

**SUSTAINABILITY REPORTING ASSURANCE: A NEW
MINDSET AND ITS PRACTICAL IMPLICATIONS IN THE
LOCAL SCENARIO**

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Abstract

Title: Sustainability Reporting Assurance: A New Mindset and its Practical Implications in the Local Scenario.

Purpose: The objectives of this study are (i) to assess the expectations from a SRA engagement and the ideal level of assurance to improve perceived reliability of sustainability reports, (ii) to assess the availability of skillsets and capabilities of local service organisations relating to SRA, and (iii) to identify the elements that should be present during a SRA process in order to satisfy the objectives and ensure high quality SRA statements in the local scenario.

Design: To achieve the objectives of this study, semi-structured interviews were conducted with fourteen participants. These comprised seven representatives from listed entities, four statutory auditors and three sustainability consultants.

Findings: The findings of the research indicate that the majority of the research participants lack knowledge on sustainability and experience of a SRA engagement, but were still able to mention the various benefits and difficulties that arise from SRA. Research participants are aware that a reasonable assurance process is required to improve perceived reliability of sustainability reports but had diverse views on the background that an assurer should have to provide SRA in the local scenario. The study also identified the critical parties and the key factors required during a SRA process. Finally, the study also found that reporting entities have difficulties providing the necessary audit trail on data presented in sustainability reports.

Conclusions: This study concludes that the management of listed entities is not transmitting the importance of SRA. Moreover, an expectation gap between reporting entities and assurers on the SRA process also emerged. The selection of the preferred assurer is expected to ultimately fall between the Big 4 firms. Lastly, this study concludes that work is required to elevate the quality of potential local SRA statements given that both reporting entities and assurers are not heavily knowledgeable on reporting and assurance standards, as a result of prolonged guidance from standard setters.

Value: This study aims to promote awareness, increase knowledge and highlight the practical implications of SRA in the local scenario brought about by the new CSRD requirement. The proposed recommendations may assist not only affected entities and assurance firms but also local regulators to ease pressures of this new requirement.

Keywords: Sustainability Reporting Assurance, Assurers, Sustainability Reporting, Reporting Entities, Corporate Sustainability Reporting Directive, Stakeholders

Dedication

To all my family and friends

Acknowledgements

I would like to take this opportunity to show my sincere gratitude and appreciation to those who have been my main sources of support throughout the course of this research.

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List of Abbreviations

CSRD	Corporate Sustainability Reporting Directive
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
ESRSs	European Sustainability Reporting Standards
EU	European Union
EY	Ernst & Young
GRI	Global Reporting Initiatives
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IASP	Independent Assurance Service Provider
ISAE	International Standard on Assurance Engagements
ISSA	International Standard on Sustainability Assurance
KPMG	Klynveld, Peat, Marwick, Goerdeler
MESGA	Malta Environmental, Social and Governance Alliance
NFRD	Non-Financial Reporting Directive
PIEs	Public Interest Entities
PWC	Price Waterhouse Coopers
SR	Sustainability Reporting
SRA	Sustainability Reporting Assurance

Chapter 1: **Introduction**

1.1 Introduction

This chapter provides an introduction to the dissertation. Section 1.2 presents the background to the study and section 1.3 delineates the rationale for the research. Then, section 1.4 sets out the research objectives and section 1.5 draws attention to the scope and limitations. Finally, section 1.6 provides a representation of the structure of the dissertation.

Figure 1.1 provides an outline of this chapter:

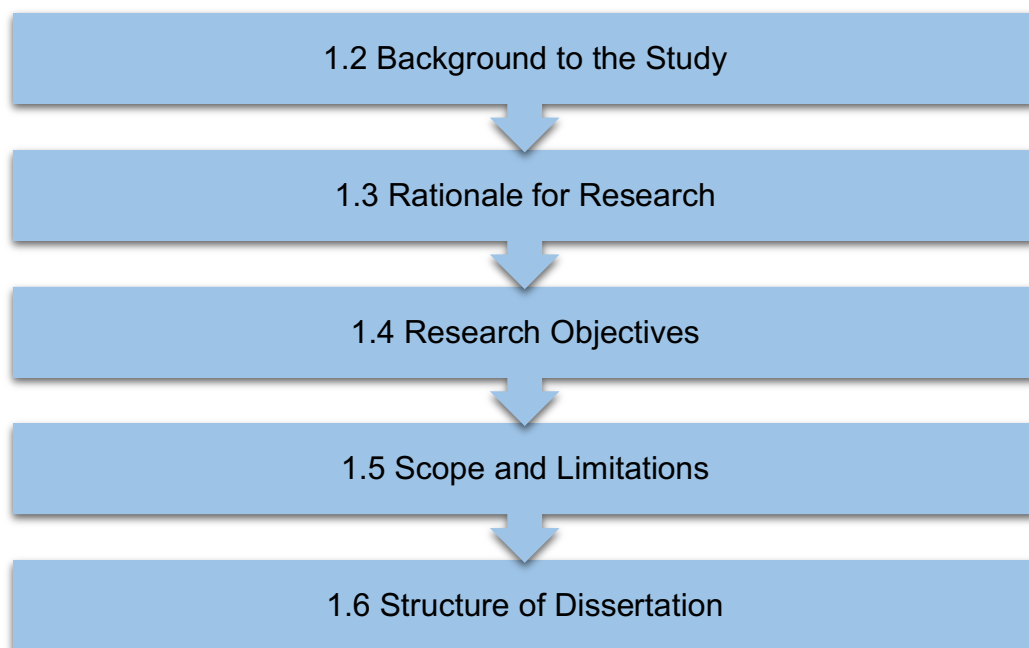


Figure 1.1: Outline of Chapter 1

1.2 Background to the Study

1.2.1 Reporting on Non-Financial Information

Following the 2008 financial crisis, the global economy faced rapid economic deterioration. However, as economies started to show positive signs of recovery, Governments, organisations and communities attempted to ascertain the causes of the financial system collapse in order to understand better how to deal with

similar circumstances in the future. This unprecedented event highlighted two main aspects: the importance of organisations firstly, in measuring each activity, and secondly, in ensuring transparency (Del Baldo 2021).

Measurement of each activity entails supporting every expenditure or investment with results, whereas transparency of organisations involves not just clarity and lucidity, but also refers to the executive's willingness to assume responsibility. This results in the ability to communicate every activity to achieve sustainable results and shifting the notion from "survival of the fittest" to "survival of the most informed" (Azam, Warraich et al. 2011, p.52). Phrases like 'green management', 'green marketing', 'holistic business models' and 'sustainability' were introduced.

However, the traditional Accounting model, particularly its financial reporting section is unable to adequately address the numerous inquiries from diverse stakeholders. As a result, the academic and professional communities stress the importance of using non-financial data to evaluate a company's performance in addition to financial data (Monteiro, Vale et al. 2022).

1.2.2 Stakeholders

Freeman (1983, p.91) defines stakeholders as "any identifiable group or individual who can affect the achievement of an organisation's objectives or who is affected by the achievement of an organisation's objectives". As organisational management developed over time against a background of increased accountability in the form of "ethical, fair and sustainable practices" demanded by society, concern over the relationship with interests of stakeholders has also attracted more attention (Stocker, Arruda et al. 2020, p.2071).

In order for entities to sustain the trust of their stakeholders, they are constantly developing engaging practices with stakeholders to reach sustainable development goals. Stakeholder management exhibited the ability to serve as a

competitive advantage apart from assisting in the process of generating value for stakeholders (Sulkowski, Edwards et al. 2018).

1.2.3 Sustainability Reporting

An important channel through which entities address growing demand for sustainable practices is through sustainability reporting (SR) (Hahn, Kuhnen 2013). SR refers to the organisation's communication of "environmental, social, employee and ethical matters, and defining measurements, indicators and sustainability goals based on the company's strategy" (Deloitte Latvia 2015, p.1).

The aim of disclosing sustainability information is to further enhance brand value, reputation, transparency and support corporate information (Al Hawaj, Buallay 2022). SR is becoming more widely acknowledged as it is now a key component of corporate sustainability (Lozano, Huisinigh 2011). Thus, it is not unexpected that SR is receiving ever growing attention.

1.2.4 Sustainability Reporting Assurance

An important step within this sustainability journey which will be deeply analysed throughout this research, is the importance of obtaining assurance on the sustainability information presented.

The International Auditing and Assurance Standard Board (IAASB) defines an assurance engagement as "an engagement in which a practitioner aims to obtain sufficient and appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria" (IAASB 2013, p. 7).

Table 1.1 below shows the tri-party relationship that is formed during an assurance process:

Parties Involved	Responsibility
Management	In charge of preparing the sustainability information to be presented (ICAEW 2010).
Assurers	Evaluates the sustainability report and provides an assurance conclusion in a separate report (ICAEW 2010).
Stakeholders	The users of sustainability reports who evaluate the reliability of information presented accompanied with an independent assurance report (ICAEW 2010).

Table 1.1: Tri-party Relationship in SRA

Numerous entities have started to incorporate an assurance statement with their sustainability report in order to decrease information risk, improve credibility and gain legitimacy (Prinsloo, Maroun 2020). Sustainability reporting assurance (SRA) was mostly undertaken to combat the increasingly alarming universal behaviour of greenwashing (Kim, Lyon 2015). Greenwashing can be defined as “a co-creation of an external accusation toward an organisation with regard to presenting a misleading green message” (Seele, Gatti 2017, p.248). Previous studies have shown that independent assurance was shown to have a considerable impact on the users’ view regarding disclosure credibility and quality (Karagiannis, Vouros et al. 2022).

However, the recognition and importance of SRA has increased at a laggard pace since its commencement and the main reason behind this is the voluntary nature of such practice in the major part of countries around the world. However, the European Commission (EC) has now taken the initiative of rectifying the current situation. Malta, being part of the European Union, must adhere to these amendments.

The process began on the 22nd October 2014 when the Non-Financial Reporting Directive (NFRD), Directive 2014/95/EU, was implemented to supersede the Accounting Directive, Directive 2013/34/EU. The NFRD's primary goal was to improve transparency of environmental information and as a result, enhance the ways by which entities disclosed non-financial information. This directive mandated that large Public Interest Entities (PIEs) which employ more than 500 employees required only their assurers to check that the non-financial information had been presented. Therefore, no assurance procedures were mandated by this directive (European Union 2014).

The EC took a further step forward on the 21st April 2021 when it proposed the Corporate Sustainability Reporting Directive (CSRD). The CSRD broadens further to include all large and listed entities (except those micro-listed entities). For the first time, an unprecedented decision had also been taken to require a general EU-wide limited assurance on the sustainability information presented (European Commission 2021).

The EC's CSRD marked a significant advancement in the context of assurance for local SR. The CSRD came into force on the 5th of January 2023 and Malta has a maximum of 18 months to transpose the provisions into national law.

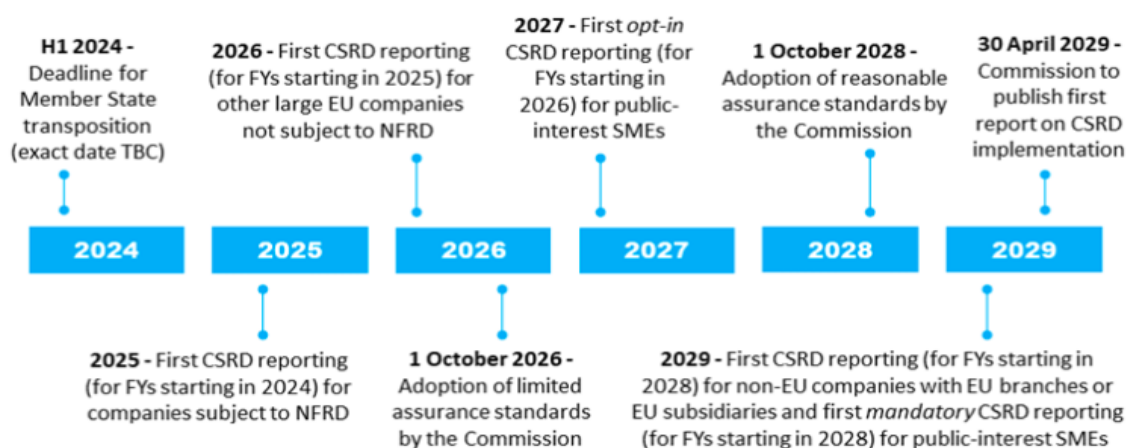


Figure 1.2: SRA and SR requirements due to the CSRD

Source – Principles for Responsible Investment 2022

1.3 Rationale for Research

As stipulated in the previous section, the legal and regulatory requirements that entities have to abide by, has accelerated forward the importance of the discussion on sustainability. Sustainability is a worldwide concern and studies on SRA can provide assistance to enlighten the global sustainability agenda. Moreover, the importance of understanding the best practices in SRA aids to improve SR and is instrumental in attaining global sustainability goals.

Currently, local SRA is very premature and given that assurance will soon become mandatory, it is the ideal time to shed light on this matter. Whilst there have been some studies on SR, research on assurance practices in the local scenario is heavily required.

This research, as will be explained in detail in the next section, aims to obtain a better view and gather an understanding of how representatives of local entities and assurers view the subject matter of SRA in the local scenario. Moreover, this research should help to inform and contribute to the broader worldwide conversation on SRA.

1.4 Research Objectives

This research is based on achieving the following three objectives. These are:

- To assess the expectations from a SRA engagement and the ideal level of assurance to improve perceived reliability of sustainability reports.

The first objective aims to comprehend how SRA is viewed in the local scenario through an understanding of the benefits and difficulties encountered from a potential engagement. Moreover, this study also aims to gather an understanding of the procedures performed during the different levels of assurance processes and their effect on the perceived reliability of sustainability reports.

- To assess the availability of skillsets and capabilities of local service organisations relating to SRA.

The second objective is to recognise whether in the local scenario, the assurer preferred by entities is provided by either a statutory auditor or any other non-Accounting firm. This study also aims to identify the knowledge and background that potential assurers should possess to undertake an assurance process and explores whether the scope of work of the internal auditor will change as SRA becomes mandatory.

- To identify the elements that should be present during a SRA process in order to satisfy the objectives and ensure high quality SRA statements in the local scenario.

The third objective is to explore a number of essential elements within the assurance process that affect the quality of SRA statements presented. This includes investigating the key parties responsible for affecting quality of assurance statements, exploring quality factors that should be present during the assurance process and understanding the importance of entities having an audit trail during the data gathering process.

Figure 1.3 below summarises the focus of the research to arrive at the points which portray the objectives of the study.

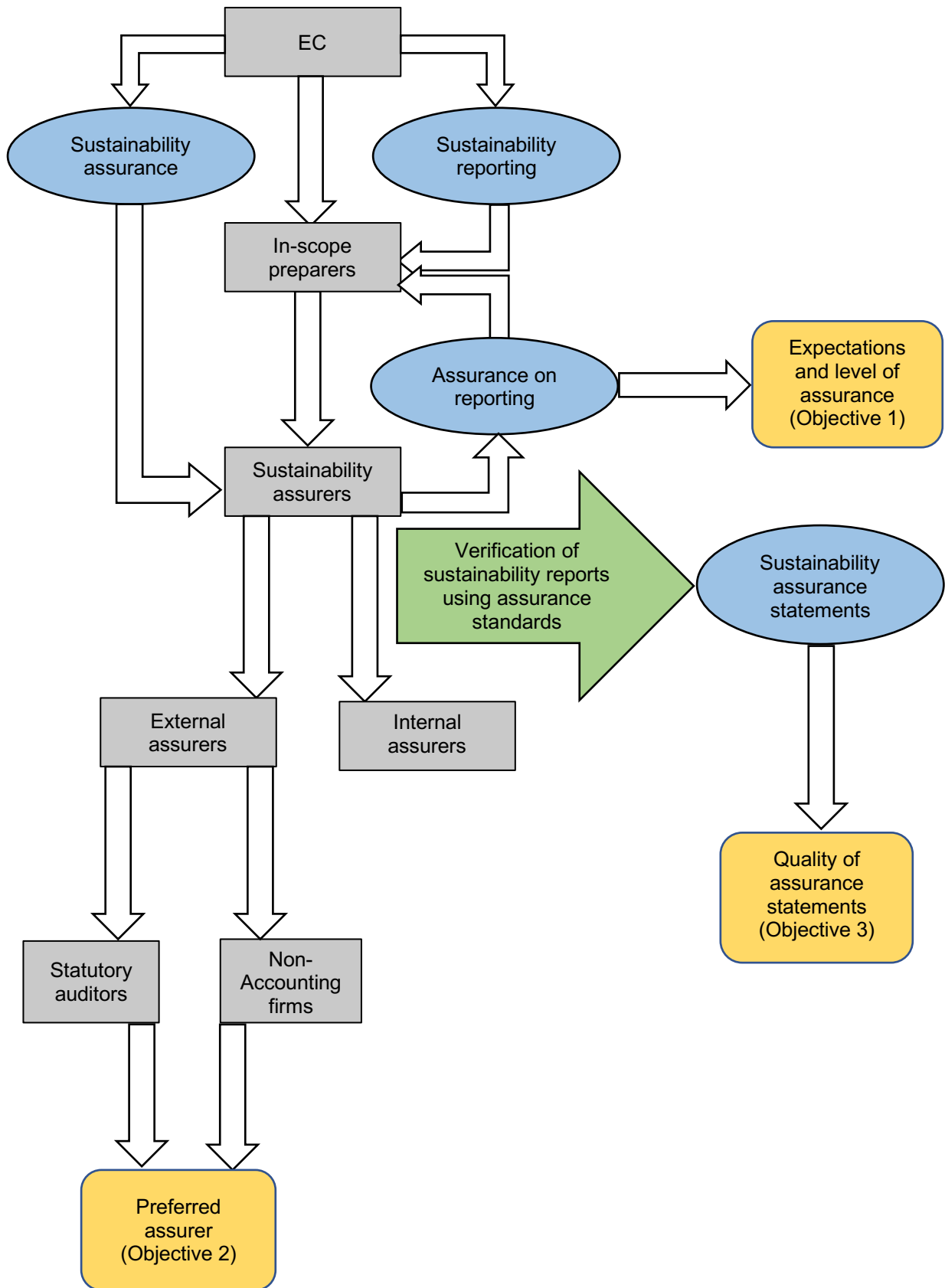


Figure 1.3: Emanation of the three objectives

1.5 Scope and Limitations

This study focuses on sourcing the literature review with the most up-to-date studies given that the research subject undertaken is very current and ever evolving. However, given that SRA is in its infancy in the local scenario, there are still problems yet to be faced and therefore some sources in the literature may not be the most recent.

Another limitation was encountered during the potential assurer selection. This relates to the limited amount of potential non-Accounting assurers considered, as the CSRD is still in the process of being transposed and therefore, potentially, any professional service firms which could eventually act as Independent Assurance Service Providers (IASPs) were not contacted for the purpose of this study. This research only considered those qualified in environmental sustainability as potential assurers from non-Accounting firms.

Furthermore, due to time-frame constraints, the cut-off date for this study's local and transnational developments is the 1st of April 2023.

1.6 Structure of Dissertation

Chapter 1 provides the context to the research by outlining the key areas and approach to the study, stipulating the rationale for the research, explaining the research objectives and determining the scope and limitations.

Chapter 2 explores international literature in relation to SRA.

Chapter 3 describes the research methodology used to accomplish the research objectives set out.

Chapter 4 evaluates the findings established through the implementation of interviews and thoroughly examines them in light of the literature explored in Chapter Two.

Chapter 5 completes this research study by outlining the critical findings, recommendations and areas that require further research.

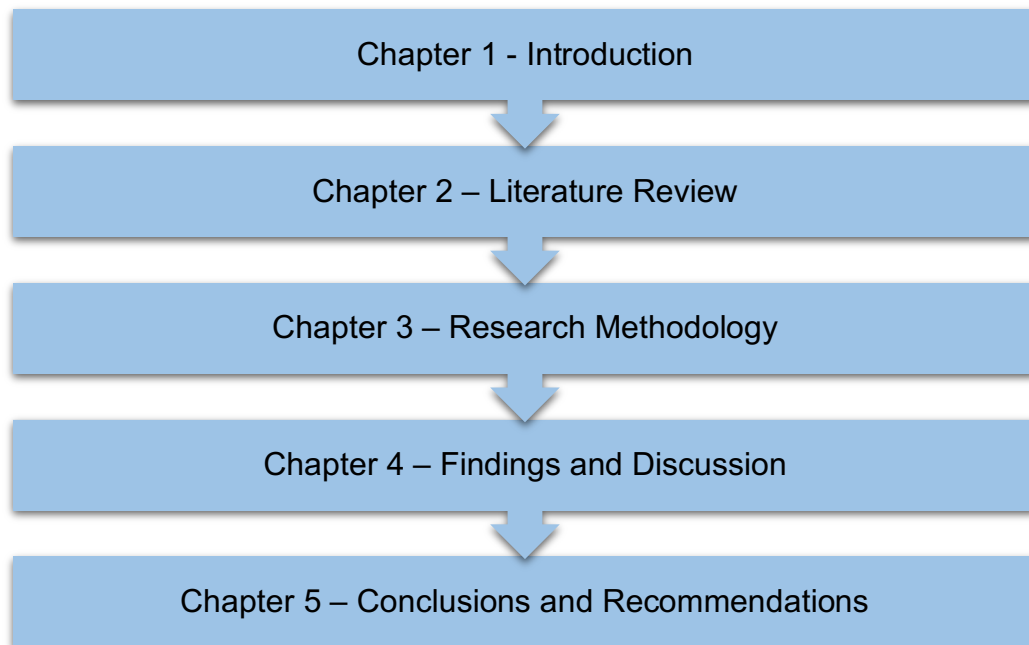


Figure 1.4: Dissertation Structure

Chapter 2: **Literature Review**

2.1 Introduction

This chapter aims to achieve two main aspects: understanding the theoretical perspective from which SRA emanates and the review of literature compiled in the global context. Focus points include analysing studies concerning the ideal level of assurance, the diverse skillsets residing in possible assurance providers, the available assurance standards and reporting criteria, the role of stakeholders in SRA and the quality of sustainability assurance statements.

Figure 2.1 provides an outline of the chapter:

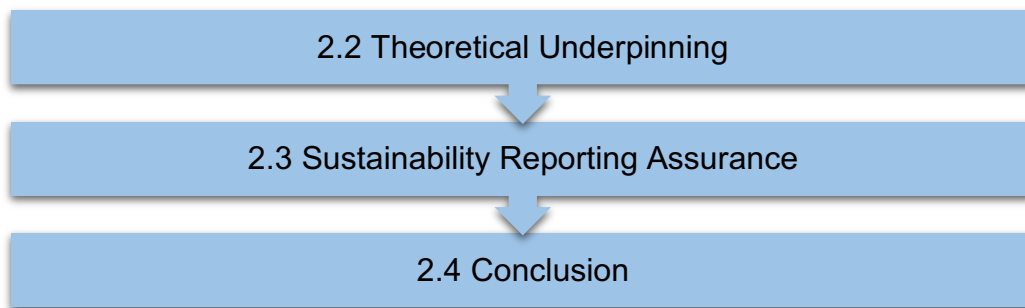


Figure 2.1: Outline of Chapter 2

2.2 Theoretical Underpinning

In the fields of SR and its assurance, there is not one widely common adopted theory (Simoni, Bini et al. 2020). In fact, various studies have opted for various theoretical perspectives including signalling theory, legitimacy theory, stakeholder theory, agency theory and institutional theory (Alsaahli, Malagueno 2021). Nonetheless, this research considered the understanding of the agency and stakeholder theory as the most suitable theories for SRA.

2.2.1 Agency Theory

The main focus of the agency theory is when one party (the principal) assigns work to another (the agent), who attempts to complete it. The metaphor of a

contract is used by the agency theory in an attempt to explain this relationship (Jensen, Meckling 1976).

An issue that can arise in an agency relationship is the agency problem. This occurs both when the principal and agent have opposing interests or desires and/or the principal finds it difficult or expensive to confirm the agent's actions. Therefore, in this situation, the principal is unable to confirm that the agent acted appropriately (Bae, Masud et al. 2018). In the corporate sphere, the main aim of managers (agents) is to reap higher rewards for running the organisation whilst that of the shareholders (principals) is to maximise their wealth (Panda, Leepsa 2017). Due to shareholders being concerned about their limited access to information about the organisation, managers have opted to start sharing information, such as SR, in an effort to minimise information asymmetry between managers and shareholders. Despite this, the prolonged absence of a globalised standard on disclosing sustainability information, initiates another agency problem as managers could opt to only report information which reflects well on their performance (De Villiers, Hsiao 2017).

Managers strive to portray their entity favourably so as to improve their reputation. On the other hand, shareholders require access to veracious and accurate information to make informed decisions. In order to address the distress of shareholders regarding the reliability of information presented, preparers of non-financial information opted to engage in sustainability assurance (Carrington 2019). Again, since assurance of sustainability reports has been voluntary in most countries, entities are able to choose their preferred assurer, assurance standards and also the level of assurance, which in turn, poses new problems. When such differences exist, sustainability assurance statements vary in quality.

Garcia-Sanchez et al. (2021) suggest that despite the mentioned issues that could arise, assurance statements providing an unbiased and independent opinion, increase both the relevance and credibility of the information presented.

Therefore, in accordance with the agency theory, SRA addresses the agency problem.

2.2.2 Stakeholder Theory

The stakeholder theory concentrates on the interactions between various stakeholder groups and an organisation. The stakeholders who are impacted by the actions of entities vary from being internal such as employees, managers and shareholders to external such as customers, suppliers and banks (Hazaea, Zhu et al. 2022).

According to this theory, stakeholder groups have varying opinions on how an organisation should run its operations, and as a result, they have various concerns and interests in the organisation (Stocker, Arruda et al. 2020). In order to obtain the necessary legitimacy, entities must meet the needs and expectations of stakeholders. The stakeholder theory emphasises that sharing knowledge is the only way to win the support and approval of stakeholders (Eizaguirre, Garcia-Feijoo et al. 2019).

Hence, a strategy that has been used by businesses to address stakeholder pressure and increased credibility relating to environmental, social and governance (ESG) goals is to provide sustainability reports. Undertaking assurance serves as an additional professionally acceptable communication tool which demonstrates that the performance of an organisation meets the current standards. Therefore, the motivation to engage in SRA arises from the desire to gain the trust of stakeholders (Ruiz-Barbadillo, Martinez-Ferrero 2022).

2.3 Sustainability Reporting Assurance

Throughout the course of the past decade, inquiries regarding sustainability performance have soared significantly (Richardson, Kachler 2017). Reporting of such information remains voluntary in most countries. However, in countries such

as France, Denmark, Sweden, Malaysia, Brazil and South Africa, SR has been made mandatory for entities which are listed (KPMG 2013). Several legislations have also been passed in the United Kingdom for listed entities to report on their environmental performance whilst in the United States and Canada, sustainability disclosures are mandated (Boiral, Heras-Saizarbitoria 2020).

SRA which is provided by an external and independent individual was mainly established in order to decrease the difficulty of a credibility gap. In fact, Zaman et al. (2021) confirm that when sustainability information is released with an assurance statement, it is more detailed and precise, resulting into information of high quality. The further added benefit of assurance statements having a positive affect on the users' perception of the entity is that, in turn, it would have a favourable impact on the reputation of the entity (Clarkson, Li et al. 2019).

Maroun (2019) argued that apart from providing credibility and positively affecting the reputation of an entity, there are added potential benefits arising from an assurance process from which an organisation can benefit internally. Through collaborative efforts with external assurance providers, a company may be able to profit from their knowledge and experience. After evaluating systems, procedures and internal controls, assurers can pinpoint any flaws and provide knowledge which could help prevent long-term commercial repercussions. The transfer of knowledge and refinements to internal decision-making processes all lead to a company achieving its corporate goals. Besides this, trustworthy information may be crucial in lowering the possibility of regulatory inquiries and fines related to environmental issues.

However, being subjected to an assurance process is not an easy task for entities especially when considering the difficulties to recruit individuals knowledgeable in sustainability and the financial requirements for the preparation to such a process (Krasodomska, Simnett et al. 2021). Such difficulties could possibly be mitigated by building the adequate mentality within the firm in view of SRA (Al-Shaer 2020). Despite this, issues still lie with the consistency and reliability of

assurance statements which are ultimately the end result of an assurance process. This stems from the problem of a 'stand alone' assurance standard still not yet developed (Garcia-Sanchez, Hussain et al. 2022).

2.3.1 Level of Assurance and the Expectation Gap

Whilst mentioning consistency and reliability, the level of assurance plays a key role in SRA. Hassan (2019) implies that the level of assurance ultimately pertains to the nature and volume of work required for a particular engagement. In a reasonable assurance engagement, more intensive and profound work is conducted when compared to a limited assurance engagement. Therefore, the latter provides less assurance on sustainability reports. Despite this, in both assurance processes, the practitioner must thoroughly understand the business to be able to evaluate the risk of material misstatement (Farooq, de Villiers 2019).

As a result of a limited assurance engagement, the practitioner draws a judgement regarding the fair representation in a negative form. This is due to the limited work performed. On the contrary, when assurance practitioners perform more extensive procedures and obtain more data, their conclusion which is called 'opinion' is expressed in a positive form. Such an opinion is crucial from a stakeholder's perspective as it shows how complete and accurate information is presented in all material aspects, in accordance with the applicable reporting standard (Accountancy Europe 2022).

Irrespective of the level of assurance obtained, being either limited, reasonable or whether no assurance is obtained at all, SR has to be consistent and high in quality. Moreover, for a SRA process to be successful, it is vital that the assurance statement accurately represents the results and level of assurance intended by the assurer. In the case of ineffective communication by an assurance report, an expectation gap may arise (Cuadrado-Ballesteros, Martinez-Ferrero et al. 2017).

Deegan et al. (2006) found that although many of the sustainability assurance engagements were similar to a limited assurance engagement, the wording of the majority of those reports was in a positive form. This implies a higher level of assurance when compared to the judgement formed. Such execution of reports is expected to widen the expectation gap among stakeholders as they become more ambiguous on the level of assurance and testing provided.

The existing expectation gap arising from the level of assurance provided, also emerges in the study of Hodge et al. (2009). Stakeholders rated sustainability assurance reports prepared with a reasonable level of assurance, similar to those prepared with a limited assurance level “in terms of their confidence and perceptions of credibility of the report” (Hodge et al. 2009, p.188). The failure to indicate a difference in the level of assurance used shows how stakeholders are not fully aware of what the two assurance processes entail. This signals an expectation gap which should be addressed by standard setters.

In the local scenario, Baldacchino and Desira (2005) have already found an internal and statutory audit perception gap. Yet, there has not been any research in relation to a possible expectation gap with regards to SRA in the local scenario. Apart from the fact that the level of assurance that should be obtained on sustainability reports remains unclear, the ideal skillset that a preparer is expected to have is also still uncertain. This will be discussed in the following section.

2.3.2 Assurers Selection

Assurance of sustainability reports may be performed by individuals who are unbiased, competent and independent. These attributes can be provided by several internal and external parties (Gurturk, Hahn 2016).

There are two main professional groups that fall under the umbrella of external assurance: these are statutory auditors and non-Accounting firms (Alsahali,

Malagueno 2021). Based on prior research, statutory auditors mainly consist of the Big 4 firms (EY, KPMG, PWC and Deloitte), other smaller audit firms and individuals. Meanwhile, non-Accounting firms comprise certification bodies and sustainability consultants (Fernandez-Feijoo, Romero et al. 2018). Despite both being designated as external SR assurers, they emerge from two separate educational and professional backgrounds which are Sustainability and Accounting. Therefore, they have varied levels of experience, distinctive knowledge and they use different techniques when undertaking sustainability assurance (Thompson, Ashimwe et al. 2022).

Distinctive knowledge arises as a result of statutory auditors being experts in providing assurance services, however, not necessarily in sustainability whilst non-Accounting firms are experts in providing sustainability related services but not necessarily assurance. Non-Accounting firms assert having an edge over statutory auditors as they feel that knowledge of sustainability is vital during the SRA process. However, statutory auditors believe that having knowledge of risk assessment models and experience in conducting assurance services is more important (Martinez-Ferrero, Garcia-Sanchez et al. 2018).

With regards to the assurance process itself, statutory auditors focus on the credibility of the data presented through a “mere data-checking exercise” and the effectiveness of the internal controls system as it is an adequate indication regarding the reliability of sustainability reports (O’Dwyer, Owen 2005, p.225). On the other hand, sustainability consultants and certification bodies focus “more on completeness, fairness and overall balance” within their assurance statements (Edgley, Jones et al. 2010, p.535).

Trotman (2015) in his study identified internal assurers as individuals who are capable of elevating the credibility of assurance statements. In fact, in 2021, the Chartered Institute of Internal Auditors affirmed that internal auditors are more than capable of providing internal assurance services in SRA. Moreover, Haji et al. (2016) stipulated that despite the new sustainability requirements that need to

be adhered to, the internal auditor should always remain separate from the management of the company.

Evidence from earlier studies reveals conflicting findings on the preferred assurer for providing SRA. Studies by Garcia-Sanchez et al. (2022) and Martinez-Ferrero et al. (2018) identify statutory auditors as the ideal assurers as they have built a solid reputation and are competent to apply established professional standards to prepare assurance statements. On the other hand, Hasan et al. (2003) and O'Dwyer and Owen (2005) claim that sustainability consultants are the most suitable candidates to prepare sustainability assurance statements. Irrespective of academic background and work experience, Knechel (2021) identified knowledge and expertise as important factors to be considered in the assurer selection. However, when considering the statutory auditor, the 'expertise' in assurance processes results to an added cost for the service provided.

Currently, apart from entities having the option of selecting their preferred assurer, during the reporting stage, preparers of sustainability reports have to select guidelines and standards. This also applies to assurers who have the possibility to choose their preferred assurance standard.

2.3.3 Assurance Standards and Reporting Criteria

The denomination of the term 'reporting criteria' refers to the guideline the reporting company and the assurer have agreed to, in order to assess the sustainability report (OECD 2011). Meanwhile 'assurance standard' refers to the standard used by the assurer whilst conducting the assurance engagement (FEE 2002). There are several standards and guidelines for assurers and entities to choose from despite SR and its assurance being a relatively new implementation across the globe. This understanding is beneficial in relation to the third objective.

Currently, the most commonly used SR standards are the Global Reporting Initiatives (GRI) and the AA 1000 Accountability Principles (AA 1000 AP 2018).

The GRI guidelines, which were the first standards set in motion in 2000 as a global framework, focus on intensifying comparability and credibility of information in sustainability reports. Given that the GRI is an institution which is multi-stakeholder oriented, it focuses on delivering transparent information to stakeholders (Gillet-Monjarret, Riviere-Giordano 2017). Similarly, the AA 1000 Accountability Principles which were recently revised during 2018, provide entities with guidance to control, understand and improve sustainability performance (Farooq, Zaman et al. 2021).

Currently, as assurance of sustainability reports is voluntary in most countries, preparers are able to choose their preferred guideline (Christensen, Hail et al. 2021). However, parallel to the CSRD, the European Financial Reporting Advisory Group (EFRAG) which is the technical advisor of the EC, is in the process of finalising the European Sustainability Reporting Standards (ESRSs) which shall be used by all countries in the European Union (EU). The harmonisation in the preparation of reports alleviates uncertainty and enhances comparability of sustainability reports across Europe.

With regards to assurance standards, the most accustomed and established standard to be used as a key tool in response to assurance requirements is the International Standard on Assurance Engagements (ISAE) 3000 revised (Gillet-Monjarret, Riviere-Giordano 2017). There are two main factors that place this standard as the most reliable. Firstly, it is a global assurance framework accepted by the market which is set up by the independent and well-established IAASB. Secondly, it features methodological steps to be taken during an assurance process for both limited and reasonable assurance processes (Somoza 2022).

Until now, EFRAG has only focused on setting up standards for preparers of sustainability reports. The promulgation of a common assurance standard to be used across the members of the EU is likely to be the remit of another standard-setting body which is similar to having the International Accounting Standards Board (IASB) and IAASB setting reporting and auditing standards respectively.

In fact, during September 2022, the IAASB's assurance working group decided to move beyond the point of guidance and recommended the development of a proposed International Standard on Sustainability Assurance (ISSA) 5000 for assurance of sustainability reports. The board unanimously supported this motion with the aim of focusing on the public interests, producing the standard in a timely manner and being comprehensive to provide a complete assurance solution (IAASB 2022).

The new stand-alone assurance standard by the IAASB is consistent with the principles, elements and concepts of the ISAE 3000 (revised), however, it is transformed by adding enhancements and specifications that focus on SR. Until such a standard has been developed, ISAE 3000 is considered to be the most ideal (Accountancy Europe 2022).

The most noticeable factor is the continuous urge by standard setters to improve assurance statements due to demands from stakeholders. Sheldon et al. (2020) concur that standard setters have a duty to establish clear guidelines and standards for assurance and reporting parties with whom they must stay in constant communication.

2.3.4 The Role of Stakeholders

Manetti and Toccafondi (2012) suggest that stakeholders should not be solely involved during decision making (stakeholder management) but should also be involved in taking action and solving issues (stakeholder engagement) during the assurance process. This inclusivity offers two-fold benefits whereby it adds value to both stakeholders and the reliability of the assurance statement.

Assurance providers are able to provide security to stakeholders by ensuring that "their expectations have been taken into consideration by the company" (Garcia-Sanchez, Raimo et al. 2022, p.389). Therefore, as a dialogue emerges between stakeholders and the assurer, the latter is perceived as "a voice of the

stakeholders for the company” in the assurance statement (Edgley, Jones et al. 2010, p.578).

Despite the aforementioned, Boiral and Heras-Saizarbitoria (2020, p.8) mention five interdependent factors which put forward the idea of the reliability of assurance statements as being of a hyperreal nature. One specific factor implies that “independent assurance providers” should provide “impartial and substantial verification of sustainability reporting”. The principles of being ‘impartial’ and ‘independent’ have to be repeated throughout the assurance process and need to be consistent with basic auditing procedures. This suggests that stakeholder engagement would be limited so as to remain ‘ethical’.

2.3.5 Quality of Sustainability Assurance Statements

Similar to other assurance processes, sustainability assurers should abide by principles mentioned in the standards whilst producing assurance statements. They must be the outcome of a SR data-gathering process that satisfies the following five requirements: reliability, completeness, relevance, neutrality and understandability (Balluchi, Lazzini et al. 2021). On this note, Romero et al. (2019) acknowledge that several factors including the selection of reporting standard, data collection and the provision of adequate information by reporting entities affect the quality of a SRA process. There are several studies in which the quality of sustainability assurance statements has been under review, however, common factors which improve the quality of such statements have not yet been stipulated.

When the first sustainability assurance statements were prepared, Ball et. al (2000) had conducted a content analysis to verify whether the main aim of statements being portrayed as transparent and reliable was being reached. It was found that these objectives were not being met due to assurers having used a weak methodology and focusing solely on management control systems. O’Dwyer and Owen (2005) utilised their own quality measure as sustainability

assurance statements were assessed with a specific criteria. A lack of stakeholder engagement was confirmed as having led to poor transparency and credibility, ultimately resulting in a low quality assurance statement. However, improvements were noticed as greater focus was given to sustainability performance.

The latter study was the first to discover that the type of assurer has an effect on the quality of sustainability assurance statements. In their studies, Perego and Kolk (2012), Segui-Mas et al. (2015) and Zorio et al. (2013) confirmed that the quality of assurance statements depended on the selection of the type of assurer by the organisation preparing the sustainability report. The type of assurance standard used is another factor which affects the quality of sustainability assurance statements (Peters, Romi 2015). In their study, Lansen-Rogers and Oelschlaegel (2005) affirmed that when different assurance standards are used, assurance statements varied in quality as a result.

The difficulties faced by reporting entities to provide an audit trail for the data captured poses a challenge on SRA, which in turn, affects the quality of assurance statements. A case study was conducted by Frost et al. (2012) on a local Government body that was considered as a pioneer in SR. In this study, there was an examination of the system used and on how data was gathered and measured. Moreover, the function of sustainability data in internal decision making in relation to how such data was integrated with Accounting systems, was examined. The findings show that despite being a pioneer of SR, assurers were unable to obtain support for the information presented. Assurers came to the conclusion that without an audit trail of where data was being derived from, no assurance could be provided. According to the Schaltegger (2002) framework, such a sustainability report is considered for 'show'.

According to Choon-Yin and Tiong (2015) and Perego and Kolk (2012), there are still areas that require improvement due to the presence of a quality gap when examining the quality of SRA statements. The study identifies a quality gap

between the current quality of SRA statements when compared to the highest quality according to assurance standards and reporting criteria.

2.4 Conclusion

This chapter identified the most suitable theoretical perspectives and presented a detailed analysis of literature findings with regards to SRA. Since research on this subject in the local scenario is very limited, emphasis is given to literature compiled in the global context. The following chapter describes the research methodology used to conduct this study.

Chapter 3:
Research
Methodology

3.1 Introduction

The research methodology used to accomplish the objectives of this study will be described in detail in this chapter. The chapter is designed as follows:

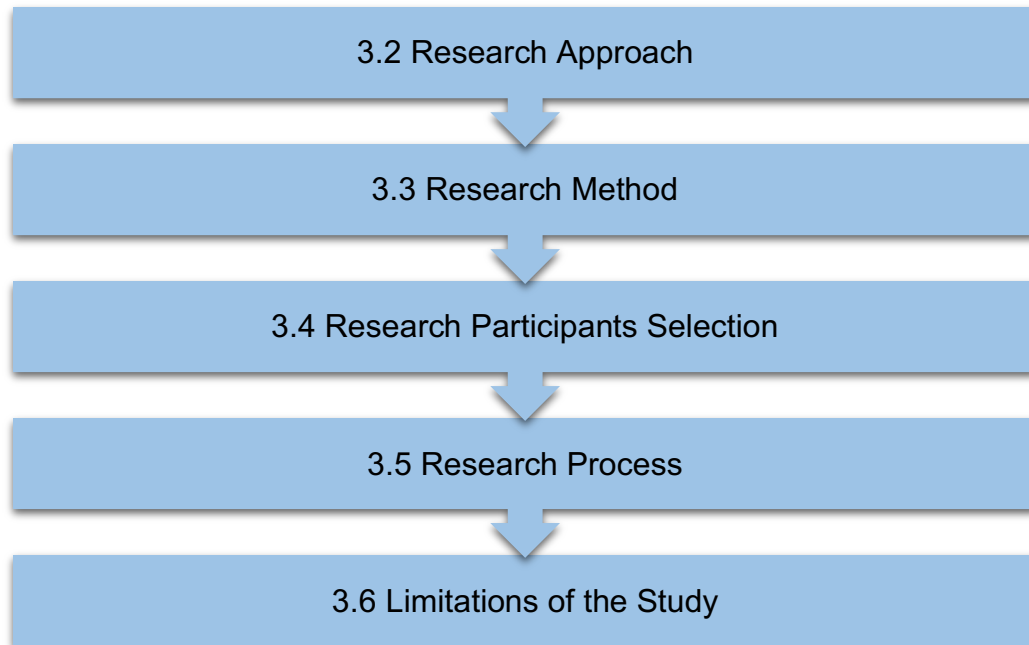


Figure 3.1: Outline of Chapter 3

3.2 Research Approach

Careful consideration was given to the design of the study. A qualitative research was considered to be the most appropriate in order to achieve the three objectives outlined in section 1.4.

A qualitative research approach enables the researcher to explore new information about the subject at hand that has not been discovered yet. It precisely results in a lengthy and in-depth description of the participants' thoughts, feelings, and experiences as well as an interpretation of the motivations behind their behaviour (Stahl, King 2020).

Since qualitative research is directly tied to social science, it provides the researcher with the tools to extract detailed information from the experiential lens

of the participants. This gives the researcher the opportunity to learn about fresh information, develop potential new theories, and investigate unanticipated ideas (Rahman 2020).

3.2.1 Qualitative Research

Defining qualitative research is important though it might be difficult to do so as there is no definite theory, paradigm, set of procedures or practices that are exclusive to qualitative research (Denzin, Lincoln 2011).

Flick (2014, p.542) asserted that, “qualitative research is interested in analysing subjective meaning or the social production of issues, events, or practices by collecting non-standardised data and analysing texts and images rather than numbers and statistics.” Moreover, it is essential to remember that qualitative research is an umbrella term to characterise a variety of methods that aim to understand the meaning of regularly recurring phenomena in the social world (Stahl, King 2020).

3.2.2 Qualitative Research Limitations

Certain aspects of qualitative research prevent the researcher from achieving the intended objectives of the current study.

Several methods can be considered intrusive by the interviewees when the researcher tries to obtain information from within the company. In fact, some respondents can decline to disclose certain sensitive information which could be vital for the research (Karavas 2013).

Given that the researcher interprets the information gathered, there may be concerns with objectivity. This could generate skewed or manipulative results in favour of the researcher’s viewpoints. Therefore, the difficulty of quantifying qualitative data raises the possibility of bias (Haven, Van Grootel 2019).

Reliability can also be a pertinent issue especially given that there is a possibility that the researcher will gather worthless information during the study. Particularly, this may occur if one lacks experience or the research design is not adequately developed (Rose, Johnson 2020).

To address the challenges brought about by a qualitative research method, the researcher should ultimately attempt to develop a suitable research design process.

3.3 Research Method

Interviews are one of the most popular methods for qualitative research since they are useful for gathering data and producing a wealth of information. Specifically, an interview is conducted when the researcher questions the relevant stakeholders about a specific subject (Alshenqeeti 2014).

Longitudinal interviews, validation interviews, exploratory interviews and in-depth interviews are considered to be various forms of interviews (Adams, Khan et al. 2007). For the purpose of this study, conducting in-depth interviews was considered to be the ideal qualitative research methodology to attain the identified objectives. More specifically, semi-structured interviews were selected as the most effective means of data collection in this case.

3.3.1 Semi-Structured Interviews

Gubrium and Holstein (2002) observe that in contrast to a structured interview, this type of interviewing is an open environment that provides the interviewer with more flexibility and freedom in terms of organising the interview's content and questions. Despite the fact that the interviewer would usually have an interview guide, it nonetheless allows the researcher to depart from the interview guide and deep-dive as necessary. Therefore, the interviewer would be more eager to follow

up on captivating developments and enable the interviewee to elucidate on numerous matters in question (Dornyei 2007).

3.3.2 Semi-structured Interviews Limitations

Although semi-structured interviews are a useful interview technique for gathering qualitative data, they pose a number of challenges. First of all, semi-structured interviews can be difficult to conduct especially if the researcher is inexperienced or untrained.

Secondly, after an interview is recorded, it must be analysed and transcribed which can be a time-consuming procedure. Also, in the case when permission to record an interview is not granted, possibility for misinterpretation increases significantly (Al-Yateem 2012).

Moreover, respondents may also deviate from questions in semi-structured interviews which makes it more difficult to reach the set objectives of the study (Doody, Noonan 2013).

3.4 Research Participants Selection

As identified in section 1.3 of the research, SRA is still in its initial stages in the local context. In fact, only one listed Company currently obtains voluntary assurance on the sustainability information disclosed. In light of this, the participants chosen to take part in this research are a combination of representatives from public listed entities, statutory auditors and potential assurers coming from a sustainability background representing non-Accounting firms.

The public listed entities considered for the research are already subject to NFRD requirements and will be subject to CSRD requirements once the provisions are transposed into national law. Therefore, such entities will soon be subject to a

mandatory limited assurance process. Moreover, the majority of them are part of the Malta Environmental, Social and Governance Alliance (MESGA). The MESGA is made up of 13 founding members who are responsible and committed entities from various economic sectors with the aim of serving as catalysts in order to meet national ESG goals. The representatives of listed entities throughout this research will be referred to as *preparers* provided that they are the preparers of sustainability reports.

Table 3.1 outlines the industry in which the Company operates, whether it is part of the MESGA and the roles of the participants who were interviewed.

Interviewee	Interviewee Code	Industry	ESG Alliance	Participant's Role
1	P1	Financial Services	Yes	Chief Financial Officer
2	P2	Communication Services	Yes	Financial Controller
3	P3	Financial Services	Yes	Head of Finance Regulatory Reporting
4	P4	Food & Beverages	No	Chief Financial Officer
5	P5	Commercial Property	Yes	Investment Strategist & Operations Lead
6	P6	Property Development	No	Chief Financial Officer
7	P7	Distribution Services	No	Chief Financial Officer

Table 3.1: Preparers' Background

The second group of interviewees are statutory auditors. These comprise representatives from the local Big 4 firms. Given that the entities which will be subject to mandatory sustainability assurance normally obtain internal and external audit services from such firms, representatives of the Big 4 firms were considered to be the most knowledgeable individuals to help attain the objectives of the research.

Table 3.2 outlines the roles of the participants who were interviewed.

Interviewee	Interviewee Code	Firm	Participant's Role
8	A1	Big 4	Assurance Partner
9	A2	Big 4	Audit & Assurance Director
10	A3	Big 4	Associate Partner & Sustainability Lead
11	A4	Big 4	Audit Partner

Table 3.2: Statutory Auditors' Background

The third and last group of interviewees are potential assurers coming from a sustainability background, who in this study, represent non-Accounting firms. This group of assurers, upon meeting certain requirements imposed by the CSRD, can be eligible to provide assurance on the sustainability information presented. Although the assurance element is a more familiar concept well-known by individuals knowledgeable on the Accounting background, the information upon which assurance is obtained under SRA, is not heavily financially related but sustainability related. Therefore, representatives of sustainability consulting firms were considered to be an essential element to help attain the objectives of the research.

Table 3.3 outlines the roles of the participants who were interviewed.

Interviewee	Interviewee Code	Firm	Participant's Role
12	A5	Sustainability & Engineering Consultancy	Sustainability Consultant
13	A6	Sustainability & Carbon Consulting Company	Sustainability Consultant
14	A7	Sustainability & GHG Accounting Consulting Company	Sustainability Consultant

Table 3.3: Sustainability Assurers' Background

3.5 Research Process

An overview of the study and the objectives was sent via email to entities and assurance firms deemed to be eligible and valuable to contribute to the research. This was essential to identify the ideal candidates who would be best suited to respond to interview questions on the subject. These emails also included the invitation to participate and the letter of introduction.

After companies responded to the invitation, an email was sent to the identified interviewee to schedule an interview. A follow-up email was issued if potential interviewees did not respond within a week. A second email was also sent or an attempt was made to contact them by phone if there was still no response after another two weeks. Nevertheless, some individuals were still unable to participate in the research study.

3.5.1 Collection of Data

For the purpose of this study, both primary and secondary data were gathered.

Initially, secondary data was gathered from previous local studies, journals, books, and peer-reviewed academic articles. It was then used to develop the research instrument to collect primary data.

Subsequent to this analysis, interview questions were prepared in order to gather the primary data. Interviews were conducted between the 28th of October 2022 and the 16th of December 2022. Most of the interviews were held in person, however, there were instances when an online platform was used at a time that worked best for the interviewees in all cases. The length of each interview ranged to an average of one hour. The interview guide was made available in advance whenever interviewees requested it. The interviewees' consent to have the interview audio recorded was obtained prior to the commencement of the interview and then transcribed afterwards.

3.5.2 Data Analysis

In order to analyse the transcribed data, a technique named thematic coding was utilised. Prior to the application of thematic coding, it was required to go through the qualitative data so as to find themes or patterns that are significant and pertinent to the objectives of the study. Following the grouping of these themes into categories, a coding system was created and used to systematically analyse the data.

3.6 Limitations of the Study

- In certain instances, respondents were unable to communicate with an articulate answer on the questions asked. This arises given that even though the chosen research participants are the most knowledgeable of SRA, it is still in the initial stages in the local scenario. The researcher assisted the interviewee in some instances, however, in others, the ineloquence in responses was considered to be part of the findings.
- It was a challenge to ensure that respondents keep within the parameters of the subject. SRA is a specific subject, part of a vast spectrum of subjects falling under the umbrella of ESG. Therefore, containing the interview within the parameters of SRA was no mean feat.

- The word count and time frame available limited the amount of analysis of the research findings.

3.7 Conclusion

The research methodology used to accomplish the objectives of this research has been described in detail in this chapter. The research findings aggregated from the interviews conducted and a subsequent discussion are presented in the following chapter.

Chapter 4: **Findings and** **Discussion**

4.1 Introduction

This chapter portrays the research findings and enhances such findings with related discussions obtained throughout the research to fulfil the objectives of the study. The chapter is designed as follows:

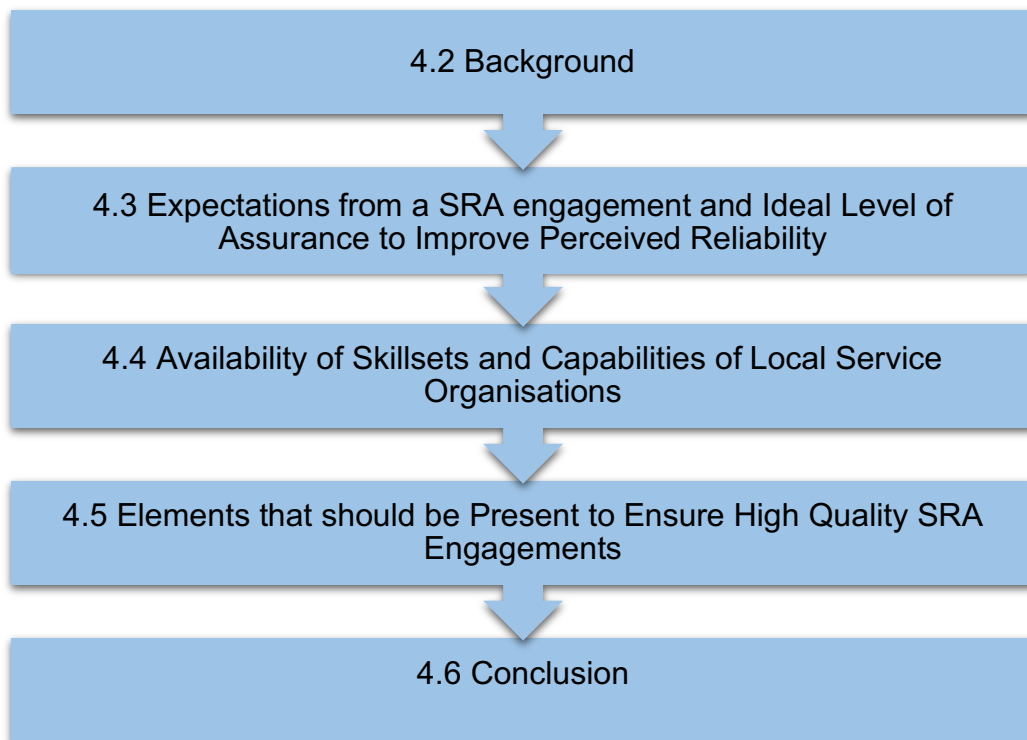


Figure 4.1: Outline of Chapter 4

4.2 Background

Prior to the commencement of every interview, a briefing was given to each interviewee relating to the research and its objectives. The initial question in each of the preparers' interviews focused on gathering an understanding of their work experience relating to sustainability and whether they have been previously subjected to some form of assurance engagement. Similarly, the initial question in each of the assurers' interviews focused on grasping an understanding of their SRA experience and whether they have been previously engaged in providing assurance on sustainability reports. This brief exchange allowed the interviewer

to become familiar with the interviewees' work background whilst allowing the latter to share their practical experiences in an open and free manner.

Sections 4.2.1 and 4.2.2 provide a summary of the experience that the two cohorts of interviewees possess in SRA.

4.2.1 Experience Developed by Local Preparers of Sustainability Reports in SRA

Table 4.1 summarises the findings:

Interviewee	Interviewee Code	Sustainability Knowledge	Subjected to Assurance
1	P1	6 years	Yes
2	P2	2 years	Never
3	P3	1 year	Never
4	P4	6 years	Never
5	P5	2 years	Never
6	P6	2 years	Never
7	P7	1 year	Never

Table 4.1: Preparers' Sustainability Knowledge and Experience in SRA

As can be seen from the table above, the vast majority of the preparers have around one to two years of experience on sustainability matters with the exception of interviewees P1 and P4. The former has six years of experience, having worked in a financial institution in the United Kingdom, where sustainability has been a well-studied phenomenon for a number of years, unlike Malta. Whilst the latter possesses a six-year experience after working as a CFO of one of the most prominent listed entities in the local scenario, which role exposed such interviewee to taxonomy regulations on ESG that led to further studious interest

on sustainability. Moreover, only one local preparer was ever subjected to an assurance engagement and this took place abroad.

4.2.2 Experience Developed by Local Assurers of Sustainability Reports in SRA

Table 4.2 summarises the findings:

Interviewee	Interviewee Code	Sustainability Assurance Experience	Provided Assurance
8	A1	Nil	Never
9	A2	Nil	Never
10	A3	Nil	Never
11	A4	Nil	Never
12	A5	5 years	Yes
13	A6	4 years	Yes
14	A7	Nil	Never

Table 4.2: Assurers' Experience in SRA

The interview findings, as per table above, portray that five out of the seven assurers interviewed do not have any SRA experience. Such interviewees all work with Big 4 firms with the exception of one who works at a sustainability consulting firm. Therefore, as expected, the majority of these interviewees were never involved in providing assurance on sustainability information. The exception relates to two assurers (A5 and A6) who have experience in sustainability as part of their work background, both of whom had been engaged in an assurance process which had taken place abroad and not locally. Both interviewees gave a brief explanation of their assurance experience after having worked closely with various reporting entities.

4.3 Expectations from a SRA Engagement and Ideal Level of Assurance to Improve Perceived Reliability

The first objective of this study is aimed at comprehending the expectations from SRA and identifying the ideal level of assurance in the local scenario which improves perceived reliability of sustainability information. Firstly, expectations are gathered through the understanding of costs and benefits. The preparers' and assurers' perspectives are recorded in sections 4.3.1 and 4.3.2. Moreover, section 4.3.3 delves into the interviewees' understanding of what a limited and reasonable assurance process entails. Finally, section 4.3.4 explores the interviewees' views on whether it is more ideal in the local scenario to engage in a limited assurance engagement rather than a reasonable assurance engagement and how it may affect perceived reliability on sustainability reports.

4.3.1 Benefits of Obtaining Assurance

Increased responsibility towards stakeholders

All the preparers interviewed identified their loyalty towards stakeholders. They highlighted that the responsibility towards all groups of stakeholders and, most importantly, shareholders was central in their organisational values.

Preparer P6 believes that assurance bridges the gap between shareholders and the management of the company. Most of the time, shareholders are not fully aware of what the company's directors are doing because it is impossible to provide them with constant updates.

“There is a limit to what we can give as information. A particular shareholder calls me about a specific matter, however, I cannot give information that isn't public. For the shareholder, assurance would give peace of mind and a sense of comfort that what is presented is true.” (P6)

From an assurer's point of view, there is also a general consensus that it is vital for the audit profession to intervene. They recognise their responsibility towards the stakeholders to verify that the information presented is true and fair.

Significantly, interviewee A4 further suggests that for the stakeholders to obtain a better and more rounded insight of the firm, the assurance of sustainability information should not be isolated from audited financial information.

Robust indicators

During interviews with assurers, a strong sentiment could be felt relating to the unquestionable benefits that assurance provides in terms of increased user confidence, transparency and external credibility. They stipulate that SRA has the ability to demonstrate that the reported information has been examined independently by a qualified third party, confirming the existence of a correct and accurate process.

“... SR is all very new and there is potentially a lack of transparency of how data is gathered. So, having someone else coming in to look at the data means that you are moving away from it being a marketing green washing tool to be factual statements...” (A2)

Preparers also regarded the assurance process as an instrument that provides external validation and extra levels of confidence even though not one of them mentioned the exact term ‘credibility’ as a benefit. Preparer P5 pointed out that assurance also provides a level playing field amongst all entities. External finance is a major source of financing in the local scenario, however, financial institutions have limited capital available to loan out. Assurance provides peace of mind that decisions taken on whether or not to reward entities with the opportunity of benefitting from sustainable finance, would be conducted fairly. It prevents the circumstance whereby a firm greenwashes and obtains financing unfairly. In this sense, this approval for funds would confirm to the stakeholders that the firm does not have a short-term sustainability strategy but a long-term sustainability strategy.

Enhanced competitiveness

Preparers P1 and P3 recognise the importance of SRA in assisting the firm to maintain a strong position within the market. This could be achieved by

embracing the sustainability journey and improving ESG ratings by undergoing an assurance process. Therefore, such a powerful tool should motivate dedication, maturity and commitment during the assurance process.

Preparer P1 further suggests that the aim is also to enhance global competitiveness by being acknowledged in the global market. Hence, an assurance statement is a critical piece of market information that enhances the value of a firm both from a local and international perspective.

“If our firm decides to issue a bond in the international market, having a high ESG rating is of utmost importance...” (P1)

Refining internal sustainable processes

Preparers generally recognise assurance as an essential mechanism to improve internal processes by suggesting that an assurance process produces more than just the SRA statement. In order to provide entities with enhancements and suggestions for the future, assurers typically examine the underlying system, data and sustainability principles.

On the one hand, preparer P7 emphasises that when it is known that there is an impending assurance process whereby an assurer will be inspecting and examining reports and systems, the preparer is motivated to execute a better report and maintain quality sustainable practices. In the sense that, according to the said preparer, assurance serving as a form of preemptive control inevitably enhances the management of internal sustainable processes.

On the other hand, preparer P2 views the assurance process as a learning curve to improve internal processes rather than as a pre-emptive control.

“Assurance is the minimal viable product and we have to learn from the assurance process. When assurers will visit our premises, my question would be for recommendations that propel us to the next level. Entities always have to look forward, one to two years in time...” (P2)

Statutory auditors suggested that SRA should be used as a means to professionally examine the internal systems of an organisation by ensuring that the financial system and the internal sustainability system are functioning conjointly. Assurers coming from a sustainability background believe that local sustainability systems are not yet up to standard and assurance could help to ensure enhancement and improvement of such systems.

Discussion on benefits of obtaining assurance

Although, as identified in section 4.2, only a small number of interviewees were engaged in an assurance process, most interviewees recognised the various benefits which emerge from SRA.

The findings highlighted in this study are consistent with the results from previous studies. First of all, the interviewees' views are consistent that SRA emanates from the agency theory since during the interviews it was found that assurance could bring shareholders and management of the firm closer. Similarly, Carrington (2019) denotes that entities engage in SRA as a result of shareholders being concerned due to limited access and reliability of information.

Moreover, whilst listing the multiple benefits of SRA, interviewees mostly opine that the element of stakeholders is central. Interviewees significantly highlighted their full loyalty to stakeholders, the elimination of greenwashing as a sense of responsibility towards the users of financial statements, and assisting enablers of external financing to make sensible decisions when it comes to giving out loans to such entities. As per findings by Eizaguirre et al. (2019), there is an agreement that to win the support and approval of stakeholders, sharing of information is crucial. Ruiz-Barbadillo and Martinez-Ferrero (2022) confirm that SRA is an important tool to dispense trust amongst the stakeholders as they take important decisions.

SRA assists entities not only to disclose an increased level of information in their sustainability report, but also, to ensure that the information presented is more

precise and reliable. Zaman et al. (2021) confirm that when comparing disclosures of sustainability information released *without* an assurance statement to disclosures of sustainability information released *with* an assurance statement, the latter results in encapsulating a higher quality of information which is again more beneficial for stakeholders.

When considering the competitiveness of the firm, Clarkson et al. (2019) proved that publishing an assurance statement had a favourable impact on the users' perception in terms of the accuracy of sustainability information presented which, in turn, affected positively the reputation of the firm. This corresponds with the findings of this research, where SRA provides entities with the opportunity to obtain higher ESG ratings.

Consistent with Maroun (2019), the findings of this research showed that SRA improves performance by highlighting shortcomings of the firm and areas for growth relating to internal controls, information systems and risk management.

4.3.2 Difficulties of Obtaining Assurance

Insufficient resources

Preparers identify the lack of available resources as the key issue for obtaining assurance. Precisely, the principle of 'financial cost' was a central theme when considering the main obstacles for obtaining assurance. Preparers observe that it is a challenge to budget such an additional cost when a significant amount of money is already being spent to audit financial information. Moreover, additional investment in sustainability reporting systems is a must in order to not only present sustainability data, but also in order to ensure the truthfulness of such data.

Financial cost was not the only constraint mentioned. Even though some entities managed to budget for a sizable amount of money to have sustainability information assured, it was still an arduous challenge due to lack of experienced

personnel and time. Preparing sustainability and financial information while concurrently getting such data assured, puts an immense amount of pressure on entities in order to gather all the data and satisfy several deadlines with regulators in a short span of time. In fact, preparers deliberately stated in these interviews that due to finding it tough to deliver their sustainability information, they decided not to participate in the assurance process as it would have eventually made the whole process more time consuming and expensive.

Although the majority of the assurers understand the struggles of preparers to get data assured, assurers A1 and A6 have a different view of the aforementioned. The mentioned assurers believe that preparers do not opt for assurance not because of the challenge this brings about but because of the tone at the top where they consider SRA useless given that this service does not result in profits in the short run.

“Entities have not been operating in a sustainable manner and therefore led to the deterioration of environmental, social and governance aspects. The irony is that assurance is also not being encouraged by those responsible, with a mindset and philosophy.” (A1)

Insufficient knowledge on sustainability matters

Most of the preparers suggested that in order to undergo an assurance process, what data should be collected and how it should be collected, has to be much clearer. In fact, preparers argued that oftentimes, they had to make individual judgements as to what constitutes ‘green’ when considering environmental data. They suggest that such challenges prevent them from undergoing an assurance process. Moreover, those who attempted to gather data struggled to do so especially when it involved other parties within the value chain as they are new to this sustainability journey as well.

Similarly, interviewee P6 indicates that standards are not easy to understand and, therefore, help from experts is required. Furthermore, the understanding of

standards could be achieved collectively if entities worked together as part of a circular economy.

The importance of having a circular economy was also pointed out by assurer A7 who stated that entities are not moving fast enough towards obtaining assurance because they are working alone. Local entities need to work in conjunction with the Government, other entities and counterparts within the EU.

“...all have to be present. With the help of EU subsidies, other countries have moved faster. It's an ecosystem that needs to be in place. There is a huge opportunity for the country to become a leader in this space.” (A7)

Furthermore, assurer A4 is concerned that local entities would view assurance as a hurdle and it becomes a “tick-box exercise”. Local entities should enter an assurance process with the mindset that the information presented is veracious as it comes across more powerful and the assurer should be able to confirm this data.

Discussion on difficulties of obtaining assurance

The findings examined in this section show that in the local scenario, the difficulties in obtaining SRA outweigh the benefits as none of the interviewed preparers ever chose to source assurance on a voluntary basis. Similar to the findings, Krasodomska et al. (2021) also found that difficulties such as financial constraints and that of recruiting knowledgeable individuals could be a challenge for entities especially in jurisdictions where SRA is premature and not given much importance. Nevertheless, Hassan et al. (2020) suggest that the difficulties should not dishearten entities from obtaining assurance as when considering long-term goals and objectives, SR and its assurance should be at the forefront of the agenda.

Therefore, in the local scenario, although preparers successfully identify benefits that emerge from SRA, due to a lack of sustainability knowledge, they fail to have full confidence in the benefits that SRA provides and to consider it at the top of

the agenda. The lack of sustainability knowledge is admitted to by the preparers in section 4.2.1, where the majority only have a maximum of one to two years of sustainability experience.

Ruiz-Barbadillo and Martinez-Ferrero (2020) support this view that when the assurance engagement is not sufficient, a significant level of SR and SRA knowledge is also required.

Al-Shaer (2020) argues that SRA should be ingrained in corporate culture and therefore, be established by all the employees within the firm. At the expense of lack of motivation and directness by the tone at the top of entities to push toward SRA at a time when it was voluntary, mandatory assurance through the CSRD had to be imposed in order to change the culture. Without such an intervention, SRA would have probably never been given this attention in the local scenario despite the mentioned benefits.

The challenge for top management would now be to educate employees' sustainability practices so that the assurance process does not result in simply a compliance exercise.

4.3.3 Limited and Reasonable Level of Assurance

As part of the interview, research participants were asked to identify and explain several procedures that are implemented during both a limited and a reasonable level of assurance engagement.

Interviewee P2 suggests that the assurer should examine the internal processes that are used to collect data, especially with regards to CO₂ emissions and the assumptions behind calculating such data, since not all data is easily available. However, the interviewee fails to identify whether this falls under a limited or reasonable level of assurance.

On the other hand, interviewees P1 and P5 attempted to divulge a difference between a limited and reasonable assurance process by stating that under limited assurance, it is important to confirm that a structure to collect data is in place.

“...for example if we have a social policy, an assurer undertaking limited assurance should ask when this policy was enacted and ensure that there are the appropriate signatures on such policy”. (P5)

In terms of a reasonable assurance process, both preparers indicate that an assurer should be able to perform a gap analysis and understand the different applications.

“...for example if the firm enters into an agreement with a contractor to build a warehouse under sustainable practices, the auditor should go through all the process starting with the confirmation of approval, that the contractor is being paid and ending with the assurer visiting the premises to physically check.” (P1)

The rest of the preparers failed to identify any work in detail that is performed by assurers because they maintain that since they have never been involved in an assurance process, they are not aware of such procedures. They simply state that a limited assurance process involves less work than a reasonable assurance engagement.

Both cohorts of assurers being statutory auditors and those having a sustainability background, failed to divulge in detail the differences between a limited and reasonable level of assurance. They argue that the main issue is that there is no generalised assurance standard and therefore the assurance process that should be followed is not yet clear.

Assurers A5 and A6, who have a sustainability background, briefly differentiated between the two by holding that limited assurance involves verifying whether presented information makes sense or not and reasonable assurance involves scrutinising and rigorously corroborating information presented.

Assurer A2 also expresses concern towards preparers not being aware of the work involved in SRA.

“The client thinks that the assurer should come in for half a day and it will be ready the day after. A sustainability assurance process is much more complicated.” (A2)

Discussion on Limited and Reasonable Level of Assurance

As identified in section 2.3.1, Hassan (2019) and Accountancy Europe (2022) stipulate that the nature and volume of work required during an assurance process and the form at which a judgement is drawn at the end, distinguishes the level of assurance. Moreover, the assurance statement itself should represent the level of work performed or else such communication failure could lead to an expectation gap (Cuadrado-Ballesteros, Martinez-Ferrero et al. 2017). Deegan et al. (2006) hold that the wording used affects the view of the assurance statement by stakeholders.

The findings above indicate that both local assurers and preparers failed to divulge in detail the difference between undertaking a reasonable and limited level of assurance. This is expected given that only one preparer and two assurers were previously involved in an assurance engagement, as identified in section 4.2. Preparers only managed to differentiate between the workload required. However, neither the assurers nor the preparers managed to divulge between when an opinion in a positive or negative form is used. They also fail to mention the importance of presenting the assurance statement with wording to the level of assurance intended by the assurer.

As designated from the study of Hodge et al. (2009), the failure to identify the difference in the level of assurance signals an expectation gap. Taking into consideration the above findings, it can be concluded that there is a clear expectation gap between local preparers and assurers after scrutinising the level of assurance. This can be confirmed by the comments of assurer A2 who

suggests that as a result of lack of knowledge, preparers may not be aware of the work involved in SRA.

4.3.4 Ideal Level of Assurance Engagement and Perceived Reliability

Interviewees were also questioned on whether they prefer to obtain a limited level of assurance engagement or a reasonable assurance engagement and whether such a decision would have an impact on the perceived reliability of sustainability reports by stakeholders. Although in the previous section, preparers and assurers failed to divulge a detailed demarcation between the assurance procedures performed in a limited and reasonable assurance, they still conjectured that during a limited assurance engagement, less work is required when compared to a reasonable assurance engagement, which enabled them to give their opinions on the ideal level of assurance.

All preparers successfully remarked that the CSRD requires entities only to obtain a limited level of assurance on sustainability reports. Moreover, they unanimously agree that the EC were sensible in their decision to bring in assurance slowly and not full-blown at once. Preparers P2, P4 and P5 stated that it should take 5 to 7 years prior to moving on from a limited to reasonable assurance as a result of the lack of resources that entities have and in order to become more accustomed to this new process. They also believe that at the moment, becoming more familiar with the assurance process supersedes the perceived reliability of the users.

Similarly, the rest of the preparers suggest that the first few years are to be used as a learning process both for them and their assurers since they are not, as yet, ready for a reasonable assurance engagement. This should allow preparers to set benchmarks and targets for future reference in order to make the adaptation process a little easier. Assurers agreed that limited assurance is a stepping stone towards reasonable assurance. Moreover, the majority of assurers suggest that limited assurance is not enough to increase the perceived reliability of sustainability information presented to the required level, but it is the first necessary step in this assurance journey. The majority of the assurers

interviewed imply that ideally the step towards reasonable assurance is taken once the agreed assurance standard is standardised so that there is more comparability.

Assurer A1 provides an interesting view on the level of assurance provided.

“The problem lies within perception. If people see an assurance report with a logo of a brand, they think it is a certification. Name it limited, reasonable or full scope they will still give it importance. The problem is that certification in assurance can never be given but the level of assurance only reduces the risk for the brand.”
(A1)

Discussion on the Ideal Level of Assurance Engagement and Perceived Reliability

The findings above clearly indicate that for various reasons mentioned, neither preparers nor assurers feel prepared to undergo a reasonable assurance process despite the fact that it may help the sustainability report be perceived better by stakeholders.

Boiral and Heras-Saizarbitoria (2020) suggest that when there is no clear demonstration of competence and expertise to verify the complexity of SR, assurers cannot provide reasonable assurance on the credibility of reports. Expertise is required to assess complex issues including environmental, social and governance implications of certain activities, technicalities of the reporting standards used by entities and the assessment of the comparability and reliability of sustainability indicators.

The fact that both assurers and preparers acknowledge that further experience is required prior to moving for reasonable assurance, also shows a substantial sense of responsibility that leading entities have towards their stakeholders, even if the perceived reliability of a sustainability report would be at a lower credibility. It is important that the leaders in the local capital market who have the power to push SRA forward in the local scenario, should do so at the right juncture so as not to provide improper assurance to stakeholders.

Hassan (2019) agrees that the reasonable assurance process increases the credibility of SR more than the limited assurance process. It is important that local assurers identify the importance of assurance, however, the progress of moving from limited assurance to reasonable assurance should not cause 'hyperreality' to stakeholders. Assurance statements should be given weighting, depending on their level of assurance and should never be viewed as a certification. In fact, as identified in the findings, assurer A1 worries that stakeholders would not look at the level of assurance but at the logo of the assurance firm on top of the assurance statement. Some users may believe that this is a certification which is not correct.

4.4 Availability of Skillsets and Capabilities of Local Service Organisations

The second objective aims at exploring the various available skillsets in the local scenario related to SRA. Sections 4.4.1 and 4.4.2 delineate the choice of the ideal assurers for local SRA and reasons behind such choices. Section 4.4.3 explores the knowledge that a local assurer should have from the perspective of assurers having a sustainability background and statutory auditors. Finally, section 4.4.4 portrays the interviewees' views on whether the role of the internal auditor will change as SRA becomes more pertinent within entities.

4.4.1 Assurer Selection by Preparers

Table 4.3 below shows the choices made by representatives of local entities in terms of their most ideal assurer.

Interviewee Code	Assurer Sustainability Background	Statutory Auditor	Multidisciplinary Team of Assurers	Any of the two
P1	-	-	-	Yes
P2	-	-	Yes	-

P3	-	-	Yes	-
P4	-	-	Yes	-
P5	-	-	-	Yes
P6	Yes	-	-	-
P7	-	Yes	-	-

Table 4.3: Preparers' Preferred Assurer Selection

As can be seen from the table above, the majority of the preparers (three out of seven), would rather have a multidisciplinary team of assurers to scrutinise their sustainability information presented. Preparers P1 and P5 (two out of seven), suggested that any of the types of assurers would be appropriate for them. The rest of the preparers (two out of seven), prefer either solely statutory auditors or solely assurers having a sustainability background.

Interviewees highlight a number of reasons for their selection which are identified in the following section.

4.4.2 Factors affecting Assurer Selection

Knowledge and Experience

The general consensus of the preparers is that assurers should possess knowledge and expertise. Preparers P1 and P5, whilst not stating particular preferences as to whether they prefer a statutory auditor or an assurer with a sustainability background, still hold that more important is the assurer's competence which is not necessarily guaranteed by the reputation of the firm. In fact, they state that even though they use the audit services of Big 4 firms to audit financial information, this does not necessarily mean that statutory auditors have the necessary expertise for assuring sustainability information.

“Assurance could also be obtained from a small boutique firm which specializes in the audit of sustainability reports. The most important factor is that expert people will be vetting my data.” (P5)

Preparer P6 specifically states that for SRA purposes, a technical person focusing on sustainability is ideal since the current statutory auditor does not have the necessary expertise to provide such a service. The environmental part of a sustainability report entails several technicalities which can only be provided by an individual having a strong background in Chemistry, Biology or Engineering. Therefore, it is not a must that the same individual auditing financial figures is able to provide assurance on such information.

Nevertheless, preparer P7 still believes statutory auditors are the ideal assurers because such assurers are already experts in understanding the auditing concepts and are experienced in performing audit procedures. The preparer considers it a tough challenge for an individual who lacks Accounting background to understand the assurance process and the related standards. Meanwhile, learning and understanding the sustainability side of the process is considered “easier” by said preparer.

“The concept of sustainability presents a new framework with new terminology which one can learn. I believe it is easier to get familiar with sustainability terminology rather than understanding assurance and auditing procedures.” (P7)

Brand Power

The rest of the preparers suggest that they would still prefer to resort to statutory auditors within Big 4 firms. However, preparers P2, P3 and P4 argued that Big 4 firms have to recruit and engage sustainability professionals within their firm. They believe that the contents of the sustainability report are such that one profession is not enough.

The interviewees suggested that the Big 4 label is well-known amongst the audit and assurance sector given their long standing presence in the industry. This, therefore, raises their ‘credibility’ and guarantees their ‘independence’ upon the execution of an assurance statement. When considering consultants with a sustainability background to provide assurance, they would normally form part of

small consulting firms which do not have that significant reputation in the assurance sector.

“If I’m going to spend money, I want anybody with a good reputation, track record and credibility.” (P2)

Relationship

Those preparers who were indifferent from a statutory auditor or a multidisciplinary team of professionals as their assurance service provider, all mentioned the importance of a pre-existing relationship with their current auditor. They all use the audit services of one of the Big 4 firms. Preparers believe it is advantageous for both the client and the assurance firm to have an existing relationship given that this familiarity allows the assurer to gather information sources which are vital for both the statutory audit and SRA. Hence, this is considered a more efficient and effective process than if the assurer for SRA is different than that of the statutory audit. Working with one assurer across the board may be more logical and beneficial as the new assurer may not have the time or opportunity to fully comprehend the organisation’s reporting environment.

“Statutory auditors would already have gone into great detail with regards to systems and internal processes. They would be already well-versed about the running of the company.” (P4)

Meanwhile, preparer P6 insisted that choosing the same sustainability assurer as the statutory financial auditor is the easy way out and, therefore, it is not the best way. The choice of the assurer should not be an easy decision as the two different sets of assurers provide a different end product.

Pricing of Services

Several preparers also considered the financial aspect when choosing the assurer. They believe that Big 4 firms, given their credibility in the assurance sector, would charge a higher fee when compared to smaller sustainability consulting firms. However, preparers suggest that it is always important to

maintain a balance between quality and price although, in this case, the quality of assurance is far superior than the price point.

Discussion on Factors Affecting Assurer Selection

Reporting entities have the full responsibility when selecting their preferred assurer, based on their views as to which candidate is most suitable to prepare sustainability assurance statements. Such views would vary, as held by Garcia Sanchez et al. (2022) and Martinez-Ferrero et al. (2018) as opposed to Hasan et al. (2003) and O'Dwyer and Owen (2005).

The preparers who considered knowledge as a factor affecting their choice either chose specifically between a statutory auditor or an assurer coming from a sustainability background or did not specify. This, therefore, implies that certain preparers require their assurers to be specialists in both the practical and theoretical side of business sustainability. Similarly, Knechel (2021) found that 'expertise' is the most crucial factor when considering their preferred assurer.

The rest of the preparers consider Big 4 firms as their preferred assurers, which have the majority of employees coming from an Accounting background. However, as indicated in the findings, individuals with a sustainability background should be recruited. In line with the findings of this study, Garcia Sanchez et al. (2022) and Martinez-Ferrero et al. (2018) identify the reputation of the assurer as a key factor in the assurer selection. Therefore, it is noted that when a firm weighs the decision of preferred assurer based on reputation, the choice will fall on statutory auditors. This means that based on this study, it is highly likely that in the local scenario, the selection will fall between the Big 4 firms which have historically demonstrated strong abilities in identifying omissions, detecting errors and building reputational capital over time.

The element of an existing relationship between preparers and their current assurers which are on the whole the Big 4 firms, gives such firms an edge over new potential assurers. Thompson et al. (2022) validate this sentiment where it

is concluded that having an existing relationship with assurers through the statutory financial audit, benefitted entities from having a consistent approach in their assurance on both financial and non-financial information. However, as also identified by one of the preparers, Fernandez-Feijoo et al. (2018) imply that Big 4 firms take advantage of this sentiment and use this as a strategic tool to wave off potential competitors in the service line of SRA. It can be argued that preparers could be selecting their current auditors as they are happily accustomed to their procedures, and not because they entirely believe that they will be provided with the best SRA service.

Consistent with the findings of this research, Knechel (2021) pointed out that statutory auditors are regarded as the most expensive service provider, however, cost was one of the least important factors considered by preparers when selecting their assurer. This bodes well when considering the quality of potential assurance statements to be conducted.

4.4.3 The Knowledge of Assurer Required

In this section, only the views and opinions of interviewed assurers are portrayed with regards to the knowledge and ability that an assurer should require for SRA.

Representatives of Big 4 firms suggest that although they are still the go-to firms due to their expertise in the assurance sector, they believe that the employment of several experts in the fields of sustainability and engineering would help to provide the best service for their clients.

“...most likely it will be the big four getting such skills and not the other way round.” (A3)

Assurer A4 states that his firm already employs various experts not coming from an Accounting background, such as lawyers and economists. Moreover, the assurer points out that even during a statutory financial audit, other experts

outside the Accounting profession are engaged. Hence, presumably the same would apply to SRA.

“When a client has land measured at fair value, you need an architect to value it. It is not something new for the audit profession to rope in other specialists in the field.” (A4)

Assurer A1 mentions also the advantage that Big 4 firms have in terms of the ability to refer to counterparts abroad if any advice is required during the assurance process. This advantage is even more effective when one considers how much SRA has progressed in the non-local scenario.

In contrast to these views, the potential assurers having a sustainability background suggest that individuals having an Accountancy background would not be able to understand the ESG technicalities behind the operation which is producing the data. They further suggest that ESG in itself is very complex in such a way that, historically, it used to be part of a risk assessment process for entities in the investment community.

Assurer A5 suggests that given that environmental data is a significant part of the sustainability report, it is much easier to identify whether the sustainability report's contents are true or not if one has a sustainability background. Financial accountants do not possess such expertise. Moreover, assurer A7 highlights that it would be hard for sustainability consultants to work with statutory auditors given that the mindsets would vary.

Discussion on the Knowledge of Assurer Required

As assurers representing Big 4 firms highlighted, employing sustainability experts within their firm could solve issues with regards to the understanding of technical sustainability reports. This thinking process is in line with the view of the majority of preparers.

Consistent with the findings of this study, Farooq and de Villiers (2019) discovered that for SRA, cross-functional expertise is required to be able to manage all features of sustainability performance appropriately. Concurrently, a level of auditing expertise is essential to be able to complete the assurance process. Huggins et al. (2011) also provided evidence to support the idea that assurers should form multidisciplinary teams to guarantee that they cover all relevant knowledge and abilities. The team should consist of individuals with experience in both auditing and sustainability, or a combination of individuals with diverse skills.

Although assurers coming from a sustainability background stated that they could provide SRA solely, it would be a very tough challenge to do so without any collaboration with Big 4 firms, especially in the local scenario for the various reasons identified previously. However, as expressed by both the preparers and the representatives of Big 4 firms, it is fair to say that in the local SRA, they will definitely play an important part given their expertise.

Surprisingly, assurers coming from a sustainability background failed to express in detail the way their background helps them during the assurance process of analysing complex sustainability systems, especially, as identified in section 4.2.2, considering that two out of the three assurers interviewed were already involved in an assurance engagement.

4.4.4 Role of the Internal Auditor

The interviewees were asked whether this whole development in the area of SRA shall potentially change the scope of work of the internal auditor. There were two main views.

Firstly, assurer A7 denotes that apart from the current responsibilities of the internal auditor which include understanding and assessing internal controls, added responsibility should be given to further assess processes in terms of

sustainability. The necessary training should be provided to assess improved systems and generate new internal sustainability reports.

“...the new detailed internal sustainability reports should prevent the problem of having garbage in and garbage out.” (A7)

Given the intel obtained from scrutinising systems, the internal auditor should then help to manage internal sustainability practices especially if it is considered to be costly to employ additional employees. These new detailed reports assist in understanding further the organisation which will help the potential sustainability assurer to plan, design testing procedures and gather sufficient appropriate evidence for SRA.

The second view, opined by the majority of the respondents, is that should a company have financial means, it should employ a full-time in-house sustainability officer to manage internal sustainability. Therefore, the interviewees were of the general view that the internal audit function should not be confused with a management position within the company. Assurer A4 explains that the role of the internal auditor is to ensure that there is compliance with new requirements and to report according to the respective standards. Nevertheless, the responsibility of implementing sustainability matters should lie within the management team.

“... therefore there would obviously be additional policies that the internal auditor should make sure that they are being adhered to and report accordingly. However, they shouldn't be project managers.” (A4)

In line with the aforementioned, assurer A5 suggests that an external consultant should be brought in to build the processes and then, an internal strategic individual should be driving and managing sustainability in-house. However, this depends on the size of the company and the industry.

Discussion on the role of the internal auditor

As identified by Trotman (2015), the internal auditor has the important task of elevating the assurance statement in relation to SRA, in terms of credibility. In fact, the Chartered Institute of Internal Auditors stated that with additional training, current internal auditors should be able to learn and adapt to new sustainability procedures along with carrying out their previous functions. This was also the sentiment of the majority of respondents.

Haji and Anifowose (2016) suggest that the internal auditor should not have his work mixed with the internal management of processes. The internal auditor should obtain a comprehensive understanding of the new requirements needed to be adhered to and then examine accordingly.

Therefore, in the local scenario, in particular during the early stages of SRA, it can be concluded that a complete and effective internal audit should be considered as important as the external sustainability assurance. This is because it will help the external assurer verify that the internal processes are implemented and being adhered to. Given that, as previously identified, a limited assurance process will be conducted at first hand for the first number of years and hence the external assurer would have a limited amount of resources, such assurer would help allocate resources to other risk areas within the report.

4.5 Elements that should be Present to Ensure High Quality SRA Engagements

This section of the chapter focuses on the third objective of the research which delves into the quality of potential assurance statements in the local scenario.

Section 4.5.1 discusses the critical parties which have a function which affects the quality of assurance statements. The interviewees were asked questions to verify whether such critical parties in the local scenario are up to speed with the current standards, which ultimately directly affects the quality of assurance

statements. Moreover, section 4.5.2 provides the viewpoints of interviewees in terms of factors which should be present during the assurance process to increase the quality of assurance statements. Finally, section 4.5.3 delves in detail into whether firms are able to gather data leaving the necessary audit trail to facilitate the assurance process.

4.5.1 Critical Parties Responsible for High Quality Assurance Statements

The interviewees recognised that preparers of sustainability reports, assurers, standard setters and stakeholders all have a role to play in the quality of assurance statements.

Sustainability Report Preparer

The interviewees recognise that the quality of the assurance statement was influenced by the quality of reporting such that high quality reporting depends on generating and collecting the right data. Therefore, preparers should have a good knowledge and deep understanding of the chosen sustainability reporting standard.

On this note, preparers in this study were questioned about the choice and reason of the sustainability reporting standard that is to be used for SR. Table 4.4 provides a summary of such findings:

Interviewee Code	SR Standard Selected	Reason for Selection
P1	None	Not aware of the standards used
P2	ESRS	This will be mandatory from the EU, however, would prefer to use GRI due to comparability purposes with entities outside of the EU

P3	GRI	This is what the company has been using as a standard till this point and what we have full knowledge about
P4	None	Not aware of the standards used
P5	ESRS	This is the standard chosen as per guidance from the EU
P6	None	Not aware of the standards
P7	ESRS	This is the standard chosen as per guidance from the EU

Table 4.4: Preparers' SR Standard Selection

Interviewees P3, P5 and P7 (three out of seven), considered ESRSs as the ideal sustainability reporting standard whilst interviewee P3 (one out of seven) suggested the GRI standard. Meanwhile, the rest of the interviewees (three out of seven) are not aware of the sustainability reporting standards used.

Assurer

Interviewees hold that assurers play a crucial and central role in ensuring high quality SRA statements since they develop the assurance strategy, carry out the assurance procedures and arrive at the final opinion. Nonetheless, it was made clear that assurers are mainly accountable for adhering to standards and are responsible for the way information is disclosed in the assurance statement. Minimal requirements set forth by assurance standards have to be disclosed in order to comply with the present obligations. Yet, interviewees believe that assurers can raise the level of quality of assurance statements by amplifying the level of disclosure.

On this note, assurers were asked about the assurance standard that should be used for SRA and the reason for such choice. Table 4.5 summarises the results below:

Interviewee Code	SRA Standard Selected	Reason for Selection
A1	None	Not aware of the standards used
A2	ISAE 3000	Presently, most suitable standard for SRA
A3	None	Awaiting guidance from counterparts abroad
A4	ISAE 3000	Presently, most suitable standard for SRA
A5	ISAE 3000	Presently, most suitable standard for SRA
A6	ISAE 3000	Presently, most suitable standard for SRA
A7	None	Not aware of the standards used

Table 4.5: Assurers' SRA Standard Selection

The majority of the interviewed assurers (four out of seven), considered ISAE 3000 as the ideal assurance standard. Meanwhile, the rest (three out of seven) did not select the preferred assurance standard due to either being unaware of the standards used or assuming that guidance from the EC will be provided as stipulated above.

Standard Setters

Both preparers and assurers are of the view that standard setters have not facilitated the preparation for reporting and assurance. Those preparers knowledgeable of SR standards have suggested that the EFRAG has not moved fast enough to allow preparers to become familiar with the new standards which could eventually affect their performance during the assurance process when these reports are to be prepared.

“In nearly a year’s time, we have to start preparing sustainability information using ESRs and yet only the first set of drafts have been published. This doesn’t allow

us to understand deeply the standards which makes the assurance process much harder.” (P2)

Similarly, local assurers feel that they have not been adequately informed with regards to which standard should be used for SRA. Those assurers knowledgeable of the assurance standards highlighted that standard setters have not yet given guidance on which standard to be used. Moreover, the fact that there is no harmonised assurance standard in the EU makes it even more difficult for assurers in the local scenario in terms of selection and understanding.

Assurer A4 suggests that this lack of guidance affects the element of comparability of assurance statements and understanding of assurance standards which, in turn, could affect the quality of assurance statements. Moreover, assurer A5 recommends that a certain level of support and backing from the Government could help alleviate such issues and increase the quality of local SRA.

Stakeholders

A factor affecting the quality of SRA statements identified by several interviewees is the role of the stakeholders. Interviewees indicate that the firms' demand for a high-quality assurance service is driven to a large extent by pressure from stakeholders who are users of assurance statements and hence their opinion may have an impact on their actions. Those interviewees who considered stakeholders as a critical party were also asked whether stakeholders should be engaged during the assurance process. Interviewees had varying views on this matter. Interviewee P2 believes that stakeholder engagement is important in order to obtain their perspectives whilst going into the detail of the operations.

“... this new assurance process is different from a statutory financial audit. It is not a question of ticking boxes but it is important to scrutinise the process that is involved.” (P2).

Similar to the aforementioned, assurer A5 argues that stakeholder engagement during the assurance process is important and nevertheless specifies the statement by stating that shareholders should not be involved but staff members of the firm could be involved.

“You can have great social policies written down but when actually speaking with employees, you get a better understanding. For example, from a written down social policy, an assurer cannot comprehend whether employees feel pressured to take leave.” (A5)

Assurer A1 also stated that the stakeholder line stops with employees. The interviewee argues that involving numerous stakeholders is impossible since it is an assignment which has limited resources, such as time and money. Therefore, not all stakeholders should be involved and a demarcation line must be set.

The rest of the respondents agree that although the element of stakeholder pressure and scrutiny is important for assurance quality, stakeholder engagement during the assurance process should not be permitted. Fundamentally, the assurer must remain independent, and thus, must be in a position to take unbiased decisions and freely state his opinion.

Discussion on Critical Parties Responsible

The findings of this study demonstrate that the quality of assurance statements is not influenced solely by the assurance process and the selected assurance standard that governs the process itself. From the study, one may note a considerable difficulty in analysing the quality of assurance statements by looking at the assurance side separately.

As also identified by the interviewees, Romero et al. (2019) argue that the data collection, the selection of reporting standard and the provision of adequate information by the preparer, affect the quality of assurance. In the literature of Gillet-Monjarret and Riviere-Giordano (2017) and Farooq et al. (2021), various selection of reporting standards are available. Indeed, this research concludes

that the knowledge of local preparers with regards to the reporting standards is not yet up to standard when considering that from next year, interviewed preparers have to start reporting on sustainability information. The fact that only three preparers out of seven interviewed were aware that ESRSs are to be used as per guidance from the EU authorities goes to show that this lack of knowledge could potentially affect the quality of local assurance statements. The fact that, as identified in section 4.2.2, local preparers have little to no experience in sustainability, is for sure not a positive sign on the level of quality of future local SRA.

Garcia-Sanchez et al. (2022) also identifies the assurers as critical parties for enhancing quality of assurance statements due to their direct involvement in the preparation of the assurance statement. The most widely accepted assurance standard is considered to be the ISAE 3000 given that it is set up by the IAASB which is a well-established, independent institution and also due to its well explained methodological features (Gillet-Monjarret, Riviere-Giordano 2017). When local assurers were asked their preferred assurance standard, the majority agreed with the selection of ISAE 3000. However, there was also a small number of assurers not aware of the assurance standards. Again, this lack of awareness and also the fact that most of the interviewed assurers have never been engaged in an assurance engagement, points towards assurers not being up to standard and hence reflecting negatively on the quality of future SRA.

Both assurers and preparers are of the opinion that standard setters also have a certain amount of responsibility for the quality of local assurance statements. Sheldon et al. (2020) similarly hold that setting clear standards and guidelines for assurance and reporting parties is the responsibility of standard setters. They need to communicate the qualities of a high quality assurance statement and how such quality may be reached clearly to preparers and assurers. Therefore, more detailed and clear guidelines and support may improve the quality of assurance statements. In fact, Lansen-Rogers and Oelschlaegel (2005) found that the quality of assurance statements varies when difference assurance standards are

used. This was confirmed again by Peters and Romi (2015) that the assurance standard is a factor which affects the quality of assurance statements.

As suggested by one of the assurers, the Government should bear the responsibility not only of transposing the new Directive, but also of providing guidelines and detailed rules on how to implement the said obligations. Hence, the Government can execute the role of striving for high quality assurance statements. In fact, Wright et al. (2016) highlight that a lack of coercive pressure from the Government was considered as a barrier in quality improvement which heightens the crucial role of such party. Therefore, when considering assurance quality, one may also include the role of the Government who should be able to act as the regulator for maintaining the quality of local SRA imposed by the standard setters.

Ruiz-Barbadillo and Martinez-Ferrero (2022) also found that the need for firms to obtain high quality assurance resulted from stakeholders' demands. As extracted from the stakeholder theory, the need for approval and support from stakeholders required the necessity to communicate with stakeholders through SR and engage in SRA to ensure high quality information. In line with the aforementioned, this research also found that stakeholders are key in ameliorating assurance quality since they are users of assurance statements. In the literature, stakeholder engagement during the assurance process was also considered as a possibility to increase assurance quality (Garcia-Sanchez, Raimo et al. 2022). Several interviewees agreed that this engagement may provide added benefits for both stakeholders and firms in terms of quality despite being more difficult and time-consuming. However, as suggested by Boiral and Heras-Saizarbitoria (2020) and consistent with the majority of the interviewees' views, this engagement was seen to impair independence between the preparers and assurers which is pivotal during an assurance process. An argument could be made for the employees as a possibility to be considered during the assurance engagement but it would still be a challenge given the limited resources.

4.5.2 Factors Present during the Assurance Process to Improve Quality of Assurance Statements

Both preparers and assurers shared their opinions on certain factors they believed would have an impact on the quality of the assurance statements. The importance of communication between preparers and assurers, maintaining transparency and undertaking a risk-based approach in the assurance process were considered as the primary determining factors.

Constant Communication between Preparers and Assurers

The interviewed assurers identified that adequate communication with the client would provide them with the knowledge needed to give a high-quality service. Such constant communication should commence from the initial assurance engagement up until completing the assurance. They indicate that this enables them, as assurers, to elucidate the assurance process to the client which is crucial, given that it is a new service engagement in the local scenario. Moreover, this constant communication allows the assurer to get a better understanding of the firm.

Transparency

Transparency was regarded by both preparers and assurers as a factor affecting the quality of assurance. On the one hand, assurers hold that their role is to challenge and scrutinise the preparers on the data provided and compile the necessary documentation accordingly. Assurers expect that preparers are transparent in providing all the information available. On the other hand, preparers hope to have clarity when assurers are scrutinising material issues to form their opinions. Preparers anticipate that their assurer should be transparent and discuss important matters beforehand.

Risk-based Approach

Local statutory auditors believe that for the sustainability assurance process to be effective, it must be just as thorough and reliable as the financial audit process. Nevertheless, the need to plan each assurance process based on the 'risks' specific to the client is a must. In order to improve the quality given, while having a limited amount of resources available, assurers should adhere to a risk-based approach.

Discussion on Factors Present During the Assurance Process to Improve Quality of Assurance Statements

The first factor mentioned by all the assurers, that of constant communication during the assurance process, sets the tone for the quality of the assurance statement. One of the key factors that propels the importance of SRA is that it serves as a communication tool demonstrating that the performance of an organisation meets the current standards (Ruiz-Barbadillo, Martinez-Ferrero 2022). As stipulated previously in the research, if, on the other hand, this tool is used ineffectively, it may lead to an expectation gap (Cuadrado-Ballesteros, Martinez-Ferrero et al. 2017). Therefore, it is of utmost importance that from the initial point until the end of the engagement, there should be constant communication between the preparers and assurers so that stakeholders receive the true view of the assurer.

Transparency, which was mentioned by both preparers and assurers as the second factor affecting the quality of assurance statements, reflects the sense of responsibility between the two parties. O'Dwyer and Owen (2005) assessed the correlation between transparency and the quality of assurance statements and found that if the level of transparency is low, then so is the quality of assurance statements. Hence, significant transparency during the assurance process should be ensured so that the quality of assurance statements is elevated.

As identified in the previous sections of this research, provided that a limited assurance approach is undertaken, only few resources would be reachable to local assurers. Martinez-Ferrero et al. (2018) explain how statutory auditors hold knowledge on the risk assessment methods, therefore upon confirming that the assurance statement depends on the type of assurer. As seen in the studies of Perego and Kolk (2012), Segui-Mas et al. (2015) and Zorio et al. (2013), statutory auditors are more highly likely to perform high quality assurance statements.

4.5.3 Audit Trail of Data Collection

This section gathers an understanding of the preparations carried out by local preparers to collect sustainability data whilst leaving the necessary audit trail, which would allow local assurers to corroborate the information presented in the report. The assurers' opinions were sought in order to recognise whether local preparers are able to provide high-quality sustainability information which can be corroborated during the assurance process.

The majority of local preparers express that they have systems in place to gather sustainability data in a uniform manner but this is then collected manually and inputted in an Excel sheet. This is due to the fact that a local database that collects all sustainability information through one system has not yet been introduced. Preparers P1 and P3 argue that the main reason for the lack of such a central system is due to the uncertainty as to which data should be collected. Preparer P5 also states that prior to ESRs being finalised, no investment in the creation of such a system will be made.

“What we use is sharepoint and on it we share data on Excel. I believe that before an investment in a central system is made, ESRs need to be crystallised. You can't invest in a system, start collecting data and then you realise it will change.”
(P5)

Therefore, at the moment amongst all the current uncertainties, investing heavily in a fixed system is not considered ideal. Agile and flexible systems are ideal for data collection.

Preparers P2 and P4 explain that data is being collected, however, most of it is also being inputted through excel. They both describe that a significant amount of money is being spent on consultants to help them understand their processes and which data to collect prior to investing in a centralised system.

“Now knowing that we can get more specific data rather than assumptions, we can invest in systems. It’s a learning curve going from assumptions to specifics.” (P2)

Meanwhile, preparer P6 admits that it is a challenge to collect data given that currently it is being done manually. Given that the entity tries to maintain a lean structure, a lot of work is outsourced, and therefore, it is difficult to gather data.

Assurers believe that local preparers should be able to gather data and ensure that it can be corroborated. They suggest that given the huge improvements that have been made in technology, firms should be able to allocate funds to be able to collect sustainability data in an effective manner. Several assurers mentioned the need of entities to set-up robust ERP systems having an ESG module where data is collected real time and not in Excel. Assurer A2 also mentioned the possibility of using Internet of Things for data collection.

“Entities should be looking at using Internet of Things. The question should be whether you will build your own or employ consulting firms to help you. It would be ideal to have a general ledger of the data gathered. We should move to having something similar to SAGE for electricity consumption, weight of waste and water consumption.” (A2)

Discussion on Audit Trail of Data Collection

As can be identified from the findings above, the majority of the preparers have installed systems to collect data. However, the issue occurs since no centralised database has been installed to concentrate data collection due to various reasons mentioned. Therefore, for reporting purposes, most of the time, data is manually extracted from systems and manually inputted onto Excel sheets which shows signs of scattered data and a difficulty to trace an audit trail. Meanwhile, assurers

were optimistic that given the new technologies, preparers are able to extract data leaving the necessary audit trail. These findings mirror the study of Frost et al. (2012), whereby despite the preparer being considered as a pioneer of SR, assurers were unable to support the information presented.

Therefore, even in the local scenario, it may be the case that assurers are expecting preparers to have already installed systems extracting data in an efficient manner where, in actual fact, they might be expecting too much. It may lead to the case where no assurance could be provided given the inexistence of an audit trail similar to that identified by Schaltegger (2002), the sustainability report would only be perceived for 'show'.

4.6 Conclusion

This chapter outlined the views of the research participants gathered from the interviews, together with the related discussions on the objectives set out. The concluding remarks and recommendations will be highlighted in the following chapter.

Chapter 5: **Conclusions and** **Recommendations**

5.1 Introduction

This chapter includes a summary of the research findings and provides a number of recommendations. Moreover, it offers ideas of potential areas for further research and the concluding remarks finalise the research.

The outline of this chapter is shown in the following figure:



Figure 5.1: Outline of Chapter 5

5.2 Summary of Findings

5.2.1 Expectations from a Sustainability Assurance Engagement and Ideal Level of Assurance to Improve Perceived Reliability

The first objective of this research was to gather the expectations of the interviewees about SRA, in the local scenario, through the benefits and difficulties of such an engagement. Moreover, this study aimed at identifying the interviewees' expectations of the assurance procedures performed during the different levels of assurance processes and their effect on perceived reliability.

This study found several benefits for undertaking SRA in the local scenario. Firstly, SRA is deemed to bridge the gap between preparers and shareholders. Secondly, all stakeholders benefit as SRA provides an increase in confidence,

transparency and credibility. It eradicates the possibility of 'greenwashing' and therefore, provides a level playing field to entities when obtaining sustainable finance. Thirdly, undertaking SRA benefits entities in having higher ESG ratings which enables them to be more competitive on both the local and international market upon the potential issue of financial instruments. Lastly, SRA, either as a pre-emptive control or serving as a learning curve, motivates entities to refine and enhance the management of internal sustainability processes.

This study also found several difficulties to obtain SRA in the local scenario. Preparers are expected to incur significant financial costs, time and experienced personnel for whom there is a shortage locally, in order to prepare sustainability reports and have them opined upon by an independent assurer. Moreover, this research also found that since preparers are struggling to identify which data should be collected, it becomes difficult to obtain assurance. This struggle increases especially when it involves gathering data from other parties within the value chain who are also new to the concept of sustainability. Moreover, this study also found potential reasons leading to such difficulties. These include the lack of commitment and the improper tone at the top of entities and the absence of cohesion between entities, the Government and other counterparts within the EU.

This study also found various views on the expectations of the procedures performed when preparers are subjected or assurers engaged in a limited or reasonable assurance process. Very few preparers and assurers managed to differentiate between the procedures performed in a limited and reasonable assurance engagement mostly due to the fact that a minority of interviewees were subjected or engaged in an assurance process. As a result, this study found an expectation gap between assurers and preparers.

In terms of the ideal level of assurance, this study found that preparers concur to the EC's decision through the CSRD, to first mandate a limited level of assurance prior to moving to a reasonable level of assurance. Moreover, it was found that

at the current standpoint, becoming more accustomed to the assurance process, supersedes the perceived reliability of SR. It was further highlighted that a limited assurance is not enough to increase the perceived reliability of sustainability information and there is also the concern that stakeholders may view the logo of the assurance firm as a certification irrespective of the level of assurance provided.

5.2.2 Availability of Skillsets and Capabilities of Local Service Organisations

The second objective of this research was to identify whether the preferred assurer for SRA in the local scenario is either a statutory auditor or any other non-Accounting firm. Moreover, this study aimed at discovering the knowledge that assurers should possess to undertake an assurance process and whether there will be any change in the scope of work of the internal auditor.

When considering the preferred assurer, this study found that preparers had diverse views. Several mentioned that the knowledge and experience of an assurer in SRA is the most important factor irrespective of their academic and work background. Others mentioned that preferably only statutory auditors, or only assurers with a sustainability background, are the most ideal given that the former are experienced in performing audit procedures and the latter are experts in the subject matter found in a sustainability report. The rest state that engaging with Big 4 firms is ideal due to the existing relationship and brand power they possess due to their long standing presence in the assurance sector. However, they suggest that Big 4 firms have to recruit and engage sustainability professionals within their firm.

This study also found a disparity in the assurers' perspectives regarding the knowledge required for an assurer to undertake a SRA engagement. Statutory auditors from Big 4 firms state that they are still the go-to firms but similarly to what some preparers pointed out, they believe that experts with a sustainability background should be engaged to form multidisciplinary teams. Conversely,

assurers with a sustainability background suggest that statutory auditors do not have the capabilities of understanding the technicalities within a sustainability report and also it would be difficult to work with statutory auditors given their varying mindset.

This study also finds two views with regards to the scope of work of the internal auditor. The first view considered that internal auditors should be provided with the necessary training to assess processes in terms of sustainability and, subsequently, assist with the management of internal sustainability practices. On the contrary, the second view, which is that of the majority of preparers, is that a full-time, in-house sustainability officer should be engaged for management of internal sustainability processes and, therefore, the internal audit function should not be considered as a management position within the company.

5.2.3 Elements that Should be Present to Ensure High Quality SRA Engagements

The third objective of this research was to explore various elements that affect the quality of SRA engagements in the local scenario. These elements consisted of investigating the critical parties in the local scenario affecting quality of assurance statements, exploring factors that should be present during the assurance process to improve quality of assurance statements and assessing whether local entities are prepared to gather data whilst leaving the necessary audit trail to facilitate the assurance process.

This study finds four critical parties in local SRA which include preparers of sustainability reports, assurers, standard setters and stakeholders. The majority of preparers interviewed lack sustainability experience and most were never subject to an assurance engagement. They were also not aware that ESRs are stipulated from the EU and should be used accordingly for SR. Assurers managed to identify that ISAE 3000 is the most suitable assurance standard used in the EU, although only a few were ever engaged to conduct an assurance engagement. With regards to standard setters, interviewees argued that the

laggard pace at which standard setters provide guidance would affect their performance during an assurance process. Moreover, along with standard setters, this study also found that the Government could act as a regulator to maintain the quality of local SRA. Lastly, this study found various views as to whether the stakeholder engagement during the assurance process is necessary in increasing the quality of local SRA or whether it should not be permitted due to independence.

With regards to the factors that should be present during the assurance process, this study found that constant communication and transparency between preparers and assurers and performing a risk-based approach are important to improve quality of assurance statements.

This study also found that the majority of preparers have systems to collect data, however, they have not, as yet, invested in a centralised database due to reporting standards being not yet finalised. Preparers subsequently input information manually in an Excel sheet which makes it difficult to find a trail from where the data has been obtained. Meanwhile, the assurers' view emerging from this study is that, given the immense strides forward made in technology and the availability of systems such as ERP modules, should allow preparers to collect sustainability data in an effective manner. Therefore, one can conclude that local preparers are not as prepared as assurers expect.

5.3 Recommendations

This study recommends:

- Providing training to local assurers, preparers of sustainability reports and stakeholders on various important concepts within SRA

Training provided to the critical parties mentioned is crucial for the long-term success and quality of SRA in the local scenario, apart from reducing possible expectation gaps, some of which have already been identified in this study. This

can either be done through internal training within entities, through Continued Professional Education (CPE) or through conferences. Recognising the importance of SRA, understanding the assurance process, identifying roles and responsibilities within the assurance process, understanding standards and frameworks and the interpretation of assurance reports are some examples of what the training should consist of.

- Invest in educating the next generation of professionals on SRA

As identified in the research, there is a lack of experienced personnel on the subject of sustainability. Therefore, integrating SR and SRA in the curriculum of schools and the University is a means by which this problem can be eradicated. Several initiatives can be undertaken, such as inviting Accounting professionals to engage with students by giving talks and organising workshops, collaborating with sustainability organisations to develop educational materials on sustainability and encouraging students to research on this subject.

- Consulting assurers and reporting entities during the transposition of the CSRD

It is important for policy makers or regulators to consult assurers and reporting entities during the transposition of the CSRD, since it directly impacts them through changes in requirements. Considering that for the first time, this directive will mandate entities to be subjected to assurance and assurers to engage in SRA, it has to be ensured that the new regulations are effective and practical so that they are well received by the business community. Potential problems or difficulties relating to SRA that can emerge consequent to the transposition can be identified through consultation with entities.

- Strengthening Malta's sustainability ecosystem to facilitate SRA

Creating an ecosystem in the sustainability industry could be an essential path to facilitate various new requirements needed to be fulfilled by entities, including SRA. The Government should intervene and serve as the regulator to ensure

high quality assurance statements. This could be done through initiating various schemes, such as providing grants to reporting entities to either obtain consultancy or else to invest in centralised data collection systems. Such assistance would constrain entities to view SRA not as a weight but as a need.

5.4 Areas for Further Research

This study identified the following areas requiring further research:

- The adequacy of ISAE 3000 for local SRA

ISAE 3000 is an internationally approved and extensively used standard for assurance engagements. Although it can be used for SRA engagements, it was not designed specifically for this scope, and consequently, might not be totally fit for purpose. Therefore, due to the new requirements for mandatory assurance, such a study would assist in understanding whether this assurance standard is adequate enough for SRA or whether the development of a new harmonised standard by the IAASB should supersede the use of ISAE 3000.

- The internal auditor's role within SRA

This study has very briefly delved into whether there will be a change in the scope of work of the internal auditor. Moreover, none of the interviewees had any professional experience in internal audit. This study should focus in detail on the need of the internal auditor to have a more proactive role, for example, in identifying both sustainability-related risks and opportunities, understanding the organisation's sustainability plan and how it fits into the larger business strategy amongst others.

- The preparedness of IASPs in the local scenario

As mentioned in this study, IASPs are also considered as a possible alternative to the statutory auditor to engage in SRA. The CSRD stipulates that IASPs are allowed to express an opinion at the end of an assurance engagement, provided

that they meet eight specific requirements mentioned in the directive. This study should find whether local IASPs are prepared to meet these requirements to be able to provide an opinion if engaged for SRA by local entities.

5.5 Concluding Remarks

In today's world, SRA is essential as found from the various benefits identified in this study. Society must understand that sustainability is a requirement and not a choice because the planet's resources are limited. Society must be accountable for its actions if it wants to ensure the well-being of future generations and SRA is an important step in accomplishing this objective.

Companies must understand that SRA is more than just a responsibility but it is also an opportunity to show their commitment and dedication to sustainability. The mindset has to change from 'why is this required' to 'what can I do to improve'. It is an opportunity to participate in creating a future that is more sustainable. This can become a reality.

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Appendices

A1. Assurers' Interview Schedule

Section 1: Expectations from a sustainability assurance engagement and the ideal level of assurance.

- Can you please describe your experience with respect to sustainability reporting and sustainability reporting assurance throughout your career (if any)?
- Under the agency theory it is suggested that information asymmetry between managers and shareholders exists. In your view how does sustainability reporting assurance narrow this gap?
- In your view what are the costs and benefits of obtaining assurance on sustainability reports?
- What should a limited assurance engagement entail in the CSRD context?
- What should a reasonable assurance engagement entail in the CSRD context?
- As per the CSRD proposal, the European Commission is proposing that initially a limited assurance should be obtained on sustainability reports. Do you think that such level of assurance is enough to improve the perceived reliability of sustainability reports?
- It has been said that limited assurance should be an intermediate solution. What is your view in that regard? If you agree with that statement, what is the ideal transition period that would elapse before reasonable assurance becomes mandatory?

Section 2: Availability of skillsets and capabilities of local service organisations

- Who, from within your potential clients' organization should be tasked to appoint the sustainability assurer and why?

- In your opinion why should potential clients be encouraged to choose you as their sustainability assurer?
- What do you think you can offer more compared to assurers coming from a different background than yourself?
- What are your views on the role of the internal auditor after sustainability reporting assurance becomes mandatory?

Section 3: Elements ensuring high quality sustainability reporting assurance statements in the local scenario

- In your view, who are the key parties that affect the quality of a sustainability assurance statement and why?
- Soon your Company could possibly be engaged to prepare a sustainability reporting assurance statement and there are several assurance standards available. Assuming you have a choice, which assurance standard are you planning to follow?
- In your opinion, do you think that having a choice affects the quality of the sustainability assurance statement?
- In the literature two schools of thoughts emerge: one which advocates stakeholder engagement during the assurance process and one which rules it out to preserve the assurer's independence. What is your view of stakeholder engagement during the assurance process?
- In your opinion, which factors should be present during the assurance process to ensure a high-quality assurance statement?
- Do you think local companies are prepared to provide environmental data with the necessary audit trail?
- Do you think Companies should introduce systems to gather environmental data and performance daily?

A2. Preparers' Interview Schedule

Section 1: Expectations from a sustainability assurance engagement and the ideal level of assurance.

- Under the agency theory it is suggested that information asymmetry between managers and shareholders exists. In your view how does sustainability reporting assurance narrow this gap?
- In your view what are the costs and benefits of obtaining assurance on sustainability reports?
- What should a limited assurance engagement entail in the CSRD context?
- What should a reasonable assurance engagement entail in the CSRD context?
- As per the CSRD proposal, the European Commission is proposing that initially a limited assurance should be obtained on sustainability reports. Do you think that such level of assurance is enough to improve the perceived reliability of sustainability reports?
- It has been said that limited assurance should be an intermediate solution. What is your view in that regard? If you agree with that statement, what is the ideal transition period that would elapse before reasonable assurance becomes mandatory?

Section 2: Availability of skillsets and capabilities of local service organisations

- Who within your organization should be tasked to appoint the sustainability assurer and why?
- Suppose your Company is in the process of selecting an assurer for the prepared sustainability report. Who in your view has the best skillset to provide independent assurance: accounting and audit firms or other types of professional services firms and why?

- Should the market be restricted to one professional qualification, or should there be wider competition in terms of assurance providers?
- What are your views on the role of the internal auditor after sustainability reporting assurance becomes mandatory?

Section 3: Elements ensuring high quality sustainability reporting assurance statements in the local scenario

- In your view, who are the key parties that affect the quality of a sustainability assurance statement and why?
- Soon your Company will have a mandatory obligation to prepare a sustainability report. As you may know, there are several reporting frameworks available. Assuming you had a choice, which reporting framework are you planning to follow and why?
- In your opinion, do you think that having a choice affects the quality of the sustainability report?
- In the literature two schools of thoughts emerge: one which advocates stakeholder engagement during the assurance process and one which rules it out to preserve the assurer's independence. What is your view of stakeholder engagement during the assurance process?
- In your opinion, which factors should be present during the assurance process to ensure a high-quality assurance statement?
- Do you have a system in place which gathers environmental data?
- How do you plan to start gathering environmental data on a daily basis?
- What do you think are the challenges to gather environmental data?