Corporate Responsibility (CR) (8)                                     |  |
|            | Corporate Citizenship (9)   |  |
| Other (10) |   |  |
| <b>A.5</b> | <b>Source of the assured stand-alone report</b>                       |  |
|            | Printed copy (1)  |  |
|            | Web-based only (2)  |  |
| <b>A.6</b> | <b>Sector of the reporting company (as it appeared on FTSE lists)</b> |  |
| <b>A.7</b> | <b>Size of the reporting company market capital</b>                   |  |
|            | Small (1)   |  |
|            | Medium (2)  |  |
|            | Large (3)   |  |

### B- Information of the assurance provider

|            |   |  |
|------------|---|--|
| <b>B.1</b> | <b>Number of the assurance firms engaged in the assurance process</b> |  |
|            | 1 Firm(1)   |  |
|            | 2 Firms(2)  |  |
|            | More than 2 Firms (3) (No. of firms engaged .....                     |  |
| <b>B.2</b> | <b>Name of the assurance provider: .....</b>                          |  |
| <b>B.3</b> | <b>Type of the assurance provider</b>                                 |  |
|            | Public accountancy / Big Four (1)                                     |  |
|            | Other public accountancy (2)  |  |
|            | Consultancy (3)   |  |
|            | Non - profit organisation (4)   |  |

|            |   |  |
|------------|---|--|
|            | Certification body (5)                        |  |
|            | Individuals (6)                               |  |
|            | Others (7)                                    |  |
| <b>B.4</b> | <b>Competencies of the assurance provider</b> |  |
|            | Professional qualifications disclosed (1)     |  |
|            | Multi-disciplinary team (2)                   |  |
|            | No competencies disclosed (3)                 |  |

### C- Information on the assurance statement (AS)

|            |   |  |
|------------|---|--|
| <b>C.1</b> | <b>Name/title of the assurance statement</b>                              |  |
|            | Auditing/Audit Statement, Auditor's Report (1)                            |  |
|            | Assurance Statement/Report, Assuror's Statement (2)                       |  |
|            | Verification Statement, Verifier's Report (3)                             |  |
|            | Validation of Data (4)  |  |
|            | Independent Review (5)  |  |
|            | Others (6)  |  |
|            | No name/title given (7)   |  |
| <b>C.2</b> | <b>Number of the assurance statement pages</b>                            |  |
|            | Less than 1 page (1)  |  |
|            | 1 page (2)  |  |
|            | 2 pages (3)   |  |
|            | More than 2 pages (4) (No. of pages .....                                 |  |
| <b>C.3</b> | <b>Assurance statement is addressed to</b>                                |  |
|            | Reporting company/the management (1)                                      |  |
|            | Board of Directors (2)  |  |
|            | General stakeholders (3)  |  |
|            | Specific group of stakeholders (4)  |  |
|            | More than one addressee (5)   |  |
|            | No-party referred (6)   |  |
| <b>C.4</b> | <b>Level of assurance pursued referred on the assurance statement is</b>  |  |
|            | High – level (1)  |  |
|            | Reasonable; reasonable rather than absolute (2)                           |  |
|            | Limited (3)   |  |
|            | No level referred (4)   |  |
| <b>C.5</b> | <b>Type of the guidelines/standards used during the assurance process</b> |  |
|            | AA1000 Assurance Standard (1)   |  |
|            | GRI Guidelines (2)  |  |
|            | Financial auditing criteria (3)   |  |
|            | FEE Guidelines (4)  |  |
|            | ISAEs/ISAE3000 Standard (5)   |  |
|            | ISO14000s Series (6)  |  |
|            | SIGMA (7)   |  |
|            | Emerging best practice (8)  |  |
|            | Mixed standards (9)   |  |
|            | Other standards (10)  |  |
|            | No standards related to (11)  |  |
|            | Other standards used to be referred: .....                                |  |

|  |  |  |
|--|--|--|
| <b>C.6</b>   | <b>Terms used by the assurance provider to express the assurance opinion</b> |  |
|  | True and fair view or true and fair (1)                                      |  |
|  | Fair and reasonable (2)  |  |
|  | Fair and balanced (3)  |  |
|  | Correct or substantially correct (4)   |  |
|  | True (5)   |  |
|  | Fair (6)   |  |
|  | Accurate (7)   |  |
|  | Balanced (8)   |  |
|  | Reasonable (9)   |  |
|  | Consistent (10)  |  |
|  | Other terms (11) - to be referred .....                                      |  |
| No any specific terms used to express the opinion (12)               |  |  |
| <b>C.7</b>   | <b>Assurance statement indicates name of</b>                                 |  |
|  | The assurance firm (1)   |  |
|  | The assurance provider (2)   |  |
|  | Both the assurance firm & the assurance provider (3)                         |  |
| No name appears (4)  |  |  |
| <b>C.8</b>   | <b>Assurance statement has been</b>  |  |
|  | Signed by the assurance firm/the assurance provider (1)                      |  |
| Unsigned (2)   |  |  |
| <b>C.9</b>   | <b>Assurance statement indicates</b>   |  |
|  | Place/address of the assurance provider (1)                                  |  |
| No place/address information disclosed (2)                           |  |  |
| <b>C.10</b>  | <b>Assurance statement indicates</b>   |  |
|  | Additional information describing nature of the assurance provider (1)       |  |
| No additional information about the assurance provider disclosed (2) |  |  |
| <b>C.11</b>  | <b>The assurance statement is</b>  |  |
|  | Dated (1)  |  |
| Non-dated (2)  |  |  |
| <b>C.12</b>  | <b>Assurance statement discloses</b>   |  |
|  | Assurance fees (1) - amount of fees to be referred .....                     |  |
| No assurance fees disclosed (2)                                      |  |  |

- **Items of the sections (D, E, F and G) explore four dimensions of the assurance process. Dimensions identified in this framework taken together provide the potential to explore the quality of the assurance statement. This part of the instrument consists of four dimensions: independence of the assurance provider, methodology of the assurance process, engagement with the stakeholders and result of the assurance process (findings, opinion and recommendations presented in the assurance statement). Measurement scale is (0, 1), where answers of: No (0), and Yes (1)**

**D- Independence of the assurance provider**

(Items of this section seek to record the extent to which assurance provider's independence is addressed in the assurance statement)

|  |  |  |
|--|--|--|
| <b>D.1</b>   | Independence of the assurance process is explicitly asserted   |  |
| <b>D.2</b>   | Separate responsibilities for both (the assurance provider and the reporting company) have been clearly determined   |  |
| <b>D.3</b>   | The assurance provider is required to comply with the independence requirements set out in specific professional guidelines (such as the IFAC and the ICAEW) |  |
| <b>D.4</b>   | It is explicitly stated that the assurance provider is not involved in preparing the assured report  |  |
| <b>D.5</b>   | It is explicitly indicated that there is no financial or commercial relationship existing between the assurance provider and the reporting company           |  |
| <b>Additional Notes</b> (Providing other services to the reporting company): ..... |  |  |

**E- Methodology of the assurance process**

(Items of this section seek to record the extent to which element of the assurance methodology is highlighted in the assurance statement)

|                                 |   |  |
|---------------------------------|---|--|
| <b>Pre-assurance procedures</b> |   |  |
| <b>E.1</b>                      | The assurance process has been planned  |  |
| <b>E.2</b>                      | Specific criteria to be used on the assurance process are clearly described                   |  |
| <b>E.3</b>                      | Purposes and objectives of the assurance process are clearly described                        |  |
| <b>E.4</b>                      | Scope of the assurance process has been clearly described                                     |  |
| <b>E.5</b>                      | The described assurance scope has been developed by the assurance provider                    |  |
| <b>Assurance procedures</b>     |   |  |
| <b>E.6</b>                      | Sampling approach has been used during the assurance process                                  |  |
| <b>E.7</b>                      | The internal assurance approach and procedures have been reviewed                             |  |
| <b>E.8</b>                      | Data and figures in the company stand-alone report have been reviewed                         |  |
| <b>E.9</b>                      | Sites of the reporting company have been visited  |  |
| <b>E.10</b>                     | Employees have been interviewed   |  |
| <b>E.11</b>                     | A documentary review has been performed   |  |
| <b>E.12</b>                     | The data collection systems and process have been reviewed                                    |  |
| <b>E.13</b>                     | The environmental management system has been reviewed   |  |
| <b>E.14</b>                     | Materiality issues have been addressed explicitly in the AS                                   |  |
| <b>E.15</b>                     | Completeness of the assured stand-alone report has been addressed                             |  |
| <b>E.16</b>                     | The environmental, social, or sustainability corporate governance routines have been reviewed |  |
| <b>Additional Notes:</b> .....  |   |  |
| .....                           |   |  |

### F- Engagement with the stakeholders

(Items of this section seek to record the extent to which stakeholder issues are mentioned in the assurance statement).

|                                |   |  |
|--------------------------------|---|--|
| F.1                            | Specific stakeholders' groups have been interviewed   |  |
| F.2                            | Determining the stakeholders interests and concerns by the reporting company has been evaluated                               |  |
| F.3                            | The assurance provider has assessed whether the reporting company has determined how to respond to the stakeholders' concerns |  |
| F.4                            | Establishing sets of targets and indicators with regard the stakeholders' concerns has been assessed                          |  |
| F.5                            | The reporting company response to the past stakeholder issues has been addressed  |  |
| F.6                            | Clear references to weaknesses and shortcomings in determining stakeholders' concerns has been made                           |  |
| F.7                            | The achievements of the past recommendations concerning the stakeholders during the past reported periods have been evaluated |  |
| <b>Additional Notes:</b> ..... |   |  |

**G- Opinion, findings and recommendations presented by the assurance provider**  
(Items of this section seek to record nature of the opinion/conclusion expressed as well as the findings and recommendations (if any) which are made by the assurance provider in the assurance statement).

|  |  |  |
|--|--|--|
| <b>Items G.1-G.6 cover dimension of opinion and findings</b>                                 |  |  |
| G.1  | The assurance statement is divided into main sections/headings such as: scope, methodology or work undertaken, and opinion |  |
| G.2  | A clear opinion or conclusion concerning the subject matter has been expressed   |  |
| G.3  | A reference to limitation of the scope has been clearly made   |  |
| G.4  | Shortcomings and weaknesses in the sustainability performance have been highlighted  |  |
| G.5  | Weaknesses in the reporting systems have been highlighted  |  |
| G.6  | Weaknesses in the data collection systems and underlying processes and systems have been highlighted                       |  |
| <b>Items G.7-G.13 cover dimension of recommendations presented by the assurance provider</b> |  |  |
| G.7  | Recommendations on the stand-alone report's contents and its preparation process are made                                  |  |
| G.8  | Recommendations on sustainability performance made   |  |
| G.9  | Recommendations on reporting systems and processes are made  |  |
| G.10   | Recommendations on data collection systems and underlying processes and systems are made                                   |  |
| G.11   | Recommendations concerning the stakeholders are made   |  |
| G.12   | Recommendations that the reporting company to adopt emerging best practice or standards (such as AA1000 and GRI) are made  |  |
| G.13   | Recommendations that the reporting company to quantify its objectives and targets are made                                 |  |
| <b>Additional Notes:</b> .....   |  |  |



**Appendix 2: Corporate stand-alone reporting and assurance practices for the UK FTSE100 companies/Year 2000 <sup>a</sup>**

| #  | Company name                   | Market cap. £ (m) | Type of the report      | No. of assurance statement(s) |
|----|--------------------------------|-------------------|-------------------------|-------------------------------|
| 1  | BP Amoco                       | 116124.63         | Environment & Social    | 1                             |
| 2  | British Telecommunications     | 92581.50          | Environment             | 1                             |
| 3  | Vodafone Airtouch              | 91684.81          | CSR                     | N/A                           |
| 4  | HSBC Holdings                  | 69562.56          | CSR                     | N/A                           |
| 5  | Glaxo Wellcome                 | 61532.88          | Env., Health & Safety   | 1                             |
| 6  | Shell Transport & Trading Co   | 48041.80          | Sustainability          | 1                             |
| 7  | AstraZeneca                    | 43542.39          | CSR                     | N/A                           |
| 8  | SmithKline Beecham             | 42542.69          | Issued by Glaxo Wellc.  | N/A                           |
| 9  | Lloyds TSB Group               | 39749.77          | Environment             | 1                             |
| 10 | Marconi                        | 27956.57          | N/A                     | N/A                           |
| 11 | Cable & Wireless               | 25249.39          | Environment Review      | N/A                           |
| 12 | Barclays                       | 24949.98          | Social & Environment    | 1                             |
| 13 | Prudential Corporation         | 22353.77          | N/A                     | N/A                           |
| 14 | National Westminster Bank      | 21622.06          | N/A                     | N/A                           |
| 15 | Colt Telecom Group             | 19889.94          | N/A                     | N/A                           |
| 16 | Diageo                         | 17094.08          | N/A                     | N/A                           |
| 17 | British Sky Broadcasting Group | 16784.18          | N/A                     | N/A                           |
| 18 | Anglo American                 | 16305.84          | Safety, Health & Env.   | 1                             |
| 19 | Rio Tinto                      | 15585.86          | Social & Environment    | 1                             |
| 20 | Halifax                        | 14762.79          | N/A                     | N/A                           |
| 21 | Abbey National                 | 13659.88          | Corporate Citizenship   | 1                             |
| 22 | Cable & Wireless Comm.         | 13289.88          | Issued by Cable & Wire. | N/A                           |
| 23 | Unilever                       | 13276.24          | Environment             | 1                             |
| 24 | BG                             | 12749.43          | Env., Health & Safety   | 1                             |
| 25 | Tesco                          | 12360.81          | N/A                     | N/A                           |
| 26 | Invensys                       | 12272.13          | N/A                     | N/A                           |
| 27 | Pearson                        | 12240.25          | N/A                     | N/A                           |
| 28 | CGU                            | 12223.68          | Environment             | N/A                           |
| 29 | BAE Systems                    | 12009.89          | Community Review        | N/A                           |
| 30 | Reuters Group                  | 11779.21          | N/A                     | N/A                           |
| 31 | Granada Group                  | 11641.28          | N/A                     | N/A                           |
| 32 | Allied Zurich                  | 11209.26          | N/A                     | N/A                           |
| 33 | Standard Chartered             | 9912.58           | N/A                     | N/A                           |
| 34 | Royal Bank of Scotland Group   | 9526.32           | Environment             | N/A                           |
| 35 | Energis                        | 9064.07           | N/A                     | N/A                           |
| 36 | Marks & Spencer                | 8917.27           | N/A                     | N/A                           |
| 37 | Kingfisher                     | 8707.93           | N/A                     | N/A                           |
| 38 | Norwich Union                  | 8573.29           | N/A                     | N/A                           |
| 39 | Sage Group                     | 8540.00           | N/A                     | N/A                           |
| 40 | Legal & General Group          | 8510.91           | N/A                     | N/A                           |
| 41 | Scottish Power                 | 8431.91           | Environment             | 1                             |
| 42 | Bank of Scotland               | 8259.76           | N/A                     | N/A                           |
| 43 | Hays                           | 8189.23           | N/A                     | N/A                           |
| 44 | Billiton                       | 8012.27           | Env. & Community        | 1                             |
| 45 | ARM Holdings                   | 7617.10           | N/A                     | N/A                           |
| 46 | Telewest Communications        | 7529.66           | N/A                     | N/A                           |
| 47 | WPP Group                      | 7489.79           | N/A                     | N/A                           |
| 48 | Cadbury Schweppes              | 7442.33           | N/A                     | N/A                           |
| 49 | British American Tobacco       | 7229.95           | N/A                     | N/A                           |
| 50 | Centrica                       | 7121.95           | N/A                     | N/A                           |

<sup>a</sup> In addition to year 2000, this Appendix provides information about corporate stand-alone reporting and assurance practices for the FTSE100 companies for the years (2001-2004).

| #  | Company name                 | Market cap.<br>£ (m) | Type of the report       | No. of assurance<br>statement(s) |
|--|------------------------------|----------------------|--------------------------|----------------------------------|
| 51   | GKN                          | 6910.47              | N/A                      | N/A                              |
| 52   | Dixons Group                 | 6892.43              | N/A                      | N/A                              |
| 53   | National Grid Group          | 6889.20              | N/A                      | N/A                              |
| 54   | Rentokil Initial             | 6807.32              | N/A                      | N/A                              |
| 55   | 3i Group                     | 6709.45              | N/A                      | N/A                              |
| 56   | P&O Peninsular and OSN       | 6577.60              | Environment              | N/A                              |
| 57   | Sainsbury ( J )              | 6554.09              | Environment              | 1                                |
| 58   | BOC Group                    | 6550.62              | N/A                      | N/A                              |
| 59   | Bass                         | 6517.16              | N/A                      | N/A                              |
| 60   | Royal & SunAlliance Group    | 6284.35              | Environment & Social     | N/A- Internal audit              |
| 61   | Logica                       | 5934.18              | N/A                      | N/A                              |
| 62   | CMG                          | 5540.06              | N/A                      | N/A                              |
| 63   | Reed International           | 5443.50              | N/A                      | N/A                              |
| 64   | Compass Group                | 5410.54              | N/A                      | N/A                              |
| 65   | Old Mutual                   | 5408.65              | N/A                      | N/A                              |
| 66   | Boots Company                | 5341.48              | Environment              | N/A                              |
| 67   | Freeserve                    | 5273.45              | N/A                      | N/A                              |
| 68   | Corus Group                  | 5113.02              | Environment              | 1                                |
| 69   | Sun Life&Provincial Holdings | 4942.54              | N/A                      | N/A                              |
| 70   | Misys                        | 4937.33              | N/A                      | N/A                              |
| 71   | Woolwich                     | 4911.27              | N/A                      | N/A                              |
| 72   | Railtrack Group              | 4880.05              | Corporate Responsibility | 1                                |
| 73   | Sema Group                   | 4864.74              | N/A                      | N/A                              |
| 74   | Imperial Chemical Industries | 4737.26              | Safety, Health & Env.    | 1                                |
| 75   | BAA                          | 4645.34              | Sustainability           | 1                                |
| 76   | Amvescap                     | 4581.07              | N/A                      | N/A                              |
| 77   | South African Breweries      | 4568.59              | Corporate Citizenship    | N/A                              |
| 78   | EMI Group                    | 4443.08              | Environment Overview     | N/A                              |
| 79   | National Power               | 4404.39              | Environment Review       | 1                                |
| 80   | British Airways              | 4393.62              | Social & Environment     | 1                                |
| 81   | Scottish & Southern Energy   | 4272.45              | N/A                      | N/A                              |
| 82   | Alliance & Leicester         | 4236.26              | Environment              | N/A                              |
| 83   | Daily Mail & General Trust   | 4142.12              | N/A                      | N/A                              |
| 84   | United News & Media          | 3918.37              | N/A                      | N/A                              |
| 85   | Land Securities              | 3763.83              | N/A                      | N/A                              |
| 86   | Carlton Communications       | 3686.36              | N/A                      | N/A                              |
| 87   | Rolls Royce                  | 3511.01              | Environment              | N/A                              |
| 88   | Great Universal Stores       | 3470.28              | Environment              | 1                                |
| 89   | Schroders                    | 3460.59              | N/A                      | N/A                              |
| 90   | Reckitt Benckiser            | 3421.72              | Environment              | 1                                |
| 91   | United Utilities             | 3412.55              | Social & Environment     | 1                                |
| 92   | Hanson                       | 3390.28              | Environment              | N/A                              |
| 93   | Emap                         | 3343.38              | N/A                      | N/A                              |
| 94   | Allied Domecq                | 3102.54              | Environment              | N/A                              |
| 95   | Whitbread                    | 3045.39              | N/A                      | N/A                              |
| 96   | Blue Circle Industries       | 3017.69              | Environmental            | N/A                              |
| 97   | Hilton Group                 | 2999.32              | N/A                      | N/A                              |
| 98   | Electrocomponents            | 2941.68              | N/A                      | N/A                              |
| 99   | Smiths Industries            | 2839.72              | N/A                      | N/A                              |
| 100  | Powergen                     | 2834.00              | Environmental            | 1                                |
| <b>Total no. of S-A reporters and assurance statements</b> |                              |                      | <b>41</b>                | <b>24</b>                        |

Source (first two columns): [Http://www.ft.com/specials/uk\\_uk500a.htm](http://www.ft.com/specials/uk_uk500a.htm). Date of retrieval Dec. 2003.

**Corporate stand-alone reporting and assurance practices for the UK FTSE100 companies/Year 2001**

| #  | Company name                   | Market cap.<br>£ (m) | Type of the report        | No. of assurance statement(s) |
|----|--------------------------------|----------------------|---------------------------|-------------------------------|
| 1  | Vodafone Group                 | 122041.40            | CSR                       | N/A                           |
| 2  | BP                             | 120668.00            | Env. & Social Review      | 1                             |
| 3  | GlaxoSmithKline                | 107136.10            | Env., Health & Safety     | 1                             |
| 4  | HSBC Holdings                  | 75217.30             | CSR                       | N/A                           |
| 5  | AstraZeneca                    | 54157.90             | CSR Summary               | N/A                           |
| 6  | Royal Bank of Scotland Group   | 47643.20             | Community & Env.          | N/A                           |
| 7  | Shell Transport & Trading Co   | 46439.80             | Sustainability (2 Reprs.) | 2                             |
| 8  | Lloyds TSB Group               | 41509.20             | Environmental             | 1                             |
| 9  | Barclays                       | 37696.80             | Social & Environmental    | 1                             |
| 10 | HBOS                           | 28239.10             | Env. Citizenship          | N/A                           |
| 11 | Diageo                         | 26622.40             | Corporate Citizenship     | N/A                           |
| 12 | BT Group                       | 21935.20             | Social & Environmental    | 1                             |
| 13 | CGNU                           | 19004.00             | Environmental             | 1                             |
| 14 | Tesco                          | 17261.20             | CSR Review                | N/A                           |
| 15 | Unilever                       | 16418.00             | Social Review             | 1                             |
| 16 | Prudential                     | 15760.80             | Corporate Responsibility  | N/A                           |
| 17 | Anglo American                 | 15276.00             | Social, Health & Env.     | 1                             |
| 18 | Abbey National                 | 14135.30             | Corporate Citizenship     | 1                             |
| 19 | Rio Tinto                      | 14007.10             | Social & Environmental    | 1                             |
| 20 | Compass Group                  | 11405.10             | N/A                       | N/A                           |
| 21 | Marks & Spencer                | 10378.80             | N/A                       | N/A                           |
| 22 | BG Group                       | 9814.00              | Social & Environmental    | 1                             |
| 23 | Reuters Group                  | 9710.40              | N/A                       | N/A                           |
| 24 | British American Tobacco       | 9515.10              | Social                    | 1                             |
| 25 | BAE Systems                    | 9404.60              | CSR Review                | N/A                           |
| 26 | Standard Chartered             | 9225.00              | Environmental             | 1                             |
| 27 | Cable & Wireless               | 9224.30              | Env. & Community          | 1                             |
| 28 | Cadbury Schweppes              | 9006.30              | N/A                       | N/A                           |
| 29 | Centrica                       | 8908.90              | N/A                       | N/A                           |
| 30 | WPP Group                      | 8651.40              | N/A                       | N/A                           |
| 31 | Legal & General Group          | 8182.10              | Environmental             | N/A                           |
| 32 | BHP Billiton                   | 8093.30              | H, S, Env. & Community    | 1                             |
| 33 | Amvescap                       | 7749.20              | N/A                       | N/A                           |
| 34 | mmO2                           | 7499.60              | N/A                       | N/A                           |
| 35 | Reed International             | 7187.40              | N/A                       | N/A                           |
| 36 | British Sky Broadcasting Group | 7139.20              | Environmental             | N/A                           |
| 37 | Scottish Power                 | 7022.40              | Environmental             | 1                             |
| 38 | GUS                            | 6488.70              | N/A                       | N/A                           |
| 39 | National Grid Group            | 6355.80              | N/A                       | N/A                           |
| 40 | Pearson                        | 6296.40              | N/A                       | N/A                           |
| 41 | Reckitt Benckiser              | 6280.00              | Environmental             | 1                             |
| 42 | Six Continents                 | 5902.40              | N/A                       | N/A                           |
| 43 | BAA                            | 5840.40              | Sustainability            | 1                             |
| 44 | Royal & SunAlliance In. Group  | 5652.80              | Environmental & Social    | N/A- Internal audit           |
| 45 | Lattice Group                  | 5467.80              | N/A                       | N/A                           |
| 46 | Rentokil Initial               | 5382.40              | N/A                       | N/A                           |
| 47 | Sainsbury ( J )                | 5286.90              | Environmental             | 1                             |
| 48 | Boots Co                       | 5260.50              | Environmental             | N/A                           |
| 49 | Scottish & Southern Energy     | 5221.60              | Environmental             | 1                             |
| 50 | BOC Group                      | 5215.20              | N/A                       | N/A                           |

| #  | Company name                 | Market cap.<br>£ (m) | Type of the report       | No. of assurance statement(s) |
|--|------------------------------|----------------------|--------------------------|-------------------------------|
| 51   | 3i Group                     | 5208.60              | N/A                      | N/A                           |
| 52   | Kingfisher                   | 5174.50              | CSR                      | N/A                           |
| 53   | Powergen                     | 4915.10              | Corporate Responsibility | 1                             |
| 54   | Imperial Tobacco Group       | 4720.30              | Env., Health & Safety    | N/A                           |
| 55   | Dixons Group                 | 4546.80              | N/A                      | N/A                           |
| 56   | Allied Domecq                | 4349.40              | N/A                      | N/A                           |
| 57   | Amersham                     | 4263.30              | N/A                      | N/A                           |
| 58   | Invensys                     | 4172.60              | N/A                      | N/A                           |
| 59   | Shire Pharmaceuticals Group  | 4126.50              | N/A                      | N/A                           |
| 60   | Land Securities              | 4089.90              | Environmental            | 1                             |
| 61   | Alliance & Leicester         | 4082.20              | N/A                      | N/A                           |
| 62   | Granada                      | 3972.40              | Env. Management          | N/A                           |
| 63   | South African Breweries      | 3932.70              | Corporate Citizenship    | 1                             |
| 64   | Smith & Nephew               | 3804.70              | Sustainability           | N/A                           |
| 65   | Smiths Group                 | 3760.90              | Health & Safety          | N/A                           |
| 66   | ARM Holdings                 | 3632.20              | N/A                      | N/A                           |
| 67   | Hays                         | 3598.40              | N/A                      | N/A                           |
| 68   | Hanson                       | 3483.90              | Environmental            | N/A                           |
| 69   | Friends Provident            | 3420.80              | N/A                      | N/A                           |
| 70   | Scottish & Newcastle         | 3396.80              | Env. & Community         | N/A                           |
| 71   | United Utilities             | 3385.30              | Social & Environmental   | 1                             |
| 72   | Safeway                      | 3355.20              | N/A                      | N/A                           |
| 73   | Hilton Group                 | 3328.20              | N/A                      | N/A                           |
| 74   | Wolseley                     | 3306.30              | N/A                      | N/A                           |
| 75   | Old Mutual                   | 3274.90              | Corporate Citizenship    | N/A -Internal audit           |
| 76   | Capita Group                 | 3230.20              | N/A                      | N/A                           |
| 77   | Man Group                    | 3173.60              | N/A                      | N/A                           |
| 78   | Morrison (Wm) Supermarkets   | 3113.90              | N/A                      | N/A                           |
| 79   | Gallaher Group               | 3051.10              | Env. Health & Safety     | N/A                           |
| 80   | Next                         | 3016.20              | N/A                      | N/A                           |
| 81   | Canary Wharf Group           | 2897.30              | Environmental & Social   | 1                             |
| 82   | Sage Group                   | 2895.10              | N/A                      | N/A                           |
| 83   | Logica                       | 2860.20              | N/A                      | N/A                           |
| 84   | EMI Group                    | 2813.20              | Env. & Community         | N/A                           |
| 85   | P & O Princess Cruises       | 2770.40              | N/A                      | N/A                           |
| 86   | Imperial Chemical Industries | 2759.10              | Social, Health & Env.    | 1                             |
| 87   | Rolls Royce                  | 2664.70              | Env., Health & Safety    | N/A                           |
| 88   | Northern Rock                | 2657.80              | Community                | 1                             |
| 89   | Severn Trent                 | 2461.90              | Environmental            | N/A                           |
| 90   | Brambles Industries          | 2454.80              | N/A                      | N/A                           |
| 91   | British land Co              | 2419.50              | N/A                      | N/A                           |
| 92   | Celltech Group               | 2386.00              | Env., Health & Safety    | N/A                           |
| 93   | Electrocomponents            | 2326.20              | N/A                      | N/A                           |
| 94   | International Power          | 2261.90              | N/A                      | N/A                           |
| 95   | Enterprise Oil               | 2252.30              | Environmental Review     | 1                             |
| 96   | Innogy Holdings              | 2144.60              | Environmental & Social   | 1                             |
| 97   | British Airways              | 2109.90              | Social & Environmental   | 1                             |
| 98   | Schroders                    | 2009.30              | Social & Environmental   | N/A                           |
| 99   | Associated British Foods     | 1995.80              | N/A                      | N/A                           |
| 100  | Daily Mail & General Trust   | 1851.70              | N/A                      | N/A                           |
| <b>Total no. of S-A reporters and assurance statements</b> |                              |                      | <b>58</b>                | <b>32</b>                     |

Source (of the first two columns): FTSE UK Index Constituent Rankings FTSE100. *FTSE European Monthly Review*, December 2001.

**Corporate stand-alone reporting and assurance practices for the UK FTSE100 companies/Year 2002**

| #  | Company name                   | Market cap.<br>£ (m) | Type of the report       | No. of assurance statement(s) |
|----|--------------------------------|----------------------|--------------------------|-------------------------------|
| 1  | BP                             | 95424.90             | Environmental & Social   | 1                             |
| 2  | Vodafone Group                 | 76891.20             | CSR                      | 1                             |
| 3  | GlaxoSmithKline                | 71874.20             | Sustainability in E, H&S | 1                             |
| 4  | HSBC Holdings                  | 64744.30             | CSR                      | 1                             |
| 5  | Royal Bank of Scotland Group   | 42966.00             | Environment              | 1                             |
| 6  | Shell Transport & Trading Co   | 39808.70             | Sustainability           | 1                             |
| 7  | AstraZeneca                    | 38408.40             | Corporate Responsibility | N/A                           |
| 8  | Barclays                       | 25257.70             | CSR                      | 1                             |
| 9  | Lloyds TSB Group               | 24816.50             | Corporate Responsibility | 1                             |
| 10 | HBOS                           | 24739.70             | N/A                      | N/A                           |
| 11 | Diageo                         | 21478.00             | Environmental            | N/A                           |
| 12 | Unilever                       | 17204.00             | Environmental, Social    | 2                             |
| 13 | BT Group                       | 16906.60             | Social & Environmental   | 1                             |
| 14 | National Grid Group            | 14112.10             | Corporate Responsibility | 1                             |
| 15 | Tesco                          | 13586.10             | CSR Review               | N/A                           |
| 16 | Anglo American                 | 13537.10             | Sustainability           | 1                             |
| 17 | Rio Tinto                      | 13198.10             | Social & Environmental   | 2                             |
| 18 | British American Tobacco       | 10135.90             | Social                   | 1                             |
| 19 | Aviva                          | 9963.10              | CSR Summary              | N/A                           |
| 20 | BG Group                       | 9393.40              | Social & Environmental   | 1                             |
| 21 | British Sky Broadcasting Group | 9281.50              | CR & Environmental (2)   | N/A                           |
| 22 | Prudential                     | 8692.20              | CR ., Environmental (2r) | N/A- Internal audit           |
| 23 | Reckitt Benckiser              | 8435.80              | Environmental            | 1                             |
| 24 | Standard Chartered             | 8225.70              | Environmental            | 1                             |
| 25 | BHP Billion                    | 8187.60              | H, S, Env. & Community   | 1                             |
| 26 | Cadbury Schweppes              | 7957.60              | Env., Health & Safety    | N/A                           |
| 27 | Imperial Tobacco Group         | 7694.60              | Occupational H, S & Env  | 1                             |
| 28 | Abbey National                 | 7550.00              | CSR                      | 1                             |
| 29 | Compass Group                  | 7308.10              | N/A                      | N/A                           |
| 30 | Marks & Spencer                | 7263.90              | N/A                      | N/A                           |
| 31 | Centrica                       | 7219.00              | N/A                      | N/A                           |
| 32 | Reed Elsevier                  | 6708.20              | CSR                      | N/A                           |
| 33 | Scottish Power                 | 6699.00              | Env. Sustainability      | 1                             |
| 34 | Legal & General Group          | 6224.60              | Environmental            | 1 + Internal audit            |
| 35 | Scottish & Southern Energy     | 5820.80              | Environmental            | 1                             |
| 36 | Kingfisher                     | 5812.70              | CSR                      | N/A                           |
| 37 | GUS                            | 5804.60              | CSR                      | 1                             |
| 38 | WPP Group                      | 5459.60              | N/A                      | N/A                           |
| 39 | BAA                            | 5347.00              | Sustainability           | 1                             |
| 40 | Boots Co                       | 4949.30              | Env. Performance         | N/A                           |
| 41 | Pearson                        | 4573.00              | N/A                      | N/A                           |
| 42 | BOC Group                      | 4413.90              | N/A                      | N/A                           |
| 43 | SABMiller                      | 4409.30              | Corporate Accountability | 1                             |
| 44 | Allied Domecq                  | 4393.10              | N/A                      | N/A                           |
| 45 | Six Continents                 | 4357.40              | Environmental & Social   | N/A                           |
| 46 | Rentokil Initial               | 4143.10              | N/A                      | N/A                           |
| 47 | Sainsbury ( J )                | 4026.50              | Environmental            | 1                             |
| 48 | Gallaher Group                 | 4005.40              | Env., Health & Safety    | N/A                           |
| 49 | Scottish & Newcastle           | 3949.00              | CSR                      | N/A                           |
| 50 | Amersham                       | 3891.20              | Environmental & Social   | N/A                           |

| #  | Company name                 | Market cap.<br>£ (m) | Type of the report     | No. of assurance statement(s) |
|--|------------------------------|----------------------|------------------------|-------------------------------|
| 51   | Smiths Group                 | 3863.60              | Env., Health & Safety  | N/A                           |
| 52   | mmO2                         | 3836.50              | N/A                    | N/A                           |
| 53   | BAE Systems                  | 3767.90              | CSR                    | N/A                           |
| 54   | Land Securities Group        | 3650.60              | Environmental          | 1                             |
| 55   | Alliance & Leicester         | 3601.60              | CSR                    | N/A                           |
| 56   | Smith & Nephew               | 3525.90              | Sustainability         | N/A                           |
| 57   | United Utilities             | 3469.00              | Social & Environmental | 1                             |
| 58   | Morrison (Wm) Supermarkets   | 3372.30              | N/A                    | N/A                           |
| 59   | 3i Group                     | 3363.30              | N/A                    | N/A                           |
| 60   | Old Mutual                   | 3328.40              | Corporate Citizenship  | N/A- Internal audit           |
| 61   | Amvescap                     | 3145.40              | N/A                    | N/A                           |
| 62   | Wolseley                     | 2998.60              | N/A                    | N/A                           |
| 63   | P & O Princess Cruises       | 2985.10              | N/A                    | N/A                           |
| 64   | Dixons Group                 | 2805.50              | N/A                    | N/A                           |
| 65   | Northern Rock                | 2779.90              | Community              | 1                             |
| 66   | Man Group                    | 2757.20              | N/A                    | N/A                           |
| 67   | Imperial Chemical Industries | 2740.00              | Sustainability         | 1                             |
| 68   | Hilton Group                 | 2634.20              | CSR                    | N/A                           |
| 69   | Reuters Group                | 2534.70              | N/A                    | N/A                           |
| 70   | Severn Trent                 | 2376.30              | Environmental & CSR    | N/A                           |
| 71   | Associated British Foods     | 2328.50              | N/A                    | N/A                           |
| 72   | British land Company         | 2317.40              | Environmental & Social | 1                             |
| 73   | Safeway                      | 2235.90              | CSR                    | N/A                           |
| 74   | Granada                      | 2207.70              | Environmental & CSR    | 1                             |
| 75   | Next                         | 2154.70              | N/A                    | N/A                           |
| 76   | Friends Provident            | 2065.30              | CSR                    | N/A                           |
| 77   | Exel                         | 2043.40              | Environmental          | N/A- Internal audit           |
| 78   | Hanson                       | 2028.60              | Env. & Community       | N/A                           |
| 79   | Bradford & Bingley           | 1917.80              | N/A                    | N/A                           |
| 80   | Shire Pharmaceuticals Group  | 1907.30              | N/A                    | N/A                           |
| 81   | Emap                         | 1899.90              | N/A                    | N/A                           |
| 82   | Invensys                     | 1845.70              | N/A                    | N/A                           |
| 83   | Rexam                        | 1842.10              | N/A                    | N/A                           |
| 84   | Bunzl                        | 1764.70              | N/A                    | N/A                           |
| 85   | Liberty International        | 1764.50              | CSR                    | 1                             |
| 86   | Johnson Matthey              | 1756.40              | CSR Review             | N/A                           |
| 87   | Rolls Royce                  | 1729.90              | Env., Health & Safety  | N/A                           |
| 88   | Royal & SunAlliance Group    | 1729.10              | Environmental & Social | 1 + Internal audit            |
| 89   | Sage Group                   | 1685.10              | N/A                    | N/A                           |
| 90   | Daily Mail & General Trust   | 1661.60              | N/A                    | N/A                           |
| 91   | Capita Group                 | 1647.30              | N/A                    | N/A                           |
| 92   | Hays                         | 1604.60              | N/A                    | N/A                           |
| 93   | Whitbread                    | 1598.90              | Environmental          | N/A                           |
| 94   | Tomkins                      | 1470.50              | N/A                    | N/A                           |
| 95   | GKN                          | 1470.00              | Social Responsibility  | N/A                           |
| 96   | British Airways              | 1460.70              | Social & Environmental | 3 (3 Reports)                 |
| 97   | Canary Wharf Group           | 1380.50              | Environmental & Social | 1                             |
| 98   | Xstrata                      | 1229.50              | H, S, Env. & Community | 1                             |
| 99   | Schroders                    | 1204.30              | Social & Environmental | N/A                           |
| 100  | Alliance UniChem             | 1150.40              | N/A                    | N/A                           |
| <b>Total no. of S-A reporters and assurance statements</b> |                              |                      | <b>68</b>              | <b>42</b>                     |

Source (of the first two columns): FTSE UK Index Constituent Rankings FTSE100. *FTSE European Monthly Review*, December 2002.

**Corporate stand-alone reporting and assurance practices for the UK FTSE100 companies/Year 2003**

| #  | Company name                   | Market cap.<br>£ (m) | Type of the report       | No. of assurance statement(s) |
|----|--------------------------------|----------------------|--------------------------|-------------------------------|
| 1  | BP                             | 100131.10            | Sustainability           | 1                             |
| 2  | HSBC Holdings                  | 96213.30             | CSR                      | 1                             |
| 3  | Vodafone Group                 | 94034.70             | CSR                      | 1                             |
| 4  | GlaxoSmithKline                | 76301.70             | Sustainability in E, H&S | 1                             |
| 5  | Royal Bank of Scotland Group   | 48421.30             | CR. Health & Safety (2r) | N/A                           |
| 6  | AstraZeneca                    | 45849.30             | Corporate Responsibility | N/A                           |
| 7  | Shell Transport & Trading Co   | 40441.30             | Sustainability           | 1                             |
| 8  | Barclays                       | 32687.50             | CSR                      | 1                             |
| 9  | HBOS                           | 27756.40             | Corporate Responsibility | 1                             |
| 10 | Lloyds TSB Group               | 24927.80             | Corporate Responsibility | 1                             |
| 11 | Diageo                         | 22807.80             | Corporate Citizenship    | 1                             |
| 12 | Tesco                          | 18854.20             | CSR                      | N/A                           |
| 13 | Anglo American                 | 17711.90             | Sustainability           | 1                             |
| 14 | Rio Tinto                      | 16423.20             | Social & Environmental   | 1                             |
| 15 | BT Group                       | 16321.30             | Social & Environmental   | 1                             |
| 16 | Unilever                       | 15159.00             | Environment (2), Social  | 2                             |
| 17 | National Grid Transco          | 12373.20             | Corporate Responsibility | 1                             |
| 18 | British American Tobacco       | 12178.70             | Social                   | 1                             |
| 19 | BHP Billiton                   | 12043.80             | H, S, Env. & Community   | 1                             |
| 20 | Aviva                          | 11025.70             | CSR Summary              | 1                             |
| 21 | Standard Chartered             | 10748.20             | Environmental            | 1                             |
| 22 | British Sky Broadcasting Group | 10211.20             | Corporate Responsibility | N/A                           |
| 23 | BG Group                       | 10050.60             | Social & Environmental   | 1                             |
| 24 | Prudential                     | 9452.90              | CR Summary               | N/A                           |
| 25 | Centrica                       | 8999.80              | Corporate Responsibility | 1                             |
| 26 | Reckitt Benckiser              | 8947.70              | Environmental, Social    | 1                             |
| 27 | Cadbury Schweppes              | 8435.70              | Env., Health & Safety    | N/A                           |
| 28 | Compass Group                  | 8305.40              | N/A                      | N/A                           |
| 29 | Imperial Tobacco Group         | 8022.80              | Corporate Responsibility | 1                             |
| 30 | GUS                            | 7781.40              | CSR                      | 1                             |
| 31 | Abbey National                 | 7739.50              | CSR                      | 1                             |
| 32 | Scottish Power                 | 6879.20              | Env. & Sustainability    | 1                             |
| 33 | mmO2                           | 6675.90              | Corporate Responsibility | 1                             |
| 34 | Marks & Spencer Group          | 6524.20              | CSR Review               | N/A                           |
| 35 | Legal & General Group          | 6500.20              | N/A                      | N/A                           |
| 36 | WPP Group                      | 6470.00              | CSR                      | N/A                           |
| 37 | Kingfisher                     | 6452.10              | CSR                      | N/A                           |
| 38 | Reed Elsevier                  | 5891.70              | CSR                      | N/A                           |
| 39 | SABMiller                      | 5782.60              | Corporate Accountability | 1                             |
| 40 | Scottish & Southern Energy     | 5760.90              | Environmental            | 1                             |
| 41 | Boots Group                    | 5474.20              | Env. Health & Safety     | N/A                           |
| 42 | Amersham                       | 5357.30              | N/A                      | N/A                           |
| 43 | BAA                            | 5264.80              | Sustainability           | 1                             |
| 44 | BAE Systems                    | 5112.50              | CSR                      | N/A                           |
| 45 | Pearson                        | 4951.10              | Social Responsibility    | N/A                           |
| 46 | Allied Domecq                  | 4769.30              | N/A                      | N/A                           |
| 47 | Carnival                       | 4731.90              | N/A                      | N/A                           |
| 48 | Land Securities Group          | 4613.30              | N/A                      | N/A                           |
| 49 | Wolseley                       | 4588.20              | N/A                      | N/A                           |
| 50 | Sainsbury (J)                  | 4517.70              | Environmental            | N/A                           |

| #  | Company name                  | Market cap.<br>£ (m) | Type of the report       | No. of assurance<br>statement(s) |
|--|-------------------------------|----------------------|--------------------------|----------------------------------|
| 51   | Man Group                     | 4493.20              | CSR                      | N/A                              |
| 52   | Smith & Nephew                | 4348.30              | Sustainability           | N/A                              |
| 53   | BOC Group                     | 4242.40              | N/A                      | N/A                              |
| 54   | Alliance & Leicester          | 4172.80              | CSR                      | N/A                              |
| 55   | Gallaher Group                | 3895.00              | CR , Env., H and Safety  | N/A- 2 Inter. audit              |
| 56   | Intercontinental Hotels Group | 3891.30              | Environmental & Social   | N/A                              |
| 57   | 3i Group                      | 3780.90              | Corporate Responsibility | N/A                              |
| 58   | United Utilities              | 3695.00              | Corporate Responsibility | 1                                |
| 59   | Smiths Group                  | 3672.00              | Env., Health & Safety    | 1                                |
| 60   | Hilton Group                  | 3545.10              | CSR                      | 1                                |
| 61   | Morrison (Wm) Supermarkets    | 3528.40              | N/A                      | N/A                              |
| 62   | Old Mutual                    | 3525.50              | Corporate Citizenship    | N/A                              |
| 63   | Rentokil Initial              | 3486.90              | CSR                      | N/A                              |
| 64   | Granada                       | 3377.20              | CSR                      | 1                                |
| 65   | Scottish & Newcastle          | 3367.10              | CSR                      | N/A                              |
| 66   | Reuters Group                 | 3355.80              | CSR                      | N/A                              |
| 67   | Amvescap                      | 3247.10              | N/A                      | N/A                              |
| 68   | Cable & Wireless              | 3180.10              | Occp. H, S &E. , Env.    | N/A- Internal audit              |
| 69   | Next                          | 3097.50              | N/A                      | N/A                              |
| 70   | Hanson                        | 3015.30              | Corporate Responsibility | N/A                              |
| 71   | Northern Rock                 | 3005.30              | Community                | 1                                |
| 72   | Xstrata                       | 2983.80              | H, S, Env. & Community   | 1                                |
| 73   | Safeway                       | 2977.70              | CSR                      | N/A                              |
| 74   | Rolls-Royce Group             | 2953.00              | Env., Community          | 1                                |
| 75   | British Land Co               | 2868.90              | Corporate Responsibility | 1                                |
| 76   | Dixons Group                  | 2689.40              | N/A                      | N/A                              |
| 77   | Shire Pharmaceuticals Group   | 2603.10              | CSR                      | N/A                              |
| 78   | Severn Trent                  | 2564.60              | Sustainable Development  | N/A                              |
| 79   | Royal & SunAlliance Group     | 2527.50              | Corporate Responsibility | 1 + Internal audit               |
| 80   | British Airways               | 2515.70              | Social & Environmental   | 1                                |
| 81   | Imperial Chemical Industries  | 2370.70              | Sustainability           | 1                                |
| 82   | Rexam                         | 2338.10              | Environmental & Social   | 4                                |
| 83   | Associated British Foods      | 2312.60              | Env., Health & Safety    | 1                                |
| 84   | Friends Provident             | 2257.70              | Corporate Responsibility | N/A                              |
| 85   | Sage Group                    | 2226.80              | Corporate Citizenship    | N/A                              |
| 86   | Emap                          | 2199.10              | N/A                      | N/A                              |
| 87   | Exel                          | 2193.30              | Environmental            | N/A – Internal audit             |
| 88   | Johnson Matthey               | 2153.80              | CSR Review               | N/A – Internal audit             |
| 89   | Liberty International         | 2133.30              | CSR                      | 1                                |
| 90   | Whitbread                     | 2125.00              | Environmental Report     | N/A                              |
| 91   | Hays                          | 2076.00              | N/A                      | N/A                              |
| 92   | Tomkins                       | 2070.30              | N/A                      | N/A                              |
| 93   | Bradford & Bingley            | 1955.90              | CSR                      | N/A                              |
| 94   | GKN                           | 1955.20              | Social Responsibility    | N/A                              |
| 95   | Bunzl                         | 1928.00              | N/A                      | N/A                              |
| 96   | Daily Mail & General Trust    | 1883.10              | N/A                      | N/A                              |
| 97   | Foreign & Col Invest Trust    | 1791.30              | N/A                      | N/A                              |
| 98   | Yell Group                    | 1589.40              | N/A                      | N/A                              |
| 99   | Schroders                     | 1470.80              | Social & Environmental   | N/A                              |
| 100  | Alliance UniChem              | 1365.00              | N/A                      | N/A                              |
| <b>Total no. of S-A reporters and assurance statements</b> |                               |                      | <b>80</b>                | <b>47</b>                        |

Source (of the first two columns): FTSE UK Index Constituent Rankings FTSE100. *FTSE European Monthly Review*, December 2003.

**Corporate stand-alone reporting and assurance practices for the UK FTSE100 companies/Year 2004**

| #  | Company name                   | Market cap.<br>£ (m) | Type of the report        | No. of assurance statement(s) |
|----|--------------------------------|----------------------|---------------------------|-------------------------------|
| 1  | BP                             | 109944.60            | Sustainability Report     | 1                             |
| 2  | HSBC Holdings                  | 97701.40             | CSR                       | 1                             |
| 3  | Vodafone Group                 | 93307.40             | Corporate Responsibility  | 1                             |
| 4  | GlaxoSmithKline                | 72018.60             | Corporate Responsibility  | 1                             |
| 5  | Royal Bank of Scotland Group   | 55547.70             | CR, Health & Safety (2r)  | 1                             |
| 6  | Shell Transport & Trading Co   | 42748.80             | Sustainable Development   | 1                             |
| 7  | Barclays                       | 37920.70             | Corporate Responsibility  | 1                             |
| 8  | HBOS                           | 32970.00             | Corporate Responsibility  | 1                             |
| 9  | AstraZeneca                    | 31472.70             | Corporate Responsibility  | 1                             |
| 10 | Lloyds TSB Group               | 26318.80             | Corporate Responsibility  | 1                             |
| 11 | Tesco                          | 24702.30             | Corporate Responsibility  | N/A                           |
| 12 | Diageo                         | 22450.50             | Corporate Citizenship     | 1                             |
| 13 | Anglo American                 | 18265.70             | Report to Society         | 1                             |
| 14 | BT Group                       | 17365.50             | Social & Environmental    | 1                             |
| 15 | Rio Tinto                      | 16316.70             | Sustainable Development   | 1                             |
| 16 | National Grid Transco          | 15333.20             | Operating Responsibility  | 1                             |
| 17 | BHP Billiton                   | 15067.10             | H, S, Env. & Community    | 1                             |
| 18 | Unilever                       | 14889.80             | Environmental, Social     | 2                             |
| 19 | British American Tobacco       | 14534.80             | Social Report             | 1                             |
| 20 | Aviva                          | 14331.60             | CSR Summary               | 1                             |
| 21 | BG Group                       | 12407.70             | Corporate Responsibility  | 1                             |
| 22 | Standard Chartered             | 11401.30             | Corporate Responsibility  | 1                             |
| 23 | Reckitt Benckiser              | 10977.40             | Sustainability Report     | 1                             |
| 24 | Prudential                     | 10690.30             | Corporate Responsibility  | N/A                           |
| 25 | mmO2                           | 10642.50             | Corporate Responsibility  | 1                             |
| 26 | Imperial Tobacco Group         | 10407.70             | Corporate Responsibility  | 1                             |
| 27 | Cadbury Schweppes              | 9972.70              | CSR                       | N/A                           |
| 28 | GUS                            | 9441.30              | CSR Summary               | 1                             |
| 29 | Centrica                       | 8936.90              | Corporate Responsibility  | 1                             |
| 30 | SABMiller                      | 8628.90              | Corporate Accountability  | 1                             |
| 31 | British Sky Broadcasting Group | 8163.10              | Corporate Responsibility  | NA                            |
| 32 | Scottish & Southern Energy     | 7468.60              | Environmental             | 1                             |
| 33 | Scottish Power                 | 7452.10              | Env. & Social Impact      | 1                             |
| 34 | Kingfisher                     | 7255.50              | N/A                       | N/A                           |
| 35 | Legal & General Group          | 7132.40              | CSR                       | N/A- Internal audit           |
| 36 | BAE Systems                    | 7004.10              | Corporate Responsibility  | 1                             |
| 37 | WPP Group                      | 6759.00              | Corporate Responsibility  | N/A                           |
| 38 | Carnival                       | 6680.60              | N/A                       | N/A                           |
| 39 | Land Securities Group          | 6510.70              | Corporate Resp. (2 reps.) | 2                             |
| 40 | BAA                            | 6195.80              | Annual/Sustainability CS  | 1                             |
| 41 | Reed Elsevier                  | 6119.60              | Corporate Responsibility  | N/A                           |
| 42 | Allied Domecq                  | 5676.70              | Social                    | N/A                           |
| 43 | Wolseley                       | 5653.90              | N/A                       | N/A                           |
| 44 | Marks & Spencer Group          | 5643.60              | CSR Report                | 1                             |
| 45 | Morrison (Wm) Supermarkets     | 5491.60              | N/A                       | N/A                           |
| 46 | Reuters Group                  | 5390.70              | N/A                       | N/A                           |
| 47 | Compass Group                  | 5315.40              | N/A                       | N/A                           |
| 48 | Gallaher Group                 | 5138.20              | CR, Env., H & Safety      | N/A- 2 Inter. audit           |
| 49 | Old Mutual                     | 5077.50              | Corporate Citizenship     | N/A                           |
| 50 | Pearson                        | 5002.90              | Environmental Review      | 1                             |

| #  | Company name                  | Market cap.<br>£ (m) | Type of the report       | No. of assurance<br>statement(s) |
|--|-------------------------------|----------------------|--------------------------|----------------------------------|
| 51   | Smith & Nephew                | 5002.20              | Sustainability           | N/A                              |
| 52   | The BOC Group                 | 4938.30              | N/A                      | N/A                              |
| 53   | Boots Group                   | 4906.40              | N/A                      | N/A                              |
| 54   | United Utilities              | 4884.40              | Corporate Responsibility | 1                                |
| 55   | British Land Co               | 4642.70              | Corporate Responsibility | 1                                |
| 56   | Smiths Group                  | 4612.60              | Env., Health & Safety    | 1                                |
| 57   | Man Group                     | 4527.00              | CSR                      | N/A                              |
| 58   | Hilton Group                  | 4487.50              | CSR                      | 1                                |
| 59   | Xstrata                       | 4414.20              | Sustainability           | 1                                |
| 60   | Next                          | 4355.00              | CSR                      | 1                                |
| 61   | ITV                           | 4282.60              | Corporate Responsibility | 1                                |
| 62   | Rolls-Royce Group             | 4209.30              | Env., Health & Safety    | 1                                |
| 63   | Alliance & Leicester          | 4102.00              | CSR                      | N/A                              |
| 64   | 3i Group                      | 4077.80              | Corporate Responsibility | N/A                              |
| 65   | Intercontinental Hotels Group | 4038.30              | N/A                      | N/A                              |
| 66   | Scottish & Newcastle          | 3879.00              | Corporate Responsibility | N/A                              |
| 67   | Sainsbury (J)                 | 3419.00              | CSR                      | N/A                              |
| 68   | Severn Trent                  | 3344.80              | Corporate Responsibility | N/A                              |
| 69   | Northern Rock                 | 3291.70              | Community Report         | 1                                |
| 70   | Hanson                        | 3287.30              | N/A                      | N/A                              |
| 71   | Liberty International         | 3121.90              | CSR                      | 1                                |
| 72   | Associated British Foods      | 3090.80              | Health, Safety & Env.    | Web. N/A                         |
| 73   | Friends Provident             | 3062.90              | Corporate Responsibility | N/A                              |
| 74   | Yell Group                    | 3057.30              | Corporate Responsibility | N/A                              |
| 75   | Dixons Group                  | 2940.90              | N/A                      | N/A                              |
| 76   | Imperial Chemical Industries  | 2871.00              | Sustainability Review    | 1                                |
| 77   | Cable & Wireless              | 2840.70              | Occp. H, S & E., Env.    | N/A-Internal audit               |
| 78   | Enterprise Inns               | 2777.60              | N/A                      | N/A                              |
| 79   | Rentokil Initial              | 2674.40              | CSR                      | N/A                              |
| 80   | Shire Pharmaceuticals Group   | 2624.70              | Corporate Responsibility | N/A                              |
| 81   | Amvescap                      | 2596.30              | N/A                      | N/A                              |
| 82   | Sage Group                    | 2588.80              | N/A                      | N/A                              |
| 83   | British Airways               | 2542.70              | Corporate Responsibility | 1                                |
| 84   | Rexam                         | 2511.60              | Environmental & Social   | N/A                              |
| 85   | Whitbread                     | 2501.80              | Environmental Report     | 1                                |
| 86   | Capita Group                  | 2434.40              | N/A                      | N/A                              |
| 87   | Tate & Lyle                   | 2277.20              | Community Involvement    | N/A                              |
| 88   | Royal & SunAlliance Group     | 2257.00              | Corporate Responsibility | 1                                |
| 89   | Corus Group                   | 2239.60              | Corporate Responsibility | 1                                |
| 90   | William Hill                  | 2231.40              | N/A                      | N/A                              |
| 91   | Johnson Matthey               | 2169.20              | CSR Report               | N/A- Internal audit              |
| 92   | Exel                          | 2147.30              | Environmental            | N/A- Internal audit              |
| 93   | Hays                          | 2127.00              | N/A                      | N/A                              |
| 94   | Daily Mail & General Trust    | 2120.30              | N/A                      | N/A                              |
| 95   | Emap                          | 2092.70              | N/A                      | N/A                              |
| 96   | Alliance UniChem              | 2015.10              | N/A                      | N/A                              |
| 97   | Bunzl                         | 1909.60              | N/A                      | N/A                              |
| 98   | Schroders                     | 1772.70              | Corporate Responsibility | N/A                              |
| 99   | Cairn Energy                  | 1732.40              | N/A                      | N/A                              |
| 100  | Antofagasta                   | 884.10               | N/A                      | N/A                              |
| <b>Total no. of S-A reporters and assurance statements</b> |                               |                      | <b>77</b>                | <b>51</b>                        |

Source of the first two columns: FTSE UK Index Constituent Rankings FTSE100. *FTSE European Monthly Review*, December 2004.

**Appendix 3: Assurance statements and assurance providers of the UK FTSE100 corporate stand-alone reports/Years 2000-2004<sup>a</sup>**

| #  | Company name<br>(FTSE's sector code)                     | Year of<br>the report | No. of<br>AS | Assurance provider            |
|----|--|-----------------------|--------------|-------------------------------|
| 1  | <b>BP plc</b><br>(07)                                    | 2000                  | 1            | Ernst & Young LLP             |
|    |  | 2001                  | 1            | Ernst & Young LLP             |
|    |  | 2002                  | 1            | Ernst & Young LLP             |
|    |  | 2003                  | 1            | Ernst & Young LLP             |
|    |  | 2004                  | 1            | Ernst & Young LLP             |
| 2  | <b>HSBC Holdings plc</b><br>(81)                         | 2002                  | 1            | Corporate Citizenship Company |
|    |  | 2003                  | 1            | Corporate Citizenship Company |
|    |  | 2004                  | 1            | Corporate Citizenship Company |
| 3  | <b>Vodafone Group plc</b><br>(67)                        | 2002                  | 1            | Deloitte & Touche LLP         |
|    |  | 2003                  | 1            | Deloitte & Touche LLP         |
|    |  | 2004                  | 1            | Deloitte & Touche LLP         |
| 4  | <b>GlaxoSmithKline plc</b><br>(48)                       | 2000                  | 1            | ERM                           |
|    |  | 2001                  | 1            | ERM                           |
|    |  | 2002                  | 1            | ERM                           |
|    |  | 2003                  | 1            | ERM                           |
|    |  | 2004                  | 1            | ERM                           |
| 5  | <b>Royal Bank of Scotland<br/>Group plc</b> (81)         | 2002                  | 1            | FaberMaunsell Ltd             |
|    |  | 2004                  | 1            | Deloitte & Touche LLP         |
| 6  | <b>Shell Transport &amp;<br/>Trading Co. plc</b><br>(07) | 2000                  | 1            | KPMG & PwC LLP                |
|    |  | 2001                  | 2            | KPMG & PwC LLP                |
|    |  | 2002                  | 1            | KPMG & PwC LLP                |
|    |  | 2003                  | 1            | KPMG & PwC LLP                |
|    |  | 2004                  | 1            | KPMG & PwC LLP                |
| 7  | <b>Barclays plc</b><br>(81)                              | 2000                  | 1            | PwC                           |
|    |  | 2001                  | 1            | PwC                           |
|    |  | 2002                  | 1            | SGS UK Ltd                    |
|    |  | 2003                  | 1            | SGS UK Ltd                    |
|    |  | 2004                  | 1            | SGS UK Ltd                    |
| 8  | <b>HBOS plc</b><br>(81)                                  | 2003                  | 1            | Casella Stanger               |
|    |  | 2004                  | 1            | Casella Stanger               |
| 9  | <b>AstraZeneca plc</b> (48)                              | 2004                  | 1            | Bureau Veritas                |
| 10 | <b>Lloyds TSB Group plc</b><br>(81)                      | 2000                  | 1            | RPS Group                     |
|    |  | 2001                  | 1            | RPS Group                     |
|    |  | 2002                  | 1            | RPS Group                     |
|    |  | 2003                  | 1            | RPS Group                     |
|    |  | 2004                  | 1            | RPS Group                     |
| 11 | <b>Diageo plc</b><br>(41)                                | 2003                  | 1            | Corporate Citizenship Company |
|    |  | 2004                  | 1            | Corporate Citizenship Company |
| 12 | <b>Anglo American plc</b><br>(04)                        | 2000                  | 1            | KPMG LLP                      |
|    |  | 2001                  | 1            | KPMG LLP                      |
|    |  | 2002                  | 1            | KPMG LLP                      |
|    |  | 2003                  | 1            | KPMG LLP                      |
|    |  | 2004                  | 1            | KPMG LLP                      |
| 13 | <b>BT Group plc</b><br>(67)                              | 2000                  | 1            | Lloyd's Register QAL          |
|    |  | 2001                  | 1            | Lloyd's Register QAL          |
|    |  | 2002                  | 1            | Lloyd's Register QAL          |
|    |  | 2003                  | 1            | Lloyd's Register QAL          |
|    |  | 2004                  | 1            | Lloyd's Register QAL          |

| #    | Company name<br>(FTSE's sector code)        | Year of<br>the report | No. of<br>AS | Assurance provider            |
|------|---|-----------------------|--------------|-------------------------------|
| 14   | <b>Rio Tinto plc</b><br>(04)                | 2000                  | 1            | Arthur D Little               |
|      |   | 2001                  | 1            | Prince of Wales IBLF          |
|      |   | 2002                  | 2            | ICF Consulting , ERM          |
|      |   | 2003                  | 1            | ERM                           |
|      |   | 2004                  | 1            | ERM                           |
| 15   | <b>National Grid Transco plc</b><br>(77)    | 2002                  | 1            | URS Verification Ltd          |
|      |   | 2003                  | 1            | URS Verification Ltd          |
|      |   | 2004                  | 1            | URS Verification Ltd          |
| 16   | <b>BHP Billiton Ltd</b><br>(04)             | 2000                  | 1            | URS Corporation               |
|      |   | 2001                  | 1            | ERM                           |
|      |   | 2002                  | 1            | ERM                           |
|      |   | 2003                  | 1            | ERM                           |
|      |   | 2004                  | 1            | URS Australia Pty Ltd         |
| 17   | <b>Unilever plc</b><br>(43)                 | 2000                  | 1            | Enviros Aspinwall             |
|      |   | 2001                  | 1            | URS Europe                    |
|      |   | 2002                  | 2            | URS Verification Ltd          |
|      |   |                       |              | Corporate Citizenship Company |
|      |   | 2003                  | 2            | URS Verification Ltd          |
|      |   |                       |              | Corporate Citizenship Company |
| 2004 | 2   | URS Verification Ltd  |              |                               |
| 18   | <b>British American Tobacco plc</b><br>(49) | 2001                  | 1            | Bureau Veritas                |
|      |   | 2002                  | 1            | Bureau Veritas                |
|      |   | 2003                  | 1            | Bureau Veritas                |
|      |   | 2004                  | 1            | Bureau Veritas                |
| 19   | <b>Aviva plc</b><br>(84)                    | 2001                  | 1            | PwC LLP                       |
|      |   | 2003                  | 1            | PwC LLP                       |
|      |   | 2004                  | 1            | Ernst & Young LLP             |
| 20   | <b>BG Group plc</b><br>(07)                 | 2000                  | 1            | PwC LLP                       |
|      |   | 2001                  | 1            | PwC LLP                       |
|      |   | 2002                  | 1            | KPMG LLP                      |
|      |   | 2003                  | 1            | KPMG LLP                      |
|      |   | 2004                  | 1            | KPMG LLP                      |
| 21   | <b>Standard Chartered plc</b><br>(81)       | 2001                  | 1            | Scott Wilson                  |
|      |   | 2002                  | 1            | Scott Wilson                  |
|      |   | 2003                  | 1            | Scott Wilson                  |
|      |   | 2004                  | 1            | csnetwork                     |
| 22   | <b>Reckitt Benckiser plc</b><br>(47)        | 2000                  | 1            | PwC LLP                       |
|      |   | 2001                  | 1            | PwC LLP                       |
|      |   | 2002                  | 1            | PwC LLP                       |
|      |   | 2003                  | 1            | PwC LLP                       |
|      |   | 2004                  | 1            | URS Verification Ltd          |
| 23   | <b>mmO2 plc</b><br>(67)                     | 2003                  | 1            | Ernst & Young LLP             |
|      |   | 2004                  | 1            | Ernst & Young LLP             |
| 24   | <b>Imperial Tobacco Group plc</b><br>(49)   | 2002                  | 1            | SGS UK Ltd                    |
|      |   | 2003                  | 1            | SGS UK Ltd                    |
|      |   | 2004                  | 1            | SGS UK Ltd                    |
| 25   | <b>GUS plc</b><br>(52)                      | 2000                  | 1            | AEA Technology                |
|      |   | 2002                  | 1            | Acona Ltd                     |
|      |   | 2003                  | 1            | Acona Ltd                     |
|      |   | 2004                  | 1            | Acona Ltd                     |

| #  | Company name<br>(FTSE's sector code)                  | Year of<br>the report | No. of<br>AS | Assurance provider            |
|----|---|-----------------------|--------------|-------------------------------|
| 26 | <b>Centrica plc</b><br>(77)                           | 2003                  | 1            | Corporate Citizenship Company |
|    |   | 2004                  | 1            | Corporate Citizenship Company |
| 27 | <b>SABMiller plc</b><br>(41)                          | 2001                  | 1            | Corporate Citizenship Company |
|    |   | 2002                  | 1            | Corporate Citizenship Company |
|    |   | 2003                  | 1            | Corporate Citizenship Company |
|    |   | 2004                  | 1            | Corporate Citizenship Company |
| 28 | <b>Scottish &amp; Southern<br/>Energy plc</b><br>(72) | 2001                  | 1            | ERM Scotland                  |
|    |   | 2002                  | 1            | ERM Scotland                  |
|    |   | 2003                  | 1            | ERM Scotland                  |
|    |   | 2004                  | 1            | ERM Scotland                  |
| 29 | <b>Scottish Power plc</b><br>(72)                     | 2000                  | 1            | URS Verification Ltd          |
|    |   | 2001                  | 1            | URS Verification Ltd          |
|    |   | 2002                  | 1            | csrnetwork                    |
|    |   | 2003                  | 1            | csrnetwork                    |
|    |   | 2004                  | 1            | csrnetwork                    |
| 30 | <b>Legal &amp; General G.</b> (84)                    | 2002                  | 1            | Casella Stanger               |
| 31 | <b>BAE Systems plc</b> (21)                           | 2004                  | 1            | csrnetwork                    |
| 32 | <b>Land Securities Group<br/>plc</b> (86)             | 2001                  | 1            | Environmental Governance      |
|    |   | 2002                  | 1            | Environmental Governance      |
|    |   | 2004                  | 2            | Upstream                      |
| 33 | <b>BAA plc</b><br>(59)                                | 2000                  | 1            | Stanger Science & Environment |
|    |   | 2001                  | 1            | Casella Stanger               |
|    |   | 2002                  | 1            | Casella Stanger               |
|    |   | 2003                  | 1            | ERM                           |
|    |   | 2004                  | 1            | ERM                           |
| 34 | <b>Marks &amp; Spencer plc</b> (52)                   | 2004                  | 1            | Ernst & Young LLP             |
| 35 | <b>Pearson plc</b> (54)                               | 2004                  | 1            | The SMART Company             |
| 36 | <b>United Utilities plc</b><br>(77)                   | 2000                  | 1            | csrnetwork                    |
|    |   | 2001                  | 1            | csrnetwork                    |
|    |   | 2002                  | 1            | csrnetwork                    |
|    |   | 2003                  | 1            | csrnetwork                    |
|    |   | 2004                  | 1            | Justassurance network Ltd     |
| 37 | <b>The British Land<br/>Company plc</b><br>(86)       | 2002                  | 1            | Arup & Addison                |
|    |   | 2003                  | 1            | Ashridge Centre for BAS       |
|    |   | 2004                  | 1            | Ashridge Centre for BAS       |
| 38 | <b>Smiths Group plc</b><br>(21)                       | 2003                  | 1            | csrnetwork Ltd                |
|    |   | 2004                  | 1            | csrnetwork Ltd                |
| 39 | <b>Hilton Group plc</b><br>(53)                       | 2003                  | 1            | Acona Group AS                |
|    |   | 2004                  | 1            | Acona Group AS                |
| 40 | <b>Xstrata plc</b><br>(04)                            | 2002                  | 1            | ERM                           |
|    |   | 2003                  | 1            | URS Verification Ltd          |
|    |   | 2004                  | 1            | URS Verification Ltd          |
| 41 | <b>Next plc</b> (52)                                  | 2004                  | 1            | The Reassurance Network       |
| 42 | <b>ITV (Granada) plc</b><br>(54)                      | 2002                  | 1            | Aon Limited                   |
|    |   | 2003                  | 1            | Aon Limited                   |
|    |   | 2004                  | 1            | Aon Limited                   |

| #            | Company name<br>(FTSE's Sector Code)                        | Year of<br>the report | No. of<br>AS | Assurance provider            |
|--------------|---|-----------------------|--------------|-------------------------------|
| 43           | <b>Rolls - Royce G. plc</b><br>(21)                         | 2003                  | 1            | Deloitte & Touche LLP         |
|              |   | 2004                  | 1            | Deloitte & Touche LLP         |
| 44           | <b>J Sainsbury plc</b><br>(63)                              | 2000                  | 1            | PwC                           |
|              |   | 2001                  | 1            | PwC                           |
|              |   | 2002                  | 1            | PwC                           |
| 45           | <b>Northern Rock plc</b><br>(81)                            | 2001                  | 1            | SEQM Limited                  |
|              |   | 2002                  | 1            | SEQM Limited                  |
|              |   | 2003                  | 1            | SEQM Limited                  |
|              |   | 2004                  | 1            | SEQM Limited                  |
| 46           | <b>Liberty International plc</b><br>(86)                    | 2002                  | 1            | Casella Stanger               |
|              |   | 2003                  | 1            | Casella Stanger               |
|              |   | 2004                  | 1            | Casella Stanger               |
| 47           | <b>Associated B.Food plc</b> (43)                           | 2003                  | 1            | URS Verification Ltd          |
| 48           | <b>Imperial Chemical<br/>Industries plc</b><br>(11)         | 2000                  | 1            | Enviros Aspinwall             |
|              |   | 2001                  | 1            | Enviros                       |
|              |   | 2002                  | 1            | Enviros                       |
|              |   | 2003                  | 1            | Enviros                       |
|              |   | 2004                  | 1            | Enviros                       |
| 49           | <b>Cable &amp; Wireless plc</b> (67)                        | 2002                  | 1            | PwC                           |
| 50           | <b>British Airways plc</b><br>(59)                          | 2000                  | 1            | csrnetwork Ltd                |
|              |   | 2001                  | 1            | csrnetwork Ltd                |
|              |   | 2002                  | 3            | csrnetwork Ltd                |
|              |   | 2003                  | 1            | The Reassurance Network       |
|              |   | 2004                  | 1            | The Reassurance Network       |
| 51           | <b>Rexam plc</b><br>(58)                                    | 2003                  | 4            | Environ UK Limited            |
|              |   |                       |              | ReputationInc                 |
|              |   |                       |              | Marsh & Aon (2 statements)    |
| 52           | <b>Whitbread plc</b> (53)                                   | 2004                  | 1            | Corporate Citizenship Company |
| 53           | <b>Royal &amp; SunAlliance<br/>Insurance Group plc</b> (83) | 2002                  | 1            | Sd3 Limited                   |
|              |   | 2003                  | 1            | Sd3 Limited                   |
|              |   | 2004                  | 1            | Sd3 Limited                   |
| 54           | <b>Corus Group plc</b><br>(18)                              | 2000                  | 1            | Enviros Aspinwall             |
|              |   | 2004                  | 1            | Enviros                       |
| 55           | <b>Abbey National plc</b><br>(81)                           | 2000                  | 1            | PwC                           |
|              |   | 2001                  | 1            | PwC                           |
|              |   | 2002                  | 1            | SGS UK Ltd                    |
|              |   | 2003                  | 1            | SGS UK Ltd                    |
| 56           | <b>Canary Wharf Group plc</b><br>(86)                       | 2001                  | 1            | Casella Stanger               |
|              |   | 2002                  | 1            | Casella Stanger               |
| 57           | <b>Powergen plc</b><br>(72)                                 | 2000                  | 1            | EAQA Ltd                      |
|              |   | 2001                  | 1            | EAQA Ltd                      |
| 58           | <b>Enterprise Oil plc</b> (07)                              | 2001                  | 1            | ECOS Ltd                      |
| 59           | <b>Innogy Holdings plc</b> (72)                             | 2001                  | 1            | Lloyd's Register QAL          |
| 60           | <b>Railtrack plc</b> (59)                                   | 2000                  | 1            | csrnetwork                    |
| 61           | <b>National Power plc</b> (72)                              | 2000                  | 1            | Lloyd's Register QAL          |
| <b>Total</b> |   |                       | <b>196</b>   | -                             |

<sup>a</sup> Companies in this Appendix have been listed according to their size of market-capitalisation as declared by the Financial Times (FT) in the *European Monthly Review* for each December of the years 2000-2004.

**Appendix 4: FTSE Global Classification for economic groups, sectors and sub-sectors**

| # | Economic group                          | Sector (Code)                                    | Sub-Sectors   |
|---|---|--|---|
| 1 | <b>Resources (00)</b>                   | <b>Mining (04)</b>                               | Gold Mining 043, Mining Finance 045, Other Mineral Extractors & Mines 048   |
|   |   | <b>Oil and Gas (07)</b>                          | Oil & Gas-Exploration & Production 073, Oil Services 075, Oil Integrated 078  |
| 2 | <b>Basic Industries (10)</b>            | <b>Chemicals (11)</b>                            | Chemicals-Commodity 113, Chemicals-Advanced Materials 116, Chemicals-Speciality 118   |
|   |   | <b>Construction and Building Materials (13)</b>  | Builders Merchants 131, Building & Construction Materials 132, House Building 134, Other Construction 137   |
|   |   | <b>Forestry and Paper (15)</b>                   | Forestry 153, Paper 156   |
|   |   | <b>Steel and Other Metals (18)</b>               | Non-Ferrous Metals 186, Steel 188   |
| 3 | <b>General Industrials (20)</b>         | <b>Aerospace and Defence (21)</b>                | Aerospace 215, Defence 216  |
|   |   | <b>Diversified Industrials (24)</b>              | Diversified Industrials 240   |
|   |   | <b>Electronic and Electrical Equipment (25)</b>  | Electrical Equipment 252, Electronic Equipment 253  |
|   |   | <b>Engineering and Machinery (26)</b>            | Commercial Vehicles & Trucks 263, Engineering – Contractors 264, Engineering Fabricators 266, Engineering – General 267   |
| 4 | <b>Cyclical Consumer Goods (30)</b>     | <b>Automobiles and Parts (31)</b>                | Automobiles 311, Auto Parts 313, Tyres & Rubber 317, Vehicle Distribution 318   |
|   |   | <b>Household Goods and Textiles (34)</b>         | Clothing & Footwear 341, Furnishing & Floor Coverings 342, Consumer Electronics 343, Household Appliances & Housewares 345, Leisure Equipment 347, Other Textiles & Leather Goods 349 |
| 5 | <b>Non-Cyclical Consumer Goods (40)</b> | <b>Beverage (41)</b>                             | Beverage – Brewers 415, Beverage – Distillers & Vintners 416, Soft Drinks 418   |
|   |   | <b>Food Producers and Processors (43)</b>        | Farming & Fishing 433, Food Processors 435  |
|   |   | <b>Health (44)</b>                               | Health Maintenance Organisations 443, Hospital Management & Long – Term Care 444, Medical Equipment & Supplies 446, Other Health Care 449   |
|   |   | <b>Personal Care and Household Products (47)</b> | Household Products 475, Personal Products 477   |
|   |   | <b>Pharmaceuticals and Biotechnology (48)</b>    | Biotechnology 482, Pharmaceuticals 486  |
|   |   | <b>Tobacco (49)</b>                              | Tobacco 490   |
| 6 | <b>Cyclical Services (50)</b>           | <b>General Retailers (52)</b>                    | Discount & Super Stores & Warehouses 524, Retailers e-Commerce 525, Retailers – Hardlines 526, Retailers – Multi Department 527, Retailers – Soft Goods 528                           |
|   |   | <b>Leisure and Hotels (53)</b>                   | Gambling 532, Hotels 536, Leisure Facilities 538, Restaurants & Pubs 539  |

| #  | Economic group                           | Sector (Code)                               | Sub-Sectors  |
|----|--|---|--|
|    | <b>Continue - Cyclical Services (50)</b> | <b>Media and Entertainment (54)</b>         | Television, Radio & Filmed Entertainment 542, Subscription Entertainment Networks 543, Media Agencies 545, Photography 546, Publishing & Printing 547  |
|    |  | <b>Support Services (58)</b>                | Business Support Services 581, Delivery Services 582, Education, Business Training & Employment Agencies 583, Environmental Control 584, Transaction & Payroll Services 587, Security & Alarm Services 588 |
|    |  | <b>Transport (59)</b>                       | Airlines & Airports 591, Rail, Road & Freight 596, Shipping & Ports 597  |
| 7  | <b>Non-Cyclical Services (60)</b>        | <b>Food and Drug Retailers(63)</b>          | Food & Drug Retailers 630  |
|    |  | <b>Telecommunication Services (67)</b>      | Fixed-Line Telecommunication Services 673, Wireless Telecommunication Services 678   |
| 8  | <b>Utilities (70)</b>                    | <b>Electricity (72)</b>                     | Electricity 720  |
|    |  | <b>Utilities – Other (77)</b>               | Gas Distribution 773, Multi-Utilities 775, Water 778   |
| 9  | <b>Financials (80)</b>                   | <b>Banks (81)</b>                           | Banks 810  |
|    |  | <b>Insurance (83)</b>                       | Insurance Brokers 833, Insurance – Non-Life 834, Re-insurance 837, Other Insurance 839   |
|    |  | <b>Life Assurance (84)</b>                  | Life Assurance 840   |
|    |  | <b>Investment Companies (85)</b>            | Investment Companies (eligible for index inclusion) 850  |
|    |  | <b>Real Estate (86)</b>                     | Real Estate Holding & Development 862, Property Agencies 864, Real Estate Investment Trusts 867  |
|    |  | <b>Speciality and Other Finance (87)</b>    | Asset Managers 871, Consumer Finance 873, Investment Banks 875, Mortgage Finance 877, Other Financial 879  |
|    |  | <b>Investment Entities (89)</b>             | Investment Entities (ineligible for index inclusion) 890   |
| 10 | <b>Information Technology (90)</b>       | <b>Information Technology Hardware (93)</b> | Computer Hardware 932, Semiconductors 936, Telecommunications Equipment 938  |
|    |  | <b>Software and Computer Services (97)</b>  | Computer Services 972, Internet 974, Software 977  |

Source: Financial Times, *FTSE Global Classification System*, 2002.

**Appendix 5: Assurance providers, their expertise and statements provided by each of them for the years 2000 – 2004**

| #  | Name of assurance provider   | $\Sigma$ AS <sup>1</sup> | Short name <sup>2</sup> | Type of the AP     | Areas of specialisations and expertise   |
|----|--|--------------------------|-------------------------|--------------------|--|
| 1  | <b>Acona Limited</b>   | 5                        | Acona                   | Consultant         | Risk Management, Safety & Env., Sustainable Business.  |
| 2  | <b>AEA Technology</b>  | 1                        | AEA                     | Consultant         | Risk Assessment, Safety & Env. Management, Technology  |
| 3  | <b>Aon Limited</b>   | 4                        | Aon                     | Consultant         | Risk Management, Human Resources Consulting Services   |
| 4  | <b>Arthur D Little Limited</b>   | 1                        | -                       | Consultant         | Environment & Risk, Operations and Information Management  |
| 5  | <b>Arup &amp; Addison</b>  | 1                        | -                       | Consultant         | Planning & Design, Technology, Risk Management, Marketing  |
| 6  | <b>Ashridge Centre for Business and Society</b>                        | 2                        | Ashridge ACBAS          | Consultant         | Corp. Governance, Community Investment, Env. Responsibility  |
| 7  | <b>Bureau Veritas</b>  | 5                        | -                       | Certification body | Quality, Health, Environment, Safety, and Social Accountability  |
| 8  | <b>Casella Stanger</b>   | 11 <sup>3</sup>          | -                       | Consultant         | Environmental Consultancy  |
| 9  | <b>csrnetwork</b>  | 17                       | -                       | Consultant         | Benchmarking CSR Management, Assurance, Strategy & Systems, Stakeholders Engagement                          |
| 10 | <b>Deloitte &amp; Touche LLP</b>                                       | 6                        | -                       | Accountant         | Accounting, Audit, Taxation  |
| 11 | <b>Energy &amp; Environment Accredited Quality Assessments Limited</b> | 2                        | EAQA Ltd                | Certification body | Certification Services, Power, and Environment   |
| 12 | <b>Environ UK Limited</b>  | 1                        | Environ                 | Consultant         | Litigation Support, Air Quality Monitoring and Modelling, Risk Assessment, Env. Management                   |
| 13 | <b>Environmental Consultancy Services Limited</b>                      | 1                        | ECOS Ltd                | Consultant         | Oil Spill: Risk Assessment, Contingency Planning; EMS Development and Implementation                         |
| 14 | <b>Environmental Governance</b>  | 2                        | -                       | Consultant         | Online Env. Information Services, Sustainability Issues for Property Market, Benchmarking of Env. Engagement |
| 15 | <b>Environmental Resources Management</b>                              | 18                       | ERM                     | Consultant         | Environment  |
| 16 | <b>Enviros Aspinwall / Enviros</b>                                     | 8                        | -                       | Consultant         | Environmental, Sustainability, and Software Business   |
| 17 | <b>Ernst &amp; Young LLP</b>   | 9                        | -                       | Accountant         | Accounting, Audit, Taxation  |
| 18 | <b>FaberMaunsell Ltd</b>   | 1                        |                         | Consultant         | Environment, Air Quality, Ecology, Water Quality   |
| 19 | <b>Inner City Fund/ ICF Consulting</b>                                 | 1                        | ICF                     | Consultant         | Energy, Environment  |
| 20 | <b>Justassurance network Ltd</b>                                       | 1                        | -                       | Consultant         | Assurance of Corporate Env.; Social; Sustainability Reports  |
| 21 | <b>KPMG LLP<sup>4</sup></b>  | 14                       | KPMG                    | Accountant         | Accounting, Audit, Taxation  |
| 22 | <b>Lloyd's Register Quality Assurance Limited</b>                      | 7                        | LRQAL                   | Certification body | Audit, Certification of Quality, Env, H & S Management Systems   |

| #            | Name of assurance provider                                  | ∑ AS | Short name | Type of the AP     | Areas of specialisations and expertise  |
|--------------|---|------|------------|--------------------|---|
| 23           | <b>Marsh Risk Consulting</b>                                | 1    | Marsh      | Consultant         | Risk Management, Insurance Services   |
| 24           | <b>PriceWaterhouseCoopers</b>                               | 16   | PwC        | Accountant         | Accounting, Audit, Taxation   |
| 25           | <b>Prince of Wales International Business Leaders Forum</b> | 1    | PWIBLF     | Non-Profit Org.    | Corporate Social Responsibility Consultancy                                   |
| 26           | <b>ReputationInc</b>  | 1    | -          | Consultant         | Reputation Management, Stakeholders Relationships, Responsibility Programming |
| 27           | <b>RPS Group plc</b>  | 5    | RPS        | Consultant         | Environmental Consultancy   |
| 28           | <b>Safety, Environment and Quality Management Limited</b>   | 4    | SEQM Ltd   | Certification body | Quality, Certification of H, S & Environmental, Training                      |
| 29           | <b>Scott Wilson</b>   | 3    | -          | Consultant         | Planning, Management and Environmental Services, Sustainable Development      |
| 30           | <b>Sd3 Limited</b>  | 3    | Sd3 Ltd    | Consultant         | Policy, Strategy & Management, Assurance Services, Reporting                  |
| 31           | <b>Société Générale de Surveillance UK Limited</b>          | 8    | SGS UK Ltd | Certification body | Inspection, Testing, Certification Services                                   |
| 32           | <b>The Corporate Citizenship Company</b>                    | 14   | -          | Consultant         | CSR, Citizenship International, Community Affairs                             |
| 33           | <b>The Reassurance Network Ltd</b>                          | 3    | -          | Consultant         | Risk Management, Assurance Services   |
| 34           | <b>The SMART Company</b>                                    | 1    | -          | Consultant         | CR Strategy, Benchmarking, Reporting & Verification                           |
| 35           | <b>Upstream</b>   | 2    | -          | Consultant         | Land & Property Management, SD Advisor  |
| 36           | <b>URS Verification Limited</b>                             | 16   | URSVL      | Consultant         | Inspection, and consulting of Environmental, H & S Management Systems         |
| <b>Total</b> |   | 196  | -          | -                  | -   |

<sup>1</sup> This column indicates number of the assurance statements provided by the assurance provider or any other subsidiaries work under the same brand. <sup>2</sup> This Column indicates the abbreviation of the assurance firm who prepared the assurance statement(s). <sup>3</sup> One of these statements has been provided by Stanger Science & Environment to BAA in 2000. <sup>4</sup> This number includes six assurance statements provided in association with PwC LLP to Shell Transport & Trading Co. plc – Shell Group during the years 2000-2004.

**Appendix 6: Reliability tests of the study instrument - (Kappa and pi coefficients' values)**

| #  | Item's No.              | (Measurement of agreement ) |            |                      |
|----|-------------------------|-----------------------------|------------|----------------------|
|    |                         | Pilot study sample (n =15)  |            | Full-sample (n = 35) |
|    |                         | Cohen's Kappa               | Scott's pi | Cohen's Kappa value  |
| 1  | A4                      | 1.000                       | 1.000      | 1.000                |
| 2  | C1                      | 0.898                       | 0.898      | 0.916                |
| 3  | C3                      | 0.821                       | 0.820      | 1.000                |
| 4  | C4                      | 1.000                       | 1.000      | 1.000                |
| 5  | C5                      | 1.000                       | 1.000      | 1.000                |
| 6  | C6                      | 0.909                       | 0.909      | 0.926                |
| 7  | C10                     | 1.000                       | 1.000      | 1.000                |
| 8  | D1                      | 0.842                       | 0.841      | 0.878                |
| 9  | D2                      | 1.000                       | 1.000      | 0.935                |
| 10 | D3                      | 1.000                       | 1.000      | 1.000                |
| 11 | D4                      | 0.727                       | 0.722      | 0.798                |
| 12 | D5                      | 1.000                       | 1.000      | 1.000                |
| 13 | E1                      | 0.815                       | 0.814      | 0.906                |
| 14 | E2                      | 1.000                       | 1.000      | 0.878                |
| 15 | E3                      | 1.000                       | 1.000      | 0.915                |
| 16 | E4                      | 1.000                       | 1.000      | 0.892                |
| 17 | E5                      | 1.000                       | 1.000      | 1.000                |
| 18 | E6                      | 0.865                       | 0.864      | 0.942                |
| 19 | E7                      | 1.000                       | 1.000      | 1.000                |
| 20 | E8                      | 1.000                       | 1.000      | 1.000                |
| 21 | E9                      | 1.000                       | 1.000      | 1.000                |
| 22 | E10                     | 1.000                       | 1.000      | 1.000                |
| 23 | E11                     | 0.857                       | 0.856      | 0.878                |
| 24 | E12                     | 1.000                       | 1.000      | 1.000                |
| 25 | E13                     | 0.815                       | 0.814      | 1.000                |
| 26 | E14                     | 0.762                       | 0.762      | 0.718                |
| 27 | E15                     | 0.842                       | 0.841      | 1.000                |
| 28 | E16                     | 0.815                       | 0.814      | 0.873                |
| 29 | F1                      | 1.000                       | 1.000      | 1.000                |
| 30 | F2                      | 1.000                       | 1.000      | 1.000                |
| 31 | F3                      | 1.000                       | 1.000      | 1.000                |
| 32 | F4                      | 1.000                       | 1.000      | 1.000                |
| 33 | F5                      | 1.000                       | 1.000      | 1.000                |
| 34 | F6                      | 1.000                       | 1.000      | 1.000                |
| 35 | F7                      | 1.000                       | 1.000      | 1.000                |
| 36 | G1                      | 1.000                       | 1.000      | 1.000                |
| 37 | G2                      | 1.000                       | 1.000      | 1.000                |
| 38 | G3                      | 1.000                       | 1.000      | 1.000                |
| 39 | G4                      | 0.634                       | 0.630      | 0.720                |
| 40 | G5                      | 0.815                       | 0.814      | 0.906                |
| 41 | G6                      | 1.000                       | 1.000      | 1.000                |
| 42 | G7                      | -                           | -          | 0.832                |
| 43 | G8                      | 0.634                       | 0.630      | 0.906                |
| 44 | G9                      | 0.732                       | 0.732      | 0.881                |
| 45 | G10                     | 1.000                       | 1.000      | 1.000                |
| 46 | G11                     | 1.000                       | 1.000      | 1.000                |
| 47 | G12                     | 1.000                       | 1.000      | 1.000                |
| 48 | G13                     | 1.000                       | 1.000      | 0.873                |
| 49 | CA section <sup>a</sup> | 1.000                       | 1.000      | 0.842                |

<sup>a</sup> Content analysis section.

**Appendix 7: The date of signing and issue for the assurance statements of the FTSE100 stand-alone reports for the years (2000-2004)**

| #    | Reporting company         | Year     | Name of the stand-alone report         | Date of AS | Date of release <sup>a</sup>  |            |            |
|------|---------------------------|----------|--|------------|-------------------------------|------------|------------|
| 1    | BP plc                    | 2000     | Environmental & Social Review          | April 2001 | April 2001                    |            |            |
|      |                           | 2001     | Environmental & Social Review          | April 2002 | April 2002                    |            |            |
|      |                           | 2002     | Environmental & Social Review          | April 2003 | April 2003                    |            |            |
|      |                           | 2003     | Sustainability Report                  | April 2004 | April 2004                    |            |            |
|      |                           | 2004     | Sustainability Report                  | April 2005 | April 2005                    |            |            |
| 2    | HSBC Holdings plc         | 2002     | HSBC in the Community 2002             | April 2003 | May 2003                      |            |            |
|      |                           | 2003     | CSR Report                             | Mar. 2004  | Mar. 2004                     |            |            |
|      |                           | 2004     | CSR Report                             | April 2005 | April 2005                    |            |            |
| 3    | Vodafone Group plc        | 2002     | CSR Report 2002-03                     | May 2003   | June 2003                     |            |            |
|      |                           | 2003     | CSR Report 2003/04                     | May 2004   | June 2004                     |            |            |
|      |                           | 2004     | CR Report 2004/05                      | May 2005   | June 2005                     |            |            |
| 4    | GlaxoSmithKline plc       | 2000     | Environment, H&S Review 2000           | Mar. 2001  | April 2001                    |            |            |
|      |                           | 2001     | Environment, H&S Report 2001           | May 2002   | Aug. 2002                     |            |            |
|      |                           | 2002     | Sustainability in E, H&S Report 02     | May 2003   | July 2003                     |            |            |
|      |                           | 2003     | Sustainability in E, H&S Report 03     | April 2004 | June 2004                     |            |            |
| 5    | RBS Group plc             | 2004     | Corporate Responsibility Report 04     | July 2005  | Sept. 2005                    |            |            |
|      |                           | 6        | Shell Transport & Trading Company plc  | 2000       | The Shell Report 2000         | April 2002 | April 2002 |
|      |                           |          |  | 2001       | People, plants & profits 2001 | Mar. 2001  | April 2001 |
|      |                           |          |  |            | The Shell Report 2001         | Mar. 2002  | April 2002 |
| 2002 | The Shell Report 2002     |          |  | Mar. 2003  | Mar. 2003                     |            |            |
| 2003 | The Shell Report 2003     | May 2004 | Feb. 2004                              |            |                               |            |            |
| 2004 | The Shell Report 2004     | May 2005 | Feb. 2005                              |            |                               |            |            |
| 7    | Barclays plc              | 2000     | Social & Environmental Report 2000     | Feb. 2001  | April 2001                    |            |            |
|      |                           | 2001     | Social & Environmental Report 2001     | Mar. 2002  | April 2002                    |            |            |
|      |                           | 2002     | CSR Report 2002                        | Feb. 2003  | Mar. 2003                     |            |            |
|      |                           | 2003     | CSR Report 2003                        | Mar. 2004  | April 2004                    |            |            |
|      |                           | 2004     | Corporate Responsibility Report 04     | Mar. 2005  | April 2005                    |            |            |
| 8    | HBOS plc                  | 2003     | Corporate Responsibility Report 2003   | Dec. 2003  | July 2004                     |            |            |
| 9    | AstraZenca plc            | 2004     | CR Summary Report 2004                 | Jan. 2005  | Feb. 2005                     |            |            |
| 10   | Lloyds TSB Group          | 2001     | Environmental Report 2001              | Feb. 2002  | April 2002                    |            |            |
|      |                           | 2002     | The community and our business         | Feb. 2003  | April 2003                    |            |            |
|      |                           | 2003     | The community and our business         | Feb. 2004  | June 2004                     |            |            |
|      |                           | 2004     | Corporate Responsibility Report 2004   | Mar. 2005  | April 2005                    |            |            |
| 11   | Diageo plc                | 2003     | Corporate Citizenship Report 2003      | Sep. 2003  | Oct. 2003                     |            |            |
|      |                           | 2004     | Corporate Citizenship Report 2004      | Sep. 2004  | Sep. 2004                     |            |            |
| 12   | Anglo American plc        | 2000     | Safety, Health & Environment Report 00 | Mar. 2001  | June 2001                     |            |            |
|      |                           | 2001     | Safety, Health & Environment Report 01 | April 2002 | June 2002                     |            |            |
|      |                           | 2002     | Report to Society 2002                 | Mar. 2003  | Mar. 2003                     |            |            |
|      |                           | 2003     | Report to Society 2003                 | Mar. 2004  | April 2004                    |            |            |
|      |                           | 2004     | Report to Society 2004                 | Mar. 2005  | Mar. 2005                     |            |            |
| 13   | BT Group plc              | 2000     | Environmental Performance Report 2000  | Jun. 2001  | June 2000                     |            |            |
|      |                           | 2001     | BT and the Environment                 | Jun. 2002  | Dec. 2001                     |            |            |
|      |                           | 2002     | Better World-Our Commitment to Society | Jun. 2003  | Nov. 2002                     |            |            |
|      |                           | 2003     | BT Social and Environment Report       | May 2004   | July 2003                     |            |            |
|      |                           | 2004     | BT Social and Environment Report       | May 2005   | June 2004                     |            |            |
| 14   | Rio Tinto plc             | 2000     | Social and Environment Review 2000     | Feb. 2001  | Mar. 2001                     |            |            |
|      |                           | 2002     | Social and Environment Review 2002     | Feb. 2003  | Mar. 2003                     |            |            |
|      |                           | 2002     | Social and Environment Review 2002     | Feb. 2003  | Mar. 2003                     |            |            |
|      |                           | 2003     | Social and Environment Review 2003     | Feb. 2004  | Mar. 2004                     |            |            |
|      |                           | 2004     | Sustainable Development Review 2004    | Feb. 2005  | Mar. 2005                     |            |            |
| 15   | National Grid Transco plc | 2002     | Operating Responsibly-Annual Report    | May 2003   | June 2003                     |            |            |
|      |                           | 2003     | Operating Responsibly 2003/04          | Jun. 2004  | July 2004                     |            |            |
|      |                           | 2004     | Operating Responsibly 2004/05          | May 2005   | July 2005                     |            |            |
| 16   | BHP Billiton Ltd          | 2004     | Health Safety Environment& Community   | Aug. 2004  | Sep. 2004                     |            |            |

| #  | Reporting company                | Year | Name of the stand-alone report         | Date of AS | Date of release |
|----|----------------------------------|------|--|------------|-----------------|
| 17 | Unilever plc                     | 2000 | Unilever Environmental Performance 00  | July 2000  | Aug. 2000       |
|    |                                  | 2002 | Social Review 2002                     | Oct. 2002  | Nov. 2002       |
|    |                                  | 2002 | Environmental Performance Summary      | July 2003  | Aug. 2003       |
|    |                                  | 2003 | Environmental Report 2003              | April 2004 | May 2004        |
|    |                                  | 2003 | Summary Social Review 2003             | April 2004 | May 2004        |
|    |                                  | 2004 | Environmental Report 2004              | April 2005 | May 2005        |
| 18 | British American Tobacco plc     | 2002 | Social Report 2002/03                  | July 2003  | July 2003       |
|    |                                  | 2003 | Social Report 2003/04                  | June 2004  | June 2004       |
|    |                                  | 2004 | Social Report 2004/05                  | July 2005  | July 2005       |
| 19 | Aviva plc (CGNU)                 | 2001 | Environment Report 2001                | Mar. 2001  | April 2001      |
|    |                                  | 2003 | Corporate Social Responsibility 2003   | Mar. 2003  | April 2003      |
|    |                                  | 2004 | Corporate Social Responsibility 2004   | Mar. 2004  | June 2004       |
| 20 | BG Group plc                     | 2000 | Environment, Health & Safety Report 00 | April 2001 | 2001            |
|    |                                  | 2001 | Social and Environment Report 2001     | April 2002 | April 2002      |
|    |                                  | 2002 | Social and Environment Report 2002     | Mar. 2003  | May 2003        |
|    |                                  | 2003 | Social and Environment Report 2003     | Mar. 2004  | April 2004      |
|    |                                  | 2004 | Corporate Responsibility Report 2004   | April 2005 | April 2005      |
| 21 | Standard Chartered plc           | 2004 | Corporate Responsibility Report 2004   | Feb. 2005  | May 2005        |
| 22 | Reckitt Benckiser plc            | 2000 | Environmental Report 2000              | Mar. 2002  | Mar. 2002       |
|    |                                  | 2001 | Environmental Report 2001              | April 2003 | April 2003      |
|    |                                  | 2002 | Environmental Report 2002              | July 2003  | July 2003       |
|    |                                  | 2003 | Environmental Report 2003              | Dec. 2004  | Dec. 2004       |
|    |                                  | 2004 | Sustainability Report 2004             | July 2005  | Aug. 2005       |
| 23 | mmo2 plc                         | 2003 | Corporate Responsibility Report 2003   | June 2003  | June 2003       |
|    |                                  | 2004 | Corporate Responsibility Report 2004   | June 2004  | July 2004       |
| 24 | Imperial Tobacco Group plc       | 2002 | OHS & E Report 2002                    | Nov. 2002  | Oct. 2003       |
|    |                                  | 2004 | Corporate Responsibility Review 2004   | Nov. 2004  | Dec. 2004       |
| 25 | Centrica plc                     | 2003 | Corporate Responsibility Report 2003   | Feb. 2004  | May 2004        |
|    |                                  | 2004 | Corporate Responsibility Report 2004   | April 2005 | May 2005        |
| 26 | SABMiller plc                    | 2001 | Corporate Citizenship Review           | June 2001  | July 2001       |
|    |                                  | 2002 | Corporate Accountability Report        | June 2002  | June 2002       |
|    |                                  | 2003 | Corporate Accountability Report 2003   | June 2003  | July 2003       |
|    |                                  | 2004 | Corporate Accountability Report 2004   | June 2004  | July 2004       |
| 27 | Scottish and Southern Energy plc | 2001 | Environmental Report 2001              | Aug. 2001  | Sept. 2001      |
|    |                                  | 2002 | Environment Annual Report 2002         | June 2002  | June 2002       |
|    |                                  | 2003 | Environment Annual Report 2003         | June 2003  | June 2003       |
|    |                                  | 2004 | Environment Annual Report 2004         | June 2004  | June 2004       |
| 28 | Scottish Power plc               | 2001 | Environmental Sustainability Report    | July 2002  | July 2002       |
|    |                                  | 2002 | E & S Impact Report 2002/03            | June 2003  | July 2003       |
|    |                                  | 2003 | E & S Impact Report 2003/04            | Sep. 2004  | Oct. 2004       |
|    |                                  | 2004 | E & S Impact Summary Report 2004/05    | Sep. 2005  | Oct. 2005       |
| 29 | Legal & General Group plc        | 2002 | Interim Environment Report 2002        | Mar. 2002  | Mar. 2002       |
| 30 | BAA plc                          | 2000 | Sustainability/Annual Report 2000/01   | June 2001  | May 2001        |
|    |                                  | 2001 | Sustainability/Annual Report 2001/02   | June 2002  | May 2002        |
|    |                                  | 2002 | Sustainability/Annual Report 2002/03   | June 2003  | June 2003       |
|    |                                  | 2003 | Sustainability/Annual Report 2003/04   | April 2004 | May 2004        |
|    |                                  | 2004 | Sustainability/Annual Report 2004/05   | May 2005   | June 2005       |
| 31 | Marks & Spencer plc              | 2004 | Corporate Social Responsibility Report | April 2004 | June 2004       |
| 32 | United Utilities plc             | 2000 | S & E Impact Report 2000               | July 2000  | Aug. 2000       |
|    |                                  | 2001 | S & E Impact Report 2001               | July 2001  | Aug. 2001       |
|    |                                  | 2002 | S & E Performance Report 2002          | July 2002  | Sept. 2002      |
|    |                                  | 2003 | Corporate Responsibility Report 2003   | June 2003  | Aug. 2003       |
|    |                                  | 2004 | Corporate Responsibility Report 2004   | June 2004  | Aug. 2004       |
| 33 | The British Land Co plc          | 2004 | Corporate Responsibility Report 2004   | Feb. 2005  | June 2005       |
| 34 | Smiths Group plc                 | 2003 | Environment, Health & Safety Report 03 | Mar. 2004  | May 2004        |
|    |                                  | 2004 | Environment, Health & Safety Report 04 | Feb. 2005  | Mar. 2005       |
| 35 | Hilton Group plc                 | 2003 | Corporate Social Responsibility Report | Mar. 2003  | Mar. 2005       |
|    |                                  | 2004 | Corporate Social Responsibility Report | April 2005 | N/A             |
| 36 | Xstrata plc                      | 2004 | Sustainability Report 2004             | April 2005 | April 2005      |
| 37 | Next plc                         | 2004 | Corporate Social Responsibility Report | May 2005   | Nov. 2005       |

| #         | Reporting company                       | Year       | Name of the stand-alone report          | Date of AS | Date of release |
|-----------|---|------------|---|------------|-----------------|
| 38        | ITV (Granada) plc                       | 2002       | Environmental Report 2002               | Dec. 2002  | Dec. 2002       |
|           |   | 2003       | Corporate Social Responsibility Report  | Dec. 2003  | Mar. 2004       |
|           |   | 2004       | Corporate Responsibility Report 2004    | Jan. 2005  | Mar. 2005       |
| 39        | Rolls-Royce Group plc                   | 2003       | Environment Report 2003                 | April 2004 | May 2004        |
|           |   | 2004       | Environment, Health & Safety 2004       | April 2005 | May 2005        |
| 40        | J Sainsbury plc                         | 2000       | Environment Report 2000                 | Jan. 2001  | Sep. 2000       |
|           |   | 2001       | Environment Report 2001                 | Aug. 2001  | Sep. 2001       |
|           |   | 2002       | Environment Report 2002                 | Aug. 2002  | Sep. 2002       |
| 41        | Associated British Foods                | 2003       | Health, Safety and Environment Report   | Dec. 2003  | N/A             |
| 42        | ICI plc                                 | 2000       | Safety, Health & Environment Report     | Feb. 2001  | N/A             |
| 43        | Cable & Wireless plc                    | 2002       | Summary Environment Report 2002         | July 2002  | July 2002       |
| 44        | British Airways plc                     | 2000       | Social and Environmental Report 2000    | July 2000  | July 2000       |
|           |   | 2001       | Social and Environmental Report 2001    | June 2001  | July 2001       |
|           |   | 2002       | Social and Environmental Report 2002    | July 2002  | July 2002       |
|           |   | 2002       | Social and Environmental Report 2002    | July 2002  | July 2002       |
|           |   | 2002       | Social & Environmental Report 2002/03   | June 2003  | July 2003       |
|           |   | 2003       | Social & Environmental Report 2003/04   | May 2004   | July 2004       |
|           |   | 2004       | Corporate Responsibility Report 2004/05 | May 2004   | July 2005       |
| 45        | Royal & SunAlliance Insurance Group plc | 2002       | Environmental and Social Report 2002    | Dec. 2003  | April 2004      |
|           |   | 2003       | Corporate Responsibility Report 2003    | Oct. 2004  | Dec. 2004       |
|           |   | 2004       | Corporate Responsibility Report 2004    | April 2005 | May 2005        |
| 46        | Abbey National plc                      | 2000       | Corporate Citizenship Report 2000       | May 2001   | May 2001        |
|           |   | 2001       | Corporate Citizenship Report 2001       | April 2002 | May 2002        |
|           |   | 2002       | Corporate Social Responsibility Report  | May 2003   | July 2003       |
|           |   | 2003       | Corporate Social Responsibility Report  | April 2004 | June 2004       |
| 47        | Canary Wharf Group plc                  | 2001       | Environmental & Social Report 2001/02   | Nov. 2002  | Feb. 2003       |
|           |   | 2002       | Environmental & Social Report 2002/03   | Nov. 2003  | Aug. 2004       |
| 48        | PowerGen plc                            | 2000       | Environment Report 2000                 | Mar. 2001  | May 2001        |
|           |   | 2001       | Corporate Responsibility Report 2001    | Mar. 2002  | 2002            |
| 49        | Enterprise Oil plc                      | 2001       | Environmental Review 2001               | Mar. 2001  | April 2001      |
| 50        | Innogy Holdings plc                     | 2001       | E & S Performance Review 2001           | June 2002  | June 2001       |
| 51        | Railtrack plc                           | 2000       | Corporate Responsibility Report 2000/01 | Sep. 2001  | Oct. 2001       |
| 52        | National Power plc                      | 2000       | Environmental Performance Review        | June 2001  | May 2000        |
| <b>52</b> | <b>Total</b>                            | <b>149</b> | -                                       | -          | -               |

<sup>a</sup> This date indicates the date in which the assured stand-alone was released - as appeared in the CorporateRegister.com database. Source: [www.CorporateRegister.com](http://www.CorporateRegister.com), Retrieved on 10<sup>th</sup> of March 2006.

**Appendix 8: Financial auditors versus stand-alone assurance providers for the FTSE100 companies/Years 2000-2004 <sup>a</sup>**

| #            | Company name  | Year      | Financial auditor     | Assurance provider    |
|--------------|---|-----------|-----------------------|-----------------------|
| 1            | <b>BP plc</b>   | 2000      | Ernst & Young LLP     | Ernst & Young LLP     |
|              |   | 2001      | Ernst & Young LLP     | Ernst & Young LLP     |
|              |   | 2002      | Ernst & Young LLP     | Ernst & Young LLP     |
|              |   | 2003      | Ernst & Young LLP     | Ernst & Young LLP     |
|              |   | 2004      | Ernst & Young LLP     | Ernst & Young LLP     |
| 2            | <b>Vodafone Group plc</b>   | 2002      | Deloitte & Touche LLP | Deloitte & Touche LLP |
|              |   | 2003      | Deloitte & Touche LLP | Deloitte & Touche LLP |
|              |   | 2004      | Deloitte & Touche LLP | Deloitte & Touche LLP |
| 3            | <b>RBS Group plc</b>  | 2004      | Deloitte & Touche LLP | Deloitte & Touche LLP |
| 4            | <b>Shell Transport &amp; Trading Co. plc</b><br><br>(2 reports in 2001) | 2000      | KPMG & PwC LLP        | KPMG & PwC LLP        |
|              |   | 2001      | KPMG & PwC LLP        | KPMG & PwC LLP        |
|              |   | 2002      | KPMG & PwC LLP        | KPMG & PwC LLP        |
|              |   | 2003      | KPMG & PwC LLP        | KPMG & PwC LLP        |
|              |   | 2004      | KPMG & PwC LLP        | KPMG & PwC LLP        |
| 5            | <b>Barclays plc</b>   | 2000      | PwC                   | PwC                   |
|              |   | 2001      | PwC                   | PwC                   |
| 6            | <b>Anglo American plc</b>   | 2000      | Deloitte & Touche LLP | KPMG LLP              |
|              |   | 2001      | Deloitte & Touche LLP | KPMG LLP              |
|              |   | 2002      | Deloitte & Touche LLP | KPMG LLP              |
|              |   | 2003      | Deloitte & Touche LLP | KPMG LLP              |
|              |   | 2004      | Deloitte & Touche LLP | KPMG LLP              |
| 7            | <b>Aviva plc</b>  | 2001      | Ernst & Young LLP     | PwC LLP               |
|              |   | 2003      | Ernst & Young LLP     | PwC LLP               |
|              |   | 2004      | Ernst & Young LLP     | Ernst & Young LLP     |
| 8            | <b>BG Group plc</b>   | 2000      | PwC LLP               | PwC LLP               |
|              |   | 2001      | PwC LLP               | PwC LLP               |
|              |   | 2002      | PwC LLP               | KPMG LLP              |
|              |   | 2003      | PwC LLP               | KPMG LLP              |
|              |   | 2004      | PwC LLP               | KPMG LLP              |
| 9            | <b>Reckitt Benckiser plc</b>  | 2000      | PwC LLP               | PwC LLP               |
|              |   | 2001      | PwC LLP               | PwC LLP               |
|              |   | 2002      | PwC LLP               | PwC LLP               |
|              |   | 2003      | PwC LLP               | PwC LLP               |
| 10           | <b>mmO2 plc</b>   | 2003      | PwC LLP               | Ernst & Young LLP     |
|              |   | 2004      | PwC LLP               | Ernst & Young LLP     |
| 11           | <b>Marks &amp; Spencer plc</b>  | 2004      | PwC LLP               | Ernst & Young LLP     |
| 12           | <b>Rolls - Royce Group plc</b>  | 2003      | KPMG Audit PLC        | Deloitte & Touche LLP |
|              |   | 2004      | KPMG Audit PLC        | Deloitte & Touche LLP |
| 13           | <b>J Sainsbury plc</b>  | 2000      | PwC                   | PwC                   |
|              |   | 2001      | PwC                   | PwC                   |
|              |   | 2002      | PwC                   | PwC                   |
| 14           | <b>Cable &amp; Wireless plc</b>   | 2001      | KPMG Audit PLC        | PwC                   |
| 15           | <b>Abbey National plc</b>   | 2000      | Deloitte & Touche LLP | PwC                   |
|              |   | 2001      | Deloitte & Touche LLP | PwC                   |
| <b>Total</b> |   | <b>45</b> | -                     | -                     |

<sup>a</sup> This Appendix relates to these assurance statements which were provided by accountancy firms (only).

**Appendix 9: Incidence of items of the assurance dimensions versus categories of the independent variables <sup>a</sup>**

| Item # | Type of the stand-alone report |      |     |      |     |       |     |      |      |      | % of Total |
|--------|--------------------------------|------|-----|------|-----|-------|-----|------|------|------|------------|
|        | AR                             | SD   | E   | S    | S&E | E,H&S | CSR | CR   | CC   | O    |            |
| D.1    | 33%                            | 85%  | 53% | 57%  | 50% | 61%   | 54% | 75%  | 20%  | 33%  | 56.1%      |
| D.2    | 16%                            | 78%  | 56% | 57%  | 63% | 44%   | 36% | 55%  | 80%  | 44%  | 54.1%      |
| D.3    | 0%                             | 14%  | 0%  | 28%  | 8%  | 6%    | 0%  | 7%   | 0%   | 0%   | 5.1%       |
| D.4    | 16%                            | 35%  | 13% | 14%  | 34% | 22%   | 27% | 38%  | 40%  | 11%  | 25.5%      |
| D.5    | 0%                             | 14%  | 0%  | 0%   | 26% | 17%   | 9%  | 45%  | 40%  | 0%   | 16.3%      |
| E.1    | 0%                             | 35%  | 25% | 43%  | 8%  | 16%   | 13% | 14%  | 20%  | 33%  | 19.4%      |
| E.2    | 83%                            | 71%  | 23% | 71%  | 37% | 44%   | 59% | 34%  | 40%  | 22%  | 40.8%      |
| E.3    | 83%                            | 100% | 84% | 71%  | 94% | 94%   | 91% | 100% | 100% | 66%  | 89.8%      |
| E.4    | 83%                            | 93%  | 84% | 71%  | 92% | 100%  | 95% | 100% | 100% | 72%  | 90.3%      |
| E.5    | 0%                             | 7%   | 10% | 43%  | 5%  | 5%    | 9%  | 7%   | 0%   | 16%  | 9.2%       |
| E.6    | 33%                            | 93%  | 66% | 57%  | 44% | 78%   | 45% | 45%  | 60%  | 39%  | 55.6%      |
| E.7    | 0%                             | 43%  | 25% | 0%   | 34% | 16%   | 23% | 20%  | 40%  | 0%   | 24.0%      |
| E.8    | 0%                             | 64%  | 48% | 57%  | 26% | 66%   | 54% | 31%  | 60%  | 22%  | 41.8%      |
| E.9    | 16%                            | 85%  | 48% | 71%  | 52% | 94%   | 54% | 62%  | 0%   | 50%  | 57.7%      |
| E.10   | 50%                            | 100% | 79% | 71%  | 81% | 77%   | 86% | 86%  | 60%  | 50%  | 78.6%      |
| E.11   | 66%                            | 64%  | 77% | 71%  | 50% | 33%   | 54% | 69%  | 80%  | 50%  | 60.2%      |
| E.12   | 83%                            | 100% | 77% | 57%  | 60% | 94%   | 45% | 58%  | 20%  | 61%  | 67.3%      |
| E.13   | 50%                            | 28%  | 48% | 0%   | 34% | 44%   | 13% | 20%  | 20%  | 16%  | 30.6%      |
| E.14   | 16%                            | 21%  | 13% | 57%  | 21% | 16%   | 13% | 34%  | 40%  | 5%   | 20.4%      |
| E.15   | 50%                            | 57%  | 13% | 28%  | 44% | 44%   | 27% | 41%  | 20%  | 28%  | 34.2%      |
| E.16   | 0%                             | 14%  | 10% | 14%  | 29% | 5%    | 18% | 14%  | 40%  | 0%   | 14.8%      |
| F.1    | 0%                             | 14%  | 7%  | 14%  | 21% | 5%    | 18% | 17%  | 20%  | 0%   | 12.8%      |
| F.2    | 33%                            | 14%  | 2%  | 71%  | 31% | 16%   | 13% | 48%  | 60%  | 11%  | 24.0%      |
| F.3    | 0%                             | 21%  | 2%  | 57%  | 21% | 16%   | 13% | 31%  | 40%  | 5%   | 17.3%      |
| F.4    | 33%                            | 14%  | 0%  | 14%  | 5%  | 0%    | 4%  | 17%  | 0%   | 5%   | 7.1%       |
| F.5    | 16%                            | 7%   | 0%  | 14%  | 10% | 0%    | 0%  | 10%  | 0%   | 6%   | 5.6%       |
| F.6    | 0%                             | 21%  | 5%  | 0%   | 5%  | 0%    | 9%  | 10%  | 20%  | 5%   | 7.1%       |
| F.7    | 16%                            | 7%   | 2%  | 0%   | 8%  | 0%    | 4%  | 17%  | 0%   | 0%   | 6.1%       |
| G.1    | 100%                           | 85%  | 74% | 71%  | 79% | 89%   | 68% | 86%  | 40%  | 50%  | 76%        |
| G.2    | 100%                           | 100% | 95% | 71%  | 92% | 100%  | 86% | 89%  | 100% | 100% | 93.4%      |
| G.3    | 50%                            | 85%  | 41% | 100% | 47% | 66%   | 50% | 76%  | 60%  | 72%  | 59.7%      |
| G.4    | 33%                            | 7%   | 5%  | 14%  | 21% | 11%   | 9%  | 7%   | 20%  | 11%  | 11.7%      |
| G.5    | 16%                            | 35%  | 15% | 14%  | 37% | 55%   | 4%  | 20%  | 20%  | 5%   | 23.5%      |
| G.6    | 0%                             | 64%  | 28% | 0%   | 13% | 50%   | 9%  | 7%   | 0%   | 5%   | 19.9%      |
| G.7    | 16%                            | 21%  | 25% | 28%  | 42% | 22%   | 18% | 34%  | 20%  | 11%  | 27.0%      |
| G.8    | 16%                            | 14%  | 31% | 28%  | 31% | 22%   | 9%  | 20%  | 20%  | 22%  | 23.5%      |
| G.9    | 33%                            | 50%  | 43% | 43%  | 29% | 66%   | 27% | 48%  | 20%  | 16%  | 38.8%      |
| G.10   | 16%                            | 28%  | 36% | 43%  | 18% | 39%   | 13% | 27%  | 20%  | 5%   | 25.0%      |
| G.11   | 33%                            | 14%  | 18% | 43%  | 42% | 0%    | 9%  | 62%  | 40%  | 16%  | 28.1%      |
| G.12   | 0%                             | 7%   | 0%  | 14%  | 13% | 0%    | 0%  | 3%   | 0%   | 0%   | 4.1%       |
| G.13   | 0%                             | 21%  | 8%  | 0%   | 8%  | 16%   | 0%  | 7%   | 0%   | 0%   | 7.1%       |
| Σ n    | 6                              | 14   | 39  | 7    | 38  | 18    | 22  | 29   | 5    | 18   | 196        |

(Σ n = 196). <sup>a</sup> Each of the percentages included in this Appendix represent number of assurance statements in which the investigated item was incident divided by total number of assurance statements provided within each category included in the independent variables (for example this percentage for D1 versus SD stand-alone reports = No. of AS where D1 within the SD reports incident ÷ total no. of AS relate to SD reports). R: Annual Reports & Accounts, SD: Sustainability/Sustainable Development, E: Environment, S: Social, S&E: Social and Environment, E, H&S: Environment, Health and Safety, CSR: Corporate Social Responsibility, CR: Corporate Responsibility, CC: Corporate Citizenship, O: Others.

| Item #     | Sector/industry of the reporting company |           |           |           |           |           |           | % of Total |
|------------|--|-----------|-----------|-----------|-----------|-----------|-----------|------------|
|            | Res.                                     | B&G inds  | N-C c g   | C. ser.   | N-C ser.  | Utilities | Fin.      |            |
| D.1        | 50%                                      | 83%       | 66%       | 46%       | 35%       | 69%       | 52%       | 56.1%      |
| D.2        | 64%                                      | 66%       | 51%       | 33%       | 93%       | 69%       | 39%       | 54.1%      |
| D.3        | 11%                                      | 0%        | 9%        | 0%        | 21%       | 0%        | 0%        | 5.1%       |
| D.4        | 5%                                       | 16%       | 36%       | 13%       | 21%       | 56%       | 29%       | 25.5%      |
| D.5        | 8%                                       | 17%       | 9%        | 17%       | 21%       | 35%       | 17%       | 16.3%      |
| E.1        | 44%                                      | 8%        | 18%       | 13%       | 43%       | 4%        | 8%        | 19.4%      |
| E.2        | 33%                                      | 58%       | 39%       | 40%       | 50%       | 39%       | 41%       | 40.8%      |
| E.3        | 100%                                     | 91%       | 85%       | 93%       | 85%       | 91%       | 83%       | 89.8%      |
| E.4        | 91%                                      | 100%      | 85%       | 90%       | 100%      | 100%      | 83%       | 90.3%      |
| E.5        | 16%                                      | 0%        | 15%       | 10%       | 0%        | 4%        | 6%        | 9.2%       |
| E.6        | 69%                                      | 58%       | 66%       | 16%       | 78%       | 95%       | 35%       | 55.6%      |
| E.7        | 14%                                      | 41%       | 9%        | 13%       | 78%       | 43%       | 19%       | 24.0%      |
| E.8        | 50%                                      | 50%       | 48%       | 20%       | 57%       | 30%       | 43%       | 41.8%      |
| E.9        | 89%                                      | 83%       | 69%       | 53%       | 35%       | 61%       | 27%       | 57.7%      |
| E.10       | 86%                                      | 100%      | 66%       | 76%       | 79%       | 100%      | 66%       | 78.6%      |
| E.11       | 61%                                      | 16%       | 63%       | 53%       | 85%       | 61%       | 64%       | 60.2%      |
| E.12       | 91%                                      | 91%       | 63%       | 56%       | 85%       | 91%       | 35%       | 67.3%      |
| E.13       | 33%                                      | 25%       | 27%       | 40%       | 35%       | 30%       | 25%       | 30.6%      |
| E.14       | 22%                                      | 0%        | 30%       | 13%       | 35%       | 34%       | 10%       | 20.4%      |
| E.15       | 47%                                      | 41%       | 27%       | 50%       | 43%       | 52%       | 6%        | 34.2%      |
| E.16       | 8%                                       | 25%       | 9%        | 20%       | 7%        | 26%       | 14%       | 14.8%      |
| F.1        | 14%                                      | 8%        | 6%        | 13%       | 21%       | 8%        | 16%       | 12.8%      |
| F.2        | 19%                                      | 16%       | 36%       | 26%       | 28%       | 30%       | 14%       | 24.0%      |
| F.3        | 22%                                      | 8%        | 27%       | 10%       | 28%       | 18%       | 10%       | 17.3%      |
| F.4        | 5%                                       | 0%        | 6%        | 10%       | 21%       | 4%        | 6%        | 7.1%       |
| F.5        | 3%                                       | 0%        | 6%        | 10%       | 14%       | 13%       | 0%        | 5.6%       |
| F.6        | 8%                                       | 8%        | 9%        | 6%        | 8%        | 13%       | 2%        | 7.1%       |
| F.7        | 3%                                       | 0%        | 0%        | 16%       | 7%        | 13%       | 4%        | 6.1%       |
| G.1        | 89%                                      | 75%       | 60%       | 77%       | 93%       | 91%       | 64%       | 76.0%      |
| G.2        | 100%                                     | 91%       | 91%       | 83%       | 100%      | 100%      | 91%       | 93.4%      |
| G.3        | 69%                                      | 83%       | 76%       | 33%       | 78%       | 78%       | 37%       | 59.7%      |
| G.4        | 16%                                      | 0%        | 6%        | 23%       | 7%        | 4%        | 12%       | 11.7       |
| G.5        | 36%                                      | 33%       | 30%       | 13%       | 21%       | 30%       | 10%       | 23.5%      |
| G.6        | 30%                                      | 16%       | 36%       | 10%       | 35%       | 17%       | 4%        | 19.9%      |
| G.7        | 16%                                      | 50%       | 21%       | 26%       | 21%       | 52%       | 23%       | 27.0%      |
| G.8        | 16%                                      | 16%       | 24%       | 26%       | 7%        | 43%       | 23%       | 23.5%      |
| G.9        | 22%                                      | 75%       | 45%       | 33%       | 57%       | 61%       | 25%       | 38.8%      |
| G.10       | 19%                                      | 33%       | 36%       | 20%       | 42%       | 30%       | 14%       | 25.0%      |
| G.11       | 8%                                       | 25%       | 30%       | 43%       | 21%       | 52%       | 23%       | 28.1%      |
| G.12       | 0%                                       | 0%        | 6%        | 6%        | 7%        | 8%        | 2%        | 4.1%       |
| G.13       | 3%                                       | 33%       | 3%        | 6%        | 0%        | 4%        | 10%       | 7.1%       |
| <b>Σ n</b> | <b>36</b>                                | <b>12</b> | <b>33</b> | <b>30</b> | <b>14</b> | <b>23</b> | <b>48</b> | <b>196</b> |

(Σ n = 196). Res.: Resources (mining, oil & gas); B & G Inds.: Basis and general industries (chemicals, aerospace & defence); N-C c g.: Non-cyclical consumer goods (beverage, pharmaceuticals, tobacco); C. ser.: Cyclical services (general retailers, media & entertainment, transport); N-C ser. (food & drug retailers, telecommunication services); Utilities (electricity, utilities-other); Fin.: Financials (banks, insurance, real estate).

| Item #     | Size of the market capital of the reporting company |           |            | % of Total |
|------------|---|-----------|------------|------------|
|            | Small   | Medium    | Large      |            |
| D.1        | 52.2%   | 57%       | 57%        | 56.1%      |
| D.2        | 48%   | 45%       | 60%        | 54.1%      |
| D.3        | 0%  | 0%        | 9%         | 5.1%       |
| D.4        | 28%   | 19%       | 27%        | 25.5%      |
| D.5        | 21%   | 17%       | 14%        | 16.3%      |
| E.1        | 2%  | 19%       | 27%        | 19.4%      |
| E.2        | 30%   | 52%       | 40%        | 40.8%      |
| E.3        | 82%   | 90%       | 92%        | 89.8%      |
| E.4        | 82%   | 88%       | 94%        | 90.3%      |
| E.5        | 2%  | 2%        | 15%        | 9.2%       |
| E.6        | 35%   | 50%       | 66%        | 55.6%      |
| E.7        | 21%   | 23%       | 25%        | 24.0%      |
| E.8        | 30%   | 28%       | 52%        | 41.8%      |
| E.9        | 56%   | 40%       | 65%        | 57.7%      |
| E.10       | 67%   | 76%       | 84%        | 78.6%      |
| E.11       | 32%   | 62%       | 71%        | 60.2%      |
| E.12       | 63%   | 59%       | 72%        | 67.3%      |
| E.13       | 39%   | 33%       | 26%        | 30.6%      |
| E.14       | 11%   | 19%       | 25%        | 20.4%      |
| E.15       | 30%   | 40%       | 33%        | 34.2%      |
| E.16       | 17%   | 12%       | 15%        | 14.8%      |
| F.1        | 4%  | 9%        | 17%        | 12.8%      |
| F.2        | 19%   | 26%       | 25%        | 24%        |
| F.3        | 11%   | 16%       | 20%        | 17.3%      |
| F.4        | 0%  | 12%       | 8%         | 7.1%       |
| F.5        | 4%  | 2%        | 7%         | 5.6%       |
| F.6        | 4%  | 2%        | 10%        | 7.1%       |
| F.7        | 13%   | 5%        | 3%         | 6.1%       |
| G.1        | 69%   | 81%       | 77%        | 76%        |
| G.2        | 91%   | 88%       | 96%        | 93.4%      |
| G.3        | 50%   | 59%       | 64%        | 59.7%      |
| G.4        | 15%   | 12%       | 10%        | 11.7%      |
| G.5        | 28%   | 19%       | 23%        | 23.5%      |
| G.6        | 11%   | 16%       | 25%        | 19.9%      |
| G.7        | 41%   | 26%       | 21%        | 27%        |
| G.8        | 26%   | 24%       | 22%        | 23.5%      |
| G.9        | 39%   | 47%       | 35%        | 38.8%      |
| G.10       | 19%   | 26%       | 27%        | 25.0%      |
| G.11       | 39%   | 26%       | 24%        | 28.1%      |
| G.12       | 5%  | 2%        | 5%         | 4.1%       |
| G.13       | 11%   | 14%       | 3%         | 7.1%       |
| <b>Σ n</b> | <b>46</b>   | <b>42</b> | <b>108</b> | <b>196</b> |

(Σ n = 196)

| Item #     | Type of the assurance provider |             |                 |                    | % of Total |
|------------|--------------------------------|-------------|-----------------|--------------------|------------|
|            | Accountancy                    | Consultancy | Non-profit org. | Certification body |            |
| D.1        | 62%                            | 57%         | 0%              | 42%                | 56.1%      |
| D.2        | 95%                            | 39%         | 0%              | 53%                | 54.1%      |
| D.3        | 9%                             | 1%          | 0%              | 19%                | 5.1%       |
| D.4        | 2%                             | 32%         | 0%              | 34%                | 25.5%      |
| D.5        | 11%                            | 19%         | 0%              | 11%                | 16.3%      |
| E.1        | 53%                            | 8%          | 0%              | 15%                | 19.4%      |
| E.2        | 38%                            | 38%         | 0%              | 57%                | 40.8%      |
| E.3        | 100%                           | 92%         | 100%            | 57%                | 89.8%      |
| E.4        | 100%                           | 87%         | 100%            | 88%                | 90.3%      |
| E.5        | 11%                            | 7%          | 0%              | 15%                | 9.2%       |
| E.6        | 64%                            | 50%         | 100%            | 65%                | 55.6%      |
| E.7        | 33%                            | 17%         | 0%              | 38%                | 24.0%      |
| E.8        | 55%                            | 35%         | 0%              | 50%                | 41.8%      |
| E.9        | 64%                            | 55%         | 0%              | 58%                | 57.7%      |
| E.10       | 91%                            | 75%         | 100%            | 73%                | 78.6%      |
| E.11       | 75%                            | 54%         | 100%            | 61%                | 60.2%      |
| E.12       | 84%                            | 65%         | 0%              | 50%                | 67.3%      |
| E.13       | 29%                            | 34%         | 0%              | 19%                | 30.6%      |
| E.14       | 24%                            | 18%         | 0%              | 23%                | 20.4%      |
| E.15       | 33%                            | 38%         | 100%            | 15%                | 34.2%      |
| E.16       | 20%                            | 13%         | 0%              | 11%                | 14.8%      |
| F.1        | 4%                             | 13%         | 100%            | 23%                | 12.8%      |
| F.2        | 13%                            | 27%         | 0%              | 27%                | 24.0%      |
| F.3        | 11%                            | 18%         | 0%              | 27%                | 17.3%      |
| F.4        | 6%                             | 5%          | 0%              | 19%                | 7.1%       |
| F.5        | 2%                             | 6%          | 0%              | 11%                | 5.6%       |
| F.6        | 6%                             | 8%          | 0%              | 4%                 | 7.1%       |
| F.7        | 2%                             | 9%          | 0%              | 0%                 | 6.1%       |
| G.1        | 93%                            | 72%         | 0%              | 69%                | 76%        |
| G.2        | 98%                            | 91%         | 100%            | 96%                | 93.4%      |
| G.3        | 66%                            | 56%         | 0%              | 65%                | 59.7%      |
| G.4        | 2%                             | 15%         | 0%              | 11%                | 11.7       |
| G.5        | 13%                            | 30%         | 0%              | 11%                | 23.5%      |
| G.6        | 11%                            | 24%         | 0%              | 15%                | 19.9%      |
| G.7        | 6%                             | 35%         | 0%              | 23%                | 27.0%      |
| G.8        | 0%                             | 36%         | 0%              | 4%                 | 23.5%      |
| G.9        | 18%                            | 51%         | 0%              | 19%                | 38.8%      |
| G.10       | 11%                            | 30%         | 0%              | 23%                | 25.0%      |
| G.11       | 9%                             | 39%         | 0%              | 7%                 | 28.1%      |
| G.12       | 2%                             | 3%          | 0%              | 11%                | 4.1%       |
| G.13       | 0%                             | 11%         | 0%              | 0%                 | 7.1%       |
| <b>Σ n</b> | 45                             | 124         | 1               | 26                 | 196        |

(Σ n = 196)

| Item #     | Level of assurance pursued |           |            | % of Total |
|------------|----------------------------|-----------|------------|------------|
|            | Reasonable                 | Limited   | No Level   |            |
| D.1        | 50%                        | 90%       | 55%        | 56.1%      |
| D.2        | 88%                        | 100%      | 45%        | 54.1%      |
| D.3        | 19%                        | 10%       | 2%         | 5.1%       |
| D.4        | 4%                         | 0%        | 30%        | 25.5%      |
| D.5        | 0%                         | 10%       | 19%        | 16.3%      |
| E.1        | 81%                        | 70%       | 6%         | 19.4%      |
| E.2        | 34%                        | 60%       | 40%        | 40.8%      |
| E.3        | 92%                        | 100%      | 89%        | 89.8%      |
| E.4        | 100%                       | 100%      | 88%        | 90.3%      |
| E.5        | 23%                        | 20%       | 6%         | 9.2%       |
| E.6        | 73%                        | 70%       | 52%        | 55.6%      |
| E.7        | 42%                        | 20%       | 21%        | 24.0%      |
| E.8        | 57%                        | 40%       | 39%        | 41.8%      |
| E.9        | 54%                        | 70%       | 57%        | 57.7%      |
| E.10       | 88%                        | 80%       | 77%        | 78.6%      |
| E.11       | 84%                        | 60%       | 56%        | 60.2%      |
| E.12       | 96%                        | 100%      | 60%        | 67.3%      |
| E.13       | 23%                        | 30%       | 32%        | 30.6%      |
| E.14       | 27%                        | 10%       | 20%        | 20.4%      |
| E.15       | 38%                        | 30%       | 34%        | 34.2%      |
| E.16       | 4%                         | 20%       | 16%        | 14.8%      |
| F.1        | 15%                        | 0%        | 13%        | 12.8%      |
| F.2        | 23%                        | 0%        | 25%        | 24.0%      |
| F.3        | 23%                        | 20%       | 16%        | 17.3%      |
| F.4        | 15%                        | 0%        | 6%         | 7.1%       |
| F.5        | 11%                        | 0%        | 5%         | 5.6%       |
| F.6        | 4%                         | 0%        | 8%         | 7.1%       |
| F.7        | 0%                         | 10%       | 7%         | 6.1%       |
| G.1        | 92%                        | 100%      | 72%        | 76.0%      |
| G.2        | 96%                        | 100%      | 92%        | 93.4%      |
| G.3        | 73%                        | 80%       | 56%        | 59.7%      |
| G.4        | 4%                         | 0%        | 14%        | 11.7%      |
| G.5        | 11%                        | 0%        | 27%        | 23.5%      |
| G.6        | 19%                        | 05        | 21%        | 19.9%      |
| G.7        | 19%                        | 0%        | 30%        | 27.0%      |
| G.8        | 4%                         | 0%        | 28%        | 23.5%      |
| G.9        | 31%                        | 10%       | 42%        | 38.8%      |
| G.10       | 34%                        | 0%        | 25%        | 25.0%      |
| G.11       | 15%                        | 10%       | 31%        | 28.1%      |
| G.12       | 11%                        | 0%        | 3%         | 4.1%       |
| G.13       | 0%                         | 0%        | 9%         | 7.1%       |
| <b>Σ n</b> | <b>26</b>                  | <b>10</b> | <b>160</b> | <b>196</b> |

(Σ n = 196)

| Item #     | Type of the assurance standards/guidelines |          |          |           |          |           |           |           |           | % of Total |
|------------|--|----------|----------|-----------|----------|-----------|-----------|-----------|-----------|------------|
|            | AA1000AS                                   | GRI      | FAC      | ISAEs     | ISO      | EBP       | Mx.S      | Other     | No. S     |            |
| D.1        | 86%  | 50%      | 33%      | 83%       | 33%      | 60%       | 66%       | 70%       | 40%       | 56.1%      |
| D.2        | 86%  | 50%      | 33%      | 100%      | 89%      | 46%       | 83%       | 30%       | 27%       | 54.1%      |
| D.3        | 27%  | 0%       | 0%       | 0%        | 0%       | 0%        | 13%       | 0%        | 0%        | 5.1%       |
| D.4        | 50%  | 0%       | 0%       | 0%        | 33%      | 20%       | 63%       | 30%       | 13%       | 25.5%      |
| D.5        | 68%  | 0%       | 0%       | 0%        | 0%       | 20%       | 20%       | 0%        | 10%       | 16.3%      |
| E.1        | 27%  | 0%       | 66%      | 66%       | 0%       | 26%       | 16%       | 20%       | 6%        | 19.4%      |
| E.2        | 59%  | 0%       | 50%      | 28%       | 44%      | 26%       | 50%       | 60%       | 36%       | 40.8%      |
| E.3        | 100%                                       | 100%     | 100%     | 100%      | 55%      | 93%       | 100%      | 80%       | 84%       | 89.8%      |
| E.4        | 100%                                       | 100%     | 100%     | 100%      | 100%     | 93%       | 100%      | 90%       | 79%       | 90.3%      |
| E.5        | 4%   | 0%       | 0%       | 16%       | 0%       | 20%       | 16%       | 0%        | 7%        | 9.2%       |
| E.6        | 63%  | 100%     | 83%      | 56%       | 89%      | 46%       | 83%       | 40%       | 39%       | 55.6%      |
| E.7        | 32%  | 0%       | 83%      | 11%       | 89%      | 33%       | 30%       | 30%       | 10%       | 24.0%      |
| E.8        | 36%  | 50%      | 33%      | 61%       | 33%      | 60%       | 33%       | 50%       | 39%       | 41.8%      |
| E.9        | 91%  | 0%       | 33%      | 66%       | 66%      | 40%       | 63%       | 30%       | 55%       | 57.7%      |
| E.10       | 95%  | 100%     | 100%     | 89%       | 66%      | 53%       | 86%       | 90%       | 70%       | 78.6%      |
| E.11       | 82%  | 100%     | 100%     | 55%       | 55%      | 66%       | 80%       | 60%       | 42%       | 60.2%      |
| E.12       | 82%  | 100%     | 66%      | 83%       | 89%      | 66%       | 76%       | 40%       | 56%       | 67.3%      |
| E.13       | 27%  | 50%      | 33%      | 16%       | 22%      | 26%       | 33%       | 20%       | 35%       | 30.6%      |
| E.14       | 82%  | 0%       | 0%       | 0%        | 0%       | 20%       | 36%       | 10%       | 8%        | 20.4%      |
| E.15       | 100%                                       | 0%       | 16%      | 28%       | 22%      | 33%       | 43%       | 0%        | 23%       | 34.2%      |
| E.16       | 32%  | 0%       | 16%      | 22%       | 11%      | 6%        | 10%       | 50%       | 8%        | 14.8%      |
| F.1        | 32%  | 0%       | 16%      | 5%        | 0%       | 0%        | 16%       | 10%       | 12%       | 12.8%      |
| F.2        | 82%  | 0%       | 0%       | 0%        | 0%       | 0%        | 43%       | 30%       | 16%       | 24.0%      |
| F.3        | 63%  | 0%       | 0%       | 0%        | 0%       | 6%        | 36%       | 10%       | 8%        | 17.3%      |
| F.4        | 27%  | 0%       | 0%       | 0%        | 0%       | 0%        | 20%       | 0%        | 2%        | 7.1%       |
| F.5        | 22%  | 0%       | 0%       | 0%        | 0%       | 0%        | 16%       | 0%        | 1%        | 5.6%       |
| F.6        | 18%  | 0%       | 0%       | 0%        | 0%       | 0%        | 13%       | 10%       | 6%        | 7.1%       |
| F.7        | 9%   | 0%       | 0%       | 0%        | 0%       | 13%       | 10%       | 0%        | 7%        | 6.1%       |
| G.1        | 100%                                       | 50%      | 50%      | 100%      | 100%     | 80%       | 86%       | 70%       | 61%       | 76.0%      |
| G.2        | 95%  | 100%     | 83%      | 94%       | 100%     | 100%      | 100%      | 80%       | 90%       | 93.4%      |
| G.3        | 91%  | 0%       | 33%      | 66%       | 66%      | 80%       | 70%       | 30%       | 50%       | 59.7%      |
| G.4        | 13%  | 25%      | 0%       | 0%        | 11%      | 0%        | 10%       | 10%       | 17%       | 11.7%      |
| G.5        | 45%  | 0%       | 0%       | 0%        | 33%      | 13%       | 20%       | 20%       | 28%       | 23.5%      |
| G.6        | 27%  | 0%       | 16%      | 5%        | 33%      | 6%        | 36%       | 0%        | 19%       | 19.9%      |
| G.7        | 41%  | 0%       | 0%       | 11%       | 44%      | 33%       | 26%       | 10%       | 29%       | 27.0%      |
| G.8        | 32%  | 50%      | 0%       | 0%        | 22%      | 20%       | 23%       | 10%       | 29%       | 23.5%      |
| G.9        | 59%  | 25%      | 0%       | 5%        | 44%      | 33%       | 46%       | 10%       | 45%       | 38.8%      |
| G.10       | 36%  | 25%      | 16%      | 5%        | 33%      | 13%       | 36%       | 0%        | 27%       | 25.0%      |
| G.11       | 59%  | 0%       | 16%      | 5%        | 0%       | 20%       | 40%       | 30%       | 27%       | 28.1%      |
| G.12       | 9%   | 0%       | 16%      | 0%        | 11%      | 0%        | 6%        | 0%        | 2%        | 4.1%       |
| G.13       | 9%   | 25%      | 0%       | 0%        | 11%      | 6%        | 3%        | 10%       | 8%        | 7.1%       |
| <b>Σ n</b> | <b>22</b>                                  | <b>4</b> | <b>6</b> | <b>18</b> | <b>9</b> | <b>15</b> | <b>30</b> | <b>10</b> | <b>82</b> | <b>196</b> |

(Σ n = 196). AA1000AS: AA1000 Assurance Standard; GRI: GRI assurance guidelines; FAC: financial auditing criteria; ISAEs: International Standards on Assurance Engagements (ISAE3000, ISA100); ISO: ISO 14000 series; EBP: emerging best practice; Mx.S: mixed standards; No. S: No standards related to.

## Appendix 10: Typical assurance statements provided by accountancy firm in 2000 and 2004 for a single reporting company

### attestation statement

**To BP Amoco p.l.c. (BP)**  
 In accordance with your instructions we have reviewed BP's Environmental and Social Review 2000 (the Review), as outlined below, in order to substantiate its contents.  
 The Review has been prepared by the company, which is responsible for selecting the information and collecting the data for presentation therein.  
 This attestation statement in itself should not be taken as a basis for interpreting BP's performance in relation to its non-financial policies.

**approach**  
 There are currently no statutory requirements or generally accepted standards in the UK relating to the preparation, publication and attestation of corporate environmental and social reports. We have therefore used a customized attestation process involving detailed challenge of the contents of the Review, selected document review, interviews with executives and managers, and site-based reviews to understand how the non-financial policies are being implemented and reported upon.

**Basis of our review**  
 Our terms of reference agreed with BP were:

1. To discuss, with a selection of BP executives and senior managers, each of the four non-financial policies (Health, Safety and Environmental Performance, Ethical Conduct, Employees, and Relationships) to understand objectives and priorities for embedding the policies, the means to accomplishing those objectives, and the degree to which those objectives were met.
2. To review selected documents, which provide internal assurance to BP management that policy objectives and priorities are being met.
3. To test evidence supporting the Review's data, statements, and assertions at a sample of BP sites.
4. To review relevant documents, such as Board minutes and Ethics & Environment Assurance Committee minutes, to assess management awareness and review of policy commitments.
5. To review HSE data management systems and samples of data reported by sites to assess whether data have been collected, consolidated and reported accurately.
6. To challenge the Review to substantiate its content.

**conclusions**  
 On the basis of our review, in accordance with the terms of reference for our work, we conclude that:

- The objectives for implementation of the non-financial policies described in the Review are consistent with those which the Board and senior managers have set in the course of the year.
- The Board has monitored the implementation of the non-financial policies over the period. As part of such monitoring, it is the responsibility of management to identify any material issues or concerns that may be arising, together with the actions they are taking to address them. In the course of our review, we have seen evidence of this process working in practice.
- HSE data are reliable for assessing group-wide HSE performance in the context of the data reporting boundaries stated in the Review. They have been accurately collated from information reported at site level, based on our review and testing of data processes at site, stream and corporate levels. Not all HSE data from the recently acquired Burmah Castrol-heritage sites have been captured and reported. However, it is understood that plans are in place to ensure that the data are consistently captured in 2001. We are satisfied that the data reported relating to the other non-financial policies have been accurately derived from source material.
- An increasing number of sites have their environmental reporting processes documented within ISO 14001 certified management systems, thus providing added assurance of data reliability. At the sites visited it was observed that in some cases data reporting processes are not yet adequately documented, thus increasing the risks to the data assurance process, particularly at sites where individuals responsible for HSE data management processes have been replaced.
- We are not aware of any significant issues relating to HSE data reported at group level which were not considered for inclusion in the Review.
- Statements and assertions made in the Review are generally supported by evidence found at the sample of sites we visited.

Ernst & Young  
 London  
 28 March 2001

BP 2000 / 25

Source: *BP plc Environmental and Social Review 2000*.

## Assurance statement to BP management

*BP Sustainability Report 2004* has been prepared by the management of BP p.l.c., who are responsible for the collection and presentation of information within it. In accordance with BP management's instructions we have reviewed pages of *BP Sustainability Report 2004* (the Report), as outlined below, in order to provide conclusions in relation to Materiality, Completeness and Responsiveness.

Our responsibility in performing our assurance activities is to the management of BP p.l.c. only and in accordance with the terms of reference agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organization. Any reliance any such third party may place on the Report is entirely at its own risk.

### What did we do to form our conclusions?

We have reviewed the Report against AccountAbility's AA1000 Assurance Standard and whether in our opinion the Report is in accordance with the *Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 2002*. In order to form our conclusions we undertook the steps outlined below.

1. Interviewed a selection of BP executives and senior managers to understand objectives and priorities for embedding and managing BP's social, ethical and environmental expectations as set out in BP's non-financial policies (*What We Stand For*), the means by which BP planned to accomplish those objectives, the degree to which those objectives were met and how internal assurance is given to the board on these matters.
2. Reviewed BP's approach to stakeholder engagement through interviews with key stakeholder relationship holders in BP and reviewing selected associated documentation.
3. Reviewed BP's internal processes for reviewing the sustainability reporting practices of peer organizations and conducted a high-level benchmarking exercise of the material issues and areas of performance covered in the environmental and social reports of BP's peers.
4. Reviewed a selection of external media reports relating to BP's adherence to its policies, as a check on the scope and appropriateness of statements made in the Report.
5. Reviewed information or explanation about the Report's data, statements and assertions regarding BP's sustainability performance. As part of this we undertook nine business visits chosen to give coverage across business segments and the geographies in which BP operates.
6. Reviewed health, safety and environment, community investment, ethics dismissals and group leadership data samples and processes to test whether they have been collected, consolidated and reported appropriately at the group level.

7. Reviewed selected group level documents to assess management awareness of performance against non-financial policy commitments and test the coverage of the Report.
8. Reviewed BP's processes for determining material issues to be included in the Report and tested whether the processes had been applied in preparing the Report.
9. Reviewed whether BP's reporting (which includes both the Report and the environmental and social web content) is in accordance with GRI through reviewing whether the reporting:
  - a. Contains all information required in Sections 1-3 of Part C of the Guidelines (Vision and Strategy, Profile and Governance Structure and Management Systems).
  - b. Contains a GRI Content Index.
  - c. Contains data regarding performance against each of the GRI core indicators or explanations for omissions.
  - d. Is consistent with the 11 principles by reviewing BP's own assessment against GRI and interviewing a selection of BP staff.
  - e. Contains a statement signed by the board or the CEO confirming that the reporting has been prepared in accordance with GRI.

**Level of assurance** There are currently no final guidelines from AccountAbility on agreed definitions for levels of assurance when using the AA1000 Assurance Standard. We planned and performed our review to obtain information and explanation that we considered necessary to form our conclusions against each of the AA1000 Assurance Standard's assurance principles (Materiality, Completeness and Responsiveness), within the terms of reference agreed with BP management.

**Limitations of our review** Only pages 1-58 and 60-63 of the Report formed part of our review. A review of BP's performance against the UN Global Compact Principles (*page 59*) was not included in our scope of work.

The scope of our work was limited to a sample of nine visits from approximately 120 locations. We did not attend any stakeholder engagement activities. Our review of data processes only included the following data sets: health, safety and environment (HSE), community investment, ethics dismissals and group leadership diversity data. Our review of these data processes at operations level was limited to the nine locations visited.

## Our conclusions

On the basis of our review and in accordance with the terms of reference for our work we provide the following conclusions on the Report in relation to each of the main AA1000 Assurance Standard's principles (Materiality, Completeness and Responsiveness) and in relation to GRI. Our conclusions should be read in conjunction with the above section on 'What we did to form our conclusions', which includes the limitations of our review.

### Materiality Has BP provided a balanced representation of material issues concerning BP's social and environmental performance?

Based on our review, we consider that:

- With the exception of the subject areas listed below, the Report provides a balanced representation of material aspects concerning BP's sustainability performance as defined in the scope of the Report (*inside front cover*).
- However, we consider that BP could have covered the following subject areas in more depth in the Report:
  - Influencing performance of suppliers and contractors to be consistent with the BP policies.
  - Legal challenges and fines incurred in 2004 for issues other than HSE.
  - Community protests that have arisen regarding the BTC project in Georgia. However, community unrest is an issue raised on [www.caspiandevlopmentandexport.com/ASP/SecurityHumanRiskAssesment.asp](http://www.caspiandevlopmentandexport.com/ASP/SecurityHumanRiskAssesment.asp) and we understand that BP plans to cover this issue in the forthcoming *BP Azerbaijan Sustainability Report 2004*.
  - Medical benefits of retirees in America, as raised in the Annual General Meeting 2004.
- BP has applied its processes for determining material issues to be included in the Report, as described in the 'Our approach to reporting' section (*pages 52-53*).
- BP's reporting covers the core GRI indicators or explains the reasons for any omissions.

### Completeness Does BP have complete information on which to base a judgement of what is material for inclusion in the Report?

Based on our review:

- We are not aware of any material issues excluded or misstatements made in relation to the information on which BP has made judgements in respect of the content of the Report.
- We are not aware of any material reporting units that have been excluded in BP management's review of social and environmental performance.
- BP does not have a standardized method at group level for documenting and collating the outputs of stakeholder engagement. However, significant stakeholder issues are included in the materiality process for the Report.

- We have received information or explanation supporting all the assertions and claims regarding BP's performance.

### HSE data

- We consider that the material reporting units have been included in the group HSE data and that it has been properly collated from information reported at operations level.
- We consider that the 2004 HSE data is reliable for assessing group-wide HSE performance in the context of the data reporting boundaries stated in the Report.
- We are not aware of any errors that would materially affect the group HSE data. Documentation of the greenhouse gas emissions data collection, assumptions and assurance activities was in place at the locations visited. However, as in previous years, the completeness of documentation to support other environmental parameters is varied.

### Community investment data

- We consider that the material reporting units have been included in the group community investment data and that it has been properly collated from the reporting units through the group's financial data management system.
- We are not aware of any material omissions in relation to the total community investment data. However, we consider that there is scope for more detailed review and challenge at group level of the categorization of community investment data.

### Ethics dismissals data

- We consider that the material reporting units have been included in the group ethics dismissals data and that it has been properly collated from the reporting units through the group's annual Compliance and Ethics reporting system.
- We are not aware of any material omissions in relation to the ethics dismissals data.

### Leadership diversity data

- We consider that the leadership diversity and inclusion data has been collated appropriately from group-wide systems.

### Other non-financial data

- We have reviewed information or explanations to substantiate the other non-financial data on BP's sustainability performance presented in the Report.
- BP has reviewed other company reports and is in discussions with peers about appropriate economic and social impact indicators to include in future reporting. BP has included limited data on the economic and social impacts of their activities in the Report.

#### Responsiveness How has BP responded to stakeholder concerns?

Based on our review:

- We consider that the Report addresses the material stakeholder issues expressed in our interviews with stakeholder relationship holders and also those issues highlighted in the stakeholder engagement documents reviewed.
- We have observed policies, programmes and discrete activities aimed at addressing issues raised through stakeholder engagement. Observations on progress in these activities are provided in several sections of the Report. It is recognized that the response taken is BP's judgement and may not always be consistent with the expectations of all stakeholders.
- This year BP has addressed a number of issues that were raised by stakeholders during feedback on *BP Sustainability Report 2003*. These included: demonstrating in the Report that material issues were being covered; reporting on stakeholder engagement processes; and making the Report more accessible to wider audiences.
- The Report is updated annually. This year we understand that BP will also be creating a shorter version of the Report for wider circulation, which will also be translated into German, Russian and Spanish.

#### Has the Report been prepared in accordance with the GRI?

Based on our review we consider that BP's reporting (which includes both the Report and the environmental and social web content) has been prepared in accordance with the *GRI Sustainability Reporting Guidelines 2002* ([www.bp.com/gri](http://www.bp.com/gri)).

#### Areas of progress since 2003 and areas for improvement

Within the 'Our conclusions' section of this statement we have highlighted several areas for improvement. Our observations and areas for improvement will be raised in a report to BP management. A selection of specific observations regarding progress made and areas for improvement can also be found embedded in appropriate sections of the Report. A summary page of our specific observations can be found on [www.bp.com/environmentandsociety](http://www.bp.com/environmentandsociety).

#### Our independence

Our assurance team has been drawn from our global environment and sustainability network, which undertakes similar engagements to this with a number of significant UK and international businesses. As auditors to BP p.l.c., Ernst & Young are required to comply with the independence requirements set out in the Institute of Chartered Accountants in England & Wales (ICAEW) Guide to Professional Ethics. Ernst & Young's independence policies, which address and in certain places exceed the requirements of the ICAEW, apply to the firm, partners and professional staff. These policies prohibit any financial interests in our clients that would or might be seen to impair independence. Each year, partners and staff are required to confirm their compliance with the firm's policies. We confirm annually to BP whether there have been any events including the provision of prohibited services that could impair our independence or objectivity. There were no such events or services in 2004.

 **ERNST & YOUNG**

Ernst & Young LLP

London

22 March 2005

**Appendix 11: Normality distribution tests - absolute values of the Skewness and Kurtosis tests <sup>a</sup>**

| <b>Item #</b> | <b>Skewness V./ Std. Error</b> | <b>Kurtosis V./ Std. Error</b> | <b>Item #</b> | <b>Skewness V./ Std. Error</b> | <b>Kurtosis V./ Std. Error</b> |
|---------------|--------------------------------|--------------------------------|---------------|--------------------------------|--------------------------------|
| <b>D.1</b>    | 01.431                         | 05.658                         | <b>F.1</b>    | 12.931                         | 08.945                         |
| <b>D.2</b>    | 00.948                         | 05.760                         | <b>F.2</b>    | 07.057                         | 01.433                         |
| <b>D.3</b>    | 23.632                         | 43.543                         | <b>F.3</b>    | 09.988                         | 02.979                         |
| <b>D.4</b>    | 06.490                         | 02.095                         | <b>F.4</b>    | 19.275                         | 27.005                         |
| <b>D.5</b>    | 10.551                         | 04.005                         | <b>F.5</b>    | 22.339                         | 38.277                         |
| <b>E.1</b>    | 08.971                         | 01.271                         | <b>F.6</b>    | 19.275                         | 27.005                         |
| <b>E.2</b>    | 02.166                         | 05.424                         | <b>F.7</b>    | 21.201                         | 33.890                         |
| <b>E.3</b>    | 15.229                         | 14.661                         | <b>G.1</b>    | 07.057                         | 01.433                         |
| <b>E.4</b>    | 16.373                         | 16.170                         | <b>G.2</b>    | 20.183                         | 30.182                         |
| <b>E.5</b>    | 16.373                         | 17.852                         | <b>G.3</b>    | 02.287                         | 05.375                         |
| <b>E.6</b>    | 01.310                         | 05.687                         | <b>G.4</b>    | 13.770                         | 10.927                         |
| <b>E.7</b>    | 07.057                         | 01.433                         | <b>G.5</b>    | 07.252                         | 01.190                         |
| <b>E.8</b>    | 01.919                         | 05.514                         | <b>G.6</b>    | 08.735                         | 00.901                         |
| <b>E.9</b>    | 01.793                         | 05.554                         | <b>G.7</b>    | 05.988                         | 01.190                         |
| <b>E.10</b>   | 08.063                         | 00.089                         | <b>G.8</b>    | 07.252                         | 01.190                         |
| <b>E.11</b>   | 02.413                         | 05.116                         | <b>G.9</b>    | 02.666                         | 05.210                         |
| <b>E.12</b>   | 04.287                         | 04.216                         | <b>G.10</b>   | 06.689                         | 01.887                         |
| <b>E.13</b>   | 04.873                         | 03.739                         | <b>G.11</b>   | 05.655                         | 03.011                         |
| <b>E.14</b>   | 08.505                         | 00.554                         | <b>G.12</b>   | 26.879                         | 58.040                         |
| <b>E.15</b>   | 03.862                         | 04.520                         | <b>G.13</b>   | 19.275                         | 27.005                         |
| <b>E.16</b>   | 11.482                         | 05.820                         |               |                                |                                |

<sup>a</sup> As a rule of thumb is that the absolute value of the ratio of skewness to its standard error, and of kurtosis to its standard error, should be less than 2 [http://www.american.edu/cte/pdf/SPSS\\_desstats.pdf](http://www.american.edu/cte/pdf/SPSS_desstats.pdf). Date of retrieval 24 June 2006.

### Appendix 12: Results of the chi-square-test <sup>1</sup>

| Independent variable: Type of the stand-alone report     |                        |                 |                       |              |            |              |
|--|------------------------|-----------------|-----------------------|--------------|------------|--------------|
| Dependent variable : Dimensions of the assurance process |                        |                 |                       |              |            |              |
| Item #   | Pearson $\chi^2$ value | DF <sup>2</sup> | P-value Sig.(2-sided) |              | Cramer's V |              |
|  |                        |                 | Value                 | Asymp./Exact | Value      | Approx. Sig. |
| D.1  | 18.146                 | 9               | 0.02892               | E            | 0.304      | 0.034        |
| D.2  | 13.629                 | -               | 0.1329                | E            | N/A        | N/A          |
| D.3  | 16.053                 | -               | 0.07633               | E            | -          | -            |
| D.4  | 11.306                 | -               | 0.254                 | E            | -          | -            |
| D.5  | 36.617                 | -               | 0.0002995             | E            | 0.432      | 0.000        |
| E.1  | 13.858                 | -               | 0.123                 | E            | -          | -            |
| E.2  | 24.164                 | -               | 0.003                 | E            | 0.351      | 0.004        |
| E.3  | 21.423                 | -               | 0.01468               | E            | 0.331      | 0.011        |
| E.4  | 17.842                 | -               | 0.04077               | E            | 0.302      | 0.037        |
| E.5  | 13.128                 | -               | 0.1493                | E            | -          | -            |
| E.6  | 20.779                 | -               | 0.01062               | E            | 0.326      | 0.014        |
| E.7  | 16.902                 | -               | 0.0472                | E            | 0.294      | 0.050        |
| E.8  | 23.345                 | -               | 0.0043                | E            | 0.345      | 0.005        |
| E.9  | 28.393                 | -               | 0.0004                | E            | 0.381      | 0.001        |
| E.10   | 18.719                 | -               | 0.0259                | E            | 0.309      | 0.028        |
| E.11   | 15.019                 | -               | 0.0864                | E            | -          | -            |
| E.12   | 27.471                 | -               | 0.0009                | E            | 0.374      | 0.001        |
| E.13   | 18.291                 | -               | 0.0297                | E            | 0.305      | 0.032        |
| E.14   | 15.207                 | -               | 0.08197               | E            | -          | -            |
| E.15   | 16.590                 | -               | 0.0495                | E            | 0.291      | 0.056        |
| E.16   | 14.808                 | -               | 0.09333               | E            | -          | -            |
| F.1  | 8.983                  | -               | 0.433                 | E            | -          | -            |
| F.2  | 37.074                 | -               | 0.0002995             | E            | 0.435      | 0.000        |
| F.3  | 23.004                 | -               | 0.0075                | E            | 0.343      | 0.006        |
| F.4  | 17.543                 | -               | 0.04641               | E            | 0.299      | 0.041        |
| F.5  | 10.393                 | -               | 0.2937                | E            | -          | -            |
| F.6  | 9.022                  | -               | 0.4184                | E            | -          | -            |
| F.7  | 11.716                 | -               | 0.2204                | E            | -          | -            |
| G.1  | 17.204                 | -               | 0.041                 | E            | 0.296      | 0.046        |
| G.2  | 12.402                 | -               | 0.1843                | E            | -          | -            |
| G.3  | 22.497                 | -               | 0.0048                | E            | 0.339      | 0.007        |
| G.4  | 9.007                  | -               | 0.429                 | E            | -          | -            |
| G.5  | 24.933                 | -               | 0.0026                | E            | 0.357      | 0.003        |
| G.6  | 41.793                 | -               | 0.0002995             | E            | 0.462      | 0.000        |
| G.7  | 9.311                  | -               | 0.4148                | E            | -          | -            |
| G.8  | 6.184                  | -               | 0.7372                | E            | -          | -            |
| G.9  | 15.469                 | -               | 0.0727                | E            | -          | -            |
| G.10   | 12.022                 | -               | 0.2093                | E            | -          | -            |
| G.11   | 36.915                 | -               | 0.0002995             | E            | 0.434      | 0.000        |
| G.12   | 14.818                 | -               | 0.1022                | E            | -          | -            |
| G.13   | 11.284                 | -               | 0.2452                | E            | -          | -            |

( $\Sigma n = 196$ ). <sup>1</sup> The independent variables in this Appendix are ordered according to their appearance within the instrument of the study. <sup>2</sup> DF: degree of freedom.

| <b>Independent variable:</b> Sector (industry) of the reporting company |  |           |                               |                     |                   |                     |
|---|--|-----------|-------------------------------|---------------------|-------------------|---------------------|
| <b>Dependent variable :</b> Dimensions of the assurance process         |  |           |                               |                     |                   |                     |
| <b>Item #</b>   | <b>Pearson <math>\chi^2</math> value</b> | <b>DF</b> | <b>P-value Sig. (2-sided)</b> |                     | <b>Cramer's V</b> |                     |
|   |  |           | <b>Value</b>                  | <b>Asymp./Exact</b> | <b>Value</b>      | <b>Approx. Sig.</b> |
| <b>D.1</b>  | 11.109                                   | 6         | 0.085                         | A                   | N/A               | N/A                 |
| <b>D.2</b>  | 22.207                                   | 6         | 0.001                         | A                   | 0.337             | 0.001               |
| <b>D.3</b>  | 17.550                                   | -         | 0.009339                      | E                   | 0.299             | 0.007               |
| <b>D.4</b>  | 24.525                                   | 6         | 0.000                         | A                   | 0.354             | 0.000               |
| <b>D.5</b>  | 8.9580                                   | -         | 0.1731                        | E                   | -                 | -                   |
| <b>E.1</b>  | 28.150                                   | -         | 0.0001077                     | E                   | 0.379             | 0.000               |
| <b>E.2</b>  | 2.9250                                   | 6         | 0.818                         | A                   | -                 | -                   |
| <b>E.3</b>  | 7.9280                                   | -         | 0.2382                        | E                   | -                 | -                   |
| <b>E.4</b>  | 9.1280                                   | -         | 0.1604                        | E                   | -                 | -                   |
| <b>E.5</b>  | 7.6200                                   | -         | 0.2605                        | E                   | -                 | -                   |
| <b>E.6</b>  | 48.751                                   | 6         | 0.000                         | A                   | 0.499             | 0.000               |
| <b>E.7</b>  | 38.354                                   | 6         | 0.000                         | A                   | 0.442             | 0.000               |
| <b>E.8</b>  | 10.442                                   | 6         | 0.107                         | A                   | -                 | -                   |
| <b>E.9</b>  | 41.049                                   | 6         | 0.000                         | A                   | 0.458             | 0.000               |
| <b>E.10</b>   | 17.640                                   | -         | 0.006734                      | E                   | 0.300             | 0.007               |
| <b>E.11</b>   | 14.451                                   | 6         | 0.025                         | A                   | 0.272             | 0.025               |
| <b>E.12</b>   | 45.077                                   | 6         | 0.000                         | A                   | 0.480             | 0.000               |
| <b>E.13</b>   | 2.6050                                   | 6         | 0.857                         | A                   | -                 | -                   |
| <b>E.14</b>   | 13.960                                   | -         | 0.0286                        | E                   | 0.267             | 0.030               |
| <b>E.15</b>   | 27.479                                   | 6         | 0.000                         | A                   | 0.374             | 0.000               |
| <b>E.16</b>   | 6.6580                                   | -         | 0.3545                        | E                   | -                 | -                   |
| <b>F.1</b>  | 3.5370                                   | -         | 0.7531                        | E                   | -                 | -                   |
| <b>F.2</b>  | 6.6660                                   | 6         | 0.353                         | A                   | -                 | -                   |
| <b>F.3</b>  | 7.5120                                   | -         | 0.2764                        | E                   | -                 | -                   |
| <b>F.4</b>  | 6.1240                                   | -         | 0.409                         | E                   | -                 | -                   |
| <b>F.5</b>  | 9.6020                                   | -         | 0.1326                        | E                   | -                 | -                   |
| <b>F.6</b>  | 3.3620                                   | -         | 0.7864                        | E                   | -                 | -                   |
| <b>F.7</b>  | 11.700                                   | -         | 0.06336                       | E                   | -                 | -                   |
| <b>G.1</b>  | 16.154                                   | 6         | 0.013                         | A                   | 0.287             | 0.013               |
| <b>G.2</b>  | 10.670                                   | -         | 0.09152                       | E                   | -                 | -                   |
| <b>G.3</b>  | 31.609                                   | 6         | 0.000                         | A                   | 0.402             | 0.000               |
| <b>G.4</b>  | 8.8870                                   | -         | 0.1755                        | E                   | -                 | -                   |
| <b>G.5</b>  | 11.634                                   | 6         | 0.071                         | A                   | -                 | -                   |
| <b>G.6</b>  | 19.840                                   | -         | 0.002856                      | E                   | 0.318             | 0.003               |
| <b>G.7</b>  | 13.742                                   | 6         | 0.033                         | A                   | 0.265             | 0.033               |
| <b>G.8</b>  | 8.6310                                   | 6         | 0.195                         | A                   | -                 | -                   |
| <b>G.9</b>  | 22.338                                   | 6         | 0.001                         | A                   | 0.338             | 0.001               |
| <b>G.10</b>   | 9.2310                                   | 6         | 0.161                         | A                   | -                 | -                   |
| <b>G.11</b>   | 18.103                                   | 6         | 0.006                         | A                   | 0.304             | 0.006               |
| <b>G.12</b>   | 4.9600                                   | -         | 0.5483                        | E                   | -                 | -                   |
| <b>G.13</b>   | 16.420                                   | -         | 0.01278                       | E                   | 0.289             | 0.012               |

( $\Sigma n = 196$ )

| <b>Independent variable:</b> Size of the market-capital (M-C) of the reporting company |  |           |                               |                     |                   |                     |
|--|--|-----------|-------------------------------|---------------------|-------------------|---------------------|
| <b>Dependent variable :</b> Dimensions of the assurance process                        |  |           |                               |                     |                   |                     |
| <b>Item #</b>  | <b>Pearson <math>\chi^2</math> value</b> | <b>DF</b> | <b>P-value Sig. (2-sided)</b> |                     | <b>Cramer's V</b> |                     |
|  |  |           | <b>Value</b>                  | <b>Asymp./Exact</b> | <b>Value</b>      | <b>Approx. Sig.</b> |
| <b>D.1</b>   | 0.3810                                   | 2         | 0.826                         | A                   | N/A               | N/A                 |
| <b>D.2</b>   | 3.6680                                   | 2         | 0.160                         | A                   | -                 | -                   |
| <b>D.3</b>   | 8.5860                                   | -         | 0.01658                       | E                   | 0.209             | 0.014               |
| <b>D.4</b>   | 1.2090                                   | 2         | 0.546                         | A                   | -                 | -                   |
| <b>D.5</b>   | 1.4600                                   | 2         | 0.482                         | A                   | -                 | -                   |
| <b>E.1</b>   | 12.574                                   | 2         | 0.002                         | A                   | 0.253             | 0.002               |
| <b>E.2</b>   | 4.3780                                   | 2         | 0.112                         | A                   | -                 | -                   |
| <b>E.3</b>   | 3.5360                                   | -         | 0.2015                        | E                   | -                 | -                   |
| <b>E.4</b>   | 5.4610                                   | -         | 0.06177                       | E                   | -                 | -                   |
| <b>E.5</b>   | 9.1470                                   | -         | 0.01026                       | E                   | 0.216             | 0.010               |
| <b>E.6</b>   | 13.967                                   | 2         | 0.001                         | A                   | 0.267             | 0.001               |
| <b>E.7</b>   | 0.1890                                   | 2         | 0.910                         | A                   | -                 | -                   |
| <b>E.8</b>   | 9.9470                                   | 2         | 0.007                         | A                   | 0.225             | 0.007               |
| <b>E.9</b>   | 7.3690                                   | 2         | 0.025                         | A                   | 0.194             | 0.025               |
| <b>E.10</b>  | 5.6320                                   | 2         | 0.060                         | A                   | -                 | -                   |
| <b>E.11</b>  | 20.218                                   | 2         | 0.000                         | A                   | 0.321             | 0.000               |
| <b>E.12</b>  | 2.7240                                   | 2         | 0.256                         | A                   | -                 | -                   |
| <b>E.13</b>  | 2.8340                                   | 2         | 0.242                         | A                   | -                 | -                   |
| <b>E.14</b>  | 4.0260                                   | 2         | 0.134                         | A                   | -                 | -                   |
| <b>E.15</b>  | 1.0610                                   | 2         | 0.588                         | A                   | -                 | -                   |
| <b>E.16</b>  | 0.5240                                   | 2         | 0.769                         | A                   | -                 | -                   |
| <b>F.1</b>   | 5.5870                                   | 2         | 0.061                         | A                   | -                 | -                   |
| <b>F.2</b>   | 0.6660                                   | 2         | 0.717                         | A                   | -                 | -                   |
| <b>F.3</b>   | 2.0480                                   | 2         | 0.359                         | A                   | -                 | -                   |
| <b>F.4</b>   | 5.2050                                   | -         | 0.06947                       | E                   | -                 | -                   |
| <b>F.5</b>   | 1.6240                                   | -         | 0.5041                        | E                   | -                 | -                   |
| <b>F.6</b>   | 3.4850                                   | -         | 0.1861                        | E                   | -                 | -                   |
| <b>F.7</b>   | 5.0680                                   | -         | 0.0783                        | E                   | -                 | -                   |
| <b>G.1</b>   | 1.6530                                   | 2         | 0.438                         | A                   | -                 | -                   |
| <b>G.2</b>   | 3.6970                                   | -         | 0.1716                        | E                   | -                 | -                   |
| <b>G.3</b>   | 2.5870                                   | 2         | 0.274                         | A                   | -                 | -                   |
| <b>G.4</b>   | 0.7900                                   | 2         | 0.674                         | A                   | -                 | -                   |
| <b>G.5</b>   | 1.0510                                   | 2         | 0.591                         | A                   | -                 | -                   |
| <b>G.6</b>   | 4.3910                                   | 2         | 0.111                         | A                   | -                 | -                   |
| <b>G.7</b>   | 6.5660                                   | 2         | 0.038                         | A                   | 0.183             | 0.038               |
| <b>G.8</b>   | 0.2720                                   | 2         | 0.873                         | A                   | -                 | -                   |
| <b>G.9</b>   | 1.9720                                   | 2         | 0.373                         | A                   | -                 | -                   |
| <b>G.10</b>  | 0.9540                                   | 2         | 0.621                         | A                   | -                 | -                   |
| <b>G.11</b>  | 3.7150                                   | 2         | 0.156                         | A                   | -                 | -                   |
| <b>G.12</b>  | 0.4015                                   | -         | 0.8978                        | E                   | -                 | -                   |
| <b>G.13</b>  | 7.2970                                   | -         | 0.02621                       | E                   | 0.193             | 0.026               |

( $\Sigma n = 196$ )

| <b>Independent variable:</b> Type of the assurance provider (AP) |                        |    |                        |              |                  |              |
|--|------------------------|----|------------------------|--------------|------------------|--------------|
| <b>Dependent variable :</b> Dimensions of the assurance process  |                        |    |                        |              |                  |              |
| Item #   | Pearson $\chi^2$ value | DF | P-value Sig. (2-sided) |              | Cramer's V Value |              |
|  |                        |    | Value                  | Asymp./Exact | Value            | Approx. Sig. |
| D.1  | 2.7570                 | 2  | 0.252                  | A            | N/A              | N/A          |
| D.2  | 41.797                 | 2  | 0.000                  | A            | 0.463            | 0.000        |
| D.3  | 16.697                 | -  | 0.0007026              | E            | 0.293            | 0.000        |
| D.4  | 16.890                 | 2  | 0.000                  | A            | 0.294            | 0.000        |
| D.5  | 2.1550                 | 2  | 0.340                  | A            | -                | -            |
| E.1  | 43.447                 | 2  | 0.000                  | A            | 0.472            | 0.000        |
| E.2  | 3.4560                 | 2  | 0.178                  | A            | -                | -            |
| E.3  | 35.372                 | -  | 0.0002995              | E            | 0.426            | 0.000        |
| E.4  | 6.3610                 | -  | 0.0421                 | E            | 0.181            | 0.042        |
| E.5  | 1.9410                 | -  | 0.3259                 | E            | -                | -            |
| E.6  | 4.0020                 | 2  | 0.135                  | A            | -                | -            |
| E.7  | 7.7690                 | 2  | 0.021                  | A            | 0.200            | 0.021        |
| E.8  | 6.2370                 | 2  | 0.044                  | A            | 0.179            | 0.044        |
| E.9  | 1.0500                 | 2  | 0.592                  | A            | -                | -            |
| E.10   | 5.5860                 | 2  | 0.061                  | A            | -                | -            |
| E.11   | 6.4030                 | 2  | 0.041                  | A            | 0.181            | 0.041        |
| E.12   | 9.8140                 | 2  | 0.007                  | A            | 0.224            | 0.007        |
| E.13   | 2.2600                 | 2  | 0.323                  | A            | -                | -            |
| E.14   | 0.8250                 | 2  | 0.662                  | A            | -                | -            |
| E.15   | 4.8750                 | 2  | 0.087                  | A            | -                | -            |
| E.16   | 1.2950                 | 2  | 0.523                  | A            | -                | -            |
| F.1  | 5.4130                 | 2  | 0.067                  | A            | -                | -            |
| F.2  | 3.7120                 | 2  | 0.156                  | A            | -                | -            |
| F.3  | 2.8840                 | 2  | 0.236                  | A            | -                | -            |
| F.4  | 6.7040                 | -  | 0.03163                | E            | 0.185            | 0.035        |
| F.5  | 2.6870                 | -  | 0.2364                 | E            | -                | -            |
| F.6  | 0.5970                 | -  | 0.8548                 | E            | -                | -            |
| F.7  | 4.4950                 | -  | 0.122                  | E            | -                | -            |
| G.1  | 9.3720                 | 2  | 0.009                  | A            | 0.219            | 0.009        |
| G.2  | 2.7290                 | -  | 0.2532                 | E            | -                | -            |
| G.3  | 1.7980                 | 2  | 0.407                  | A            | -                | -            |
| G.4  | 5.4490                 | 2  | 0.066                  | A            | -                | -            |
| G.5  | 7.4070                 | 2  | 0.025                  | A            | 0.195            | 0.025        |
| G.6  | 3.9310                 | 2  | 0.140                  | A            | -                | -            |
| G.7  | 14.109                 | 2  | 0.001                  | A            | 0.269            | 0.001        |
| G.8  | 30.612                 | 2  | 0.000                  | A            | 0.396            | 0.000        |
| G.9  | 20.061                 | 2  | 0.000                  | A            | 0.321            | 0.000        |
| G.10   | 6.7640                 | 2  | 0.034                  | A            | 0.186            | 0.034        |
| G.11   | 21.528                 | 2  | 0.000                  | A            | 0.332            | 0.000        |
| G.12   | 4.3010                 | -  | 0.1249                 | E            | -                | -            |
| G.13   | 8.6360                 | -  | 0.01292                | E            | 0.210            | 0.013        |

( $\Sigma n = 195$ )

| <b>Independent variable:</b> Level of the assurance pursued     |                        |    |                        |              |                  |              |
|---|------------------------|----|------------------------|--------------|------------------|--------------|
| <b>Dependent variable :</b> Dimensions of the assurance process |                        |    |                        |              |                  |              |
| Item #  | Pearson $\chi^2$ value | DF | P-value Sig. (2-sided) |              | Cramer's V Value |              |
|   |                        |    | Value                  | Asymp./Exact | Value            | Approx. Sig. |
| D.1   | 5.1380                 | 2  | 0.077                  | A            | N/A              | N/A          |
| D.2   | 25.473                 | 2  | 0.000                  | A            | 0.361            | 0.000        |
| D.3   | 13.453                 | -  | 0.0111                 | E            | 0.262            | 0.001        |
| D.4   | 12.049                 | 2  | 0.002                  | A            | 0.248            | 0.002        |
| D.5   | 6.4550                 | -  | 0.03667                | E            | 0.181            | 0.040        |
| E.1   | 96.739                 | 2  | 0.000                  | A            | 0.703            | 0.000        |
| E.2   | 1.9400                 | 2  | 0.379                  | A            | -                | -            |
| E.3   | 1.5060                 | -  | 0.4725                 | E            | -                | -            |
| E.4   | 4.7340                 | -  | 0.1107                 | E            | -                | -            |
| E.5   | 9.0710                 | -  | 0.01487                | E            | 0.215            | 0.011        |
| E.6   | 4.9570                 | 2  | 0.084                  | A            | -                | -            |
| E.7   | 5.5320                 | 2  | 0.063                  | A            | -                | -            |
| E.8   | 3.0980                 | 2  | 0.212                  | A            | -                | -            |
| E.9   | 0.7800                 | 2  | 0.677                  | A            | -                | -            |
| E.10  | 1.7960                 | 2  | 0.407                  | A            | -                | -            |
| E.11  | 7.5110                 | 2  | 0.023                  | A            | 0.196            | 0.023        |
| E.12  | 17.947                 | 2  | 0.000                  | A            | 0.303            | 0.000        |
| E.13  | 0.8170                 | 2  | 0.665                  | A            | -                | -            |
| E.14  | 1.3630                 | 2  | 0.506                  | A            | -                | -            |
| E.15  | 0.3030                 | 2  | 0.860                  | A            | -                | -            |
| E.16  | 2.9560                 | -  | 0.2299                 | E            | -                | -            |
| F.1   | 1.6430                 | -  | 0.4695                 | E            | -                | -            |
| F.2   | 3.4040                 | 2  | 0.182                  | A            | -                | -            |
| F.3   | 0.7790                 | -  | 0.687                  | E            | -                | -            |
| F.4   | 3.6240                 | -  | 0.135                  | E            | -                | -            |
| F.5   | 2.4320                 | -  | 0.3556                 | E            | -                | -            |
| F.6   | 1.4280                 | -  | 0.5626                 | E            | -                | -            |
| F.7   | 2.1150                 | -  | 0.3173                 | E            | -                | -            |
| G.1   | 8.4460                 | 2  | 0.015                  | A            | 0.208            | 0.015        |
| G.2   | 1.2310                 | -  | 0.621                  | E            | -                | -            |
| G.3   | 4.4380                 | 2  | 0.109                  | A            | -                | -            |
| G.4   | 3.5190                 | -  | 0.192                  | E            | -                | -            |
| G.5   | 6.1600                 | 2  | 0.046                  | A            | 0.177            | 0.046        |
| G.6   | 2.6750                 | 2  | 0.263                  | A            | -                | -            |
| G.7   | 5.2200                 | 2  | 0.074                  | A            | -                | -            |
| G.8   | 10.572                 | 2  | 0.005                  | A            | 0.232            | 0.005        |
| G.9   | 4.8370                 | 2  | 0.089                  | A            | -                | -            |
| G.10  | 4.6150                 | 2  | 0.099                  | A            | -                | -            |
| G.11  | 4.4920                 | 2  | 0.106                  | A            | -                | -            |
| G.12  | 4.4920                 | -  | 0.1278                 | E            | -                | -            |
| G.13  | 3.3920                 | -  | 0.1873                 | E            | -                | -            |

( $\Sigma n = 196$ )

| <b>Independent variable:</b> Type of the assurance standards    |                        |    |                        |              |            |              |
|---|------------------------|----|------------------------|--------------|------------|--------------|
| <b>Dependent variable :</b> Dimensions of the assurance process |                        |    |                        |              |            |              |
| Item #  | Pearson $\chi^2$ value | DF | P-value Sig. (2-sided) |              | Cramer's V |              |
|   |                        |    | Value                  | Asymp./Exact | Value      | Approx. Sig. |
| D.1   | 27.431                 | 8  | 0.0002532              | E            | 0.374      | 0.001        |
| D.2   | 67.501                 | -  | 0.0002995              | E            | 0.587      | 0.000        |
| D.3   | 34.275                 | -  | 0.001188               | E            | 0.418      | 0.000        |
| D.4   | 46.067                 | -  | 0.0002995              | E            | 0.485      | 0.000        |
| D.5   | 55.510                 | -  | 0.0002995              | E            | 0.532      | 0.000        |
| E.1   | 48.248                 | -  | 0.0002995              | E            | 0.496      | 0.000        |
| E.2   | 11.747                 | -  | 0.1598                 | E            | N/A        | N/A          |
| E.3   | 24.715                 | -  | 0.005109               | E            | 0.355      | 0.002        |
| E.4   | 21.124                 | -  | 0.01267                | E            | 0.328      | 0.007        |
| E.5   | 9.1690                 | -  | 0.3091                 | E            | -          | -            |
| E.6   | 29.625                 | -  | 0.0003                 | E            | 0.389      | 0.000        |
| E.7   | 46.650                 | -  | 0.0002995              | E            | 0.488      | 0.000        |
| E.8   | 7.0400                 | -  | 0.5479                 | E            | -          | -            |
| E.9   | 23.466                 | -  | 0.00163                | E            | 0.346      | 0.003        |
| E.10  | 18.959                 | -  | 0.01514                | E            | 0.311      | 0.015        |
| E.11  | 26.819                 | -  | 0.000368               | E            | 0.370      | 0.001        |
| E.12  | 17.334                 | -  | 0.02306                | E            | 0.297      | 0.027        |
| E.13  | 4.4080                 | -  | 0.8339                 | E            | -          | -            |
| E.14  | 73.230                 | -  | 0.0002995              | E            | 0.611      | 0.000        |
| E.15  | 56.890                 | -  | 0.0002995              | E            | 0.539      | 0.000        |
| E.16  | 20.365                 | -  | 0.01159                | E            | 0.322      | 0.009        |
| F.1   | 12.703                 | -  | 0.1174                 | E            | -          | -            |
| F.2   | 66.109                 | -  | 0.0002995              | E            | 0.581      | 0.000        |
| F.3   | 54.891                 | -  | 0.0002995              | E            | 0.527      | 0.000        |
| F.4   | 28.422                 | -  | 0.002884               | E            | 0.381      | 0.000        |
| F.5   | 25.759                 | -  | 0.006891               | E            | 0.363      | 0.001        |
| F.6   | 10.033                 | -  | 0.2384                 | E            | -          | -            |
| F.7   | 5.5440                 | -  | 0.6908                 | E            | -          | -            |
| G.1   | 31.546                 | -  | 0.0001166              | E            | 0.401      | 0.000        |
| G.2   | 9.4610                 | -  | 0.2693                 | E            | -          | -            |
| G.3   | 27.874                 | -  | 0.0002214              | E            | 0.377      | 0.000        |
| G.4   | 8.3170                 | -  | 0.3875                 | E            | -          | -            |
| G.5   | 17.078                 | -  | 0.02783                | E            | 0.295      | 0.029        |
| G.6   | 14.558                 | -  | 0.06579                | E            | -          | -            |
| G.7   | 11.529                 | -  | 0.1685                 | E            | -          | -            |
| G.8   | 12.435                 | -  | 0.1274                 | E            | -          | -            |
| G.9   | 22.287                 | -  | 0.002877               | E            | 0.337      | 0.004        |
| G.10  | 12.447                 | -  | 0.1268                 | E            | -          | -            |
| G.11  | 23.148                 | -  | 0.002612               | E            | 0.344      | 0.003        |
| G.12  | 8.0500                 | -  | 0.3885                 | E            | -          | -            |
| G.13  | 5.1340                 | -  | 0.7483                 | E            | -          | -            |

( $\Sigma n = 196$ )