

CSR assurance in sensitive sectors - a worldwide analysis of financial services industry

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Abstract

Corporate Social Responsibility (CSR) reporting and assurance has achieved a great relevance, and the financial services industry is a CSR-sensitive sector, which needs to increase user confidence in the credibility of their reported activities. Our aim is to analyse assurance practices in this sector. Thus, we study what factors are associated with the adoption of assurance and choice of assurator, and whether the type of assurance provider affects characteristics of assurance. The findings indicate that the financial services industry leads the adoption of assurance, which is associated with the country and listing status, and different characteristics by type of provider.

Keywords: *sustainability, assurance, assurator, financial services industry.*

Introduction

Several authors have pointed out how the financial industry has been partly responsible for the current crisis in regulatory failure and over-optimistic policies terms (Fligstein and Goldstein, 2010). The unfavourable situation experienced by financial companies in this context has caused discredit in and distrust of society. According to Simnett et al. (2009) and Kolk and Perego (2010), the financial services industry is highly exposed to environmental and social risks, and the need to increase user confidence in the credibility of their reported activities is great. Therefore, it is considered a ‘CSR-sensitive’ industry (Sierra et al., 2014).

Very few authors have assessed assurance practices in sensitive sectors like the financial services sector, and this paper addresses this research gap. Our aim was to develop an exploratory analysis about CSR/sustainability assurance in the financial services industry. We studied what determinants are associated with the decision to adopt assurance and to choose assurator, and we investigated whether assurance differs across assurance providers.

Literature review

The financial services industry is of interest in the CSR and organisational reporting context because of its size and the role it plays in easing economic transactions (Day and Woodward, 2009). This is a sensitive sector because of its influence on financial well-being and its large “social footprint”. As a result, stakeholder groups are deeply interested in its activities (Simnett et al., 2009), which has resulted in companies reporting their CSR. However, CSR reporting is subject to concerns as regards to the completeness and credibility of the provided information (Adams and Evans, 2004).

In accordance with Simnett (2012), provision of external assurance on the content and structure of CSR reports improves the relevance, reliability and comparability of reports and, therefore, enhances their overall credibility.

Previous studies have investigated factors that influence the adoption of assurance and choice of assessor. Using a sample of 2,113 companies (from 31 countries) between 2002–2004, Simnett et al. (2009) found that those companies located in stakeholder-oriented countries are more likely to adopt assurance and to choose assessors from the auditing profession. Their results also showed that the adoption of assurance is higher among companies engaging in more highly visible industrial activity and those with a larger ‘social footprint’. Moreover, they pointed out that large companies are more likely to assure their sustainability reports and to choose large accounting firms as assurance providers. Kolk and Perego (2010) analysed the behaviour of G250 firms for the years 1999, 2002 and 2005 and found that the likelihood of adopting assurance is greater for firms domiciled in countries that are stakeholder-oriented and have weaker enforcement mechanisms. However, the likelihood of choosing a large accounting firm as an assurance provider is greater for companies from shareholder-oriented countries and larger firms. Zorio et al. (2013) focused on the companies listed on the Spanish capital market between 2005 and 2010, and found that inclusion in a stock exchange and industry are significant in explaining assurance and choice of assessor. Specifically, among the IBEX-35 companies, the decision to adopt assurance depends on size, is positively associated with ROA, and negatively associated with ROE and leverage, while certain industries (such as oil and energy, basic materials, and financial services) significantly tend to hire auditors. (Sierra et al., 2013).

Furthermore, some academics have studied the content of assurance statements and have reported differences across assessors. Among the assurance statements included in reports short-listed for the 2002 ACCA UK and European Sustainability Reporting Awards, O’Dwyer and Owen (2005) found that accountants are more likely than consultants to indicate the assurance level. Deegan et al. (2006) investigated whether a sample of UK and European assurance statements included the key elements suggested by GRI and FEE. They found considerable variability in presentation formats and contents across assessors; for example, they highlighted that accounting firms are more likely to identify assurance standards. Mock et al. (2007) used a sample of 130 entities worldwide and pointed out that non-Big 4 firms are more likely to rely on the AA1000 framework, while Big 4 firms tend to rely on international or local standards. Focusing on the Fortune Global 250 firms, Perego and Kolk (2012) indicated that the most frequent adoption of standards among providers is a combination of the AA1000AS, the ISAE 3000 and GRI guidelines, and that accounting firms use the ISAE 3000 more frequently.

As far as we know, no previous research works have focused on assurance in the financial services industry. Only Fonseca (2010) centred on the mining industry, another ‘sensitive sector’ according to Sierra et al. (2014), who found that the companies from Latin America that better favour adoption of assurance belong to sensitive sectors.

Methodology

To collect data, we used the *GRI’s Sustainability Disclosure Database* to look for financial services companies worldwide that disclosed a GRI-based sustainability report in 2012 and 2013. In accordance with GRI (2013), we selected only those companies whose reports followed guidelines G3, G3.1 or G4, and we excluded ‘no-GRI’ and ‘GRI-referenced’ reports. Thus, we found 378 CSR reporters in 2013 and 324 in 2012. Afterwards, we checked whether these companies adopted external assurance and we found 184 and 152 assurance adopters, respectively. We employed cross tabulations and Pearson’s chi-square test to analyse whether adoption of assurance and assessor choice are significantly associated with the financial services industry, the status of the country where the company is located, company size and listing status, and we checked whether the assessor is significantly associated with assurance scope, the assurance level and assurance standards.

Conclusions

As to our first research question, significant differences were found between the financial services industry and other industries with regards to assurance adoption. As a sensitive sector, its likelihood of assuring reports is greater than in other industries, which is consistent with Simnett et al. (2009). It also shows the willingness of companies to be accountable and to enhance their credibility towards their stakeholders. We found that the status of the country where companies are located, inclusion in a stock exchange and use of the sector supplement were significantly associated with the decision to adopt assurance. Specifically, companies from OECD member countries better favour assuring their reports, which is in line with Kolk and Perego (2010) and Simnett et al. (2009), who found the country level factor to be a determinant of assurance adoption. The results also showed that inclusion in a stock exchange is positively associated with assurance, which coincides with Zorio et al. (2013), but not with Castelo et al. (2014). We also observed that the companies using the financial services sector supplement are more likely to consider assurance adoption. However, we found no association with company size, unlike Sierra et al. (2013) and Simnett et al. (2009).

To answer our second research question, similarly to Sierra et al. (2013), we found that the companies belonging to the financial services industry are more likely to choose an accountant as an assurance provider. However, no significant associations appeared between choice of assessor and country status or company size, which goes against the findings posited by the existing literature, e.g., Simnett et al. (2013) or Perego (2009), who established that the country level factor and size affect the selection of assessor. Nor did we find a connection between the assessor and inclusion in a stock exchange, unlike Zorio et al (2013), or an association with use of the sector supplement.

Finally, in response to the third and last research question, we found that different characteristics of assurance engagements are inherent to the assurance provider type, which is in line with Deegan et al. (2006). As regards the level of assurance, we found a significant association with the assessor, which is due to the fact that accountants are more likely to specify the assurance level than non-accountants, as pointed out by O'Dwyer and Owen (2005). Yet even though accountants applied mainly the limited/moderate level, there were no significant differences seen between the limited/moderate level and the reasonable/high level or a combination of both. We also confirm that provider type is connected with use of assurance standards. More accountants specified the standard used, which is consistent with Deegan et al. (2006). According to O'Dwyer and Owen (2005), Mock et al. (2007) and Perego (2009), non-accountants extensively use the AA1000AS approach, which shows a greater interest in stakeholders as this standard is based on their inclusivity and responsiveness to their concerns, and also on identifying material issues to them. In contrast, accountants use mostly the ISAE 3000 approach. However, no significant association between provider type and assurance scope was observed.

In conclusion, the financial services industry leads adoption of assurance compared to other industries, which is a reflection of concern on demands of transparency and need for credibility. Nonetheless, reports are continually being added to the GRI Database, so the results are dynamic and constantly evolving.

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