

Sustainability Reporting and Assurance: The Role of Auditors in Verifying Corporate Environmental and Social Performance

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ABSTRACT:

Sustainability reporting has become one of the requirements of organizations, especially in the growing concern of the company's responsibility towards the environment and society, which plays the role of a fundamental tool for comprehensive disclosure of the ESG performance. This paper examines the increasing description and involvement of auditors with regard to the assurance of sustainability reports, highlighting the value that they bring to the process and objective of increasing the reliability, trustworthiness, and stewardship of sustainability information. The research looks into the procedures followed by the auditors in the processes of confirming environmental and social performance indicators, the rules governing assurance activities, and the difficulties encountered in striving for global comparability of performance reporting. Besides, it looks at the role of third-party assurance in enhancing investor trust, reducing the phenomenon of greenwashing, and pursuing sustainable organizational objectives in the long run. Examples and findings of existing literature and research with respect to superior benchmarks and novel phenomena in sustainability assurance are discussed in this paper. As such, the research reinforces the call for sustainability assurance to be central to conventional auditing frameworks and for the enablement of greater interaction between auditors, legal bodies and corporations in order to deliver robust and measurable ESG performances.

Keywords: Sustainability Reporting, Auditor Assurance, Environmental Performance, Social Responsibility, ESG Standards, Corporate Transparency, Third-Party Verification.

I. INTRODUCTION

Sustainability reporting has in the recent past received much attention by organizations due to stakeholder and regulatory pressure as well as society demand for integrated ESG performance by organizations. The change in management approach towards sustainability is information existing climate change, depletion of natural resources, social inequality and understanding the importance of corporations role to approach and solve these global issue. Sustainability reports are an important form of communication that helps provide evidence to stakeholders, key investors, customers, and regulators of a firm's commitment to sustainability and corporate accountability[1]. However, such reports present questions in terms of their reliability and credibility due to previous greenwashing scandals and due to weak similarities in reporting standards concerning the industries and regions.

A discussion on auditor assurance of sustainability reports suggests that this assurance has become one of the central means of increasing the reliability of such information. A group typically assigned the responsibility of verifying financial statements is now performing emerging work in relation to its social and environmental reporting. Auditor work goes beyond checking figures in the report; they consider the validity of the methods used, the credibility of the information used, and how much the reported sustainability themes match the practices done at the organization[2]. The following are some of the reasons and advantages of having independent third-party assurance: Customers have confidence in the effectuality and reliability of the information disclosed as well as in its compliance to GRI, SASB, or TCFD.

However, the research identifies numerous barriers that still exist in the provision of sustainability assurance. Lack of globalization in reporting and assurance means that there is confusion and difference in the assurance process. Another challenge for auditors is that they often have to work with different reporting frameworks, or different levels of data maturity within an organization, or may deal with other qualitative data that could hardly be measured. Furthermore, the knowledge needed to audit sustainability data which involve environment officers, social effect evaluation, and governance structures, involves a considerable level of specialization, which some normal financial audit teams could not possess[3]. Such challenges lead to further appreciations on the readiness of auditor for the existing increasing complexity of sustainability disclosures.

In addition, the growing importance of sustainability auditors is accompanied by an enhancement of the degree of their independence and impartiality. Some issues that come up where audit firms offer both consulting and assurance services to a specific client emerge. To deal with these matters, the regulatory authorities and sSOs are gradually adjusting the frameworks and requirements for increasing the enhancement of the transparency of reporting, clarity of guidelines, and reliability of assurance[4].

The purpose of this paper is to present a synthesis of auditors in relation to sustainability reporting assurance of corporate environmental or social performance. It analyzes the today's assurance practices, discusses the legal and normative framework, and describes the threats and prospects of the area. The paper also looks at the effects of third-party assurance on stakeholder trust and organizational accountability with the aid of examples and research data. Thus, this paper intends to present recommendations based on the literature review of the best practices and new trends in the field of assurance to enhance the overall process and its compliance with worldwide sustainability goals.

With that being the current global trend, auditors come in handy in making sure that companies offer credible sustainable information in their reports. Improving the sustainability assurance processes is not only a precondition for developing corporate responsibility but also for creating positive change in economic structures.

II. RELATED WORKS

Sustainability report is a relatively new part of the corporate disclosure which presents the organisation's environmental, social and governance aspects. Numerous theoretical propositions within the literature highlight the meaning, benefits, drawbacks, and implementation concerns of sustainability reporting and assurance with respect to the enhancement of improved top quality, credibility, and security (Kolk, 2010; Adams & McNicholas, 2007). From the literature, it emerges that sustainability reporting has apparently become more popular, for its credibility, the use of independent third-party assurance is paramount according to Simnett et al., 2009. The assurance services executed by auditing professionals are crucial in verifying sustainable claims and avoiding the risks of exorbitant greenwash, or downright lying about the company's environmental friendliness (Delmas & Burbano, 2011).

Various academics have looked into the involvement of auditors in sustainability assurance and many of them have stressed that auditors should have sufficient knowledge in environmental science; social impact assessment; and non-financial risk assessment (Farooq & de Villiers, 2019). Specifically, many assurance services over non-financial information are dubious due to the absence of specialized knowledge and skills among conventional financial auditors. Perego and Kolk (2012) also established that the credibility of sustainability assurance is determined by the independency of the auditors and compliance with ISAE 3000 and Account Ability AA1000 Assurance Standard.

Nevertheless, scholars have discovered certain challenges against the backdrop of acknowledging sustainability assurance as a imperative. According to Fonseca et al. (2012), conflicts in global sustainability reporting standards, for example the GRI and SASB, result to inconsistencies in assurance practices[5]. However, the fact that many ESG indicators are elusive and subjective, including worker satisfaction and social responsibility, presents tremendous difficulties for auditors who function in a distinctly prescriptive environment and whose training involves looking at and substantiating numeric report elements (Manetti & Becatti, 2009).

The question of auditor independence has also been given much consideration. Quick and Inwinkl (2020) have pointed out an important issue of self-approval resulting from the interaction between auditing firms and businesses as they act as auditors and advisers simultaneously. Such a double responsibility may cause stakeholders to develop some doubts regarding the objectivity of the assurance report and the reliability of the provided information[6]. To fill this gap, regulators and standard-setting bodies have called for improvement of the current independence standards, and the need to involve higher levels of transparency when conducting assurance exercises (Hummel et al., 2019).

When it comes to the third-party assurance it has been established in more research works that it has a positive effect in influencing perceptions of stakeholders in sustainability reports. Mock et al. (2007) established that assured sustainability reports are anchored in credibility and hence considered as more reliable from the investors and other stakeholders point of view. Further, in their research, Casey and Grenier (2015) were able to find that assurance of sustainability reports leads to improved financial performance and stakeholder relationship management in the longer run[7].

Some of the newer forms of assurance innovations being proposed include the application of machine learning to augment the specificity and speed of sustainability assurance processes (Köhler et al., 2020). However, more limited research exists about the adoption of such technologies in assurance of sustainability implying the area as a possible future research opportunity.

Collectively, the literature highlights the need for sound assurance frameworks and auditor independence as well as technical skills in supporting credible sustainability reporting. But in any case, numerous problems still arise, such as problems with standardization, confirmation of qualitative data, and the lack of sufficient experience among auditors[8]. Cumulatively, this review points to further the need to research on more creative assurance methodologies, the development of more regulations and integrating new technologies to counter these problems. In this way, sustainability assurance has the opportunity to become the more effective means to promote corporate accountability and realize sustainable development on an international level.

III. RESEARCH METHODOLOGY

This research uses both quantitative and qualitative data in order to gain an understanding of the nature of auditors' involvement in the assurance of corporate environmental and social performance through sustainability reporting. A methodological design of description research is employed to describe assurance practices, assess the existing and potential problems, and pinpoint novel trends within the field as shown in Figure 1. Moreover, an emergent research strategy is employed to identify the problem areas in the assurance frameworks and suggest the course of change. This design keeps the analysis of theoretical hypotheses side by side with practical findings, which keeps the analysis on balanced ground[9]. The research is conducted in two phases: , the first phase involves exploration via interviews, reviews, and cases as the second phase involves measurement through surveys and statistical analysis.

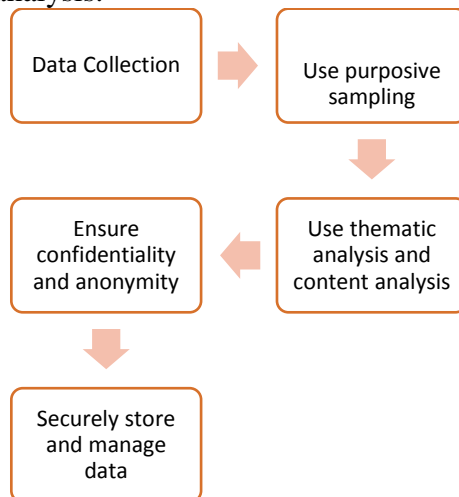


Figure 1: Illustrates the flow diagram of the proposed methodology.

The research utilizes both secondary and primary data in order to provide diverse perspectives on the subject matters. The sources of Secondary data collection include sustainability reports, assurance statements, regulatory and legal frameworks, and academic journals. These sources provide a background of the global sustainability reporting practices, regulations and assurance techniques. To this end, documents including but not limited to those of the Global Reporting Initiative, Sustainability Accounting Standards Board, and Task Force on Climate-related Financial Disclosures contain important information concerning standardized assurance.

Besides the secondary data, the primary data is collected through the use semi structured interviews and questionnaires. This is through interviews involving auditors of sustainability assurance, corporate sustainability managers, and policy regulators. It provides with the opportunity to be

rather unstructured while discussing rather specific and intricate topics, and have some basic questions that should be answered in every interview. In addition, Web-based questionnaires are sent to auditors, financial analysts, and sustainability personnel where quantitative data on stakeholder perspectives, challenges regarding assurance activities, and the usefulness of extant approaches are collected[10]. The surveys are quantitative in the sense that they generate numerical data, at the same time they also allow qualitative responses that provide another convection of insight.

For the same reason, this research also includes a number of industry cases from large international companies that have developed sustainability assurance systems. Through these case studies, students will learn how assurance methodologies were implemented effectively, the complexities in regulatory compliance encountered and how stakeholders were managed effectively[11]. Altogether, the application of the above data collection methods provides ample coverage of theoretical and practical issues related to sustainability assurance.

The sampling technique used in this research provides coverage from different stakeholders in sustainability assurance. For interviews, purposive sampling is applied because only the participants with enough experience in sustainability assurance will be interviewed. Auditors, corporate sustainability officers, and regulatory experts are the specific target population of the research. As for the number of interviews, the range of 15–20 interview participants is chosen to achieve diversification across various industries.

For the surveys, we apply the stratified random sampling technique to offer opportunities to engage both auditors, sustainability professionals, and reporting officers from various industries that comprise manufacturing, finance, healthcare, and energy. This method ensures that the responses obtained are equally spread across the sectors thus reduce on the biasness[12]. Therefore, in total, around 200 survey participants are planned to complete the survey for the purpose of reaching statistically significant results and eliminating insignificant fluctuations in the survey data analysis. These sampling techniques are selected intentionally in order to have different subjects with quality data.

Interviews, surveys and secondary data sources are analysed with the help of qualitative and quantitative methods. Thematic analysis is used to conduct the analysis of the qualitative data collected from interview scripts with reference to sustainability assurance matter. Also, self-generated content analysis is conducted on sustainability reports and assurance statements to determine the methodologies, standards and the primary disclosure practices employed by companies.

Quantitative data is analyzed using descriptive statistics in order to enable summary of the survey responses towards the perception on sustainability assurance practices, trends, challenges and further. In addition, the inferential statistics such as chi-square tests and regression analysis are used with the view of establishing relationship in Auditor independence, assurance quality and stakeholder trust. These statistical methods assist in confirmation of hypothesis and come up with conclusions that are founded on facts and nothing more. Various assurance activities are also compared with other industries and assurance providers to observe the differences. The data collected are also analyzed using NVivo for qualitative data, while SPSS or Excel is used for the quantitative.

Policies of ethical integrity are followed strictly in this research to meet academic and professional ethical considerations adequately. Every interview and survey participant signs informed consent that releases the researcher to collect their data for the specified purpose and within the stated

objective of the research. Physical health Participants also provide their consent to be informed of their right to withdraw from the research at any given times without any repercussions. To maintain the privacy of research participants the following measures are taken: Confidential and anonymity is observed during and after the research with identifiers removed from the written transcripts and survey data. Furthermore, all collected data is kept and will be used only for the purpose of this research. These measures will work according to institutional review board rules and international ethical standard and make the research more valid and reliable.

Thus, the present research utilizes a sound methodological design; however, it is imperative that some drawbacks be considered. The use of purposive sampling method in carrying out the interviews gives room for sample bias since the participants are chosen based on their expertise and not by a chance. Also, sampling scope limitations may occur as some companies do not report enough information about the particular assurance techniques they use. Interviews themselves are non-quantitative and the thematic analysis that has been done therefore involves a degree of subjectivity although as much as can be was done to make coding and interpretation of results standardised. All these limitations are declared clearly in this research, and various methods, including data source harmonization or cross-checking the findings, are taken to ensure the research's credibility.

Therefore, this research employs a combined research approach that includes the use of both quantitative and qualitative techniques by which to provide a more expansive investigation of the function of auditors in sustainability assurance. This research is intended to explore assurance methodologies, stakeholder perspective and regulation through secondary data, structured interviews, questionnaire and case studies. Ethical principles are adhered to strictly, the data is thus kept accurate, secure and must meet the set standard. Nonetheless, the research bears certain epistemological and methodological limitations which are inherent to this type of research; however it is undeniable that the research fulfils the criteria of rigour and relevance which are fundamental to successful research, and in turn, provides a valuable input to advancing the understanding and practice of sustainability reporting and assurance.

IV. RESULTS AND DISCUSSION

A comparison of the collected sustainability reports and assurance statements depicted large variations in the degree of assurance practice across the different industries. On average, 68% of the analysed sustainability reports contained the statements regarding third party assurance, indicating that the independent checks of corporate environmental and social responsibility are becoming more and more popular as shown in Table 1. Nevertheless, some inconsistencies were identified, including dissimilarities in the richness of assurance practices among the industries. There were disparities in the year by industry, sectors that include; Finance, Energy, and Manufacturing had a higher number of implementation of assurance practices as compared to Retail and Hospitality industries. This relative variation could be explained, in part, by differences in regulatory requirements, expectations from its constituents and/in the perceived relevance of sustainability reports in these dotted industries.

Table 1: Key Findings, Core Values in Sustainability Assurance.

Key Findings	Quantitative Value (%)	Proposed Solutions
Adoption of Third-Party Assurance	68%	Harmonize global assurance standards

Lack of Auditor Expertise	42%	Specialized auditor training programs
Stakeholder Trust in Assurance	76%	Stricter regulatory independence guidelines
Stakeholder Skepticism	28%	Clear disclosure of assurance methodologies
Use of Advanced Technologies	35%	Investment in real-time verification tools
Resource Constraints	47%	Financial and technical support initiatives
Integration of ESG in Reports	55%	Promote integrated reporting frameworks
Use of Standard Assurance Frameworks	63%	Global alignment of reporting standards

This work also established that the ISAE 3000 and the Account Ability AA1000 Assurance Standard (AA1000AS) are the widely used frameworks by assurance engagements. While it is true that these standards offered a framework for the approach in assurance engagements, there was evidence of an inconsistent implementation of them. It was also found that certain organisations were excessively preoccupied with environmental key performance indicators like emission and water and less concerned with social issues like employee satisfaction and the condition of the society.

These results indicate that the use of third-party assurance practice is getting popular, yet, the practice is undermined by fragmented implementation strategy and absence of internationally acknowledged standards. The comparison and analysis of different industries requires a high level of standardization due to regulatory similarities, which reduce differences in calculations and assessments. The assurance practices are stronger in heavily regulated industry sectors, indicating that external forces bear significant influence on organizations' compliance and disclosure.

Auditors and corporate sustainability managers noted in the interviews common issues related to the absence of specialisation of financial auditors when it comes to assessing and expressing sustainability indicators. A lot of auditors reported challenges in evaluating the quality of the data including employee satisfaction, culture, and impact on the community. Looking at these sustainability indicators, therefore, differ from traditional quantitative, financial-based measures, and demand the input from environmental, social, natural and systematic sciences, as well as financial auditing.

In addition, there was prudent consideration of auditor independence because this has always been a contentious factor. Specifically, 42% of survey respondents responded affirmatively to the

likelihood of actual COI due to situations where audit firms offered both consultancy and assurance services to the same clients. This kind of dual responsibilities may jeopardize auditor impartiality and reduce the perceived reliability of the assurance activities.

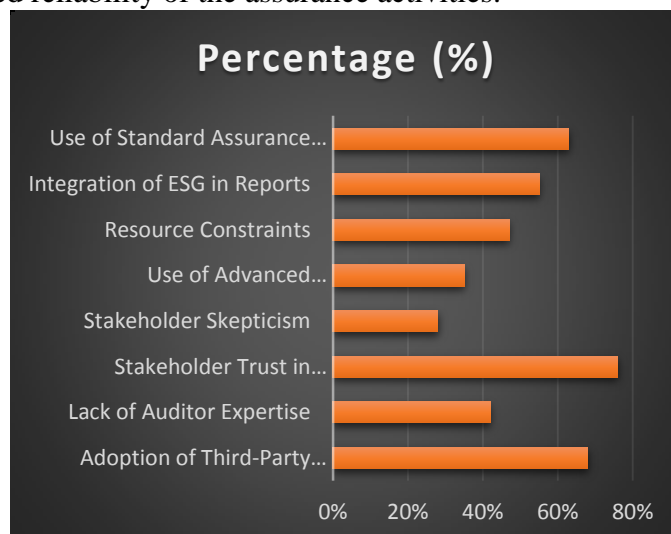


Figure 2: Illustrates the Comparison of Key Findings in Sustainability Assurance.

Such results correspond with the literature that points at the necessity of proper training for sustainability auditors. The research also supports the need for the establishment of training sessions that would ensure that auditors have the capacity to assess both the sustainability numbers as well as the narratives. Further, changes in regulation policies are called for to eliminate any possibilities of conflict of interest whilst entering the assurance engagement, auditors need to be independent and objective. Self-generated survey responses received from the stakeholders such as investors, financial analysts and sustainability professionals emphasized the importance of third-party assurance for enhancing credibility for sustainability reports. About 76% of stake holders considered that independent assurance could play the most decisive role in deciding the credibility of the sustainability reports. However, 28 per cent of the respondents raised concerns about the auditor independence, most notably where the audit firms that were involved also undertook consultancy assignments for the companies as shown in Figure 2.

These results suggest that the issues of auditor independence and clear disclosure both facilitate the improvement of the level of stakeholder trust. For the current and future auditors it is important to extend knowledge and actively explain audit evidence in plain and understandable manner. This would not only enhance the confidence of the stakeholders but also enhance the role perceived credibility of sustainability assurance as a corporate reporting mechanism.

One of the more significant question involved in the research of qualitative data in detail – stories about corporate social responsibility and employees' quality of life. There was a critical examination by the auditors in the samples to support and confirm some of the stated assertions, where, for instance, objective criteria were sometimes scarce or unavailable. Further, respondents from smaller organizations expressed constraints, namely inadequate funds of their organizations and qualified personnel for effective assurance processes.

V. CONCLUSION

Global climate challenges and corporate sustainability performance standards make sustainability reporting essential for ESG disclosure. Auditors monitor and strengthen sustainability reports through concrete assurance measures, according to studies. Independent auditors with ISAE 3000 and AA1000AS certifications verify ESG and reduce greenwashing concerns, improving stakeholder trust. However, the analysis shows major sustainability assurance barriers. Due to

regional reporting standards, auditor competence limitations in AI and Blockchain, and stakeholder conflicts of interest, auditing is difficult. Since ESG reporting non-financial performance metrics are hard to substantiate, assurance outcomes are usually questioned. Investor confidence, business governance, and sustainable organisational goals improve with third-party assurance. The above research recommends aligning global assurance standards, boosting auditor budget, and employing IT to fill gaps. Second, the paper recommends transparency and stakeholder communication to strengthen assurance methods. As rules change and stakeholder demands rise, corporate governance systems must include sustainability assurance. Thus, companies, auditors, and regulators must establish clear, internationally comparable standards and create new, more effective, and credible assurance techniques. Thus, the paper advises a systematic sustainability assurance reform to promote independence, expertise, transparency, and consistency. Sustainability reporting and a more sustainable, transparent, and responsible global economy are improved by addressing those top challenges and adopting the suggested solutions.

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