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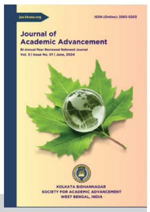

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Corporate Sustainability Accounting, Reporting and Assurance (SARA): A Study of Recent Trends in the Context of NSE-NIFTY Companies

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ABSTRACT

The corporate pressures to comply with sustainability norms emerge from various factors such as legal provisions of the country of operations, an upsurge of standards and growing consciousness among the investors. As ESG disclosures are voluntary in many countries and have not been governed by generally accepted standards, these are less credible and incomparable. Providing external guarantees like independent assurance on the content and structure of the sustainability reports can improve their importance, reliability and comparability. The present study shows the recent trends in sustainability accounting, reporting and assurance practices in the companies which constitute the NIFTY index.

Key Words: *Assurance, ESG, NIFTY, Reporting Framework, Sustainability*

"***Today, there is a once-in-a-generation opportunity for audit firms to put down a marker and make sustainability assurance their domain.***"- Ainslie Van Onselen, CEO, *CA ANZ*

1. INTRODUCTION:

Since the last decade, there has been a mammoth global increase in the publication of non-financial information by listed and unlisted companies in the form of sustainability reports. Sustainability reporting has now become a standard practice for many companies with a steady growth rate over the past decade. About 96% of global 250 (G250) companies and 79% of national 100 (N100) companies report on sustainability or environmental, social and governance (ESG) matters (KPMG, 2022). However, a considerable growing trend for sustainability reporting has not been accompanied by an increase in public confidence (Dando & Swift, 2003) or information credibility and accuracy due to a perceived inconsistency and completeness of SR (Adams & Evans, 2004). For the last few years, stakeholders have demanded external assurance as the credibility of such reports is now at stake, full of complaints by many critics that sustainability report is nothing but polished marketing material designed to promote the corporate image as being socio-eco-friendly (Hahn & Lülfs, 2014; Lyon & Maxwell, 2011).

The main question that arises is how far sustainability reports disseminate the information which talks about the sustainability of triple bottom lines i.e. Planet, People and Profit. Many companies have started to publish sustainability or similar types of reports only to satisfy the needs of socially responsible investors (SRI). In India, many corporates started publishing such kind of reports only to comply with listing requirements required by the Securities and Exchange Board of India (SEBI) through the Business Responsibility and Sustainability Report (BRSR). However, much of such information published by those reports is not at all assured, raising questions about the reliability and acceptability of their claims. Even there are some Indian companies which have assured their reports partially and thus they may get positive assurance reports for not covering their entire operations, rather than getting the assurance done on those operations which either have a positive impact or nothing to report as negative.

2. LITERATURE SURVEY:

A plethora of literature focuses on various aspects of sustainability accounting, reporting and assurance (SARA). However, the hard reality is that such reporting and assurance practice is at the nascent stage and unlike a financial statements audit, is unregulated in most countries (Farooq & Villiers, 2017). There is a lack of a unified reporting framework for sustainability issues. So, such information is disseminated through various reports. The most prominent, structured and widely used sustainability reporting framework was first provided by the Global Reporting Initiative (GRI) through its GRI guidelines. Such guidelines were initially published in 2000. The revised GRI standards consist of three series of standards, viz., Universal Standards 2021, Sector Standards and Topic Standards. Many companies have been following GRI standards worldwide since the beginning of 2000. Around 68% of N100 companies and 78% of G250 companies used the GRI framework in 2022 (KPMG, 2022). A joint survey conducted by the International Federation of Accountants (IFAC), Association of International Certified Professional Accountants (AICPA) and Chartered Institute of Management Accountants (2024) also revealed that the GRI is the most used reporting framework by companies worldwide. Another form of disclosure of corporate sustainability that gained much public attention throughout the world is the integrated reporting framework which was first provided by the International Integrated Reporting Council (IIRC) in 2013. However such type of reporting did not start with the framework of IIRC. A Danish company was the first to publish an integrated report in 2002, followed by some American, Brazilian and Dutch companies in 2008 (Eccles & Saltzman, 2011). The South African Integrated Reporting Committee (IRCSA) published the world's first detailed paper on how to prepare an integrated report in 2011. Stubbs and Higgins (2014) consider integrated reporting as the latest development in sustainability reporting. Integrated reports should not be seen as an aggregation of financial and non-financial information, rather they clearly explain how an organisation generates value out of environmental, social and economic factors and the link among the risk, strategy and organisation's business model (IIRC, 2013 and King, 2016[1]). Merging financial and sustainability information into a single document like an integrated report might give relief to professional investors for possible disconnection during the processing of such two types of information (Arnold *et al.,* 2012). A high growth rate of integrated reporting is found in the Middle East and Asia-Pacific continents. Such growth rates in N100 companies are 12% in the Middle East, 5% in Asia-Pacific and 12% in Latin America in 2022 over 2020. From the country-specific perspective, India, Poland and Japan experienced 34%, 20% and 17% increases in applying an integrated reporting framework in 2022 as compared to 2020 (KPMG, 2022). Despite the heavy growth rate, however, integrated reporting has not achieved the same popularity and prominence as sustainability reporting (Maroun, 2020).

[1]as cited by Maroun W. (2018)

In addition to a demand for a unified and globally acceptable sustainability reporting framework, the world has also witnessed a linear increase in demand for sustainability assurance engagements (SAE) in the last decade. The percentage of companies which obtained assurance on some of their environmental, social and corporate governance (ESG) information increased from 62% in 2020 to 63% in 2022 among the world's largest 250 (G250) companies, whereas, the same decreased slightly from 49% in 2020 to 47% in 2022 among the national 100 (N100) companies (KPMG, 2022). A question is often raised quite naturally why the companies undertake increasing efforts to get their sustainability reports assured by external experts although such assurance is linked to a huge financial burden. One of the possible explanations for third-party assurance of sustainability reports can be the building of the public image of the company so that the stakeholders can trust the content disclosed by these reports (Hummel *et al.,* 2019). Moreover, consistent and uniform application of suitable assurance standards improves the credibility, readability and quality of the assurance reports (Owen *et al.*, 2000). The International Standard on Assurance Engagement (ISAE) 3000- Assurance Engagements Other Than Audit or Reviews of Historical Financial Information, ISAE 3410- Assurance Engagements on Greenhouse Gas Statements (GHG) issued by the International Auditing & Assurance Standards Board (IAASB) and AA 1000 Assurance Standard (AA1000AS) issued by the AccountAbility are three main international assurance standards followed globally. The ISAE 3000, which is not specifically designed for the assurance of sustainability reports, is used to guide professional accountants on a wide variety of non-financial assurance engagements (Ackers, 2009, 2015). In contrast, AA1000AS is explicitly developed for assurance engagement of sustainability reports (Ackers, 2015; AccountAbility, 2008). Due to a lack of consensus, these standards have been applied variably in practice (Zaman *et al.*, 2021). ISAE 3000 and AA1000AS are considered to be complementary to each other. Moreover, the use of a particular assurance standard depends on the nature and type of assurance providers. ISAE 3000 is used mainly by accounting practitioners and AA1000AS is used by those outside the accounting profession (Mock*et al.*, 2007; Saha & Banerjee, 2023). The fourth annual joint survey by IFAC, AICPA and CIMA (2024) revealed that 58% of the sustainability assurance engagements were conducted by accounting firms of which 92% were conducted by them following ISAE 3000 (Revised) in 2022, whereas, 38% of the other service providers applied ISAE 3000 (Revised) in the same period. Despite the existence of several reporting frameworks and standards of assurance at the national and international levels, sustainability reporting and its assurance are still now voluntary to companies. Moreover, it raises innumerable questions as to the quality of such reports presented and assured.

3. OBJECTIVES OF THE STUDY

The research paper tries to examine the following:

(a) To briefly present an insight into sustainability accounting, reporting and assurance aspects practised globally.

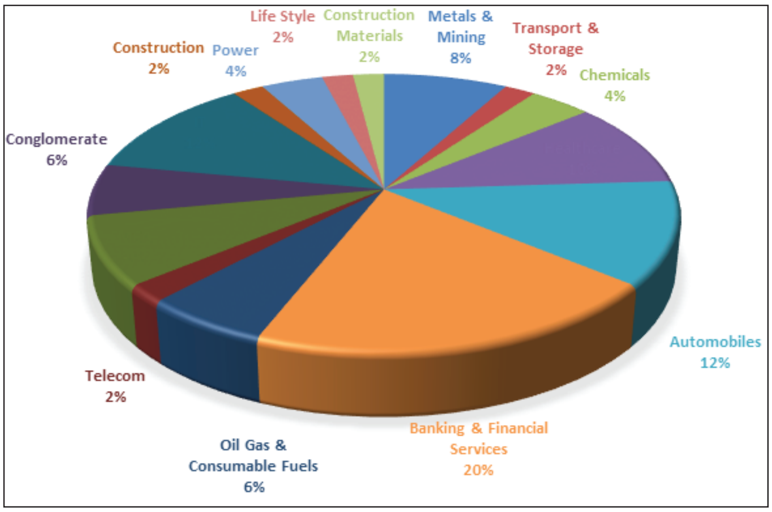
(b) To evaluate the status of sustainability reporting and assurance practice followed by the NIFTY Fifty index constituent companies.

(c) To draw logical conclusions based on the study.

4. RESEARCH METHODOLOGY

1.4.1. Sources of Data and Time Frame: The data for the study is National Stock Exchange's (NSE) NIFTY 50 index constituent companies which are collected mainly from the websites of the respective companies. The secondary data have been retrieved from the Sustainability/ ESG Reports, Integrated Annual Reports and Business Responsibility &Sustainability Reports (BRSR) of the companies. The time frame used in the study is the financial year 2022-23. The graphical representation of various industries/sectors represented by the NIFTY 50 index is shown below in Figure 1:

FIGURE 1: INDUSTRIES REPRESENTED BY NIFTY 50 INDEX CONSTITUENT COMPANIES



1.4.2. Data Mining: The study is a descriptive-exploratory research. The information is collected from the content analysis of the above-mentioned reports. The reports are deeply studied and analysed to gather sufficient and appropriate information to fulfil the research objectives. The reporting companies are NIFTY Fifty companies as of 31st July, 2024.

1.4.3. Analytical tools: The study is conducted using graphical techniques and simple percentages which have been calculated based on the tabulated data.

5. DATA ANALYSIS AND INTERPRETATION:

The issues of sustainability accounting, reporting and assurance have different dimensional aspects in the companies which constitute the NIFTY Fifty index. The study evaluates the following aspects:

- ☑ **The Extent of Independent External Assurance:** It has already been explained that external assurance enhances the quality and credibility of sustainability reports presented by the reporting companies. Table 1 reveals that 88% (i.e. 44 out of 50) of the reports of companies are assured independently. Hence, 12% of the reporting companies do not prefer external assurance of their sustainability reports. This figure of assurance is consistent with the data from the international survey in the Indian context.

TABLE 1: INDEPENDENT EXTERNAL ASSURANCE

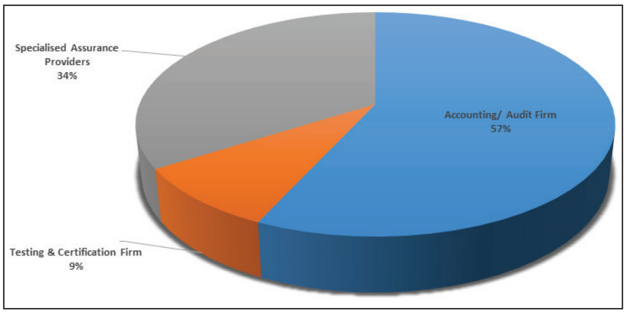
Independent Assurance	No.	Percentage
Independent Assurance	44	88
No Assurance	6	12
	50	100

- ☑ **Nature of Sustainability Assurance Providers:** It is very interesting to note that diversity prevails in sustainability assurance providers. The study has tried to categorise the assurance providers into a homogeneous group based on some criteria. The data reveals the following:

TABLE 2: STATUS OF SUSTAINABILITY ASSURANCE PROVIDERS

Nature of Assurance Provider	No.	Percentage
Accounting/ Audit Firm	25	57
Testing & Certification Firm	4	09
Specialised Assurance Provider	15	34
	44	100

FIGURE 2: NATURE OF SUSTAINABILITY ASSURANCE PROVIDERS



Majority of the sustainability assurance was conducted by the accounting and or audit firms (i.e. 57%). Most of the firms are internationally popular and known for such kind of assurance since the last decade. Reporting companies trust only a few national and international assurance service providers for sustainability reporting assurance engagements.

- ☑ **Compliance with Assurance Standards:** The study reveals that mainly three international standards are followed by most of the assurance service providers during the assurance engagements (Table

3). Many assurance providers use a combination of two or more international standards. For example, assurance provider DNV Business Assurance India has used their standard called VeriSustain™ which draws on good practice across recognised sustainability standards like ISAE 3000 (Revised), AA1000AS, GRI and CDP. About 66% of the assurance is based on ISAE 3000 (Revised), followed by 16% using AA1000AS. Few assurance service providers use ISAE 3410 (13%) while attesting to the greenhouse gas statement prepared by the reporting companies. Other assurance standards like VeriSustain™ are complied with in 5% of cases. In a few sustainability assurance engagements, the service providers use more than one standard simultaneously while performing their attestation functions. Sometimes, two assurance providers are appointed by a reporting company to provide assurance services to different units of the company.

TABLE 3: COMPLIANCE WITH ASSURANCE STANDARDS

Assurance Standards	No.	Percentage
ISAE 3000	37	66
ISAE 3410	7	13
AA1000AS	9	16
Others	3	5
	56	100

☑ **Assurance Levels:** The level of assurance shows the scope, intensity and risk associated with the assurance services and is based on sufficient and appropriate evidence. Table 4 gives an idea of the level of assurance declared by the assurance providers. About 67% of assurance is limited assurance engagements, whereas, only 7% of assurance is reasonable. A moderate assurance level is obtained in 15% of assurance engagements which are conducted mainly following AA1000AS. In 11% of cases, no assurance level is mentioned.

TABLE 4: ASSURANCE LEVELS

Assurance Levels Shown in Reports	No.	Percentage
Limited	36	67
Reasonable	4	7
Moderate	8	15
No Assurance Level	6	11
	54	100

CONCLUSION

At a time when companies are becoming wealthier and stronger in terms of market growth and profitability, they should follow practices that will not jeopardize environmental purity and will help establish social equity. No company can sustain in the long-run degrading the environment. At the same time, satisfying social norms is also very important for the corporates nowadays. Sustainability reporting keeps detailed records of the triple bottom line of the companies. Assurance of sustainability reports is very vital as it is directly linked to the credibility and reliability of the reports published by the companies. Assurance enhances the confidence of the investors and other stakeholders in one hand. On the other hand, it undoubtedly increases costs which many companies consider either as irrelevant or an expense without any return. Since Mother Nature herself has no voice, its problems have never been felt by human beings. However, it cannot be denied that many companies started corporate greenwashing in the name of sustainability accounting, reporting and assurance. Disclosing partial or camouflaged information related to corporate sustainability amounts to corporate misreporting which may endanger our beautiful blue planet to sustain for a long.

In India, most of the companies have to follow multiple reporting frameworks. To comply with the guidelines of the Securities & Exchange Board of India (SEBI), the listed companies are now publishing Business Responsibility & Sustainability Reports (BRSR). In the absence of any compulsion of assurance, information disclosed in BRSR has not been assured externally by many companies. Moreover, many companies get their sustainability information assured by the external assurance service providers concerning limited units or units located in specific locations, instead of assurance of the entire company. It may be advantageous to the companies as they may get favourable assurance reports by assuring only well-performing units or locations. Most of the NIFTY index companies have published integrated annual reports, instead of publishing standalone sustainability reports to reduce the hassle and costs of publication of multiple reports that suit their various purposes. The study unveils that out of 88% of the independently assured reports of the NIFTY companies only 7% of them are reasonably assured. Most of the assurance service providers can express limited assurance opinions. For better disclosure and assurance of complete information related to corporate sustainability, a mandatory sustainability reporting framework and a set of assurance standards are highly desirable. The Government of India in consultation with the professional bodies should come up with a mandatory sustainability reporting framework and assurance standards applicable for certain specified categories of companies, not only for the listed companies.

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