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**The Challenges of Assurance
on Non-financial Reporting**

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Abstract: The purpose of this paper is to enhance our understanding of the notions and conceptual foundations of assurance in the standard setting arena. This will facilitate an informed discussion of the challenges and the role of assurance within an increasingly complex and fragmented corporate reporting regulatory landscape. The study draws on relevant literature on sustainability assurance and an analysis of how the assurance concept has been framed by the International Auditing and Assurance Standards Board (IAASB) through the construction of standards. The analysis highlights that the fragility of the conceptual foundations of assurance, broad-based nature of standards and diversity in practice contribute to the persistent challenges of sustainability assurance. This paper makes an important contribution to the discussions and contemporary debates on the regulation of and through assurance as well as the complex newer concept of integrated assurance. It further contributes to a more informed policy discussion as to how it can(not) strengthen the role of non-financial reporting as an agent of change to encourage more sustainable companies.

Keywords: assurance, sustainability, ISAE 3000, assurance standards, non-financial reporting

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1 Introduction

Dominating the political agenda today are discussions on financial stability and sustainability development. The quest for new reporting models incorporating environmental, social and governance (ESG) information is increasingly driven forward by the demands on improvement in corporate governance and shift towards more sustainable business practices. In 2016, there was yet a significant increase in the number of sustainability reporting initiatives by regulators and other non-state actors at the national, regional and transnational levels to achieve different policy goals.¹ The regulatory environment for corporate

¹ KPMG, Global Reporting Initiative, United Nations Environment Programme (UNEP) and Centre for Corporate Governance in Africa University of Stellenbosch Business School (2016).

reporting has come to be increasingly complex and fragmented, fraught with competing logics. Different courses of action have been prescribed by standards on corporate reporting set in ‘many rooms’. Among the legislative initiatives is the Directive 2014/95/EU adopted by the European Union. The Directive mandates additional disclosure of non-financial information by certain large undertakings and groups in order to enhance the consistency and comparability of such information throughout the European Union.² Firms that fall under the scope of the Directive are to provide a non-financial statement containing information relating to at least environmental, social and employee-related, respect for human rights, anti-corruption and bribery matters to provide a ‘fair and comprehensive view of their policies, outcomes and risks’³ In June 2017, the European Commission further adopted non-binding guidelines to guide companies to fulfil the disclosure requirements in a consistent and more comparable way.⁴ The legislative approach adopted provides significant flexibility for companies to determine the reporting guidelines to be adopted and the relevant information that they consider most useful in the context within which they operate.

The Directive 2014/95/EU does not provide for non-financial information to be audited but requires member states of the European Union to ensure that the statutory auditor checks for the presence of the required information.⁵ The responsibility of statutory auditors is dependent on jurisdictional specific rules. It could range from verifying the presence of the non-financial disclosures required to auditing the Board of Directors’ and Managing Director’s administration of the company.⁶ Twenty-six of the twenty-eight member states of the European Union have adopted the International Standards on Auditing (ISAs) by the International Auditing and Assurance Standards Board (IAASB).⁷ ISA 720

² Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. OJ L 330, 15.11.2014 entered into force December 6, 2014.

³ Directive 2014/95/EU, *supra* n.2.

⁴ Communication from the Commission – Guidelines on non-financial reporting (methodology for reporting non-financial information) C/2017/4234, OJ C 215, 5.7.2017, p. 1–20.

⁵ Directive 2014/95/EU, *supra* n.2, Article 1 amending Directive 2013/34/EU, Article 19(a) para. 5 and 6.

⁶ Sonnerfeldt (2014). For example, The Swedish Companies Act (SFS 2005:551), Chapter 9, Section 3 provides that the auditor shall examine the company’s annual report and accounts as well as the management by the board of directors and the managing director.

⁷ Fédération des Experts-comptables Européens (2015). France and Germany have not adopted ISAs. French auditing standards are based on the ISAs and are in substance equivalent to them with a few remaining differences due to it being based on pre-clarified ISAs and add-ons to

provides guidance on the statutory auditor's responsibilities relating to material inconsistency between the other information included in a company's annual report and the financial statements.⁸ While a consistency check is administered, it differs from a sustainability assurance engagement in that the statutory auditor is not required to provide an assurance opinion on the non-financial information disclosed. In 2016, the International Ethics Standards Board for Accountants finalised the pronouncement *Responding to Non-compliance with Laws and Regulations (NOCLAR)*.⁹ The pronouncement which came into effect on July 15, 2017 provides guidance to accountants or auditors on the appropriate actions to take in the public interest when they become aware of potential illegal acts committed by a client or employer.¹⁰ The pronouncement however is not legally binding. Hence, given the limited role of the statutory audit that is specified in the regulatory framework, the question is whether assurance on sustainability reports can play a meaningful role in enhancing the value relevance and credibility of non-financial reporting?

Researchers in the accounting and sustainability fields have increasingly scrutinised ESG reports finding reporting-performance portrayal gaps and indicating its potential to reduce rather than to increase the visibility of corporate social environmental impact.¹¹ Extant research have pointed out corporate managements' dominant influence over the contents and scope of reporting, the immaturity of reporting standards, the lack of stakeholder engagement, the exclusion of and favouritism towards particular stakeholder groups, all of which contribute to undermining the credibility of these reports.¹² The credibility gap led to macro (external institutional) as well as micro (organisational) pressures driving the demand for sustainability assurance services largely based on the well-institutionalised notion that information is more credible if it has been subjected to inde-

comply with local regulation. Germany has transposed the clarified ISAs into German GAAP with add-ons related to a number of subject matters. FEE has since 2016 changed its name to Accountancy Europe.

8 IAASB (2018); FEE (2015). With regards to ISA 720, countries for example, Belgium, the Czech republic, Italy, Ireland and the United Kingdom have introduced add-ons pertaining to the statutory auditors responsibilities on other information such as those contained the Director's report.

9 Both the IAASB and the International Ethics Standards Board for Accountants are independent standard setting board of the International Federation of Accountants (IFAC).

10 International Ethics Standards Board for Accountants (2017).

11 Adams (2004); Adams and Evans (2004); Gray (2010); Moneva, Archel, and Correa (2006).

12 See for example, Moerman and Van Der Laan (2005); O'Dwyer (2003); Swift and Dando (2002); Thomson and Bebbington (2005); Unerman and Bennett (2004).

pendent examination by a third party.¹³ This has been met by an “explosion” of services undertaken by not only accountancy firms but other assurance providers including quality assurance and corporate social responsibility consultancy firms, civil society assurers and non-government organisations.¹⁴ Despite the fact that assurance on sustainability reports are largely voluntary, the market for assurance services has been growing since the 1990s. In 2017, about two thirds of the G250 companies have their sustainability reports assured by a third party.¹⁵

The discussions of assurance on non-financial disclosures in the policy arena and growing market for assurance services led to an increase in interest and calls for more research in this area.¹⁶ Mapping out the current research landscape of the assurance market, Faqoor and de Villiers (2017) classified existing sustainability assurance literature into five broad categories. These include research focused on: characteristics of the sustainability assurance field; country and organizational factors driving demands of sustainability assurance; the role of accountants in assurance markets; compliance with standards and the impact on enhancing the credibility of sustainability reports.¹⁷ While these studies, provide some insights on the market for as well as practices of sustainability assurance, the research landscape remains fragmented and the concept of assurance weakly theorized.

Earlier studies have critically scrutinised the practice of sustainability assurance by making broad inferences about practice through content analysis of assurance reports.¹⁸ More recently, studies have provided greater insights into the purpose and backstage of assurance engagements contributing to our knowledge on the conceptualization of sustainability assurance at sites of practice.¹⁹ There is still limited research on how assurance is conceptualized in the standard setting arena, where the norms of assurance practice are determined and coded.

The purpose of this paper is to enhance our understanding of the notion and conceptual foundations of assurance in the standard setting arena. This will

13 Herda, Taylor, and Winterbotham (2014); Perego and Kolk (2012); Simnett, Vanstraelen, and Chua (2009).

14 Power (1997); refer also to Farooq and de Villiers (2017).

15 KPMG (2017).

16 Refer to Farooq and de Villiers (2017); Also see Adams (2015); Cohen and Simnett (2014); de Villiers, Rinaldi, and Unerman (2014).

17 The literature review by Farooq and de Villiers (2017) covered 50 articles published in 28 academic journals from 1998 to 2015. These journals comprise 18 accounting journals and 10 non-accounting (i. e. management, sustainability and business ethics) journals.

18 See for example, Ball, Owen, and Gray (2000); O'Dwyer and Owen (2005).

19 Canning, O'Dwyer, and Georgakopoulos (2019); Channuntapipat, Samsonova-Taddei, and Turley (2019); Park and Brorson (2005); Sonnerfeldt (2011).

facilitate an informed discussion of the challenges and the role of assurance within an increasingly complex and fragmented corporate reporting regulatory landscape. Given that the large accountancy providers dominate the assurance market, this study draws on relevant literature and an analysis of documents to examine how the assurance concept has been framed by IAASB through the construction of the International Standards on Assurance Engagements 3000 (ISAE 3000) which is adopted by accountancy providers.²⁰ The documents from both private and public archives analysed include relevant minutes meetings, working documents, exposure drafts and pronouncements of IFAC and the IAASB. This paper makes an important contribution to the discussions and contemporary debates on the regulation of and through assurance by providing a basis to challenge the taken for granted notions of assurance. It further contributes to a more informed policy discussion as to how it can(not) strengthen the role of non-financial reporting as an agent of change to encourage more sustainable companies.

2 The notions, standards and the persistent challenges of sustainability assurance

The notion and definitional fuzziness of the term ‘audit’ has allowed the percolation of the body of audit knowledge into a variety of contexts, extending the audit beyond its traditional role to institutionalize different forms of accountability and control.²¹ This phenomenon can be observed in the ‘audit of non-financial information’ which since the end of the 1990s been increasingly labelled as ‘assurance services’ in the standard setting arena and practice sites.²²

20 We recognise that the IAASB is not the only standard setter in the assurance field. The choice to analyse the framing of the assurance concept through the construction of assurance standards in IAASB is motivated by the dominant market share held by the accounting profession in the assurance market. Research has also shown that accountancy providers draw from other standards such as AA1000 Assurance Standard by AccountAbility.

21 Courville et al. (2003); Power (1997).

22 IFAC (1995), p. 2–5. The report highlighted that assurance providers had been increasingly engaged in providing ‘audit like’ services on a broad range of subject matters. There was, however, no common terminology adopted. These engagements were termed “audit”, “assurance”, “review”, “limited review” etc. In the earlier draft of the standard ISAE 3000, the International Auditing Practices Committee (IAPC) adopted the term ‘assurance engagement’ in the second exposure draft in 1999 which further aligned the terminology used by the accountancy profession.

In the European Commission's guidelines on non-financial disclosures, independent external assurance has been regarded as an example of how information can be made 'fairer and more accurate'.²³ Implied in this statement, assurance is purported as a third party, technical and neutral activity that provides verification that information has been presented in an unbiased and reliable way. Hence, it is taken for granted that assurance enhances the credibility and quality of reports and that assurance providers are rational and technical experts seeking to act in the public interest.

Research however, shows that like auditing, the practice of assurance is a socially constituted, contextually dependent activity capable of serving a variety of roles and functions.²⁴ The market for sustainability assurance engagements can be explained by demand and supply mechanisms involving multiple actors engaging assurance services for different purposes. Although commonly referred to as assurance engagements, these services can take the forms of data verification, consulting, or endorsement of a report aimed at different users. Channuntapipat, Samsonova-Taddei, and Turley (2019) classified the different forms of assurance practice into: Formative, Compliance, Social and Integrated based on the different conceptions of sustainability (social and environmental versus organisational sustainability) and the nature and scope of engagements (procedural compliance versus holistic approach). Reporting organisations exercise discretion on the forms of assurance services and choice of assurance providers based on their corporate reporting strategies, maturity of information systems and management values.²⁵

For decades, studies have shown inconclusive results pertaining to the value added nature of this function. On one hand, previous literature highlight that firms potentially benefit from improvements in reporting accuracy, corporate reputation, internal controls and data measurement systems as well as compliance with reporting standards.²⁶ It has been demonstrated that assurance services lead to improved reporting definitions, scopes and methodologies that require restatement for comparability.²⁷ On the other hand, it is well established in literature that there is still a high level of variability in practice attributable to diversity in standards and methodology of assurance providers. The credibility of assurance continue to be undermined by issues pertaining to management

²³ Communication from the Commission, *supra* n.4.

²⁴ Channuntapipat et al. (2019); Humphrey and Moizer (1990).

²⁵ Sonnerfeldt (2011).

²⁶ Ballou, Chen, Grenier, and Heitger (2018); Briem and Wald (2018); Marx and van Dyk (2011); Moroney, Windsor, and Aw (2012); Simnett et al. (2009).

²⁷ Ballou et al. (2018).

capture, the lack of stakeholder participation, the scope of assurance engagements and the ambiguity of assurance reports.²⁸ Critical researchers have brought our attention to the commercial objectives of assurance providers in their attempt to advance their market share by creating legitimacy for sustainability assurance practices in new audit spaces.²⁹ In this vein, Michelin, Patten, and Romi (2019) has demonstrated the use of restatements as a means for assurance providers to demonstrate the value of assurance to improve the accuracy of sustainability information and the reporting organisations to depict an image of transparency. Hence, the co-building of legitimacy.³⁰ Analysis of the backstage of assurance engagements however reveal that sustainability assurance is weakly supported by techniques and routines.³¹ Performing assurance engagements involve a process of making things auditable which involves the negotiation of a legitimate and institutionally acceptable knowledge base and the creation of environments which are receptive to this knowledge base. Research highlights the fragility of the knowledge of assurance providers, the inherent difficulties dealing with the more qualitative and future-oriented data, the lack of a generally accepted established reporting criteria and the constraints in applying the financial audit methodology to the sustainability assurance domain.³²

In the late 1990s, the variations in practice and concerns with the quality of assurance engagements created a regulatory gap and a call for standards to guide sustainability assurance practice. Standards serve as norms and prescriptions to guide the performance of these engagements. The lack of consensus as to what constituted best practice led to the emergence of several assurance standards that overlap with each other.³³ Different actors including the Global Report Initiative (GRI), IAASB, Accountancy Europe and AccountAbility came to be active participants in the standard setting arena.³⁴ From 2003, two of the most prominent international standards utilised by assurance providers from the accountancy profession were ISAE 3000 and AA1000 Assurance Standard (AA1000AS).³⁵

28 See for example, Cooper and Owen (2007); Dando and Swift (2003); Farooq and de Villiers (2019); O'Dwyer and Owen (2005); Wallage (2000).

29 O'Dwyer, Owen, and Unerman (2011).

30 Michelin, Patten, and Romi (2019). See also Garcia-Torea (2019).

31 O'Dwyer (2011); Power (1996).

32 Moroney and Trotman (2016); O'Dwyer (2011).

33 Refer to Farooq and de Villiers (2017); Iansen-Rogers and Oelschlagel (2005); Sonnerfeldt (2011).

34 Sonnerfeldt (2011)

35 Farooq and de Villiers (2017).

The ISAE 3000 is a generic standard by the IAASB that provide guidance to professional accountants in public practice for the performance of assurance engagements that are not historical financial assurance engagements. It establishes the basic principles and essential procedures on two levels of assurance engagements: reasonable and limited which are not mutually exclusive. A more specific sustainability assurance standard is the AA1000AS by AccountAbility, a global consulting and standards organization that works with multi-stakeholders to advance responsible business practices.³⁶ AA1000AS is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organizations' sustainability reporting, their underlying processes, systems and competencies. It places emphasis on the issues of materiality and the role of stakeholders. There are also standards on more specific subject matter including ISAE 3410 'Assurance on a Greenhouse Gas Statement' by IAASB and ISO 14064–3, by the International Organization for Standardization (ISO) that provides guidance on conducting or managing the validation and/or verification of greenhouse gas assertions.³⁷ Despite the different philosophical underpinnings, objectives and approaches to assurance prescribed by the different standard setters, joint application of standards have gained popularity in practice. Standards have been purported by assurance providers to be complementary rather than competing, and that the combination would deliver a win-win situation given the different focus of the standards.³⁸

Notwithstanding the emergence and development of standards, research continue to show that standards are less precise than financial auditing standards and provide little guidance for practice.³⁹ Problems of diversity in practice, technical difficulties such as defining materiality and the lack of stakeholder engagement persists.⁴⁰ Studies focused on the backstage of assurance engagements indicate that innovations take place and uncertainties are negotiated at the sites of practice.⁴¹ As accountancy providers are primary assurance providers, the next section of this paper analyses how assurance has been framed by the IAASB through the construction of standards.

36 <http://www.accountability.org/about-us/about-accountability/> (accessed September 1, 2019).

37 <https://www.iso.org/standard/38700.html> (accessed September 1, 2019).

38 See for example, Iansen-Rogers and Oelschlagel, J (2005).

39 Manetti and Becatti (2008); Sonnerfeldt (2011).

40 Studies include Ball et al. (2000); Cooper and Owen (2007); Kamp-Roelands (2002); O'Dwyer (2003); O'Dwyer and Owen (2005); O'Dwyer (2011); Sonnerfeldt (2011); Swift and Dando (2002); Thomson and Bebbington (2005); Unerman and Bennett (2004).

41 O'Dwyer (2011); Sonnerfeldt (2011); Channuntapipat, Samsonova-Taddei, and Turley (2019).

3 Framing the assurance concept through standard setting

Concepts can be understood as ‘basic units of thought formed in dynamic processes within social and cultural environments, constituted by its extensions and intensions and relationship with other concepts’.⁴² To analyse the framing of the assurance concept by the IAASB, a conceptual analysis on objects belonging to the concept (extensions), the attributes, meanings and component parts (intensions) and its distinction and relationship with other concepts are carried out.

3.1 Assurance – an artificial construct

Contemplating the development of audit services in the mid-1990s, the American Institute of Certified Public Accountants (AICPA) and the International Auditing Practices Committee (the IAPC was reconstituted as the IAASB in 2002) in separate initiatives developed standards to enable the creation of new products and entry into new markets building on accountants’ knowledge of financial audits to capitalize on the opportunities, developments in technology and the market.⁴³ The term “assurance” was appropriated to label assurance services on a variety of subject matter that are built on the ideas of an audit.⁴⁴

The AICPA set up the Elliott Committee, to develop a strategic plan for an expanded assurance function. The efforts resulted in the publication of the ‘Elliott Report’, which formally introduced a new concept of ‘assurance services’ built by reconceiving the attest model. Assurance services was defined as ‘any independent professional services that improve the quality of information or its context, for decision makers’.⁴⁵ Assurance services were distinguished from audits as it stressed the goal of information improvement rather than the issuance of a report on it.⁴⁶ A distinction was also made from consultancy services stressing the requirement for assurance providers to be independent. Hence, in North America, attestation services, which include audit, review and agreed-upon

⁴² Ganter, Stumme, and Wille (2005).

⁴³ Elliott (1994); Elliott and Pallais (1997); Nugent (1999).

⁴⁴ AICPA (1997). These new audit-like engagements are performed on for example: sustainability reports, supply chains, web integrity and internal control systems, human rights code compliance, etc.

⁴⁵ AICPA (1997).

⁴⁶ Nugent (1999).

procedures, are a subset of assurance services. Within the assurance domain (excluding attestation), categories of assurance services were developed.⁴⁷

In the mid-1990s, the IAPC, then a standing committee of IFAC did not share AICPA's definition of assurance nor did it engage in a similar market creation discourse. Rather, it presented the view that the accountancy firms in practice, driven by market demand and legislation were already providing such services to enhance the credibility of information (e. g. audit of internal controls or environmental information). The diversity in the way engagements was termed in practice (e. g. audit, assurance, review, limited review, etc.) created the need for standards to enable greater consistency in the performance and labelling of services offered by the accountancy profession globally. Assurance was further discussed and framed in the standard setting space to codify guidance on appropriate procedures and behaviour to provide a normative framework that guide accountancy assurance providers as to what constituted best practice. The IAPC issued two exposure drafts (EDs), which subsequent revisions led to the publication of ISAE 3000.

3.2 Basis of assurance

Prior to 1999, engagements performed to provide assurance on the credibility of reports were referred to as “reporting service engagements” by the IAPC. The term “assurance” had been intentionally avoided in recognition that it was ambiguous and had no commonly accepted definition (IAPC 1997b). The objective of a reporting service engagement was expressed in a process-oriented way:

“ ... to enable the professional accountant to report on the credibility of information, referred to as subject matter that is the responsibility of another party, by evaluating the information against identified suitable criteria and expressing a conclusion about that subject matter.” (IAPC 1997a)

The structure of IAPC's pronouncement presented in ED 1 showed that the IAPC lifted the principles of financial auditing to an abstract level, which enabled it to be re-embedded to apply to an array of different subject matters. Seven elements of reporting services engagement were identified including: the professional accountant, the subject matter, the responsible party, the intended user, the criteria, the engagement process and the report. As guidance had been

⁴⁷ These included relevance services, systems reliability assurance, navigation services and context services. From these categories, the Committee developed services in the areas of risk measurement, business performance measurement, information systems reliability and electronic commerce.

built on the financial audit model, it adopted the structure and vocabulary used in financial auditing. The framework and general principles proposed in ED1 therefore covered within their scope the financial audit and review; as well as assurance of a broad spectrum of subject matters including other information (e. g. prospective financial information, statistical information, performance indicators); systems and processes (e. g. internal controls, environmental management systems) and behaviour (e. g. corporate governance, compliance with regulation and human resource practices).

3.3 External and Internal analysis of the assurance concept

The IAPC put strong emphasis on what assurance engagements were not. Assurance engagements were distinguished from agreed-upon procedures and compilations. The former required the practitioner to report on factual findings but not express a conclusion on the subject matter or report, and the latter did not require the gathering and evaluating of evidence and therefore there was no need to express a conclusion (IAPC 1999, ED2, sections 8 and 21). Also excluded from the scope of assurance engagements were the preparation of tax returns, management consulting and other advisory services. It was further clarified in ED2 that engagements that were similar to agreed-upon procedures that resulted in the expression of a conclusion providing a level of assurance were not precluded (IAPC 1999, ED2, section 6). In contrast to AICPA's approach to extending of the audit (or attest) function, IAPC adopted a narrower and more 'financial-audit related' conception of assurance.

There was a general agreement on the seven elements of assurance, however, as the domain of financial audit was broadened to include other subject areas, the constituents and the relationship between the elements became less clear. Members of the accountancy profession were not in agreement on the use of the term assurance, the determinants of assurance (the work effort versus the interaction of variables model that has implications on work performed and acceptance of an engagement), the levels (high versus moderate levels of assurance) and output of assurance engagements (communication of levels of assurance that range from a low level to an absolute level versus distinct levels of assurance).⁴⁸ The extension of the methodology to a broader domain involving subject matter that could be non-financial, more qualitative and subjective

⁴⁸ Concerns were raised that a spectrum reduced comparability, increased litigation risk and motivated conservative reporting which, is contrary to both the profession and in public interest. In ED2, IAASB retained the continuum of assurance concept which was generally

without clearly defined criteria led to different views as to how these issues were dealt with among the profession. These issues were not resolved but weakly subjugated in the construction of ISAE 100 in 2000. It provided a framework for all assurance engagements but only the basic principles and essential procedures to guide engagements intended to provide a ‘high level’ of assurance were coded.⁴⁹ Appendix 1 presents a summary of the conceptual development of assurance within IAPC from 1995–2000.

3.4 The building blocks of assurance

In 2002, the IAASB appointed a task force to develop a document articulating the theoretical underpinnings of the assurance function.⁵⁰ The task force outlined eleven principles comprising the assurance building blocks. The assurance framework would apply to all assurance engagements, including the financial audit. While ISAs provided guidance on the financial audit, ISAE 2000 provided guidance on assurance for subject matters other than historical financial information where no subject matter specific ISAEs exists (Principle 1).⁵¹ This allowed IAASB more flexibility to develop guidance on technical issues such as materiality, and subject specific standards distinct from that of the financial audit. The process by which assurance was to be obtained and conveyed was depicted in three steps: the practitioner obtains assurance and forms a conclusion; the practitioner reports to convey that assurance; the reader then reads the report to obtain assurance, which could differ from that of the assurance provider (Principle 3).

The assurance building blocks did not preclude the acceptance of assurance engagements with criteria that were evolving but not yet suitable as long as suitable criteria existed in the aspects that the assurance engagement were to be performed. Suitable criteria enabling reasonable consistent evaluation or measurement of the subject matter within the context of professional judgment was identified as a baseline for acceptance of an assurance engagement (Principle 4). The framework drew on both the “work effort view” and the “interaction of variables view”, recognizing that there were many possible permutations regarding subject matter characteristics, work effort and available evidence, and that it

agreed that to be conceptually sound, but introduced two distinct levels of assurance: high (audit) and moderate (review) determined by the interaction of variables.

⁴⁹ The levels of assurance were labelled ‘high’ and ‘moderate’ in 2000. It was subsequently relabeled as ‘reasonable’ and ‘limited’ explained in Section 3.4.

⁵⁰ IAAAB (2002a and 2002b) Minutes of the Meeting June 2002 and October 2002.

⁵¹ ISAE 2000 was revised and renamed ISAE 3000 subsequently.

was not feasible to categorize and provide rules for all of them (Principle 6). Therefore, clarity of communication was stressed. The terminology ‘two distinct levels of evidence gathering procedures’ was utilized, namely, ‘audit-level’ and ‘review-level’ (Principle 7). For example, an ‘audit-type’ engagement required detailed procedures to be carried out and the assurance provider provides a positive expression of assurance conveying ‘reasonable assurance’. Comparatively, a ‘review-type’ engagement requires ordinary inquiry and analytical procedures that leads to a negatively phrased conclusion conveying ‘limited assurance’. Hence, relabelling ‘high’ and ‘moderate’ levels of assurance as ‘reasonable’ and ‘limited’ assurance respectively.

The IAASB issued the International Framework on Assurance Engagements and ISAE 3000 in January 2004. The basic principles and essential procedures were coded and published to guide professional accountants in public practice to perform assurance engagements. A subsequent revision of ISAE 3000 published in 2013 provided additional guidance of the concepts of reasonable and limited assurance.

3.5 The framing of assurance

Assurance has been framed as both a superordinate and subordinate concept more easily defined as ‘what it is not’ rather than ‘what it is’. The term ‘assurance’ in itself has not been defined in IAASB’s pronouncements apart from stating that it is something an assurance provider obtains from carrying out the assurance process and conveys in his /her report to enhance intended users’ degree of confidence on a subject matter. In the construction of standards however, the term assurance has been used several ways. On the broadest level, it is distinguished from assurance defined by AICPA, consulting and related services (agreed upon procedures and compilations). It can however be an isolated part of these larger engagements. The International Framework on Assurance Engagements includes both audit and review of historical financial information as well as assurance on other subject matter. On a narrower level, an assurance engagement is used to depict services performed on other subject matter distinguished from the financial audit.

The internal analysis of the assurance concept reveals its weak underpinnings. From the outset, the accountancy assurance providers had been divided as to the prerequisites of accepting an engagement, the determinants of assurance and the related level and reporting of assurance engagements. The building blocks of assurance represented choices of certain terminology and phrases that imparted particular meaning made by the task force that served as a

common ground to subjugate intra-professional differences. However, the relationship between assurance and key concepts such as materiality, risk, evidence and work to be performed remain unclear. As such, although ISAE 3000 serves to provide guidance to assurance providers, the construction of the standards reflects IAASB's choice to delegate the discretion to national professional associations and practitioners performing engagements to determine the details of each assurance engagement.⁵²

4 Discussion

The enquiry into the development and framing of ISAE 3000 highlight the deep-rooted challenges of assurance on information other than historical financial information. The above analysis reveals that the conceptual underpinnings of assurance has been derived from the financial audit model, which is ill-fitted to apply to the non-financial domain. Unlike financial auditing where the subject matter is largely quantifiable, the boundaries of a firm, the criteria of reporting and internal controls of companies are established, the determinants of assurance on non-historical, non-financial information are less clear.

The ISAE 3000 has been drafted in a broad and overinclusive way to enable its application to a broad range of subject matter. The standard lacks precision in its prescriptions to address technical challenges such as risk and materiality assessment and the work to be performed when determining the levels of assurance for non-financial disclosures. Furthermore, the definition of assurance engagements, one which a practitioner expresses a conclusion about the outcome of the evaluation of a subject matter against criteria sets forth a verification type of function. Such a framing discourages and limits the capacity and extent to which accountancy assurance providers can intervene or contribute to enhance sustainable business practices.

The structure of assurance standards is divided on the basis of the subject matter of assurance. While both the audit of financial and assurance of non-financial information fall within the scope of the International Framework of Assurance Engagements, the ISAs provide detailed guidance for auditors to perform engagements at a reasonable level of assurance. The amorphousness of ISAE 3000 instead allows their necessary adaptation to suit circumstances in practice and assurance providers to customize the scope of the assurance to

⁵² The ISAE 3000 had undergone revisions however, there has been little changes to the framing and conceptual underpinnings.

each engagement. Engagements can be conducted at a reasonable, limited or combined levels of assurance. The structure of standards also discourage their applicability to a more holistic audit of a company.

The construction of ISAE 3000 reflects IAASB's choice to delegate the discretion to determine the details of assurance engagements such as sustainability reports to national professional associations and the practitioners performing assurance services. It has created a space to capitalize on the knowledge of these parties who draw on their experience from practice sites and other assurance standards. The wide discretion has also allowed users of standards to cherry pick or jointly-use different standards, performing reconciliations of any potential conflicts through interpretation. Literature on the practice of assurance further affirm the variations on assurance practice and the different labels that had emerged contributing to the many readings of assurance.

In the last three decades, there has been significant developments in the corporate reporting sphere. In particular, real time, forward looking and integrated reporting are significantly shaping the boundaries of corporate reporting. The Directive 2014/95/EU can be viewed as a step in the direction of integrating sustainability into mainstream financial reporting. The emerging forms of reporting consist of a wider scope of information presented in a more integrated manner. The development is likely to challenge the conventional principles of assurance creating a need to redefine boundaries of the assurance concept. It raises questions as to: what to assure (level of integration, process or report); how to provide assurance on connectivity, materiality and integrated thinking⁵³; and further elaborations on for whom assurance is provided for. The initial studies have raised practical and technical challenges considering the applicability of current standards, the need for expertise and a shift from the auditor mindset.⁵⁴

In 2017, in light of the developments in the corporate reporting landscape, the Extended External Reporting (EER) Assurance project was approved by the Board of IFAC supported by a grant from the World Business Council for Sustainable Development to develop non-authoritative guidance to enable more consistent and appropriate application of ISAE 3000 to EER. The project also serves to provide thought leadership on assurance issues and coordinate the work of the project with related initiatives of other relevant international organizations.

⁵³ de Villiers et al. (2014).

⁵⁴ Simnett and Huggins (2015).

5 Recommendations and conclusion

In the policy arena, the normative ideals of engaging third party assurance are stressed; the nature of the techniques underlying assurance engagements that support the achievement of these ideals are however often taken for granted. For assurance to strengthen the role of corporate reporting as an agent of change, its role, function and limits have to be well understood by policy makers, regulatory actors, corporations and their stakeholders.

Reporting plays a vital role in reframing the meaning of value. A step towards more responsible and sustainable companies is for legislators and policy makers to develop a clearer and more consistent corporate reporting policy to ensure greater parity between financial and non-financial capitals. The current reporting regulatory landscape is fragmented with competing logics driving the development of corporate reporting into financial and non-financial reporting silos. Whilst listed companies in the EU are required to report their consolidated financial accounts according to IFRS, the Commission adopts a flexible company-led approach to non-financial reporting. A clearer and more coherent purpose of corporate reporting would have implications on the disclosures of non-financial information and the purpose of assurance. This calls for more coherent reforms to be taken in the financial and sustainability policy arenas as well as more interaction between international organizations setting corporate reporting standards. In light of the deep-rooted challenges of assurance and the rapid development in corporate reporting regulatory landscape, we do not propose that legislators make assurance on non-financial reports mandatory. Regulatory intervention could lead to a compliance exercise channelling resources away from sustainability initiatives. It could also create artificial barriers to building greater trust and improvements in reporting.

It is important for assurance standard setters to recognize assurance as a process and not an outcome in itself. Assurance can play an important role in facilitating better corporate governance, internal control and stakeholder engagement. The role and the knowledge structures of assurance providers have constantly evolved through the development of new practices in light of corporate reporting developments. Premature codification of assurance standards can set artificial boundaries limiting its role. In light of the potential shift from separate financial and non-financial reporting to a more integrated approach, the assurance concept would have to be (re)conceptualized to redefine its relevance. We put forth the importance to recognize that standards can guide but also constrain mindsets and innovation. Assurance standard setters could view corporate reporting as a whole rather than in financial auditing and

non-financial silos. Clearer guidance is needed on how audit and assurance standards can be used in a more integrated manner and to be more proactive towards the technology-led developments in reporting practice. For example, real time or web-based reporting. This will enhance the value relevance of financial and non-financial information, which can be used as a platform for the company to enhance stakeholder engagement.

While the transformative potential of non-financial disclosures as a regulatory mechanism has been noted in policy discussions, research has highlighted that unless corporations have a genuine intention to act on unsustainable practices, disclosures are merely narratives decoupled from underlying organizational realities. In view of the developments in the regulatory arena, we propose that companies rethinking the purpose of corporate reporting and assurance. Sufficiently robust mechanisms of assurance can be an effective means to improve the reliability and relevance of information. However, with many companies still developing their information systems and processes, internal audits and other professional services could add greater value to the reporting undertakings. These services include consulting services, agreed-upon procedures or less standardized forms of evaluations offered by accountancy and non-accountancy providers. Assurance providers thus have a role to encourage firms to adopt services that best suits their needs. Given the idiosyncrasies of each assurance engagement, we suggest that assurance providers make assurance reports more comprehensible and transparent both in terms on the assurance process examining the reliability and relevance of information as well as the basis of conclusions.

The analysis above shows that the assurance concept and standards are still 'in the making'; the definitions and issues remain to be negotiated in different arenas and this development takes place in the context of a changing reporting regulatory landscape. Given that the development of assurance takes place at practice sites, there is a need for further research to explore: the 'backstage' of assurance practice to provide an in-depth understanding of the ideals, organisation and techniques employed by practitioners to carry out assurance engagements. More research is also needed on how different forms of assurance in the area of financial reporting, sustainability performance and assertions interact to enable a more insightful understanding on the transformative potential of reporting and assurance.

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Appendix 1: The framing of assurance by IAPC from 1995 to 2000

1995-2000 Context	Knowledge base	External analysis	Internal analysis	Action
Audit market saturation	Financial auditing standards and practice	Distinguished from: Consulting	Related elements of assurance: responsible party, intended user, subject matter, criteria, engagement process, professional accountant, assurance report	The IAASB developed a framework for all assurance engagements (high and moderate levels of assurance)
Market demand and supply of assurance services on the increase	The practice of assurance on subject matter other than historical financial information	Agreed upon procedures (but can be part of)	Professional accountant, assurance report	Provided the basic principles and essential procedures only for engagements intended to provide a high level of assurance
Regulators increasing concerned with auditor independence	Knowledge base of the respondents to the exposure draft	Compilation Tax services Assurance as defined by AICPA	Diverging views: the term assurance, methodology (work effort vs. interaction of variables), level of assurance, output of assurance	Deferred the provision of guidance on moderate assurance engagements
Publication of the Elliott Report				

Appendix 2: The framing of assurance by IAASB from 2001 to 2005

2001-2005 Context	Knowledge base	External analysis	Internal analysis	Action
Increase in regulatory initiatives by states to regulate the accountancy profession	Financial auditing standards and practice	On a broad level: Assurance engagements include both audit and review of historical financial information as well as assurance on other subject matter.	Elements of assurance: Responsible party, intended user, subject matter, criteria, engagement process, professional accountant, assurance report	IAASB published the International Framework on Assurance Engagements applicable to all assurance engagements (reasonable and limited levels of assurance)
Efforts by the regulators and accountancy profession to restore confidence in the audit market after the 1997 Asian Financial Crisis and the high profile corporate scandals such as Enron.	The practice of assurance on subject matter other than historical financial information	On a narrower level: Assurance engagement is used to depict services performed on other subject matter distinguished from the financial audit.	Assurance as a three-part process: Practitioner obtains assurance, conveys it in a report, reader reads the report and determines his/her own level of assurance	ISA provided essential procedures for financial audit engagements (reasonable level of assurance)
IFAC reforms governance structure	Knowledge base of IAASB from the process of setting standards on assurance engagements	Distinguished from: Consulting (can be part of), related services such as (agreed upon procedures (can be part of), compilation, tax services, assurance as defined by AICPA Unclear: Categorising assurance type engagements that cannot be accepted	Assurance from supply chain perspective: End of the reporting supply chain Principles of assurance: Building blocks containing 11 principles Diverging views: Concept of assurance, appropriate subject matter of assurance, suitable criteria, relationship between risk and level of assurance, communication of assurance	ISAE 3000 provided generic guidance for assurance engagements on subject matter other than historical, financial information (reasonable and limited levels of assurance)

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