De geloofwaardigheid van sustainability reporting

Accounting for externalities (Unerman et al., 2018)

- limited number of studies, sporadic and fragmented
- nature and complexity of many externalities make it difficult to develop reliable or meaningful metrics to monetise the financial dimensions of their impacts
- experiments with full cost accounting as attempts to record specific externality impacts, however many acceptable methodologies for quantifying and financially internalising externalities

1960s-1970s

First attempts to consider the natural environment in accounting decisions

Gave rise to environmental accounting

Social audit, 'Sociale Balans', 'Bilan sociale'

Slides 4-6 based on Gulluscio et al., doi:10.3390/su12135455

1980s-1990s

- Inclusion of environmental and social aspects in accounting and reporting
  - Waste and energy reporting
  - Compliance and ethical audits
  - Social and environmental reporting
  - Environmental impact assessment
  - Accounting for environmental assets and liabilities
- Elkington: concept of ‘triple bottom line’
- ’Full cost accounting’

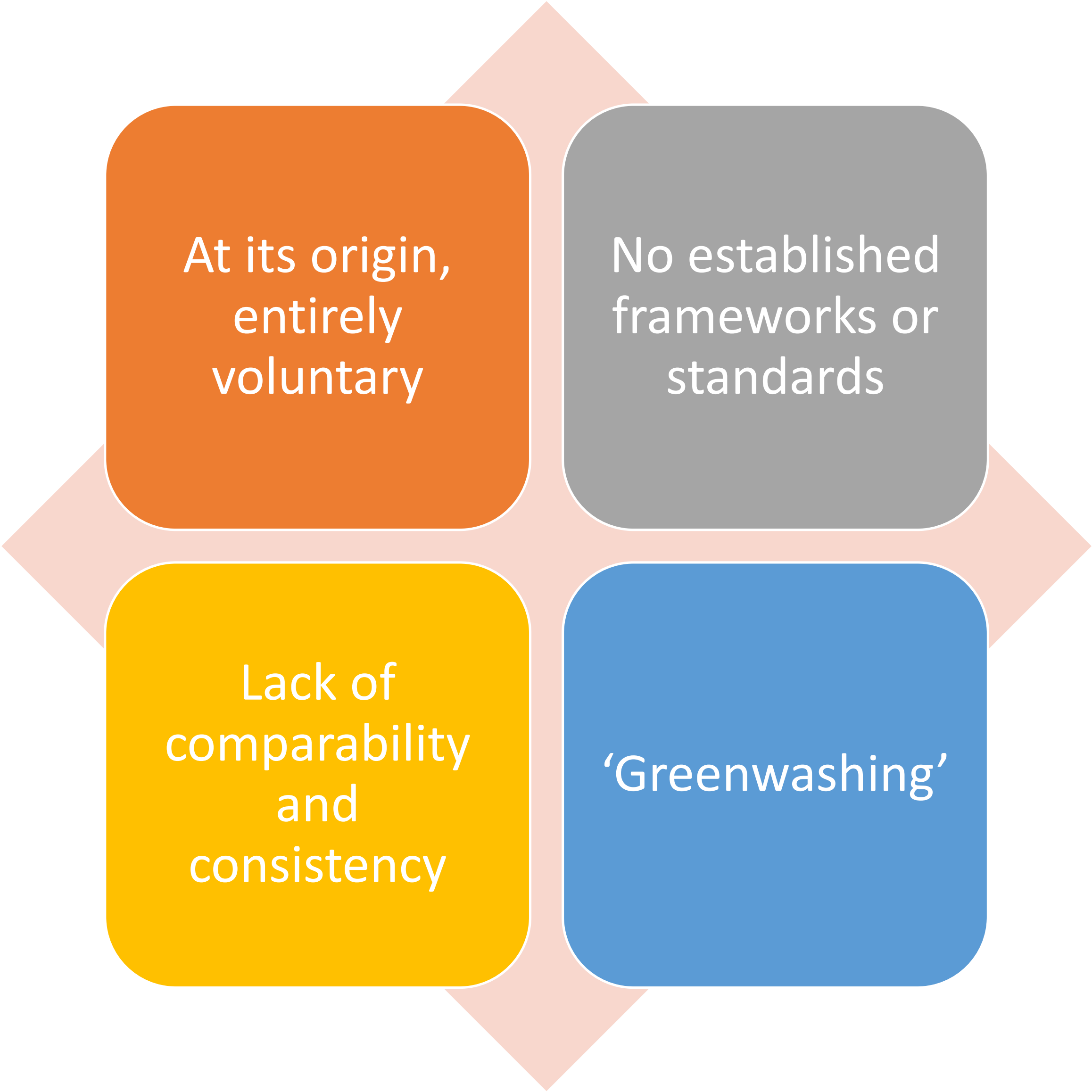
1997

- GRI: Global Reporting Initiative
  - Certified software and tools to assist with data collection and report presentation, standard templates and checklists
- Kyoto protocol: reporting on climate impact
- Late 1990s: internal carbon and greenhouse gas accounting (emissions taxes and emissions trading scheme)

21st century

- Sustainability reporting – sustainable development
- SDGs
- Climate change related information
- Integrated reporting
- Natural capital

SUSTAINABILITY REPORTING: issues



ESG FRAMEWORKS

- Global Reporting Initiative (GRI)
- IFRS Foundation’s Integrated Reporting and Connectivity Council
- Task Force on Climate-Related Financial Disclosures (TCFD)
- International Sustainability Standards Board (ISSB)
- Climate Disclosure Standards Board (CDSB)
- International Accounting Standards Board (IASB)
- Natural Capital Coalition (NCC)

ASSURANCE ON ESG/SUSTAINABILITY REPORTING

- Generally voluntary practice, but becoming more common and in some countries mandatory
- S&P 500: only 29%, but G250 67%

Identity of assurance provider

- Accounting and auditing profession
  - Generally considered to be higher quality assurers: capacity of identification and quantification of risks, understanding of economic data, independence
  - In Europe strong position (e.g., France, listed companies: generally statutory auditor, mainly large audit firms)
- Consultants
  - Can be more familiar with subject matter
  - Stronger in US than in Europe

Main standards

- International Standard on Assurance Engagement ISAE 3000
  - Mandatory for recognized auditors
- AA1000 AccountAbility Assurance standard
  - More popular among consultants
- In both cases, the subject matter of the engagement is agreed between assurance practitioner and client

Nature of opinion of assurer

- limited level of assurance: ‘Nothing has come to our attention to make us believe that the information is materially misstated’

or

- reasonable level of assurance: ‘In our opinion, the information is, in all material respects, in agreement with the applicable framework’

RESEARCH RESULTS

- GARCIA-SANCHEZ, 2021
  - low materiality of CSR reports, limited involvement of stakeholders
  - limited reliability and low effectiveness
  - practices of obfuscation
  - tendency towards standardization of CSR reports
  - increase in number of companies that have assured reports
  - accounting firms as assurer seem to have higher quality linked with capacity of identification and quantification of risks and economic data, and with their independence; also have higher credibility
  - selection of B4 assurer depends on size, profitability, leverage and industry
  - in case of assurance: lower cost of capital, higher share price if high CSR performance, and impact on managerial decisions

RESULTATEN WETENSCHAPPELIJK ONDERZOEK

- Boiral et al., 2022
    - “The in-depth content analysis of the data disclosed by 17 car manufacturers over the period of 2014 to 2017, covering the five main climate indicators from the GRI standard, shows that it is impossible to make meaningful comparisons between companies’ performance, regardless of the intrinsic reliability of the data disclosed. A detailed examination of the data obtained highlights the four main difficulties that prevent a rigorous and credible ranking of the climate performance disclosed in the sustainability reports: the fuzzy and eclectic measurement methods employed, the unclear and heterogeneous scope of measurement, the noncompliance and lack of standardization of the reported data, and the inconsistencies in and inappropriate contextualization of disclosed information.’

- Kim & Yoon, (article in advance – ‘Management Science’)
    - ‘We analyze what happens after active US mutual funds sign the UN Principles for Responsible investment (...) We find that PRI signitories attract a large und inflow, but we do not observe improvements in fund-level ESG scores or fund returns. (...) Overall, a reasonable reader may perceive our findings as consistent with PRI funds’ greenwashing. ’

RESEARCH RESULTS

- BABOUKARDIS et al., 2021
  - level of integrated thinking significantly higher in firms that have assured sustainability reports
  - moderated by legal system (code law vs. common law)

- DEL GIUDICE & RIGAMONTI, 2020
  - reliability of ESG scores benefits from third party audit of sustainability information

RESEARCH RESULTS

- DEL MASO et al., 2020

  - combination of financial and CSR assurance:
    - more frequent going concern opinions
    - clients have larger environmental and litigation provisions
    - report higher quality financial reports

RESEARCH RESULTS

- BOIRAL et al., 2020

  - added value of the assurance process and its contribution to the quality of sustainability reporting have been questioned
  - to what extent are assurance providers professionalized?
  - respondents from accounting firms stress the added value of experience in financial auditing as they use the same methods
  - non-accounting respondents challenge this and emphasize their own allegedly less procedural and less rule-oriented approach to assurance
  - standards such as ISAE3000 or AA1000 seem not very effective to increase quality
  - B4 seem better positioned to set up teams