CHARACTERISTICS OF CORPORATE SOCIAL RESPONSIBILITY ASSURANCE PRACTICES

by

Barry Ackers

Submitted in accordance with the requirements for the degree of Doctor of Commerce in the subject Auditing at the University of South Africa

Promoter: Professor B van Heerden
Co-promoter: Professor NS Eccles

June 2014

I declare that “Characteristics of corporate social responsibility assurance practices” is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.

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Barry Ackers
ABSTRACT

As stakeholders start holding companies accountable for the non-financial impacts of their operations, it is increasingly recognised that the parties to whom companies are accountable extends beyond shareholders to include other stakeholders as well. Around the world, companies are responding to stakeholder demands by voluntarily reporting on their corporate social responsibility (CSR) performance. Unscrupulous companies may however, be tempted to use green-wash to make false claims relating to their CSR performance in order to reap the associated benefits. This information risk may be ameliorated through the independent assurance of CSR disclosures, enhancing the confidence of stakeholders in its veracity. Reporting companies usually voluntarily obtain independent assurance on their CSR performance. However, in South Africa, independent CSR assurance is a regulatory requirement for all JSE-listed companies, albeit on an 'apply or explain' basis.

This thesis, which utilises a mixed methods research approach incorporating both qualitative and quantitative components, seeks to identify and understand the characteristics of the emerging independent CSR assurance phenomenon. In this regard, the empirical component of the study was conducted in three phases: in the first phase companies’ CSR disclosures and assurance reports are examined; in the second phase survey responses from companies are reviewed; and in the third phase interviews with CSR assurors are analysed. In this thesis, the extent to which companies provide independent assurance on their CSR disclosures is established; the providers of independent CSR assurance are identified; the reasons that companies select certain CSR assurance providers are explored; the reasons that companies provide independent assurance on their CSR disclosures are determined; the CSR assurance practices of the various CSR assurors are reviewed and compared; and the primary standards and/or frameworks used in CSR assurance engagements are identified.

A conclusion is reached that although independent CSR assurance is a de facto mandatory requirement for JSE-listed companies, only 26% of the companies had their CSR disclosures independently assured. Despite its de facto mandatory nature, the study found that South African CSR assurance practices remain largely unregulated, resulting in a diversity of CSR assurors; utilising various assurance approaches, standards and practices. In this thesis, it is argued that these inconsistencies undermine the purpose of CSR assurance and reduce stakeholder confidence. It is accordingly proposed that the identified deficiencies could be addressed through the regulation of CSR reporting and assurance. An oversight/regulatory body should be established to prescribe the competencies that CSR assurors should possess; to develop appropriate CSR assurance engagement standards; and to clearly articulate the scope that CSR assurance engagements should cover; with which all CSR assurors should comply.

KEY WORDS

assurance levels; assurance opinions; assurance practices; assurance providers; assurance standards; assuror competencies; assuror independence; corporate social responsibility (CSR); JSE; King III; mandatory; South Africa
ACKNOWLEDGEMENTS

Most importantly, I would like to thank my family, Avril and Michael, for their unwavering patience, support, understanding while I was busy with my doctoral studies. In hindsight, I realise that it must have been a rather difficult period for them as they watched me dealing with the ups and downs of the research process, especially while I was dealing with the comments and advice received from both my doctoral promoters and the thesis examiners.

I express my sincere appreciation to Professor Barry van Heerden and Professor Neil Eccles, my doctoral promoters, for their encouragement, invaluable patience, support, guidance and advice throughout the period during which my study was conducted. I also express my gratitude to Professor Elmarie Sadler, the Dean of the College of Accounting Sciences, who initially recruited me and encouraged my studies while she was the Chairperson of the Department of Auditing, as well as for the ongoing support and assistance provided thereafter. I also wish to acknowledge, and am grateful for the advice, guidance and support that I received from Professor Koos Pauw and Professor Kobus Wessels of the College of Economic and Management Sciences. I am grateful to all my colleagues in the department of auditing for their support, guidance, encouragement and willingness to shoulder some of my tuition responsibilities while I was busy with this study. In this regard, although many colleagues have provided support during my studies, I must extend a special thanks to Ms. Maud van Wyk, Professor Elza Odendaal and Professor Hansja Theron.

In addition, I am grateful to Ms. Alexa Barnby, who provided excellent technical editing and language guidance on this thesis. I would also be remiss not to acknowledge the inputs of the respondents to the survey questionnaire and the interview participants, who provided their invaluable time to provide the rich empirical data that was used in this study. Even though these parties are not identified to maintain confidentiality and anonymity, without their significant contribution, this study would not have been possible.

Finally, I am thankful for the funding provided by the National Research Foundation (NRF) Improving Academic Qualifications Grant, as well as by the International Association for Accounting Education and Research (IAAER) and the Association of Chartered Certified Accountants (ACCA).
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<th>Description</th>
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<tr>
<td>A4S</td>
<td>Accounting for Sustainability</td>
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<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
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<td>AccountAbility</td>
<td>The Institute of Social and Ethical Accountability</td>
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<td>AFS</td>
<td>Annual financial statements</td>
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<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>ALARM</td>
<td>The National Forum for Risk Management in the Public Sector</td>
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<td>ARSU</td>
<td>Academic Research Support Unit</td>
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<tr>
<td>BBBEE</td>
<td>Broad-based Black Economic Empowerment</td>
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<td>BEE</td>
<td>Black Economic Empowerment</td>
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<tr>
<td>Board</td>
<td>Board of directors</td>
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<tr>
<td>CAE</td>
<td>Chief audit executive</td>
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<tr>
<td>CA(SA)</td>
<td>Chartered Accountant (South Africa)</td>
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<tr>
<td>CEMS</td>
<td>College for Economic and Management Sciences</td>
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<tr>
<td>CEO</td>
<td>Chief executive officer</td>
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<td>CEP</td>
<td>Council on Economic Priorities</td>
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<tr>
<td>CFP</td>
<td>Corporate financial performance</td>
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<tr>
<td>CFO</td>
<td>Chief financial officer</td>
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<tr>
<td>CIA</td>
<td>Certified Internal Auditor</td>
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<td>CIMA</td>
<td>Chartered Institute of Management Accountants</td>
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<td>CRO</td>
<td>Chief risk officer</td>
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<td>CSAP</td>
<td>Certified Sustainability Assurance Practitioner</td>
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<td>CSI</td>
<td>Corporate social investment</td>
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<td>CSP</td>
<td>Corporate social performance</td>
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<td>CSR</td>
<td>Corporate social responsibility</td>
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<td>Deloitte</td>
<td>Deloitte &amp; Touché</td>
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<td>EY</td>
<td>Ernst &amp; Young</td>
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<td>ESG</td>
<td>Environmental, social and governance</td>
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<td>EABIS</td>
<td>European Academy of Business in Society</td>
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<td>FEE</td>
<td>Fédération des Experts Comptables Européens (translated into English as the “Federation of European Accountants”).</td>
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<td>FSC</td>
<td>Forestry Stewardship Council</td>
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<td>FTSE</td>
<td>An independent company owned by <em>The Financial Times</em> and the London Stock Exchange</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GHG</td>
<td>Greenhouse gas emissions</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>GRI G3</td>
<td>The third Global Reporting Initiative’s Sustainability Reporting Guidelines</td>
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<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
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<tr>
<td>ICAEW</td>
<td>Institute of Chartered Accountants in England and Wales</td>
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<td>ICFR</td>
<td>Internal Control over Financial Reporting</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<td>IFAE</td>
<td>International Framework for Assurance Engagements</td>
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<td>IFRIMA</td>
<td>International Federation of Risk and Insurance Management Associations</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>IIA Standards</td>
<td>The International Standards for the Professional Practice of Internal Auditing</td>
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<td>IIARI</td>
<td>Institute of Internal Auditors Research Foundation</td>
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<tr>
<td>IoD</td>
<td>Institute of Directors in Southern Africa</td>
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<tr>
<td>IPPF</td>
<td>International Professional Practice Framework (of the IIA)</td>
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<td>IRAS</td>
<td>Integrated Reporting &amp; Assurance Services</td>
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<tr>
<td>IRBA</td>
<td>Independent Regulatory Board for Auditors</td>
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<td>IRCA</td>
<td>International Register of Certificated Auditors</td>
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<td>IRM</td>
<td>Institute of Risk Management</td>
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<tr>
<td>ISA</td>
<td>International Standard on Auditing</td>
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<td>ISAE</td>
<td>International Standard on Assurance Engagements</td>
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<td>ISAR</td>
<td>The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting</td>
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<tr>
<td>ISO</td>
<td>International Organisation for Standardisation</td>
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<tr>
<td>ISRE</td>
<td>International Standards on Review Engagements</td>
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<tr>
<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
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<tr>
<td>JSE SRI</td>
<td>Johannesburg Stock Exchange Social Responsibility Index</td>
</tr>
<tr>
<td>KPIs</td>
<td>Key performance indicators</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
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<tr>
<td>NRE</td>
<td>Nouvelles Regulations Economiques (translated into English as the “new economic regulations” law).</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OHS</td>
<td>Occupational health and safety</td>
</tr>
<tr>
<td>OHSAS</td>
<td>Occupational Health and Safety Standard</td>
</tr>
<tr>
<td>PAA</td>
<td>Public Audit Act</td>
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<tr>
<td>PRI</td>
<td>Principles for Responsible Investment</td>
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<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers</td>
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<tr>
<td>SAICA</td>
<td>South African Institute of Chartered Accountants</td>
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<tr>
<td>SEAAR</td>
<td>Social and ethical accounting, auditing and reporting</td>
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<tr>
<td>SHEQ</td>
<td>Safety, Health, Environmental and Quality Management Systems</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>SOX</td>
<td>The Sarbanes-Oxley Act of 2002</td>
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<td>SRI</td>
<td>Socially responsible investment</td>
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<tr>
<td>TNC</td>
<td>Transnational company</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNCSD</td>
<td>United Nations Commission on Sustainable Development</td>
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<tr>
<td>UNEPFI</td>
<td>United Nations Environmental Programme Finance Initiative</td>
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<tr>
<td>UNGC</td>
<td>United Nations Global Compact</td>
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<tr>
<td>Unisa</td>
<td>University of South Africa</td>
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<tr>
<td>UNRISD</td>
<td>United Nations Research Institute for Social Development</td>
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CHAPTER 1

INTRODUCTION

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1.1 Background

There is growing global consensus that companies and governments should work together to accept moral responsibility for promoting the interests of individuals and society, and to incorporate social welfare into economic transactions (Amba-Rao, 1993; Scherer & Palazzo, 2011). Despite appearing to be an entrenched component of modern corporate society, prior to the 1990s, the interrelated concepts of corporate governance (CG) and corporate social responsibility (CSR) were almost unheard of (Keasey, Thompson & Wright, 2005).

A rather topical but relatively controversial issue facing business today, is the compelling need for companies to be sensitive about their environmental and social impacts, especially given global concerns about the impact of ‘hot issues’ like environmental destruction, climate-change, sweatshops, child labour and harmful products on industry, corporate and product brands. The current state of the discourse is illustrated by the CSR horizon remaining fragmented by the philosophical and commercial debate about whether or not companies have a social responsibility role. In 2006, McKinsey’s Global CEO Survey found that 84% of 4 238 executives in 116 countries appeared to be moving away from blindly accepting Nobel Laureate Milton Friedman’s (1970) cliché that the “business of business, is business”. The majority of respondents were beginning to recognise the increasing risk to their businesses, both in terms of reputational damage and the destruction of shareholder value, of failing to understand, monitor and manage corporate economic, social, political and environmental impacts (Harribey, 2011; Kakabadse & Kakabadse, 2007).

Despite this apparent shift, CSR may still be interpreted as simply being ‘enlightened self-interest’, or merely an expansion of the ‘business of business’ rationale, within the context of an instrumentalist perspective (Nohria, 2010; Palazzo & Scherer, 2006). While some CEOs may have embraced the underlying principles of ‘responsible corporate citizenship’, others may simply be superficially adding another dimension that their organisational strategy should consider. Moreover, McKinsey’s (2006) findings also imply that 16% of executives do not accept this broader stakeholder accountability.

Freeman (1984) introduced an integrated stakeholder theory by suggesting that businesses are responsible to various groups within society that may have a “legitimate claim, ownership, rights or interest” in a company and its activities, whether in the past, the present or the future (Clarkson, 1995; Russo & Perrini, 2010). It is therefore not enough for companies to maintain the status quo by only accounting to their shareholders in respect of sustaining a viable financial return on their capital investment. Companies are increasingly expected to act responsibly towards, and should be
held accountable to their broader stakeholders (including owners, financiers, employees, customers, suppliers, government and society at large), for the non-financial impacts of their business operations as well (Brammer, Jackson & Matten, 2012; Reuvid, 2007). Companies cannot therefore continue to operate with impunity without due consideration of the adverse impacts of their operations (Jenkins, 2001; Yang, McDaniel & Malone, 2012).

The King Code of Governance for South Africa 2009 (King III) draws attention to this changing paradigm by not only requiring companies to account to shareholders, but also to consider the legitimate interests and expectations of stakeholders (Institute of Directors (IoD), 2009a). Despite the relevance of many of the King III principles to this thesis, it is acknowledged that at the time that this research was conducted, many companies listed on the Johannesburg Stock Exchange (JSE) may not necessarily have applied all of the King III principles.

CSR extends corporate accountability beyond shareholders to include stakeholders by highlighting the challenge faced by companies around the world to find sustainable trade-offs amongst the often conflicting interests of their shareholders and broader stakeholders. The fundamental premise underlying CSR involves the simultaneous pursuit of economic prosperity, environmental quality and social equity. Companies should therefore not only be evaluated on their economic value added to shareholders, but also on the impact that their operations have on the broader economy, the environment and society.

The objective of accounting to a broader range of stakeholders is complicated by the lack of a universally accepted accounting framework for CSR reporting. It is argued that the development of widely accepted CSR reporting practices will be significantly hampered if the development of suitable non-financial accounting metrics takes as long as that of conventional accounting reporting principles; which have been carefully honed over several centuries (Godfrey, Hodgson & Holmes, 2003). The impact of the lack of universally accepted CSR reporting practices is exacerbated by the perennial debate between voluntary and mandatory compliance.

While ‘responsible corporate citizens’, capable of effective self-regulation, may prefer voluntarism, other less scrupulous companies may use ‘green-wash’ to falsely represent their CSR performance. These companies may realise that it might be difficult for stakeholders to verify their possibly unwarranted assertions. By contrast, proponents of mandatory legislation and regulation tend to be sceptical about the ability, or willingness of companies to meaningfully self-regulate. The primary models for accommodating stakeholder interests and expectations are through the ‘enlightened shareholder’ (Nohria, 2010; Palazzo & Scherer, 2006) and ‘stakeholder inclusive’ (GRI, 2013a; IoD, 2009a) approaches. In the former, also referred to as instrumentalism (Morimoto, Ash
& Hope, 2005), companies only consider the legitimate interests and expectations of stakeholders to the extent that it would be in the best interests of the company and accordingly the shareholders, to do so. In the latter, the board of directors (board) considers the legitimate interests and expectations of stakeholders, but from the moral perspective that it is in the best interests of the company as a ‘responsible corporate citizen’ as a whole, and not merely an instrument to serve the shareholders’ short-term interests (Porter & Kramer, 2002; Prahalad & Hammond, 2002).

King III positions good governance and the law as being critically integrated (IoD, 2009a). This implies that governance is intrinsically interlinked with the law, and cannot therefore be considered in isolation. Within this context, contemporary governance discourse, as well as applicable legislation and regulations, clearly identify the board as being the corporate level entrusted by shareholders and legally mandated with the responsibility to ensure the consistent and effective application of good corporate governance practices. Corporate governance practices, codes and guidelines establish the appropriate standards of conduct that society may expect. In terms of common law, failing to comply with a recognised governance standard, albeit not specifically legislated, may render a board or individual director legally liable for the adverse consequences of corporate activity. Similarly, the board may be accountable to its broader stakeholders for any violation by the company of its perceived CSR and, by implication, its corporate governance responsibilities.

In this thesis it is accepted that even though King III requires “independent assurance of CSR reporting”, the provision of CSR assurance is not the exclusive domain of the audit profession, with many different parties providing independent assurance on company CSR disclosures. Liberally paraphrasing William Shakespeare, “it is not enough that Caesar’s wife is beyond reproach, she must be seen to be so”. Using this analogy and given society’s expectations of companies, it is considered to be more important for companies to be seen as being good ‘corporate citizens’, almost irrespective of the true situation. This assertion is confirmed by King III, which requires the board to ensure that the company is seen to be a ‘responsible corporate citizen’. In this regard, it is asserted in this thesis that the quality and credibility of a company’s CSR disclosures are enhanced when CSR reporting is authentically quantified, measured and evaluated against universally acceptable benchmarks, standards and principles that are designed to improve stakeholder interpretation and comparability. It should however, be noted that a CSR assurance engagement is not intended to be a panacea or ‘an end in itself’; but is merely a tool to improve CSR practices and disclosure.
1.2 Corporate social responsibility reporting and assurance

While some companies may remain intransigent about the non-financial impacts of their operations, others are responding to increased regulatory pressure and stakeholder demands for transparency, by accounting for the impact of their corporate actions, or lack thereof, on the economy, society and the environment (CorporateRegister, 2008). Improved CSR disclosure is primarily intended to demonstrate the company’s acceptance of its responsibility and accountability for its broader CSR impacts (Godfrey et al., 2003). Within a broader accountability context, CSR reporting represents the manner in which reporting companies discharge their CSR responsibilities. Companies disclosing their CSR performance may therefore not necessarily be ‘good corporate citizens’, but may simply intend to positively influence stakeholder perceptions.

In order to derive the perceived benefits associated with good ‘corporate citizenship’ (as described in section 2.2), unscrupulous companies may be tempted to use green-wash (as described in section 3.2.2), to falsely disclose their CSR performance. Independent CSR assurance therefore reassures stakeholders about the veracity of the information contained in company CSR disclosures (Jones, Hillier & Comfort, 2014). Despite being a relatively new phenomenon, the provision of independent CSR assurance is growing. This growth is attributed in part to reporting companies voluntarily responding to increased stakeholder demands for increased transparency, as well as to the introduction of regulatory mechanisms.

While CSR reporting reflects the manner in which a company has discharged its responsibilities to the economy, society and the environment, CSR assurance involves an independent evaluation of the underlying evidence required to provide an objective opinion about the veracity of the reported CSR performance. Whereas CSR assurance is usually voluntarily provided, South Africa is one of the first countries to impose a regulation requiring companies listed on the JSE to provide independent assurance on their CSR disclosures, albeit on the basis of ‘apply or explain’. This study is accordingly one of the first to investigate the nature and implications of CSR assurance practices, from a de facto mandatory perspective.

1.3 Research rationale

Even though companies voluntarily disclose their CSR-related performance, little scholarly research has focused on the assurance of CSR disclosures, particularly in South Africa. Instead, the literature has primarily examined the accounting perspective of using CSR reporting to improve corporate accountability (Cramer, Jonker & Van der Heijden, 2004; Dawkins & Ngunjiri, 2008; Gouws & Cronjé, 2008; Mitchell, Hill & Stobie, 2005). Existing voluntary disclosure practices may however, result in companies selectively disclosing CSR performance that places them in a
favourable light, while withholding contrary information (Gray & Milne, 2002). It is argued that companies cannot necessarily be trusted to ‘do the right thing’ and that stakeholders require independent assurance that CSR disclosures are complete, valid, accurate and reliable.

The JSE decision to require listed companies to implement the King III principles on an ‘apply or explain’ basis implies that with effect from 1 March 2010, CSR reporting has become a de facto mandatory requirement for all JSE-listed companies. The relative newness of the global assurance of CSR reporting phenomenon and the application of the King III principles in particular, introduce a need to investigate the prevailing South African CSR practices and to understand the nature of the emerging CSR assurance practices, particularly in respect of JSE-listed companies.

More specifically, the extent to which reporting companies provide stakeholders with assurance about the veracity of their CSR disclosures as well as the identification of the primary characteristics of South African CSR assurance practices are established in this thesis. Although CSR assurance is provided by all types of assurers, it is appropriate to specifically examine the audit profession’s role in providing this service. Recognising that the provision of independent CSR assurance is not confined to the audit profession, it is of value to understand the nature of the assurance practices of the primary independent CSR assurance providers at large.

Despite the requirement for JSE-listed companies to apply the King III principles (particularly in respect of independent CSR assurance), or to explain why they have not, the previous lack of demand for the independent assurance of CSR reporting may not have warranted the investment necessary for the audit profession to develop its capacity to consider providing assurance on CSR reporting. At the same time, the diversity of CSR assurance providers and assurance approaches has prevented the development of a clear framework that may be consistently applied by all CSR assurance providers.

1.4 Thesis proposition

The propositions advanced for this thesis include:

- stakeholders require companies to disclose their impacts on the economy, environment and society
- stakeholders require independent assurance about the veracity of the underlying company CSR disclosures
- independent CSR assurance provision will increase after the implementation of the JSE regulations and the adoption of the King III provisions
• additional assurors are required to provide independent CSR assurance to meet the anticipated increased demand

• notwithstanding these new CSR assurors, the audit profession will collectively remain the primary providers of independent CSR assurance, although the extent of this dominance is expected to diminish over time

• despite tending to provide lower CSR assurance levels, auditor assurors will continue to be perceived as providing more credible assurance than non-auditor assurors

1.5 Research assumptions

The primary assumptions directly influencing the research objectives are that:

• stakeholders expect reporting companies to act ethically and responsibly about the non-financial impacts of their operations

• the JSE-listed companies selected for this the research recognise the importance of implementing the King III principles

• stakeholders require reporting companies to have their CSR disclosures independently assured

• JSE-listed companies will increasingly provide independent assurance on CSR reporting

• despite expecting that new CSR assurors will start to provide independent assurance on CSR reporting, the Big 4 audit firms will continue to be the primary providers of independent CSR assurance, followed by specialist CSR assurors

• CSR reporting and assurance practices, frameworks and standards will continue to evolve

1.6 Research objectives

Within the context of the above assumptions, the purpose of this thesis is to identify the characteristics of CSR assurance at JSE-listed companies. These characteristics will be identified through addressing the following research objectives:

• to establish the extent to which JSE-listed companies have complied with the JSE regulations requiring them to provide independent assurance on their CSR disclosures

• to understand the reasons that reporting companies disclose their CSR performance

• to understand the reasons that reporting companies provide independent assurance on their CSR disclosures

• to explore the reasons that reporting companies use to select particular CSR assurance
providers

- to identify the primary providers of independent assurance on CSR reporting
- to understand the CSR assurance role of internal audit
- to compare the practices of auditor assurors with those of non-auditor assurors, within the context of the objectives identified above
- to understand the implications of the various CSR assurance practices adopted by the primary assurance providers to
  - identify the primary standards and/or frameworks used in CSR assurance engagements
  - determine whether appropriate universally applicable frameworks exist for the provision of independent assurance on CSR disclosures and should such a framework not exist, further sub-objectives include identifying:
    - the factors inhibiting the development of such a framework
    - the key elements that should be incorporated into such a framework

1.7 Research population

The research population potentially includes all organisations to which the provisions of King III apply. Since the JSE regulations specifically require publicly listed companies to adopt the King III principles on an ‘apply or explain’ basis, it is appropriate for the research population to be confined to JSE-listed companies. In this regard, King III principle 9.3 requires organisations to have their CSR disclosures independently assured. On 30 April 2012, there were 376 companies listed on the JSE, representing a total market capitalisation of R6 889 billion.

1.8 Research participants

The probability that large companies are more likely to have the necessary resources to provide independent assurance on their CSR disclosures makes it appropriate for the study population to be restricted to the largest JSE-listed companies. Within this context, purposive convenience sampling was used to confine the companies covered by this thesis to a manageable sample of the largest 200 JSE-listed companies (in terms of market capitalisation). Despite the study only considering 53% of JSE-listed companies, these companies represented 99.27% of the total market capitalisation of the JSE on 30 April 2012.

1.9 Research methodology

Qualitative research tends to explore, describe, explain, interpret and understand the phenomena
emerging from the research in order to build theory (Leedy & Ormrod, 2005). Although this thesis deploys a mixed methods research approach, incorporating both quantitative and qualitative components, greater reliance is placed on the interpretation of the qualitative data collected in order to promote an understanding of the emerging characteristics of CSR assurance. The exploratory mixed methods approach considers the perspectives of the various reporting company stakeholders and assurance providers; and deploys various data gathering methods, tools and techniques that are considered appropriate to analyse and interpret the resulting data. This thesis has been conducted in three separate but interrelated empirical phases.

The first empirical phase involved analysing the CSR assurance practices at the 200 largest JSE-listed companies to establish prevailing practices. The two remaining phases attempted to improve the understanding of emerging CSR assurance practices by providing insights into the underlying reasons for the assurance of CSR disclosures as well as the implications thereof, both from a reporting company and assurance provider perspective.

The first phase involved a manual but detailed analysis of pertinent information extracted from the most recently available CSR assurance reports published by the reporting companies selected for the study. In order to ensure the consistency of the research data across the different empirical phases, in the second phase a range of potential respondents at the same companies identified for the first phase were invited to complete a self-administered online survey questionnaire. The third and final phase of this thesis included conducting semi-structured interviews with the primary independent CSR assurance providers identified by the content analysis of the first phase. The research phases outlined above, collectively integrated both empirical primary and secondary data.

The data collected in the three empirical phases collectively address the research objectives described in section 4.2.3. The data analysed and described in terms of these objectives, is described in two results chapters. The first results chapter (chapter 5) analyses and interprets the results of the three empirical phases relating to CSR reporting. By contrast, chapter 6 analyses and interprets the results relating to the provision of independent assurance on CSR disclosures. Figure 1.2 aligns the research objectives to the respective empirical research phase(s) and the relevant chapters where the results are analysed and described.

1.10 Research significance

Despite its recent prominence, the origins of the academic discourse on CSR can be traced back to a series of articles between Berle and Dodds in the 1930s, accelerating after Friedman’s controversial article in 1970, and regenerated after the emergence of Elkington’s ‘triple bottom line’ concept in the 1990s. Few studies however, have actually focused on the CSR assurance
dimension, especially within a South African context. As a result, the nature, extent and characteristics of the CSR assurance phenomenon within South Africa, and particularly the audit profession’s role are still not fully understood. Moreover, this is one of the first studies that examine mandatory CSR assurance, albeit on an ‘apply or explain’ basis. This thesis accordingly attempts to identify and understand:

- the extent to which reporting companies provide independent CSR assurance
- the reasons that organisations provide independent assurance on their CSR disclosures
- the characteristics of CSR assurance
- the factors influencing the reporting company’s decision to use auditor assurors to provide independent assurance on CSR reporting, instead of other independent non-auditor assurors
- the implications of the various practices deployed by the different CSR assurance providers

Acknowledging that the primary purpose of scholarly research is the pursuit of academic knowledge relating to the topic being studied, the following benefits may accrue from this study:

- Consolidating the global body of knowledge relating to CSR reporting and assurance, particularly in terms of linking relevant but often disparate interdisciplinary theories that cross conventional accounting barriers, particularly within a de facto mandatory South African environment. For example, the literature and theories relating to various disciplines such as accounting, auditing, economics, environmentalism, ethics, governance, legal and social sciences are considered in this study.

- Facilitating the adoption of internationally recognised CSR-related assurance standards such as AA1000AS and/or ISAE 3000 by South African CSR assurance providers, while also motivating the need to develop a new universal CSR assurance framework that could be adopted and consistently applied by all CSR assurors. The proposed standardised framework should provide stakeholders with an assurance mechanism that can be consistently interpreted. This will not only improve the comparability of CSR assurance reports, but also provide stakeholders with confidence about the completeness, relevance, validity, accuracy and reliability of the underlying CSR disclosures.

- Providing a basis for developing a competency framework for CSR assurance that could be used by all assurors, including the audit profession and tertiary education institutions, to inform an appropriate and relevant training and development curriculum.

- Continuing to stimulate the global discourse on the independent assurance of CSR reporting. Governments and regulatory bodies could use the observations of this study to assist in
informing the decision on whether or not to retain the present voluntary status, or whether legislation and mandatory regulations should be promulgated to compel companies to disclose their CSR performance and to have these CSR disclosures independently assured. At the same time, associations like the Institute of Directors, or the JSE, could use the research results to design and implement policies and frameworks to improve the confidence of stakeholders about the veracity of the CSR disclosures of reporting companies.

1.11 Academic contribution

The study examined the extent to which JSE-listed companies apply the King III principle of providing independent assurance on their CSR disclosures, as required by the JSE regulations, as well as the characteristics of the assurance provided. As such, this is one of the first studies to consider the imposition of mandatory CSR assurance. Since CSR assurance is not provided in a vacuum, the study also provides important insights into pertinent aspects of CSR reporting, such as identifying the stakeholders that rely on the CSR reports and the reasons that companies report their CSR performance. The study accordingly assists in understanding the nature and characteristics of CSR assurance within a de facto mandatory regulatory regime.

While the need for companies to account to society for their non-financial performance is not new, the provision of independent CSR assurance has recently emerged as a mechanism to provide stakeholders with confidence about the veracity of the underlying CSR disclosures. In this regard, the study identifies the primary advisors of independent CSR assurance, investigates the factors taken into account when selecting an assurance provider, considers the reasons why companies have their CSR disclosures independently assured and identifies the primary characteristics of CSR assurance and the components of the resultant CSR assurance reports. Moreover, this is the first study that specifically examines the role of internal audit in CSR assurance. The study compares the observations of de facto mandatory CSR reporting and assurance in South Africa, against prior research which found that voluntary nature of CSR reporting has resulted in the inconsistent application of CSR assurance practices, by various assurance providers.

Acknowledging the need for consistency aimed at enhancing stakeholder confidence and increasing confidence, the study concludes by considering the appropriateness of existing CSR reporting and assurance practices. Within this context, the study proposes that existing deficiencies and inconsistencies can only be overcome through the adoption and implementation of a regulatory regime, which prescribes mandatory CSR reporting and assurance. To improve consistency and comparability, these frameworks should prescribe the characteristics of CSR reporting and assurance. To increase stakeholder confidence, it should identify the scope of the CSR assurance
engagement, the reporting and assurance standard(s) used and the competencies that the CSR assurance provider should possess. It should also seek to establish an oversight body to ensure that all CSR assurance providers, irrespective of type, consistently apply the proposed CSR assurance framework and standard(s).

In addition, the academic contribution of the study is confirmed by various articles extracted from this study having already been accepted for publication in the following peer reviewed journals, accredited by the South African Department of Higher Education.


   Using a content analysis of the annual, CSR and/or CSR assurance reports, this was the first study that specifically examines the CSR reports of the top 100 JSE-listed companies to identify emerging CSR assurance trends. These South African trends were then compared to trends established by international researchers. According to Harzing’s Publish or Perish, this article has received 31 citations by 29 May 2015.


   Recognising that CSR reporting is a relatively new intervention that is being voluntarily adopted by companies around the world, this article accepts that CSR and accordingly CSR reporting remains a relatively obscure concept. This has resulted in the associated responsibilities not being clearly understood. On the assumption that the board of directors are responsible for ensuring effective governance practices, this article which reported on the results of a survey of respondents at reporting companies provides important insights for directors into emerging CSR reporting practices from a de facto mandatory reporting company perspective.


   The increasing provision of CSR assurance by the audit profession, which is already acknowledged as financial experts, requires the expansion of their knowledge and skills base to include the intricacies of non-financial performance. This conceptual article which is supported by the results of a reporting company respondent survey, provides insights into the important moral and ethical dimensions of CSR and the dilemmas relating to CSR reporting and assurance.

The article reported on a content analysis of the annual, CSR and CSR assurance reports of the 200 largest JSE-listed companies for the reporting period ended 2011/2. The study reviewed the characteristics of the published CSR assurance reports of the selected companies from the perspective of the assurance approach; the assurance methodology, standards and frameworks deployed; the assurance engagement scope; the types of assurance providers; and the implications of the different assurance levels and opinions provided by the various assurance providers. The exploratory nature of this research is contextualised though the use of relevant secondary data from other studies.


To understand the impact of King III on South African CSR assurance practices, the article utilises a longitudinal study covering reporting periods both before and after King III implementation, and reported on the impact of de facto mandatory CSR assurance practices in South Africa, within a King III context. As such, this article represents one of the first studies to specifically consider the impact of a mandatory regulatory requirement, albeit on an ‘apply or explain’ basis, for the provision of independent CSR assurance and suggests a future direction for global CSR assurance practices.


This article which used the data in this study, concluded that the development of a conceptual framework for CSR assurance was not presently feasible, primarily due to the voluntary nature of CSR reporting and assurance. This has resulted in the emergence of disparate CSR reporting and assurance practices. This article argues that imposition of a mandatory requirement for CSR reporting and assurance will result in the standardisation of CSR reporting practices and assurance practices. This standardisation should improve the confidence of stakeholders about the extent to which the CSR disclosures could be relied upon, by introducing an element of consistency, enhancing CSR and CSR assurance report usability and comparability.
1.12 Research scope and limitations

While this thesis examines the interrelated concepts of CSR, stewardship and accountability, it does so primarily from an assurance perspective with a particular focus on the role of the audit profession. Therefore, unlike some other studies, no attempt is made to explore the impact of CSR reporting practices on the financial or consumer markets, or to determine the CSR reporting expectations of external stakeholders. The study observations were therefore confined to survey responses from internal company stakeholders, with interviews only being held with the independent external CSR assurors identified in the content analysis. Similarly, no attempt was made to establish whether investment in CSR reporting and/or CSR assurance had any impact on the investment attractiveness of the companies that provide independent CSR assurance, or on the resultant share prices.

Despite the study focusing on the assurance of CSR reporting intended for the broader stakeholder base, it acknowledges that good governance practices should also include the internal monitoring and reporting of CSR performance, which may provide some level of assurance to internal company users charged with this responsibility. In this regard, the veracity of internal CSR reporting is usually achieved through applying the combined assurance model, or is provided by the internal audit activity. Any CSR-related assurance reports that are circulated within the company and not published for broader consideration therefore fall outside the scope of this thesis.

The observations relating to the characteristics of CSR assurance reports included in the first empirical research phase were sourced from publicly available information. While it may be argued that publicly available disclosures are intended for broader stakeholder consumption, the study also acknowledges that CSR assurors may also selectively and confidentially distribute documents and reports to company management and the board. Therefore, since this study was only confined to examining publicly available information, any information that is not publicly available was excluded.

The study commenced before the King III implementation date and continued for two years thereafter. At the time of the study, it was envisaged that there would be insufficient evidence available relating to the combined assurance model and integrated reporting. Both of these aspects are additional King III requirements, which are expected to become increasingly important as reporting companies move closer to more comprehensively applying all the King III principles. Therefore, despite its relevance to CSR reporting and assurance, integrated reporting falls outside the scope of this thesis with combined assurance only being considered from the perspective of the internal audit activity.
One of the objectives of this thesis is to explore and understand the characteristics of the emerging CSR assurance phenomenon. Therefore, given that the empirical study was confined to the largest 200 JSE-listed companies, the opinions and conclusions emanating from this thesis only apply to the actual companies studied and are not transferable to the broader corporate population. As this study was confined to larger JSE-listed companies, no robust inferences can be drawn relating to any smaller, privately owned or non-South African companies.

The diversity and specialised nature of CSR reporting and assurance-related issues, compounded by the absence of ‘generally accepted standards’, strongly support the notion that the scope of assurance engagements should be standardised to facilitate the meaningful analysis, interpretation and comparison of CSR accounting, reporting and assurance reports. A comprehensive analysis of the scope covered by CSR assurance engagements and reflected in CSR assurance reports has however, been excluded from the scope of this thesis. In particular, this thesis does not consider the specific activities covered in, or excluded from CSR and CSR assurance reports in detail.

Since the research focused on identifying and understanding emerging CSR assurance trends, it did not attempt to quantify the number of companies that did not provide independent CSR assurance, nor the number of companies that failed to explain why they did not, as required by King III. Moreover, additional survey responses to questions relating to CSR practices, governance and risk management that are not directly related to the CSR assurance dimensions covered by this study have been excluded in this thesis.

Finally, an inherent limitation of self-administered surveys is possible respondent bias. The responses received for the survey component may therefore not necessarily reflect the views of all the potential respondents in the population sample, but merely the attitudes of those who actually responded. In addition, it is recognised that company respondents may have provided what they perceived were the ‘correct answers’ to the survey. Despite these methodological deficiencies, it is asserted that this is compensated for by the interpretative nature of the research as well and the three interrelated phases of this thesis.

1.13 Outline of the study

The remaining chapters of the thesis are briefly outlined below:

Chapter 2 – Corporate Social Responsibility Reporting

Before considering independent assurance of CSR reporting, it is necessary to first consider pertinent aspects of CSR. This provides the necessary contextual framework within which this research is undertaken. This chapter accordingly considers the literature relating to the current
movement calling for increased accountability by companies for the non-financial impacts of their operations. Since CSR-related activities involve the decisions and actions of human beings, this chapter also introduces the ethical dimensions as well as the relevant ethical dilemmas faced by company management.

The factors driving the global CSR movement are introduced and CSR is considered as an integral component of corporate governance. Within this context, the broader global dimensions of CSR and the CSR business case are described. To understand CSR’s evolution and components, the primary social, economic and management theories considered in this thesis are examined.

It is a universally accepted principle that the board of directors of a company has the fiduciary responsibility for ensuring the adoption of effective corporate governance practices. The mechanisms and regulatory frameworks deployed by companies to discharge this responsibility by accounting for CSR performance are therefore explored in this chapter.

Around the world, the primary mechanism for used by companies to discharge their stakeholder accountability is through the voluntary adoption of governance frameworks, such as King III. In this regard, the respective dimensions of mandatory and voluntary practices are briefly described.

**Chapter 3 – Corporate Social Responsibility Assurance**

This chapter considers the need for the independent assurance of CSR disclosures and examines the information needs and expectations of the different stakeholder groups. Recognising that organisations other than the audit profession also provide CSR assurance, this chapter identifies the different types of CSR assurance providers. The characteristics and implications of the different CSR assurance practices deployed by the various CSR assurors, as well as the different standards and frameworks used in the CSR assurance process are also considered. These dimensions inform the criteria against which the empirical components of this study are examined and evaluated.

**Chapter 4 – Research Methodology**

This chapter identifies the research problem, describes the research objectives, considers the research questions and outlines the research paradigm and approach adopted.

The exploratory interdisciplinary nature of this thesis provides an integrated analysis and interpretation of components relating to both the qualitative and quantitative research paradigms. A mixed methods research approach, combining aspects of both qualitative and quantitative research, conducted in three empirical phases, is accordingly considered to be the most appropriate research paradigm for this thesis. The study examined CSR reporting and assurance
information relating to the 200 largest companies listed on the JSE. The results of the various empirical research components are described in two results chapters: the first relating to CSR reporting while the second considers independent CSR assurance.

**Chapter 5 – Corporate Social Responsibility Reporting**

This chapter presents the integrated results of the second and third empirical research phases that relate to CSR reporting. These observations identify the reasons that companies disclose their CSR performance and describe the characteristics of CSR reporting. The data in this chapter is extracted from the results of a quantitative survey of respondents at reporting companies and from semi-structured interviews with the primary providers of independent CSR assurance identified in the content analysis of the first phase.

**Chapter 6 – Corporate Social Responsibility Assurance**

This chapter presents the results of the three empirical research phases relating to the characteristics of CSR assurance of the 200 largest JSE-listed companies. These observations which were extracted from a qualitative content analysis of the published annual and/or CSR assurance reports; a quantitative survey of respondents at the reporting companies, and semi-structured interviews with the major CSR assurance providers.

**Chapter 7 – Contribution and Conclusion**

Conclusions are made in this chapter by presenting a synthesised overview of the significant observations of the three empirical research phases described in chapters five and six. While it may be argued that the development of a conceptual framework for CSR assurance is a prerequisite for effective and consistent CSR assurance practices, this chapter concludes by identifying the obstacles which should first be overcome before an effective universally applicable CSR assurance framework can be developed and implemented.

**1.14 Structure of the study**

Figure 1.2 graphically aligns the research objectives (described in sections 1.6 and 4.2.3) with the three empirical research phases, and the relevant sub-section of the two chapters where the results are described. Although the three empirical phases were conducted independently of each other, the results are interrelated.
Research objective 1
Identify the characteristics of CSR assurance

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Research objective 2
Establish the extent of CSR assurance provision

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey

Research objective 3
Understand the reasons for disclosing CSR performance

Empirical research phase
Phase 2 – survey
Phase 3 – interviews

Research objective 4
Understand the reasons that companies provide independent CSR assurance

Empirical research phase
Phase 2 – survey
Phase 3 – interviews

Research objective 5
Investigate the reasons for selecting a particular assurance provider

Empirical research phase
Phase 2 – survey
Phase 3 – interviews

Research objective 6
Identify the primary providers of independent CSR assurance

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Research objective 7
Understand internal audit’s CSR assurance role

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Research objective 8
Compare the CSR assurance practices of auditor and non-auditor assurors

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Research objective 9
Understand the implications of the different CSR assurance practices

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Research objective 10
Identify the standards used in CSR assurance engagements

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Research objective 11
Determine the adequacy of existing CSR assurance frameworks and standards

Empirical research phase
Phase 1 – content analysis
Phase 2 – survey
Phase 3 – interviews

Results sub-sections
6.6 – CSR assurance report components
6.7 – CSR assurance report titles
6.8 – CSR assurance engagement scope
6.9 – CSR assuror independence
6.10 – CSR assurance report addressee
6.11 – limitation of CSR assuror’s liability
6.13 – CSR assurance levels
6.14 – CSR assuror competencies
6.15 – recommendations for improvement
6.16 – CSR assurance opinions

Results sub-sections
6.2 – extent of CSR assurance

Results sub-sections
6.3 – reasons for providing CSR assurance

Results sub-sections
6.4 – CSR assurance providers

Results sub-sections
6.5 – internal audit

Results sub-sections
6.7 – assurance standards

Results sub-sections
6.18 – Adequacy of existing CSR frameworks and standards

Figure 1.2 – Thesis synopsis (alignment of research objectives, phases and results)
1.15 Conclusion

Even though CSR has been on the corporate agenda for some time, it has only recently become a significant matter for companies to grapple with. CSR is currently being dealt with by several different external organisations as well as by various company functional areas. Despite the opportunities emerging from this ‘new responsibility’, the inherently conservative global accounting and audit profession has struggled to define an appropriate framework for CSR reporting and assurance that could provide stakeholders with credible CSR-related information, while simultaneously protecting their image and reputation.

The initial CSR emphasis was on developing appropriate accounting and/or reporting tools and techniques that could meaningfully account for the CSR activities of reporting companies. Being a more recent development, the CSR assurance discourse is still at an early stage, especially within the context of the audit profession. Citing Rob Gray,¹ one of the pre-eminent CSR reporting and assurance scholars: “we are eventually beginning to move away from being a lunatic-fringe group of accounting academics and becoming more mainstream academics”.

Despite its relative topicality, the assurance of CSR reporting remains a relatively new field in academic research, particularly in South Africa, significantly impacted by the perennial debate between voluntarism and mandatory regulation and legislation. In this regard, King III and the JSE regulations provide one of the first frameworks that compel reporting companies to have their CSR disclosures independently assured. This research accordingly presumes that the majority of South African accounting and auditing academics presently do not yet have the integrated knowledge of the various topics in the manner presented in this thesis. As the contemporary academic discourse continues to unfold, and as the CSR-related role of the accounting and auditing profession evolves, this situation is expected to change significantly. While not intending to represent a definitive treatise or textbook on CSR reporting and assurance practices, the emerging nature of the topic informed the manner in which this thesis has been written. In other words, while this thesis may appear to provide a disproportionate information overload relating to CSR, it is anticipated that it may be consulted by a wide range of readers. Some of these readers may have little or no knowledge of the dynamics and dimensions of CSR reporting and/or CSR assurance, whereas others may be relative experts. The expected readers of this thesis specifically include accounting and auditing academics who may be interested in exploring these areas as an expansion of the conventional business model of the accounting and audit profession.

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¹ At the 23rd International Congress on Social and Environmental Accounting Research held in St Andrews, Scotland, during September 2011.
## CHAPTER 2

### CORPORATE SOCIAL RESPONSIBILITY REPORTING

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2.1 Introduction

The combined pressures of increased stakeholder activism; rampant globalisation; a burgeoning global population; alarming levels of global destitution around the world; heightened concerns about climate change, decimation of natural resources and violations of basic human rights; and an enduring global recession require companies not only to improve their operational efficiency, but also to incorporate broader corporate social responsibility (CSR) issues into their business strategies (Gray & Milne, 2002; Manwaring & Spencer, 2009). Despite dissidents still arguing that climate change is a naturally occurring phenomenon and not necessarily anthropogenic (Pascoe, 2007; Revkin, 2008; Sutton, 2009), empirical evidence overwhelmingly points to its recent acceleration being due to post-industrialisation human activity (Johns et al., 2003).

CSR is therefore ultimately a strategic issue that cannot be separated from overall corporate strategy (Galbreath, 2006). To anticipate and adapt to changing stakeholder expectations and regulatory shifts, and to optimally address surplus corporate capacity and environmental concerns, CSR-related issues should be incorporated into corporate strategy (Waddock & Graves, 1997). Increasing globalisation, growing pressure for increased transparency and the need to protect company reputations have seen many companies that were already perceived as successful, critically re-examining their corporate values (ICAEW, 2004). It may therefore be argued that companies are changing their operating paradigm from ‘exploiting resources’ to ‘sustainably utilising resources’. While this may appear to be a matter of semantics, it does represent a fundamental principle that explains the required philosophical shift in corporate morality and accountability. Today’s successful companies are therefore not only those accepting the combined crises of climate change, food and water shortages, volatile energy prices, and economic and ecosystem collapses, but rather those that ‘rigorously exploit’ the emerging opportunities (Berliant, 2009). Illustrating its inherent unsustainability, ‘exploitation’ may be defined as being the point at which resources are overexploited, causing their collapse or extinction (Ludwig, Hilborn & Walters, 1993). However, appropriate levels for sustainable utilisation may only be determined through trial and error, resulting in any initial overexploitation only becoming detectable after it has become severe or irreversible.

Globally, concerns are growing about what companies can and should do to ensure that future generations are not burdened with the residual fallout of unethical, amoral or unsustainable business practices. While Mervyn King (2008) may argue that humankind are only ‘transient caretakers’ of the planet, with an implied duty to make the world a better place for subsequent

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2 In other words, not significantly affected by human activity.
generations, on the other hand CSR may simply be considered a business opportunity (Hart, 1997). When companies define their environmental and social strategies, opportunities for new products and services emerge. Corporate responses to stakeholder pressure for improved CSR may therefore simply be an extension of the conventional raison d’être of profit maximisation (Reuvid, 2007).

Companies participate in societal governance by assisting to administer the individual rights of citizens, both within the company and more broadly within the context of external economic corporate relations (Moon, Crane & Matten, 2003). Moreover, companies are beginning to engage in activities that could be regarded as being the domain of government (Scherer & Palazzo, 2011); and are increasingly assisting in the administration of the citizenship rights of their employees. Companies may for example, engage in activities related to public health, AIDS, malnutrition, homelessness, education, literacy and human rights protection.

Historically, corporate success was measured by financial performance. Recent developments in accountability and sustainability practice suggests that corporate success should be measured and reported differently, reflecting performance indicators that comprehensively incorporate all aspects of strategy (Force for Good [sa]). In order to overcome the information asymmetry arising from the ‘agency problem’ resulting from the separation of company owners and management (as described in section 2.4.5), company performance should be reported in a consistent manner, both internally and externally. According to Force for Good [sa], companies should invest in internal reporting systems and have the courage to openly explain their corporate strategy and results to both employees and external stakeholders, to the same extent and with the same clarity that management uses for corporate decision-making. As described in 2.7.7.6, the International Integrated Reporting Council (IIRC) released the Integrated Reporting Framework in 2013 as the first global initiative attempting to formalise this broader stakeholder accountability (IIRC, 2013b). It should however, be pointed out that integrated reporting complements and does not replace other forms of company reporting.

Being a truism does not diminish the validity of ‘we manage what we measure’. It is now the right time to ask whether the right things are being measured in the right way and correctly communicated to the right people, causing some companies to start reporting on their non-financial performance using one or more of the emerging frameworks and guidelines (Manwaring & Spencer, 2009).

The need for the human race (and by implication for companies) to deal with today’s sustainability challenge of avoiding an impending environmental and social collapse, is succinctly articulated in
the statement that “If we insist on ruining the planet, we have to stop claiming we’re a superior species” (Berliant, 2009). Similarly, the truism “no people, no planet, no profit” (unknown) may be considered prophetic.

Since the primary objective of this thesis is to examine the characteristics of CSR assurance, it is necessary to first understand the contemporary CSR discourse. Similarly, since the purpose of an assurance engagement is to establish the veracity of the underlying CSR disclosures, this chapter considers prevailing CSR reporting practices. The global CSR movement is impacted by the contextual environment of particular countries; the various social, economic and management theories relevant to CSR are accordingly introduced. Companies are juristic bodies, implying that their CSR approach is influenced by the company leadership. As a result, the chapter describes the ethical and moral theories influencing company CSR approaches.

### 2.2 Corporate social responsibility (CSR)

The Brundtland Commission defines sustainability as being “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (UNCSD, 2007; Morimoto et al., 2005). Brundtland elevates the importance of the CSR discourse by addressing the growing concern “about the accelerating deterioration of the human environment and natural resources and the consequences of that deterioration for economic and social development”. Brundtland identifies the interrelated components of sustainable development as being environmental protection, economic growth and social equity.

Increasing concerns about the adverse effects of unrestrained global economic growth, global economic inequity, anthropogenic climate-change and environmental decimation are driving companies to respond by developing, implementing and reporting on CSR governance initiatives (IIA, 2010b). Stakeholders are increasingly expecting companies to act responsibly and sustainably (Aras & Crowther, 2008), and to account for the adverse effects of their operations. At the same time, CSR provides opportunities for proactive companies to capitalise on. This changing business paradigm that introduces a broader accountability to stakeholders elevates the importance of addressing the future impacts of their operations (Davis, 2005; Salgado, 2008).

CSR represents the “decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest” (Davis, 1960: 70–71). McGuire (1963, cited in Ramasamy & Yeung, 2009) expanded on this definition by arguing that companies do not only have economic

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3 Bill Becker, president of the Climate Action Project.
4 Although the author of this truism is unknown, it appears to be derived from Cramer et al.’s (2004: 217) proposal that the pillars of CSR are encapsulated by the three Ps.
and legal obligations, but also certain responsibilities to society extending beyond these obligations. More recently, Kok, Van der Wiele, McKenna and Brown (2001) comprehensively defined CSR as the obligation for companies to use their resources to benefit society by actively participating as a member of society. This includes taking account of the interests of society at large and improving the welfare of society, independently of the accrual of direct benefits to the company. As the contemporary CSR discourse has unfolded, Davis (2005) suggested that CSR should consider and respond to issues beyond the narrow corporate economic, technical and legal dimensions. CSR therefore ‘begins where the law ends’, with socially irresponsible companies merely complying with the prescribed minimum legal or regulatory requirements (Davis, 2005: 113). CSR presently involves the voluntary adoption of the principles of social responsibility; the processes of social responsiveness; and the observable outcomes relating to the company’s social relationships (Orlitzky, Schmidt & Rynes, 2003; Williams & Zinkin, 2008; Wood, 1991).

CSR requires companies to operate in a manner that comprehensively accounts for their impact on the planet, its people and the future (ICAEW, 2004; UNCSD, 2007). The contradictory perspectives of CSR contribute to the prevailing cynicism about the CSR phenomenon (Wan-Jan, 2006). The absence of a common meaning does not however, suggest the lack of a common point of reference (Swanton, 1985). Moreover, CSR’s poor definition may actually result in the consideration of most, if not all, pertinent issues (Sabadoz, 2011). Irrespective of the definition used, the adoption of CSR-related business strategies and activities that simultaneously meet existing corporate and stakeholder needs, while protecting, sustaining and enhancing the human and natural resources that will be required in the future, have serious implications for companies (IIA, 2010a).

Contemporary CSR discourse is complicated by the wide range of terminologies used, often meaning different things to different people, which may often be used interchangeably to describe CSR-related issues (Aras & Crowther, 2008; Kirdahy, 2007b; Votaw, 1972). This confusion is exacerbated by the term ‘sustainability’ having been used in the management and accounting literature to simply refer to the ongoing operation of the company, for example from a ‘going concern’ perspective. Therefore, even though ‘sustainability’ appears to be emerging as a preferred term in the literature (Adams & Larrinaga-González, 2007; Adams & McNicholas, 2007; Aras & Crowther, 2008; Bleischwitz, 2007; Daly, 2010; IoD, 2009b), ‘CSR’ continues to be used in recent literature (Armstrong & Green, 2013; Boulouta & Pitelis, 2014; Calabrese, Costa, Menichini, Rosati & Sanfelice, 2013; Chin, Hambrick & Trevino, 2013; Fooks, Gilmore, Collin, Holden & Lee, 2013; Julian & Ofori-dankwa, 2013; Lee, Seo & Sharma, 2013; Murphy & Schlegelmilch, 2013; Rupp, Shao, Thornton, & Skarlicki, 2013). To distinguish ‘corporate survival’ from companies responsibility towards society and the environment, except where specifically required for the
purpose of clarification or differentiation, the generic term ‘CSR’ is preferred in this thesis.

Aras and Crowther (2008) contend that companies are attempting to bridge the divide between economic growth and environmental protection by accounting for their CSR performance, while also taking other issues traditionally associated with development into account. Without diminishing the importance of profits, Nohria (2010) argues that companies should demonstrate that they care about more than profits, by introducing progressive ideas and practices. Although classical and neoclassical economists still argue in favour of ‘pure’ shareholder primacy (as described in section 2.4.2), Nohria (2010) supports instrumental theory by contending that while business cannot survive without profits, at the same time profits were not incompatible with other social priorities. The World Business Council for Sustainable Development (WBCSD) (cited in Kotler & Lee, 2005) contends that business should contribute to the sustainable economic development agenda by working with employees, their families, the local community and society at large, to improve their quality of life. Environmental protection and social and economic value should therefore not be seen in isolation, but as interrelated dimensions (Odell, 2008).

Carroll’s pyramid depicted in Figure 2.1, provides a conceptual framework that incorporates the CSR definitions of both McGuire (1963) and Davis (1973), categorising the CSR responsibilities of business according to its four primary dimensions (Carroll, 1991). Despite the responsibilities depicted in Carroll’s pyramid always having existed, their recent prominence has increased the emphasis on the voluntary corporate ethical and philanthropic dimensions (Carroll, 1991). These dimensions include:

1. **Economic** – the fundamental responsibility of profitably providing the goods and services required by the markets. By fulfilling this responsibility, companies create jobs, generate taxes and improve income distribution amongst the population, especially in developing countries.

2. **Legal** – achieving economic goals while complying with the requirements of the legal systems in the respective countries, including relevant legislation and regulations.

3. **Ethical** – doing what is considered right, just and fair and avoiding harming nature, the environment and people (Cacioppe, Forster & Fox, 2008). The ethical dimension elevates corporate responsibility to a philosophical level that extends beyond legal compliance (Davis, 2005).

4. **Philanthropic** – directly contributing to society and improving the general quality of life.
Consumers expect a return on involvement and may even be prepared to pay a premium for product brands that are perceived to be sustainable and/or environmentally friendly. Companies perceived to be ethical, tend to be rewarded with higher prices, whereas those with lower ethical standards may be punished with lower prices (Creyer & Ross, 1997). Consumers may even demand substantial discounts from companies producing goods in an unethical manner (Trudel & Cotte, 2009), or may be prepared to switch brands to support a ‘cause’ (Lii & Lee, 2012). Page and Fearn (2005) however, found that despite consumers apparently being concerned about corporate behaviour, they were often unwilling to sacrifice the functionality of goods and services to support the socially acceptable characteristics of another product. This paradox may be illustrated by the sales of Starbucks remaining relatively flat, despite launching its ‘fair trade’ coffee in 2001 (Ramasamy & Yeung, 2009). Moreover, it is self-evident that consumers in developed countries have more discretionary income, which can be used to pay the premiums currently associated with purchasing ‘ethical products’ from ‘moral suppliers’. It may accordingly be argued that, in general, price-sensitive consumers in developing and underdeveloped countries are less likely to incorporate CSR-related issues in their purchasing decisions.

Although CSR is beginning to feature prominently on the strategic agenda of many companies, the global CSR drive may still be considered to be in the embryonic stage. Instead of considering CSR as a risk with costs that should be managed, proactive companies are engaging with a broad range of stakeholders and integrating CSR practices into their organisational strategy and culture. Other companies are more pragmatically going beyond the confines of the moral or ethical arguments
and recognising the merits of the CSR business case (Utting, 2005). These merits may, for example, include reducing transaction costs by improving risk and reputation management practices. Globally, CEOs are beginning to include CSR as one of the top drivers for long-term corporate success, as indicated below (Black & Quach, 2009):

- **Reducing risk by improving risk management.** Responsible CSR practices may decrease corporate risk and provide appropriate risk mitigation strategies and interventions.

- **Value creation by developing new products and/or markets.** Considering CSR issues may assist companies identify opportunities for new products and markets.

- **Reducing operating costs through improved operational efficiency.** Alignment of CSR with overall corporate strategy may improve the efficient utilisation of scarce resources.

- **Stimulating employee and corporate learning and innovation.** CSR initiatives may drive innovation as companies consider new ways of doing the same things better (process improvement), or doing things differently (new product development).

- **Enhancing corporate and brand reputation to improve corporate competitiveness and market positioning.** A company’s CSR communication with external parties may help build a positive image with customers, investors, bankers and supporters (Orlitzky et al., 2003). While a strong reputation may stimulate sales, conversely, a loss of reputation may result in lost customers (Orlitzky et al., 2003).

- **Improving employee motivation and retaining talent.** Strong CSR strategies may assist companies attract and retain quality human resource talent (Fust & Walker, 2007). CSR may assist companies develop new competencies, resources and capabilities as manifested in the company’s culture, technology, structure and human resources (Orlitzky et al., 2003).

- **Providing a licence to operate.** Companies disregarding their operational impact on society and the environment may result in the licensing authorities and/or society withdrawing their literal operating or tacit metaphorical licence allowing them to operate.

- **Facilitating easier access to capital.** Capital markets are increasingly being influenced by risk assessments based on the corporate environmental, social and governance dimensions conducted, especially relating to ethical and responsible investments (as described on page 61).

CSR protagonists suggest that companies have an obligation to mitigate their social and environmental impacts in a manner that extends beyond simple adherence to basic business principles (Davis, 2005). Shareholder theorists on the other hand, argue that CSR activity should
be confined to maximising shareholder wealth (Friedman, 1970). Eells (1960) however, suggests that real CSR behaviour falls along a continuum, ranging from minimal to maximum responsibility. At the one extreme, the traditional company represents the interests of the providers of capital, with its sole legitimate purpose being to maximise shareholder wealth. At the other extreme, the social company recognises a wide range of social purposes and objectives. Whereas the traditional company is only concerned with the ‘economic man’, the social company recognises the ‘whole man’. Companies treating the public and the environment responsibly not only enhance their own reputations, this may also provide value to their owners and customers (Henderson & Malani, 2008).

Quazi and O’Brien (2000) take the CSR concept one step further, introducing a two-dimensional CSR model. The horizontal axis represents the extremes of narrow and wide responsibility (similar to Eells’ (1960) traditional and social companies). As depicted in Figure 2.2, Quazi and O’Brien (2000) add a vertical axis to account for the benefits and costs associated with CSR interventions.

Figure 2.2 – Two-dimensional CSR model (Quazi & O’Brien, 2000: 36)

The four quadrants of the Quazi and O’Brien model represent the following views:

- **Classical view.** This narrow profit maximisation perspective only considers CSR in terms of the net cost to the company, without the accrual of any meaningful concomitant benefit.

- **Socio-economic view.** Despite still representing a narrow CSR perspective, this view recognises that CSR should produce net benefits, such as avoiding costly regulatory compliance, while enhancing strong customer and/or supplier relationships.

- **Modern view.** The modern perspective accommodates stakeholder theory but suggests that the maintenance of positive relationships with society provides the company with both long-
term and short-term benefits.

- **Philanthropic view.** In terms of this broader CSR perspective, companies participate in charitable activities despite their perceived net cost. The underlying cause may result from altruistic or moral reasons to do the right thing.

Social values and expectations tend to change over time, resulting in the ongoing evolution of dynamic concepts like CSR, facilitating the adaptation to changing social norms (Okoye, 2009). Despite widespread acceptance of the principles of CSR, effective CSR implementation remains constrained by the lack of a normative grounding for effective regulation (Cramer et al., 2004; Campbell, 2007; Okoye, 2009; Wan-Jan, 2006; Whitehouse, 2003). Whereas CSR was previously associated with forgoing profits, or employees performing voluntary work, contemporary business leaders are beginning to recognise the importance of ‘doing good’ not only because it is ‘the right thing’ to do, but also because CSR can be an investment to enhance shareholder value (i.e. instrumental reasons as described in section 2.4.7). Corporate social investment (CSI) has evolved from simply funding ‘worthy causes’ through ‘chequebook philanthropy’, to strategic CSR; improving the alignment of CSR activities with corporate expertise and capabilities (Kirdahy, 2007a). Although the contemporary CSR discourse has been around at least since the 1930s, even though companies are increasingly considering and reporting on CSR-related issues, it is suggested that the drive for companies to demonstrate their CSR accountability has not yet reached the tipping point.

### 2.3 The relationship between corporate governance and CSR

Although the term ‘governance’ originated in the political science environment within the context of government, ‘corporate governance’ only emerged as a prominent business concept during the 1980s (Driver & Thompson, 2002). Hobbes (1588–1679) established a very early basis for corporate governance theory, by arguing that a social contract results when individuals come together and cede some of their individual rights so that others would compromise and cede theirs as well. This establishes the ‘state’ or ‘Leviathan’\(^5\), an artificial person existing to create laws that regulate social interactions, and to protect and defend the interests of natural persons within its jurisdiction (Levy, 1954; Hobbes, 1651).

Corporate governance involves the collective processes and structures designed and implemented to inform, direct, manage, and monitor the organisation’s activities in pursuit of achieving its objectives (IIA, 2010a; Reding et al., 2011; Sobel & Reding, 2012). The Organisation for Economic

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\(^5\) Within a corporate governance context, the ‘state’ may be regarded as a proxy for the company.
Co-operation and Development (OECD, 2005) expands on this by defining corporate governance as “the system by which business organisations are directed and controlled, and whose structure specifies the rights and responsibilities among different participants of the company, such as the board of directors, shareholders and other economic agents, who maintain some interest in the company”.

Effective governance extends beyond ethical behaviour towards the company and should include its impact beyond the immediate corporate boundaries, creating a direct link between corporate governance and CSR (Kolk, 2008). In this regard it may be argued that effective corporate governance has two primary dimensions. The first, at a micro level, requires companies to pursue their objectives primarily for the benefit of their shareholders (as described in section 2.4.2). The second, at a macro level, considers the well-being of society as a whole (as described in section 2.4.3) (Keasey et al., 2005). Sir Adrian Cadbury succinctly linked corporate governance and CSR by integrating the two dimensions for the betterment of society, by positing that:

“Corporate governance is concerned with holding the balance between economic and social goals; and between individual and communal goals. ...the aim is to align as nearly as possible the interests of individuals, companies and society” (Corporate Governance Overview of the World Bank Report, 1999, cited in IOD, 2002):

Companies should therefore reconcile their financial goals with the divergent interests of stakeholders, the economy and on society as a whole. Cadbury’s definition clearly positions corporate governance as an overarching business concept, with implications for CSR and business ethics, while requiring regulatory compliance with associated responsibilities (Bonn & Fisher, 2005). According to Bonn and Fisher (2005), the environmental disasters that threaten ecosystems, or corporate profiteering at the expense of human safety; are stimulating the discourse about the role of companies in society, as well as about the need to adopt the necessary ethical standards, management standards, corporate governance and corporate accountability practices.

Even though corporate governance reforms initially focused on strengthening the mechanisms to safeguard shareholder interests (Kolk, 2008; Shleifer & Vishny, 1997), this has subsequently evolved to also include accounting for broader governance issues relating to employees, customers and society. A broader conception of corporate governance focusing on components of environmental, social and financial accountability is accordingly beginning to emerge, driving the convergence of corporate governance and CSR-related issues. Corporate governance should therefore effectively delineate the rights and responsibilities of each legitimate corporate stakeholder, with the extent of corporate transparency significantly reflecting acceptable corporate
governance standards (Ho & Wong, 2001). In order to provide equal access to basic corporate information, it is proposed mandatory financial reporting should be augmented by voluntary CSR disclosures (Ho & Wong, 2001).

Globally, guidelines, frameworks, codes of conduct and regulations are institutionalising the interrelated concepts of sustainable development, the triple bottom line and CSR; the underlying principle being that CSR involves the simultaneous pursuit of economic prosperity, environmental quality and social equity. The Treadway Commission in the United States of America (USA), the Cadbury Committee in the UK and the initial King Code on Governance for South Africa (King I) provided ground-breaking corporate governance initiatives that went beyond the conventional financial and regulatory aspects of corporate governance. In South Africa, the various iterations of the King Codes of Governance (as described in section 2.7.7.2) have been the primary frameworks driving effective corporate governance practices over the past 20 years.

The evaluation of corporate governance should therefore not simply be confined to the extent of the economic value added, but should include the value, or cost of their operational environmental and social contribution and/or degradation (Waddock & Graves, 1997). Companies are accordingly expected to balance their perceived responsibilities to their various stakeholders and report thereon, albeit only in terms of instrumentalism from an enlightened self-interest perspective (as described in section 2.4.7) (Nohria, 2010; Palazzo & Scherer, 2006).

The discourse about whether the board and management should simply run the company for the benefit of its shareholders, or whether the interests of its broader stakeholder constituencies should be taken into account; is almost as old as the earliest writings on corporate governance (Becht, Bolton & Röell, 2005). While it may be argued that accepting responsibility to multiple parties exacerbates the agency problem (as described by section 2.4.5) and reduces shareholder accountability, it is posited that corporate powers should be held in trust for the benefit of shareholders and not for anybody else (Becht et al., 2005). On the other hand, companies constitute ‘qualified private property’ and are regulated by legislation, cognisant of increasing societal demands for business to be conducted in a manner that safeguards the interests of those with whom it interacts, either as employees or consumers (Becht et al., 2005).

Within the context of this research, CSR is considered to be an integral component of good corporate governance, with the board being responsible for ensuring that management acts in the best interests of the company. It should not be to the detriment of their broader stakeholders when companies implement their CSR programme, disclose their CSR performance and provide independent CSR assurance thereon.
2.4 Theoretical frameworks

2.4.1 Relevant social, economic and management theories

The background to the corporate governance and CSR discourse as described in sections 2.2 and 2.3, provide the conceptual framework for this thesis. Within this context, it is accordingly appropriate to briefly consider the primary theoretical frameworks giving rise to the diverse CSR interpretations and practices. Garriga and Melé (2004) introduce following four primary categories of CSR theories:

- **Instrumental theories** argue that CSR activities are used exclusively to gain competitive advantage (Porter & Kramer, 2002), and to facilitate entry into new markets (Prahalad & Hammond, 2002). These theories include where CSR is considered to be a marketing tool to develop and/or maintain company’s reputations and brands, and to contribute to bottom line profitability (McWilliams & Siegel, 2001).

- **Political theories** highlight the responsible use of corporate power and the relationship between corporate power and the needs of society (Garriga & Melé, 2004).

- **Integrative theories** hold that companies should integrate societal demands into their business operations. These theories, which include stakeholder management and corporate social performance theories, consider the interrelatedness of the principles of social responsibility, the processes of social responsiveness and the observable outcomes of corporate relationships (Wood, 1991).

- **Ethical theories** examine the morality or ‘rightness’ of corporate social actions and include stakeholder theory, universal human rights, sustainable development and the common good approach (Garriga & Melé, 2004).

Although it may be argued that several economic and management theories could apply to company CSR practices, shareholder primacy, stakeholder theory, agency theory and slack resource theory, or variations thereof, are particularly relevant to this thesis. These theories which attempt to explain the reasons for the different corporate responses to CSR-related issues tend to overlap and are not necessarily mutually exclusive. The resultant CSR approach adopted by many companies therefore tends to incorporate elements of each. For contextual completeness the primary theories relevant to this thesis are described below.

2.4.2 Shareholder primacy

Company owners may be defined as those parties holding legal title to its equity share capital (i.e. the shareholders) (Freeman, 1994). Friedman (1970) argues that the social responsibility of
business is to use its resources to engage in activities that would increase profits for the benefit of shareholders, while operating within society's predefined rules and norms (Kok et al., 2001). It may accordingly be argued that profitable companies contribute to the social agenda, albeit indirectly, inter alia by creating employment opportunities, stimulating the economy and uplifting neighbouring communities.

The principle of shareholder primacy is embodied in both the corporate and common law of most countries, and has historically required management to manage the company's affairs in the best interests of the shareholders (Freeman, 1994), introducing the agency problem as described in section 2.4.5). Advocates of shareholder primacy argue that the company (as represented by the board on behalf of shareholders, as described in section 2.5.2), has a legitimate responsibility to put its own needs first and to improve shareholder value. Driver and Thompson (2002) concur by arguing that private capital ownership is the 'foundation stone' of capitalism, partially explaining the reason that legislation tends to be skewed in favour of maximising shareholder returns. The company's primary (and arguably only) function is therefore to enhance the economic well-being of its owners, or to serve as a vehicle through which they can exercise their free choice (Freeman, 1994).

Despite recognising the principle that companies may 'do well by doing good', Karnani (2010) argues that the idea that companies should act responsibly in the public interest, which should result in the accrual of benefits, is fundamentally flawed. The CSR debate becomes irrelevant when private profits and public interests are aligned, since it may be argued that company profitability simultaneously contributes to social welfare. Conversely, where profits and social welfare are in conflict, CSR initiatives are unlikely to be effective, with management being unlikely to voluntarily act in the public interest, or against the interests of their shareholders (Driver & Thompson, 2002).

Contrary to McKinsey's findings (described on page 12) that the majority of company leaders were moving away from shareholder primacy, Henderson and Malani (2008) argue that many company leaders (subscribing to the traditional neo-classical economic perspective) still presume that shareholders are only interested in maximising the present value of their future dividend streams. On the assumption that the sole legitimate purpose of business is to create value for shareholders, company management may regard social and environmental issues as being peripheral challenges (Davis, 2005; Zenisek, 1979). Atkins (2006) even argues that management are being irresponsible when diverting corporate assets towards social causes.
2.4.3 Stakeholder theory

The stakeholder concept dates back to the work of Barnard in 1938 (Rowley, 1997). In 1947, Ackhoff and Churchman incorporated the stakeholder concept into systems theory. Despite rejecting the usefulness of the stakeholder concept, Ansoff (1965) illustrated the importance of identifying critical stakeholders, but viewed them as impediments to the primary company objectives (Freeman & McVea, 2001). In the 1970s, Ackhoff applied the stakeholder concept to corporate systems (Freeman & McVea, 2001). Stakeholder theory was only formalised in 1984 when Freeman published Strategic management: A stakeholder approach, which built on the process work by Mason and Mitroff, and by Emshoff, in the 1970s and 1980s (Freeman & McVea, 2001). Stakeholder theory has subsequently evolved into a framework to analyse the way companies interact with and manage their relationships with the various parties affected by corporate activities. Stakeholders can be defined as any party affected by, or that can affect the company achieving its objectives (Freeman & McVea, 2001).

Freeman (1994) argued that normative business theories were inconsistent with shareholder primacy, and that stakeholder theory provided a better fit. According to stakeholder theory, relevant participants in the business environment should identify with the manner in which companies manage their stakeholder relationships while simultaneously achieving their business objectives (Blair, 2005). In terms of stakeholder theory, business is responsible to various groups in society that may have a ‘claim, ownership, rights or interest’ in a company and its activities, irrespective of whether in the past, present or future (Freeman, 1984). In addition to shareholder interests, stakeholder theory also requires companies to consider the legitimate interests of banks and financiers; non-executive directors; trade unions, employees and prospective employees; existing and prospective customers and suppliers; government, regulators and policy makers; political groups; trade associations; local communities; the public at large; future generations; and even competitors (ACCA, 2005; IIA, 2010b; Reuvid, 2007).

Aligning corporate activities to stakeholder theory, Makower (1994) argues that business does not only exist to generate profits for shareholders, should also provide society with required goods and/or services. In recognising that the very existence of business depends on satisfying consumer expectations, highlights the need for companies to consider stakeholder requirements when making business decisions. Companies are realising that addressing legitimate stakeholder interests is imperative for their long-term corporate viability (Reuvid, 2007). CSR therefore involves more than simply maximising shareholder value (Hummels & Timmer, 2004).

While some may regard the stakeholder concept as being too vague, ambiguous and diverging
(Driver & Thompson, 2002; Blair, 2005), others claim that stakeholder theory, corporate responsibility and business ethics are increasingly converging (Fassin, 2009; Garriga & Melé, 2004; Valor, 2005). This drive towards integration is clearly reflected by King III, suggesting that the success of 21st century companies is linked to three interdependent subsystems, namely, (i) the natural environment; (ii) the social and political system; and (iii) the global economy (IoD, 2009a).

Two significant shortcomings have been identified since the emergence of stakeholder theory (Blair, 2005). The first suggests a lack of the necessary rigorous theoretical substance for the development of pragmatic decision rules. It is suggested that the stakeholder concept is too broad, with insufficient guidance about how to balance the interests of the various competing stakeholders. The second proposes agency theory (as described in section 2.4.5) as an alternative corporate relationship model. Blair (2005) argues that the precision of agency theory (usually associated with shareholder primacy) contrasts starkly with the indeterminacy and contextual ambiguity of stakeholder theory, and has failed the rigorous model test after more than 30 years, continuing in a rather ad hoc manner.

2.4.4 Legitimacy theory

Legitimacy may be defined as the perception or assumption that the actions of an entity are desirable, proper, or appropriate within a socially constructed system of norms, values, beliefs and expectations (Palazzo & Scherer, 2006; Suchman, 1995). The instrumental interpretation of CSR (as described in section 2.4.7), leads to pragmatic or cognitive perspectives of legitimacy (Palazzo & Scherer, 2006). The linkage between business and society is inherently normative, which attempts to explain what companies should do in respect of the social good. Legitimacy results in stakeholders providing companies with support and/or resources that are perceived to be desirable, proper or appropriate. Stakeholders perceive legitimate companies as not only being more worthy, but also more meaningful, more predictable and more trustworthy (Suchman, 1995).

Morimoto et al. (2005) suggest that CSR provides an excellent tool to enhance company legitimacy amongst stakeholders, by improving communication and transparency, while proactively projecting a positive company image. The underlying rationale being that customers may obtain improved products and services; supplier management may be improved; competitiveness may be enhanced; employees may have improved working conditions; local communities may live in better environments; and stakeholders may have easy access to social and environmental information; which collectively should improve company profitability. Conversely, failing to effectively ameliorate CSR risks may result in the company suffering a loss of reputation, with the opposite effect.
Companies losing legitimacy may experience difficulty engaging in business, since stakeholders will not trust their commitment to adhere to society's rules (Palazzo & Scherer, 2006). While positive CSR practices and reporting may enhance a company's image and reputation (Morimoto et al., 2005), the company becomes vulnerable when it loses credibility (Hummels & Timmer, 2004). This is illustrated by the UNRISD (2000) suggesting that growing pressure from civil society organisations and the market opportunities associated with 'green technologies' and 'ethical consumers' could provide companies perceived to be 'responsible corporate citizens' with a competitive advantage over their competitors that are not.

2.4.5 Agency theory

Agency theory emerged from the separation of ownership and control of companies after the Industrial Revolution which began in the 18th century. In its most basic form, agency theory is simply a mathematical representation of the relationship between two parties, one of whom (the principal) wants to hire the other (the agent) to carry out some task, or to act on its behalf (Blair, 2005). The principal delegates the responsibility for performing a task to the agent, creating a need to trust that the agent will act in the principal's best interest. Dodd (1932) argued that the agent owed the principal more than a simple contractual duty, imposing a fiduciary duty on the agent to diligently serve its principal's interests. The agency problem results from a situation where the owner of the company (the principal) knows less about the business than the manager (the agent) (Blair, 2005). This information asymmetry is skewed in favour of the agent's self-interest, causing principals to inherently distrust the actions of their agents (ICAEW, 2005).

To counter information asymmetries arising from the agency problem, companies face an ethical challenge to open the circle of influence, by ensuring that 'outsiders' have the same access to pertinent company information as 'insiders' (Maury, 2000). The decisions of the owners (or the board on their behalf) may be based on the disclosures of management, but could be prejudiced by management's inherent conflict of interest as agents of the company. The actions of management may, for example, be influenced by factors such as personal financial rewards, labour market opportunities and interpersonal relationships, resulting in more optimistic corporate financial performance (CFP) projections, or even overstated contractual performance. Resolution of these conflicts require the establishment of mechanisms to improve alignment of the interests of agents and principals, reduce the scope and impact of information asymmetries, and neutralise the potential for opportunistic agent behaviour (ICAEW, 2005).

Moreover, principals often do not have the necessary expertise, skill or time, to ensure that agents are effectively discharging their fiduciary responsibilities. One of the mechanisms adopted by
principals to address the agency problem is to engage auditors to safeguard their interests. Auditors independently evaluate the work of the agent and confirm the veracity of the information provided, enhancing the principal’s confidence and trust in company disclosures (ICAEW, 2005).

Maury (2000) however, cautions that despite auditors technically being appointed by, and reporting to the audit committee, auditors are actually paid by senior management, potentially impairing their independence. Auditors act as the agents of the principals when performing an audit, giving rise to similar concerns about trust and confidence as in the conventional agency problem between owners and management. Despite being engaged as agents under contract, professional auditing standards require auditors to be independent of company management and objective when discharging their responsibilities (ICAEW, 2005). Even though certain agents may implicitly be trustworthy without any need for incentives to align interests, or for the establishment of monitoring mechanisms such as audits or increased regulation, the agency problem implies that agents may inherently be untrustworthy (ICAEW, 2005).

2.4.6 Slack resource theory

Organisational slack represents the actual or potential excess capacity, resources or unexploited opportunities that allow successful companies to respond to stimuli in their operational environment, by adapting to change and implementing necessary strategic interventions (Saleh, 2009). While this ‘slack’ may provide companies with a buffer against tough economic and trading conditions, it simultaneously allows companies to pursue goals that extend beyond conventional corporate objectives. Slack facilitates bolder competition by providing companies with the necessary capacity to reduce the trauma involved in corporate restructuring/repositioning, new product innovation, or adapting to evolving corporate values (Bourgeois, 1981).

Driver and Thompson (2002) conclude that the evidence does not provide compelling proof that CSR actually optimises CFP. Similarly, advocates of a negative relationship between social and financial performance argue that there are too few measurable benefits and too many costs associated with responsible corporate behaviour (Waddock & Graves, 1997). They suggest that ‘responsible’ companies accommodating stakeholder interests incur unnecessary and avoidable costs, placing them at a competitive disadvantage.

By contrast, advocates of responsible corporate citizenship tend to argue in favour of a causal relationship between CSR and CFP (Cacioppe et al., 2008; Maignan, Ferrell & Hult, 1999; Orlitzky et al., 2003; Waddock & Graves, 1997). On the other hand, ‘slack resource theory’ suggests that any causal relationship actually results from strong CFP providing extra resources that could be applied to CSR activities, and not necessarily because effective CSR practices produced improved
CFP (Bansal, 2005; Mill, 2006; Statman, 2000).

Attempting to resolve the question whether financially successful companies have more slack resources to spend on achieving greater CSR performance, or whether improved CSR performance actually resulted in better financial performance, Waddock and Graves (1997) introduce a “virtuous cycle”. They argue that causation runs in both directions, with improved CFP enhancing CSR practices, while at the same time better CSR practices improve CFP. Orlitzky et al. (2003) argue that their meta-analysis of 30 years of empirical data6 conclusively prove a positive correlation between CSR and CFP, confirming that the relationship is bidirectional and simultaneous. Similarly, KPMG (2011) found that almost half of the companies in their study were already benefitting financially from their CSR initiatives (also implying that more than half were not). Eccles, Pillay and De Jongh (2008) however, found no evidence of a causal relationship between CSR behaviour and CFP to support either stakeholder or slack resource theory.

Intuitively, large companies are more able to absorb the cost of this improved accountability than smaller ones. Working with tighter margins, smaller firms are unlikely to have slack resources, and are accordingly less able to absorb the increased cost of compliance associated with more stringent labour and environmental compliance (Jenkins, 2001; Jones et al., 2014). While smaller firms may appear to exhibit less responsible behaviour, as they grow they are expected to attract more attention from external stakeholders, accelerating their need to implement remedial action (Waddock & Graves, 1997). It is therefore unlikely that companies experiencing financial difficulties will have the necessary resources to make what they may perceive as being discretionary CSR investments (Waddock & Graves, 1997). As described in section 4.2.7, slack resource theory was used to justify the decision to confine the study to a purposive sample of the larger JSE-listed companies.

2.4.7 Instrumental theory

Arguing that business and ethics cannot be separated, Freeman (1994) posits that shareholder and stakeholder theory should not exist separately. Excessive focus on shareholder value may undermine the efficiency of the free market system, with the resultant economic inequality introducing a risk to the conventional capitalism model (Driver & Thompson, 2002). Advancing a more balanced approach to shareholder primacy, Morimoto et al. (2005) contend that companies are increasingly incorporating social, economic and environmental dimensions into their business operations, while simultaneously building shareholder value. This instrumentalist perspective, also

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6 This meta-analysis examined 52 studies, covering 33,878 observations.
known as the ‘enlightened shareholder’ or ‘stakeholder inclusive’ model of corporate governance (IoD, 2009a), suggests that accommodating stakeholder needs assists companies to achieve long-term success (Owen, Swift, Humphrey & Bowerman, 2000).

Shareholder primacy holds that social issues are tangential to, and not a fundamental and integral part of the dynamic corporate operating environment (Davis, 2005). Companies that treat social issues as being an irritating distraction, or an unjustified vehicle for attacks on business, could ignore impending forces that may fundamentally influence their strategy. Even though these societal pressures may not necessarily produce immediate benefits, failing to timeously take action may simply delay the inevitable. Davis (2005) suggests that more than 80% of the market capitalisation in western economies typically factor in corporate cash flows beyond the forthcoming three years. Despite its increased risks and costs, CSR can also provide opportunities for value creation. For example, instrumentalism may result in companies producing generic drugs to reduce pharmaceutical costs, providing healthier meal options at fast food restaurants, and developing cleaner fuels and more efficient engines to reduce emissions. Proactive companies could therefore gain a competitive advantage by identifying and capitalising on these opportunities before their competitors.

Despite the applicability of several theoretical CSR frameworks and the emergence of diverse CSR approaches, this thesis primarily considers an ‘enlightened self-interest’ perspective. Enlightened self-interest typically considers CSR from an instrumental perspective, in terms of which companies only consider the interests of stakeholders to the extent that it is in their (and accordingly their shareholders’) interests to do so, as implied by Freidman (1970). Companies producing the best results for both their business and society do not necessarily regard CSR as merely being a moral issue, but rather a pragmatic response to issues affecting their business (Kirdahy, 2007c). Some companies that report on their CSR performance may therefore only be doing so for the benefit of shareholders, and not because it is the ‘right thing to do’ as implied by stakeholder theory.

2.5 Corporate accountability

2.5.1 Background

To account is defined by the Merriam-Webster Dictionary as “a statement explaining one's conduct; a statement or exposition of reasons, causes, or motives; a reason for an action”. Similarly, the Compact Oxford English Dictionary defines ‘account’ as “giving a satisfactory record or explanation of; to require (someone) to explain a mistake or poor performance”.

The Canadian Government describes accountability as “the willingness to take responsibility for
actions and outcomes; delivering what you promised; accepting good and bad outcomes; owning up to shortcomings/mistakes; taking responsibility for one’s actions; and honouring obligations, expectations and requirements” (Canada, 2006). Similarly, King III defines accountability as the ability to justify and explain decisions and actions, and responsibility as the state or position of having control or authority and being accountable for one’s actions and decisions (IoD, 2009a). Accountability may accordingly be defined as accepting responsibility for actions and outcomes (irrespective of whether good or bad); delivering performance in respect of obligations and expectations; and accounting for the impact of actions and/or inactions.

While the board may accept responsibility to all stakeholders, it cannot be accountable to all. If the board was accountable to everyone, it would ultimately be accountable to nobody. The board should therefore identify the company’s legitimate stakeholders (including shareholders) and agree on how this relationship should be developed and managed in the best interests of the company (IoD, 2002).

Company accountability should extend to constituencies beyond their immediate shareholders (Moon et al., 2003). Gray, Owen and Maunders (1987) link CSR and accountability by defining CSR reporting as “the process of providing information designed to discharge social accountability”. CSR tends to highlight the inherent tensions between maximising the investment returns of shareholders without violating society’s trust (Owen et al., 2000). Companies are accordingly extending their public accountability beyond simply reporting on financial performance by also providing non-financial information relating to their social and environmental performance (Okoye, 2009).

Utting (2005) contends that corporate accountability extends beyond answering to stakeholders by imposing a cost for non-compliance. Utting (2005) however, cautions that corporate accountability incorporates various approaches and perspectives, ranging from voluntarism to regulation; and not only about strict government regulation, or prescriptive regimes.

Although many theories may be advanced for reporting CSR performance (as described in section 2.4.1), the primary CSR theoretical bases for discharging corporate accountability considered in this study include stakeholder theory (as described in section 2.4.3), legitimacy theory (as described in section 2.4.4) and instrumental theory (as described in section 2.4.7) (Gray, Owen & Adams, 1995).

2.5.2 The board of directors

Unlike the rules sole proprietors and common law partnerships, corporate law creates a legal entity
distinct from its management and shareholders. Since companies are incorporated as juristic bodies, independent of those who own them (Driver & Thompson, 2002), shareholders do not own the assets of the companies in which they have invested, but have a right to the operating surpluses generated. The diverse ownership of modern companies makes effective oversight by shareholders difficult or impossible (Warther, 1998), giving rise to an inherent conflict between company ownership and control, encapsulated in the agency problem (as described in section 2.4.5).

Globally, corporate law (Fairfax, 2005) delegates corporate decision rights to the board, separating company ownership and control (Blair, 2005; Sarens, Decaux & Lenz, 2012) and introducing the agency problem (as described in section 2.4.5). Companies exercise their powers through individuals, with boards of directors (boards) discharging governance functions and responsibilities on their behalf (Esser, 2008; Sarens et al., 2012). The board contributes to the achievement of company objectives by providing strategic direction and oversight over the activities of management, on behalf of company stakeholders (Sobel & Reding, 2012). The board discharges their oversight responsibilities by protecting shareholder interests and vetoing poor decisions, while simultaneously assisting management to increase shareholder value (Mellahi, 2005).

In South Africa, the statutory corporate governance role of the board is legislated by section 66(1) of the Companies Act (71 of 2008), which requires a company’s business affairs to be managed by, or under the direction of the board, which has the authority to exercise all of the powers and perform the functions of the company. Section 94(7)(i) empowers the audit committee to discharge certain responsibilities on behalf of the board. Stakeholders expect boards to accept responsibility and ensure the implementation of strategies and controls to manage the company’s impact on society, the environment and the economy; to engage stakeholders; and to disseminate the results to the public (IIA, 2010b). Recent high-profile adverse global and South African business events and trends have highlighted the need for boards to accept broader accountability to stakeholders. As the custodians of corporate governance, the board is responsible for ensuring that the various statutes\(^7\) and the King III principles are being consistently applied (King III, principle 2.9).

King III (and previous iterations) recommends boards to consist of a balance of non-executive and

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\(^7\) Apart from the Companies Act (71 of 2008), other dimensions of stakeholder protection are provided by the Insolvency Act (24 of 1936), the Labour Relations Act (66 of 1995), the Basic Conditions of Employment Act (35 of 1997), the Consumer Affairs Act (71 of 1988), the National Credit Act (34 of 2005), the Consumer Protection Act (68 of 2008), the Competition Act (89 of 1998), the Estate Agency Affairs Act (112 of 1976) (Esser, 2008), the Financial Advisory and Intermediary Services Act (37 of 2002), the Public Finance Management Act (5 of 2007), the Municipal Finance Management (56 of 2003), the Banks Amendment Act (19 of 2003), the Short-term Insurance Act (53 of 1998), the Long-term Insurance Act (52 of 1998) and, last but not least, the South African common law.
executive directors, chaired by an independent non-executive director. To discharge their responsibilities, boards should establish various sub-committees; empower executive management to implement policies, procedures and controls that facilitate achieving corporate objectives and strategies; and ensure that performance and risk management goals and objectives are effectively implemented, monitored, evaluated and reported (Percy, 1997). In this regard, King III requires the board (or when appropriate its sub-committee, the audit committee) to be responsible for appointing and providing oversight over the agents of the company involved in the governance process. These responsibilities include appointing the chief executive officer (King III, principle 2.17), providing oversight over the internal audit activity (King III, principle 3.7), appointing the chief audit executive (CAE) (King III, recommended practice 3.7.1), and recommending the appointment of the external auditor and providing oversight over the external audit process (King III, principle 3.9).

Directors are obliged not to act in their own interests, but to exercise their powers bona fide and in good faith for the benefit of the company as a whole, and not to the individual shareholders (Cilliers & Benade, 1982; Esser, 2008). Directors should therefore exercise reasonable care and skill when discharging their duties in the best interests of the company as a separate legal entity (Esser, 2008; Fairfax, 2005). Esser (2008) contends that the common law duties of directors include a fiduciary obligation (1) to prevent conflicts of interest; (2) not to exceed their powers; (3) to maintain unfettered discretion; and (4) to exercise their powers for the purpose for which they were conferred. Esser (2008) extends these duties by arguing that it may be in the best interest of the company as a whole for directors’ responsibilities to not only consider shareholder interests, but that of other stakeholders as well.

Agency theory attempts to explain the challenges of separating company ownership and control (as described in section 2.4.5). The board, supported by senior management, should understand and appreciate the material impacts of the business operations on society and the environment, as well as the resultant risks and emerging opportunities (Black & Quach, 2009). As described in section 2.5.3, the almost universal acceptance that the board carries the ultimate responsibility for ensuring effective corporate governance, implies that it is therefore ultimately accountable to shareholders (and arguably under certain circumstances even to its broader stakeholders) for ensuring the adequacy of the company’s system of governance.

2.5.3 Corporate level responsible for CSR

As described in section 2.5.2, even though the board has overall accountability for the effectiveness of CSR-related systems of governance, risk management and internal control; management is
responsible for establishing CSR objectives, implementing CSR policies and procedures, managing CSR risks and measuring CSR performance, as well as monitoring and reporting CSR activities (IIA, 2010b). Management should therefore ensure that the company’s CSR-related principles, standards and procedures are clearly communicated, understood and integrated into company decision-making processes.

Notwithstanding established company accountability structures described above, the pervasive nature of CSR-related activities requires each company employee to accept direct responsibility for ensuring the success of CSR-related objectives. Nevertheless, even though everyone in the company may be responsible for CSR, unless responsibility is specifically allocated to a senior company official, in reality nobody in the company will actually be accountable. The importance of CSR to companies is indicated by the corporate level to which CSR responsibility has been allocated, as well as whether a direct reporting line has been established with the board. Companies failing to allocate specific CSR responsibility to a senior executive are likely to produce perfunctory, rather than meaningful CSR reports (Nitkin & Brooks, 1998).

### 2.6 Corporate ethics

It may be argued that business has an ethical responsibility to contribute to economic development, while simultaneously improving the quality of life of its workforce and their families, the local community and society at large (IIA, 2010b). Irrespective of whether company CSR and disclosure practices are motivated by economic reasons (legitimisation and/or instrumentalism), or ethical reasons (the right thing to do), or simply in order to comply with prevailing legislation and regulations, the ethical underpinnings of CSR are briefly considered below.

Business ethics deals with concepts that describe and explain the values and principles relating to the business environment (De Cremer et al., 2011), including the accountability structures implemented and the relationship between ethical behaviour and financial performance. Business ethics normatively reflects what companies ‘ought’ to do (Donaldson & Dunfee, 1994). Being juristic bodies, company decision-making is undertaken by individuals on their behalf. Companies may accordingly be regarded as amoral, deriving their ethical practices from the individual or collective values of company leadership (IoD, 2009a). Ethical theories may however, generate potentially conflicting interpretations of what may be considered to be ethical or unethical (Beekun, Stedham & Yamamura, 2003).

The principles underpinning CSR essentially argues against morally indifferent business practices, instead favouring morally sensitive stakeholder management practices and expansive public policy (Windsor, 2006). Stakeholders expect corporate ethical behaviour to extend beyond mandatory
legal compliance, with ethical managers displaying moral reflection in decision-making that extends beyond the law. Windsor (2006) suggests that ethical corporate responsibility practice lies along a continuum between mandatory compliance (economic and legal) and desirable philanthropy (prudent or voluntary). Although companies may be motivated to engage in and report on responsible CSR practices, either for economic or ethical reasons, the underlying motivation is likely to be a combination of the two (Sadler & Lloyd, 2009).

In terms of King III, corporate leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency, in terms of the company’s perceived moral duties (IoD, 2009b). Ethics underpin corporate governance and by implication CSR and CSR reporting practices. The board is responsible for ensuring that management incorporates ethically sound principles into the company’s vision, mission and objectives, thus providing its ‘licence to operate’.

Corporations consider stakeholder interests in their business dealings according to three primary ethical approaches (Carroll, 1991). These are:

- **Immoral managers** – characterised by decisions, actions and behaviours that suggest active opposition to what may be normatively deemed as ‘right’ or ‘ethical’. The decisions of immoral managers are incompatible with accepted ethical norms, actively contradicting what may be considered moral. Immoral managers may regard regulation as an impediment to achieving their objectives, and tend to strategically exploit opportunities for personal or corporate gain. Driven by a desire to achieve their objectives, immoral managers may disregard or circumvent legislation and regulations.

- **Moral managers** – tend to have ethical positions that conform to accepted social ethical behavioural norms. Moral managers not only conform to accepted and high standards of professional conduct, but also typically exemplify leadership on ethical issues. Moral managers tend to consider both the letter and the spirit of the law, with the law guiding the minimum acceptable ethical behavioural standards. Moral managers usually operate well above the prescribed minimum requirements of legislation and regulations. While still striving for optimal profitability, the decisions of moral managers are guided by sound ethical principles such as justice, fairness, rights and due process.

- **Amoral managers** – may be neither immoral nor moral, but may simply be insensitive about the impact of their everyday decisions on others. Amoral managers may even be oblivious to the harm of their decisions on those with whom the business interacts, albeit unintentionally. While the ethical position of some amoral managers may be guided by the letter, and not the spirit, of the law, other amoral managers act intentionally, believing that their ethical
orientation affects their personal but not their business decisions.

2.7 Disclosure of CSR performance

2.7.1 Background

The primary purpose of financial reporting is to assist shareholders in investment decision-making, with a secondary purpose being to provide information to other interested parties such as financial institutions, the taxation authorities, bankers and relevant government departments and agencies. On the other hand, the objective of non-financial reporting should be to provide information of interest to the company's broader stakeholders (Eccles, 2010).

Inherent conflict exists between company financial and CSR performance, with preference being given to financial performance (Gray & Milne, 2002), confirming instrumentalism (as described in section 2.4.7). Gray and Milne (2002) argue that company practices appear to be inherently unsustainable, since pursuing growth and profit will increase their throughput, and, consequently, their ecological impact. This conflict can only be resolved when financial, social and environmental accountability are given equal weight, allowing for the assessment of the extent to which economic and social/environmental issues are in real conflict. To overcome this deficiency, companies should produce complete and transparent disclosures about the extent to which the company has contributed to, or diminished the sustainability of the planet. This will however, involve a detailed and complex analysis of the company's interactions with ecological systems, resources, habitats, and societies, interpreted within the context of the past and present impacts on those same systems. CSR will therefore remain a 'nice idea' until substantive legislation exists, with which all large companies should comply.

Historically, non-financial disclosures tended to be regarded as being for information purposes only, and were therefore considered less important than financial disclosures. It may however, be argued that the numbers alone provide only a partial or isolated picture of company operations. In order to more accurately depict the 'big picture', information inadequately reflected in financial reports should be disclosed through contextual accounting practices, normatively reflected in company annual reports (Gouws & Cronjé, 2008).

Contextual accounting should complement financial accounting practices by comprehensively reflecting intangibles, opportunities and risks. Non-financial information provides the necessary context to meaningfully assess company performance (Gouws & Cronjé, 2008). Contextual disclosures include reporting on the non-financial economic, environmental and social dimensions of corporate operations. While statutory financial disclosures are provided according to generally
accepted accounting practice (GAAP), or more recently to the international financial reporting standards (IFRS), disparate accounting and reporting practices are used for non-financial disclosures.

Stakeholders are beginning to appreciate the value of comprehensive CSR information facilitating the improved assessment of company risks and enhancing investment decision-making (Hummels & Timmer, 2004). As ratings agencies and socially responsible, ethical or other institutional investors become increasingly interested in non-financial company information, the tendency to rely exclusively on financial information for decision-making is waning. While improved CSR reporting improves company decision-making, it also assists to entrench a desirable corporate culture (Morimoto et al., 2005). Companies should therefore understand the needs of their different stakeholders and adapt their CSR disclosures to accommodate the reasonable information requirements of each legitimate stakeholder group. Companies should therefore disclose any CSR information that legitimate stakeholders may consider material.

The 2011 KPMG report\(^8\) found that companies were increasingly willing to account for their CSR impacts, as depicted by the recent global growth in CSR reporting. CorporateRegister [sa]\(^9\) illustrates this growth by reporting that only 26 CSR reports were issued globally in 1992; 201 in 1995; 837 in 2000; 2 465 in 2005; and 5 627 in 2010. KPMG (2011: 14) confirmed this growth trend by reporting that 95% of the world's largest 250 companies (G250) reported on their CSR activities in 2011, compared to 79% in 2008 and 52% in 2005 (KPMG, 2008: 14). Country-level CSR reporting by the top 100 companies in 34 countries (N100) increased by 11% since 2008, to 64% by 2011 (KPMG, 2011: 10). South Africa's CSR report ranking climbed to third place with 97% of the top 100 companies reporting on their CSR activities, just behind the UK and Japan with 100% and 98% respectively (Ackers, 2009).

In order to be credible, social and environmental reporting should be undertaken with the same rigour as conventional financial reporting and as part of a broader integrated reporting framework (Force for Good [sa]). This is aligned to King III principle 9.2 (IoD, 2009a), which requires corporate financial and CSR reporting and disclosures to be provided in an integrated annual report (as described in section 2.7.7.6).

### 2.7.2 Evolution of CSR reporting

Despite its recent topicality, the origins of CSR reporting may be traced back to the 16th century

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8 KPMG have published triennial reports on CSR reporting since 1993.
(Mock, Strohm & Swartz, 2007). Contemporary CSR discourse can be traced to a series of articles between A.A. Berle and E.M. Dodd in the 1930s (Okoye, 2009). Berle (1931) argued that managers should limit their use of corporate power to their fiduciary responsibilities for the exclusive benefit of shareholders only. Dodd (1932) on the other hand, disagreed with Berle’s increased emphasis that companies only existed to provide shareholders with profits. Dodd (1932) posited that business did not simply exist to provide profits for its owners, but also to serve the community. Although accepting that companies had a fiduciary responsibility towards shareholders, Dodd (1932) asserted that companies also had a social responsibility towards employees, consumers and the general public. Suggesting that all businesses had a public interest, Dodd (1932) contended that management could legally assume social responsibility without violating their inherent fiduciary responsibilities. Without dismissing the principle of broader stakeholder responsibility, Berle (1932) responded by arguing in favour of shareholder primacy, and suggesting that until a clear and enforceable scheme of responsibilities to a wider range of stakeholders emerged, that companies should continue to exist solely to make profits for their shareholders.

By the advent of the 21st century, changing stakeholder expectations of business prompted companies to adapt their reporting strategies from focusing exclusively on quantitative financial matters to also include qualitative non-financial issues (Zorio, Garcia-Benau & Sierra, 2013). As more stakeholders demand CSR reports (Morimoto et al., 2005), access to CSR reporting should be considered a ‘right to know’ and a priority for the reporting entity, irrespective of whether the information is subsequently used by stakeholders (Hibbitt, 1999). As described in section 2.6, it may be argued that companies have both a legal and moral obligation to provide stakeholders with relevant information relating to their operational impacts (Archel, Fernández & Larrinaga, 2008). Fernandez-Feijoo, Romero and Ruiz (2014) found that environmentally sensitive industries were leading the CSR reporting drive. The interdependence of the interrelated company management information systems should provide balanced company reports, with non-financial disclosures filling the gaps left by inadequacies in financial accounting and reporting (Gouws & Cronjé, 2008).

Based on the fundamental principles of transparency and accountability, the technical implementation of CSR accounting and reporting developed at the same time as the basis for philosophical accounting (Okoye, 2009). Despite incorporating new types of disclosures into company annual reports, CSR performance remains difficult to measure (Gouws & Cronjé, 2008). CSR reporting is further complicated by a lack of consensus about what CSR involves, undermining the ability to accurately measure CSR performance and relate it to other dimensions of company performance (Aras & Crowther, 2008). The challenge for CSR accounting and reporting is ensuring that non-financial information is reported according to the same standard presently used for
financial reporting (ICAEW, 2004). Overcoming this challenge is necessary for both internal reporting for management decision-making and external reporting to address the legitimate concerns of multiple stakeholder groups.

New CSR accountability instruments include multi-stakeholder dialogues, public-private partnerships, co-regulation\(^{10}\) and social auditing, as manifested in rigorous CSR standards, procedures and reporting deployed by companies and industry sectors to account for CSR issues. Few of these reports however, provide a balanced perspective of real company social and environmental performance, particularly with regard to the negative impacts. Over the past decade, the instruments used to account for CSR have multiplied and moved away from fixating on self-regulation in favour of establishing environmental policies or corporate codes (Utting, 2005). Company reports previously designated as environmental reports are now being repackaged as CSR reports (Aras & Crowther, 2008), more recently being incorporated into integrated reports (as described in section 2.7.7.6). Recognising that various economic sectors require different sets of indicators, organisations like the GRI continue to refine reporting indicators (as described in section 2.7.7.3) (Utting, 2005).

### 2.7.3 Drivers of CSR reporting

Whereas 25 years ago, 80% of a company's market value was reflected on the balance sheet as tangible assets, with only 20% representing intangibles; today 80% of company market value factors in non-financial information (Eccles, Krzus & Serafeim, 2011: 2; Gouws & Cronjé, 2008: 109). The overemphasis on financial reporting may therefore result in other important information relating to the manner in which the company affects the environment and interacts with society at large being omitted (Cohen, Holder-Webb, Nath & Wood, 2011). Reporting CSR performance is accordingly becoming increasingly important as companies begin recognising the accruing benefits of improved corporate disclosures and increased transparency (Aras & Crowther, 2008; Jones et al., 2014).

Current CSR reporting guidelines do not prescribe the corporate boundaries, but leave their definition and interpretation to reporting companies and their stakeholders, ostensibly through effective stakeholder engagement (Archel et al., 2008). Despite historically emphasising financial information, company annual reports are mechanisms through which companies can convey pertinent CSR-related information to stakeholders (Force for Good [sa]). Annual reports should provide a complete and permanent record of corporate activities, as well as their associated social, economic and environmental performance.

\(^{10}\) In terms of which norms are established and implemented through collaboration by public, private and civil society.
Social and environmental reporting represents one important component of CSR that companies should account for (Gray et al., 1995). Stakeholders often use company annual reports to reduce uncertainty by assessing the associated risks and capitalising on emerging opportunities. This requires the correct information to be reliably and timeously provided. Moreover, the Fédération des Experts Comptables Européens (FEE) (2011) suggests that the recent global financial crisis has highlighted the need to improve long-term sustainable decision-making, including using CSR-related information. Disclosing material financial information may be considered important for protecting investor interests, underpinning the effective functioning of financial markets. Companies not disclosing material non-financial information may therefore actually be deceiving investors (IIA, 2010b). While CSR reporting was once considered a moral obligation, companies now increasingly recognise it as a business imperative (Jones et al., 2014; KPMG, 2011). Company responses to the information needs of stakeholders are driving improved annual report disclosure practices (Gouws & Cronjé, 2008). Several stock exchanges now require their member companies to report on their CSR performance (Vontobel [sa]). According to Owen et al. (2000) social, ethical and environmental accounting, reporting and auditing complement similar financial functions when reflecting on triple bottom line reporting.

The dynamic nature of CSR reporting is illustrated by KPMG (2011: 18-19) finding that globally the primary drivers of CSR reporting has shifted from ethical (69% in 2008) and economic (74% in 2005) considerations, to reputation management (67% in 2011). While economic considerations were perceived to be a major driver in 2005 (74%) and 2008 (68%), by 2011 it only represented 32%, which may be attributed to the rather nebulous nature of economic considerations. Recent global focus on CSR-related issues may have contributed to improving respondents’ understanding of the research questions, facilitating the provision of more informed responses.

2.7.4 Institutional investors

Recent global growth in the equity holdings of institutional investors, such as pension and mutual funds has been substantial. The growth and importance of institutional investors is highlighted by Mervyn King who confirms that the shareholders of large corporations have changed from wealthy families, to financial institutions and pension funds (King 2008). Institutions invest on behalf of the proverbial “person in the street”, who are ultimately the beneficial shareholders (Temkin, 2008).

As one of the first researchers to propose a positive correlation between socially responsible investors (SRI) and corporate performance, Moskowitz (1972) showed that a portfolio of socially screened equity holdings outperformed the Dow Jones Industrial Index. Corporations should accordingly take cognisance of the concerns of institutional owners to improve the investment
attractiveness of their companies. While investment decisions of institutional investors are not usually based on CSR disclosures in conventional company disclosures, such as annual reports, they are favourably considered when quantified, focused on specific issues and obtained from disinterested parties11 (Teoh & Shiu, 1990: 76; Waddock & Graves, 1997: 304, Graves & Waddock, 1994). Moreover, institutional investors are more capable of assimilating and acting on CSR practices than individuals (Heiner, 1983).

The demand for ‘responsible investments’ is illustrated by the growth in Principles for Responsible Investment (PRI) signatories. The PRI was launched in 200512 and has grown to include 1,200 signatory organisations representing assets under management of US$34 trillion (US$22 trillion in July 2010) globally by May 2014, with 46 of these signatories being from South Africa. The Public Investment Corporation Limited (PIC) in South Africa, which manages assets valued at ZAR 1.6 trillion (at 31 March 2014) on behalf of its beneficiaries are, signatories to the PRI (PIC, 2014), making it one of the largest investment managers on the African continent. Institutional investor signatories to the PRI commit to acting in the best long-term interests of their beneficiaries. PRI signatories accept that environmental, social and corporate governance (ESG) issues can affect the performance of their investment portfolios, improving the alignment of investors with the broader objectives of society. Some investors may however, only utilise CSR information in terms of a separate mandate (Hummels & Timmer, 2004). For example, institutional investors may wish to meet the requirements of some socially responsible index, such as the JSE SRI or the PRI.

The global financial world (institutional investors in particular) recognises that the corporate cost of capital is directly correlated to the perceived risk associated with investing in that company. Larger, more established companies tend to provide a safer investment and tend to be associated with a lower cost of capital. Similarly, more ‘sustainable’ companies are less risky than those that are not, which should be addressed in the context of their operations, often reflecting a rosy picture of continued growth, with an expectation of continued profitability (Aras & Crowther, 2008). Since financial investment risk probability models are usually based on past experience, they remain vulnerable to Black Swan events (Taleb, 2007)13 and are exposed to significant unanticipated potential losses, which are not incorporated into most risk models. Such events are usually without precedent, impairing meaningful investment modelling.

11 In this context, disinterested parties refer to unbiased, impartial and objective parties.
13 Black Swan is a highly improbable but highly consequential event, comprising three principal characteristics - its unpredictability; its massive impact; and the desire to reduce the randomness and improve predictability after the fact.
2.7.5 Primary CSR reporting approaches

2.7.5.1 Mandatory and voluntary CSR reporting

CSR reporting occurs within a particular context, in certain areas and under specific circumstances, with variability in global CSR reporting practices being influenced by regional perspectives (Okoye, 2009). Companies in developing countries may for example, trust their governments (and accordingly regulatory regimes) more than they trust companies, especially when compared to developed countries (Okoye, 2009). Conversely, companies operating in developing countries may accordingly oppose strict regulatory regimes, on the basis that imposing CSR interventions could increase operating costs. These companies may prefer supporting perfunctory and relatively weak codes of governance instead; often only complying with the minimum requirements, but without incurring ‘unnecessary costs’ (Jenkins, 2001; Wells, 2007).

Despite supporting mandatory governance, Becht et al. (2005) argue that stringent rule enforcement may be counterproductive. Asserting that companies should provide shareholders with adequate protection mechanisms, they caution that regulators may not have the necessary information to define efficient rules. Becht et al. (2005) advance two primary reasons for regulatory intervention. Firstly, even when a corporate charter has been designed and implemented, it was unlikely to involve all relevant stakeholders, resulting in rules that were likely to be inefficient. Secondly, even when companies respond to the ‘right incentives’ when designing efficient rules, they may still want to retain sufficient flexibility to contravene or alter them when necessary.

CSR represents a company’s commitment to improving community well-being, extending beyond mere legislative and regulatory compliance and should include moral or ethical behaviour cognisant of society’s expectations of business (Kotler & Lee, 2005). Unlike mandatory externally oriented financial reporting, CSR reporting is usually voluntary, resulting in disparate and inconsistent CSR reporting practices (Ackers, 2009; Marx & van Dyk, 2011; Rea, 2011). Voluntary governance initiatives involve more than simple pragmatic innovations aimed at enriching the institutional environment (UNRISD, 2000) and should therefore establish a platform to institutionalise the desired ethical culture corporate to drive the company’s CSR reporting approach.

2.7.5.2 Mandatory disclosure

It is suggested that government intervention may be necessary to stimulate and regulate CSR reporting (KPMG, 2011). Companies and governments should collaborate on CSR-related matters to develop strong frameworks, set targets and provide a stable regulatory environment for sustainable solutions, including a mix of taxes, incentives, laws, regulations and market
mechanisms, such as emission trading systems (Force for Good [sa]). Legislation should result in improved corporate citizenship (Van Gass, 2008). Despite appearing to be in conflict with the ideals of voluntarism, King III (IoD, 2009a) emphasises the linkage between good governance and the law, suggesting that good governance is not something that exists separately from the law. King III (IoD, 2009a: 7) points out that many of the King II recommendations were now “matters of law”, having been incorporated into the new Companies Act, 2008.

Increasing international activity has resulted in the development and introduction of mandatory CSR reporting regulations, particularly in northern Europe where certain countries require companies to disclose their CSR performance in annual reports (Zorio et al., 2013). France, for example, has introduced the novellas regulations économiques (NRE), which require companies to provide CSR indicators in addition to the conventional statutory financial disclosures (Force for Good [sa]). Similarly, directors in the UK are obliged to disclose their material CSR risks (CorporateRegister, 2008). Since some companies will only grudgingly comply with the absolute minimum legal and regulatory requirements, Spencer [sa] argues that government should increase CSR legislation and regulation, and stringently enforce compliance.

CSR performance reporting is compulsory for Malaysian publicly listed companies (PwC, 2007). The Indian Companies Act takes mandatory CSR to the next level by not only requiring certain companies to report on their annual CSR activities, it also for certain companies to establish a CSR committee (India, 2013). Similarly, certain aspects of CSR reporting are mandatory in South Africa too (some of these regulations and legislation are reflected in footnote 7). Despite King III being a voluntary governance code, section 7.F.5 of the JSE regulations makes it mandatory for all JSE-listed companies to apply all the King III principles, or to explain why they have not applied any particular principle(s) (as described in section 2.7.7.2) (JSE, 2011; IoD, 2009a & IoD, 2009b). Although not usually intended for public consumption, other examples of mandatory CSR-related reporting include those relating to safety, health and environmental legislation, the Employment Equity Act (no. 55 of 1998) and broad-based black economic empowerment (BBBEE).14

In the USA however, the much vaunted, but costly to implement, Sarbanes-Oxley Act of 2002 (SOX) (Brennan & Solomon, 2008) only requires improved disclosure on the effectiveness of internal control over financial reporting (ICFR). While SOX section 302 requires management to certify the effectiveness of its disclosure controls, it is silent on CSR-related risks or controls

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14 A South African government programme intended to redress the imbalances caused by apartheid providing economic opportunities to previously disadvantaged groups. It includes employment equity, skills development, ownership, management, socioeconomic development and preferential procurement.
(Kinney & Shepardson, 2011; United States Congress, 2002). Similarly, despite Christopher Cox\textsuperscript{15} arguing that SOX section 404 was intended to “provide meaningful disclosure to investors about the effectiveness of a company’s internal controls systems, without creating unnecessary compliance burdens or wasting shareholder resources” (Kinney & Shepardson, 2011), SOX is silent on any aspects of non-financial governance too (United States Congress, 2002).

While it may be argued that mandatory regulations are intended to compel companies to increase their disclosure levels, anecdotally some companies will always only provide minimal (tick-box) compliance, without actually providing stakeholders with anything of value. Moreover, the ineffectiveness of mandatory CSR reporting is exacerbated by the lack of universally agreed standards and frameworks and, in extreme cases, may even stimulate a desire to beat the system.

2.7.5.3 Voluntary disclosure

In many countries, government’s regulatory CSR role is rendered effectively obsolete through the increasing adoption of voluntary corporate and/or industry initiatives for implementing, monitoring and reporting CSR (UNRISD, 2000; Utting, 2005). Without appropriate legislation and regulations, many South African organisations have voluntarily adopted the principles of the various iterations of the King Code of Governance to improve their governance practices (Ackers, 2009; Esser, 2008; Marx & Van Dyk, 2011; Rea, 2011). While many firms now voluntarily disclose CSR-related information on their websites, others publish it in formal reports (Hess & Dunfee, 2007). CSR reporting should therefore remain sufficiently flexible to reflect its different conceptions, and illustrate its diverse participants and dimensions (Okoye, 2009).

It may be argued that legal corporate accountability by transnational companies (TNCs) can be enforced through promulgating appropriate regulations and legislation to enhance CSR-related disclosures. To retain control and avoid regulatory interference, TNCs and large companies usually favour voluntary management-led annual CSR report disclosures often exceeding the legal or regulatory requirements (Okoye, 2009). Voluntary CSR reporting therefore provides an important alternative to increased government regulation of business (Wines, 2008). Supporting a free market system and consequentialism, Wines (2008) argues that corporate regulation is an inherently inefficient mechanism that stifles business growth. Orlitzky et al. (2003) posit that the case for governmental regulation and control (acting on behalf of ‘society’) of CSR reporting is relatively weak. They argue that companies (and their shareholders), and not their broader stakeholders, tend to benefit from management’s analysis, evaluation and distortion of the

\textsuperscript{15} Christopher Cox was a member of the USA Congress in 2002 and was later appointed chairman of the Securities and Exchange Commission (SEC).
preferences of multiple constituents. Assuming instrumental CSR theory (as described in section 2.4.3), many companies voluntarily adopt CSR-related programmes based on a cost-benefit analysis to prevent government prescribing inflexible CSR accountability mechanisms, which they may wish to avoid.

Archel et al. (2008) suggest that the reasons that companies voluntarily provide CSR reports remain unclear. Instead of discharging their broader stakeholder accountability, companies publishing CSR reports may simply want to improve or maintain their reputations (Bebbington, Larrinaga & Moneva, 2008). These companies may not necessarily reflect an increased concern about social and environmental issues, but may be more interested in the accrual of instrumental benefits to the company (Aras & Crowther, 2008).

Voluntary CSR initiatives tend to lack the necessary mechanisms for enforcing compliance and imposing effective penalties for breaking the ‘rules’. Archel et al. (2008) caution that the voluntary nature of CSR reporting, as well as hierarchical stakeholder structures, may motivate companies to provide CSR disclosures in order to strategically meet the interests of their more powerful shareholders, while dismissing the interests of those less powerful. Similarly, Owen et al. (2000) warn that voluntary initiatives have largely been unsuccessful in eliciting meaningful responses from companies about the environmental and social dimensions of their operations.

Archel et al. (2008) conclude that the premise of voluntarily reporting CSR may actually impair the quality of boundary setting and disclosure. Therefore, until the introduction of global standards that may be consistently applied by companies around the world, comparability will remain a challenge for voluntary CSR reporting (IIA, 2010b). It is proposed that this deficiency may only be overcome through the development and implementation of more robust CSR reporting frameworks (Force for Good [sa]). Companies should therefore collaborate effectively to create voluntary frameworks and rigorously encourage compliance. The principle of voluntarism is that successful CSR governance initiatives should not be based on an enforcement regime, but rather on embedding self-regulation in the corporate fabric, as illustrated by the almost universal acceptance of the Hippocratic Oath for physicians, dating back to the 4th century BC.

2.7.6 Development of CSR reporting practices

In the late 1980s, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) began developing environmental accounting and reporting practices. By 1999, ISAR agreed to continue developing environmental accounting and disclosure practices and to promote CSR reporting (UNCTAD, 2002). In the 1990s, private organisations like the Institute of Social and Ethical Accountability (AccountAbility) and the New Economics
Foundation led the initiative to establish social and ethical accounting, auditing and reporting (SEAAR) standards, complementing similar financial functions to reflect triple bottom line performance (Owen et al., 2000).

More recent initiatives included developments by the Global Reporting Initiative (GRI), the International Federation of Accountants (IFAC) and the Chartered Institute of Management Accountants (CIMA) (Reuvid, 2007). According to King (as cited in Van Gass, 2008), the GRI and the Big 4 audit firms are working towards developing a ‘holistic’ reporting standard for non-financial company reporting. This new CSR reporting standard, which King suggests should be ready by 2018, will improve stakeholder assessment and decision-making. The Big 4 audit firms concede that simply reporting according to the existing IFRS only presents part of the picture. Non-financial reporting standards should therefore be harmonised and developed to improve the quality and comparability of CSR reporting practices (Van Gass, 2008).

2.7.7 CSR reporting standards and frameworks

2.7.7.1 Background

CSR reporting practices have largely been driven by the adoption of corporate codes (Okoye, 2009). Standardised methods for analysing and measuring CSR performance that are universally understood, and consistently and comparably evaluated by interested parties, improve stakeholder decision-making (Aras & Crowther, 2008). On the other hand, the inconsistent interpretation of what constitutes CSR may conveniently facilitate corporate disingenuity, especially since corporate risk evaluation methodologies often inadequately incorporate CSR-related risks (Aras & Crowther, 2008).

To fully recognise and incorporate the costs and benefits associated with CSR-related performance into the investment analysis process, requires the types of costs and revenues to be identified (Aras & Crowther, 2008). CSR reporting should therefore provide a balanced perspective that recognises both the benefits and costs of the company’s interaction with the environment and society extending beyond the traditional financial footprint.

Increasing recognition of the social and environmental dimensions of company activity as important strategic matters, are driving the need to establish appropriate CSR reporting standards (Jenkins, 2001). The development and implementation of standardised metrics and reporting principles are therefore imperative for the ongoing development of CSR reporting (KPMG, 2011). This has resulted in the emergence of several different frameworks and standards to account for and disclose CSR-related performance (Morimoto et al., 2005).
Financial analysts, investors and other stakeholders tend to question the reliability, comparability, relevance and materiality of CSR disclosures, creating a credibility gap that reduces the usefulness of CSR reports (Manetti & Becatti, 2009). This deficiency is exacerbated when companies strategically use CSR reporting standards and deliberately fail to disclose their indirect impacts, or concealing non-disclosure, contributing to the perceived shallow nature of CSR reporting (Archel et al., 2008). Companies wishing to act responsibly should therefore collaborate to establish and implement appropriate universally applicable standards through self-regulation.

While not exhaustive or mutually exclusive, some of the more prominent approaches, codes, standards and frameworks, as well as pertinent South African regulations and legislation dealing with CSR-related matters, are briefly described in the sub-sections below. It is however, recognised that the financial, environmental and social dimensions of accounting, reporting and assurance remain at different evolutionary stages.

2.7.7.2 King Code of Governance for South Africa, 2009 (King III)

Codes of conduct are written statements of principle or policy intended to reflect corporate commitment to particular principles and practices (Okoye, 2009). These usually include guidelines, recommendations or rules, issued by companies to, inter alia, enhance their CSR reporting practices (Okoye, 2009). Corporate codes include codes of ethics and codes of conduct, representing the most visible signs of a company's ethical or moral philosophy (Stead, Worrell & Stead, 1990). The development of voluntary codes has been largely unstructured, resulting in their inconsistent application and interpretation (ICAEW, 2004). The importance of corporate codes is driven by globalisation, and a need to incorporate universally applicable core principles into the corporate governance structure (Singh et al., 2005). Jenkins (2001) argues that developing realistic codes should obviate a need for government regulation, reducing pressure on government to control corporate activity. Jenkins (2001) however, cautions that corporate codes could be implemented in 'bad faith', without actually changing anything on the ground but simply to deflect public criticism.

The release of the Cadbury Report and Code of Best Practice in the UK in 1992 initiated the institutionalisation of voluntary corporate governance practices. Cadbury argued that proper management accountability was imperative to improve company governance practices. Cadbury emphasised that companies themselves were responsible for adhering to a code of best practice, as exercised through their boards (Cheffins, 1999). Since then, several countries, from Algeria to
Yemen, have published corporate governance related codes.16

Under the auspices of the King committee, the Institute of Directors of Southern Africa released the first King report and code of governance for South Africa (King I) in 1994 aimed at promoting the highest standards of corporate governance. At the time, King I was ground-breaking and introduced an integrated approach to good governance that accommodated the interests of a wide range of stakeholders (IoD, 1994; Hendrikse & Hendrikse, 2004). King I identified three primary stakeholder categories, including (i) shareholders; (ii) stakeholders with contractual relations (including employees, consumers and suppliers); and (iii) stakeholders without contractual relations (including government and local authorities). King I highlighted the importance of clear, open, understandable and transparent stakeholder communication, introducing stakeholder-oriented reporting on employee-related matters, environmental issues and social responsibility activities (IoD, 1994). Esser (2008) argues that communication provides a basis for stakeholder protection by recognising stakeholder interests, but without imposing any corresponding legal obligation. Despite King I advocating shareholder primacy by requiring directors to act in the best interest of the company, it also recognises that companies should consider the interests of other stakeholders by disclosing pertinent information about the company.

Responding to pressures of a constantly evolving global socioeconomic and regulatory environment, King I was revised when King II was released in 2002. King II expanded the corporate governance concept by moving away from a single (financial) bottom line, towards a more inclusive triple bottom line approach, by including aspects relating to the economic, environmental and social impacts of a company’s activity. King II elevated the importance of CSR reporting as a core component of corporate governance practice by requiring CSR reporting to be integrated with financial reporting (IoD, 2002: 34–36).

The third King Code on Governance for South Africa (King III) released on 1 September 2009 went even further by arguing that the “planet, people and profit were inextricably intertwined” (IoD, 2009a: 11). King III became effective from 1 March 2010 for accounting periods ending 28 February 2011 (IoD, 2009a: 17). King III adopts a broad principles-based approach to good governance, recognising both the ‘enlightened shareholder’ and the ‘stakeholder inclusive’ models of corporate governance. Collectively, these approaches require the board to consider the interests of both shareholders and stakeholders. As described in section 2.4.7, in terms of the enlightened shareholder approach companies only accommodate stakeholder interests and expectations based

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16 According to the European Corporate Governance Institute, 87 different countries have released corporate governance code (http://www.ecgi.org/codes/all_codes.php on 7 April 2012).
on the instrumental value to companies. By contrast, stakeholder inclusiveness requires the board to consider the legitimate interests and expectations of legitimate stakeholders, on the premise that it is in the best interests of the company as a whole and not merely an instrument with which to serve shareholder interests (IoD, 2009a).

CSR primarily involves the simultaneous pursuit of economic prosperity, environmental quality and social equity, making it necessary not only to evaluate companies on their economic value, but also on the value, or cost of their environmental and social contribution and/or degradation. King III requires the board to report on how companies capitalise on the positive and ameliorate the negative aspects of their business operations (IoD, 2009a). More specifically, King III principle 8.1 requires the board to recognise that stakeholder perceptions affect corporate reputations (IoD, 2009a). The board delegates the responsibility of proactively managing stakeholder relationships to management (principle 8.2). Management in turn, contributes to achieving organisational objectives by executing operational risk management strategies and implementing and monitoring effective internal controls (Sobel & Reding, 2012). Despite acknowledging a need to consider stakeholder interests in their business dealings, King III principle 8.3 clearly supports the ‘enlightened self-interest’ argument (as described in section 2.4.3), by emphasising the need to balance the interests of the various stakeholder groups, while acting in the company’s best interests. This confirms a universally accepted principle of corporate governance that directors have a fiduciary responsibility to exercise their powers bona fide for the benefit of the company (as described in section 2.5.2). Even though King III emphasises the board’s accountability to the company, it suggests that the legitimate interests and expectations of stakeholders should not be ignored (IoD, 2009a).

Not only does King III require adopting companies to provide integrated reports improving stakeholders’ ability to assess a company’s economic, social and environmental value/cost (IoD, 2009a), but in the context of this thesis also to have their CSR disclosures independently assured (IoD, 2009a). In this regard, despite King III principle 9.2 requiring sustainability reporting to be integrated with financial reporting, principle 9.3 only requires independent assurance of sustainability reporting. However, the South African Companies Act requires widely-held public companies to provide audited annual financial statements, and King III principle 3.9 refers to the audit committee’s responsibility to appoint the external auditor and to oversee the external audit process.

King III principle 3.5 introduces combined assurance as a mechanism to overcome the information asymmetry arising from the agency problem (as described in section 2.4.5). The glossary to King III defines combined assurance as integrating and aligning assurance processes to maximise...
oversight over company risk, governance and control efficiencies, while optimising overall assurance provided to the audit committee within the context of the company’s risk appetite. Combined assurance is colloquially referred to as the ‘three lines of defence’, with management, internal assurors (such as internal audit) and external assurors (such as external audit) each providing the audit committee and/or the board with assurance relating to company different risks (PwC, 2009; IoD, 2009b; Sarens et al., 2012). The audit committee should ensure that the combined assurance model not only selects the most appropriate assurors, but also that audit and assurance engagements do not result in ‘management by audit opinion’ or ‘death by audit’ (Rea, 2011: 3). Combined assurance should reduce information clutter, cut costs, eliminate unnecessary duplication, and highlight blind spots or assurance gaps (Deloitte, 2011: 1–2). Coetzee and Lubbe (2011: 30, 41) suggest that the internal audit activity is “the ringmaster in combined assurance and the right arm of the non-executive board”.

Like its predecessors, King III is a principles-based voluntary code of conduct which subscribes to an ‘apply or explain’ rather than a ‘comply or else’ approach. Companies adopting King III are accordingly required to apply the King III principles, or explain why they have not. Despite King III being a principles-based voluntary code, JSE (2011) regulation 8.63(a) requires all JSE-listed companies to apply all the King III principles, or to explain why they have not. As such, King III has become a de facto mandatory regulation for all JSE-listed companies.

2.7.7.3 Global Reporting Initiative (GRI)

The GRI represents a global network of around 30 000 stakeholders (GRI, 2011b) from over 80 countries that include companies, governments, non-governmental organisations (NGO), consultancies, accounting bodies, business associations, rating agencies, universities and research institutes (FEE, 2011). The GRI Guidelines, initially established in 1997 (McAusland & Fogelberg, 2010), are currently the world’s most widely used framework for CSR reporting (Black & Quach, 2009; Eccles et al., 2011). As such, the GRI is the ‘de facto’ or ‘gold standard’ for global CSR reporting, with 80% of G250 and 69% of N100 companies aligning their CSR reporting to the GRI framework (Black & Quach, 2009; KPMG 2011). Companies using the GRI guidelines increased from fewer than 50 in 2000, to 376 in 2005 and to over 1 860 by 2010. The widespread acceptance of the GRI is illustrated by the GRI database, which contains 24 155 CSR reports (18 596 of which were based on the GRI Framework) from more than 7 456 organisations in 85 different countries, ranging from Albania to Vietnam. Rea (2011) however, argued that the GRI’s list was incomplete, since although many organisations used the GRI guidelines to prepare their

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17 Extracted from the GRI website on 19 April 2015 at http://database.globalreporting.org/.
CSR reports, not all reports were registered with the GRI.

The GRI issued its first set of reporting guidelines in 2000, the second in 2002 (G2 guidelines), and the third (G3 guidelines) in October 2006. The GRI was subsequently updated in March 2011 (G3.1 guidelines), with the most recent iteration (G4 guidelines) released in May 2013. The GRI requires all reports produced after 31 December 2015 to be prepared in accordance with the GRI G4 guidelines. The GRI G4 includes the principles for defining report content (materiality, stakeholder inclusiveness, sustainability context and completeness) and the principles for ensuring report quality (balance, comparability, accuracy, timeliness, clarity and reliability) (GRI, 2013a). The GRI guidelines consist of two parts. The first guides the reporting process (including engaging stakeholders, selecting material indicators and committing to high standards of reporting). The second relates to the implementation manual incorporating the reporting indicators (forming the basis for the quantitative disclosure of economic, environmental and social issues). Despite referring to the GRI G4, since its implementation is only scheduled after completion of this thesis, it is unlikely that the companies in this study would have implemented the GRI G4.

The GRI G3.1 allows companies to declare their application levels, based on a self-assessment of their CSR report content, against 79 predetermined GRI indicators (GRI 2011a). The three GRI application levels (A, B and C) accommodate the needs of beginners, advanced reporters and those falling in between. The lowest application level ‘C’, makes it easy for new reporting companies to get started, and progressively improve and transparently progress through to levels ‘B’ and ‘A’. Whereas the C level only requires the company to report on ten GRI indicators; B level requires reporting on 20 indicators; and the A level requires 50 ‘core’ indicators (and not all 79) to be represented. These representations may either be supported with data or with a ‘valid’ explanation of why they have not been disclosed. In addition, companies may self-declare a ‘plus’ (+) at each application level (i.e. C+, B+, A+) if they have used external assurance providers (KPMG, 2008; GRI, 2011a; O’Dwyer & Owen, 2005).

The GRI’s objective is for CSR reporting to become as routine and comparable as financial reporting (FEE, 2011). The GRI provides a balanced framework for reporting CSR, while supporting the evaluation of results and impacts within the context of performance codes and standards (FEE, 2011). The GRI contributes to the ongoing development of the guidelines and related materials (GRI, 2011a), representing a framework of principles and guidance together with relevant disclosures and indicators that organisations use to voluntarily report their CSR performance. The GRI indicators provide a framework to assist companies develop and implement a CSR assurance programme (Coyne, 2006). Archel et al. (2008) however, suggest that companies obtaining a GRI compliant label are more likely to do so because of corporate image and
reputation, rather than to provide any assurance about reporting quality.

2.7.7.4 AA1000 AccountAbility series of standards

The AccountAbility Principles for Sustainable Development first appeared in 1999, in the AA1000 AccountAbility Framework Standard. These principles have since been revised to include the four core principles of inclusivity, materiality, completeness and responsiveness, underscoring the subsequently released AA1000 Assurance Standard (AA1000AS) and the AA1000 Stakeholder Engagement Standard (AA1000SES). The AA1000 principles were later incorporated in a separate AA1000 AccountAbility Principles Standard (AA1000APS) in 2008. AA1000APS comprises the principles of inclusivity, materiality and responsiveness. Despite no longer included as a specific principle in the newer versions of the standards, completeness remains key to CSR assurance, referring to the extent to which these principles have been achieved (AccountAbility, 2008b). Inclusivity ensures materiality and responsiveness, and is the starting point for determining materiality, which identifies the most relevant and significant issues facing organisations and stakeholders (AccountAbility, 2008b). Responsiveness includes decisions, actions and performance related to the material issues (AccountAbility, 2008b).

In terms of the AA1000 series of standards, accountability includes transparency (to stakeholders); responsiveness (to stakeholder concerns); and compliance (with legislation, regulations, standards, codes, principles, policies and other voluntary initiatives) (AccountAbility, 2008b). As described in section 2.5, accountability is about acknowledging, assuming responsibility for, and being transparent about the effects of corporate policies, decisions, actions, products and associated performance (AccountAbility, 2008b). Accountability obliges companies to engage stakeholders in order to identify, understand and respond to emerging CSR issues and concerns, and to report, explain and account to stakeholders for their decisions, actions and performance. The underlying principle is that companies that are accountable will attempt to (AccountAbility, 2008b):

- develop a corporate strategy based on a comprehensive and balanced recognition of material stakeholder issues, concerns and responses
- establish goals and standards against which the corporate strategy and the resultant performance can be managed and evaluated
- provide legitimate stakeholders with pertinent and credible information about corporate strategy, goals, standards and performance to improve effective decision-making.

The AA1000 series of standards comprises three internationally accepted CSR-related standards. These standards are supported by guidance notes on how to apply the standards, together with
practical implementation examples. These AccountAbility standards are briefly described below:


   AA1000APS provides a set of principles describing the manner in which corporate accountability is understood, governed, administered, implemented, evaluated and communicated. AA1000APS assists organisations to formulate a strategic CSR approach by allowing them to focus on material issues. AA1000APS provides a framework for identifying and acting on opportunities, improving non-financial risk management and specifically requiring active stakeholder engagement. This allows companies to improve their identification and understanding of the significant CSR issues potentially impacting their performance, and developing responsible business strategies and performance objectives.


   AA1000SES supports the right of stakeholders to be heard, requiring companies to respond appropriately to stakeholder concerns. AA1000SES is a principles-based framework for engaging stakeholders, providing a robust basis on which to design, implement, evaluate and ensure the quality of stakeholder engagement. It may either be used as a stand-alone standard or incorporated into other standards. AA1000SES applies across a range of engagements from micro-level issues on specific engagements to macro-level engagements relating to major social concerns, and is applicable to business, civil society, labour organisations, public bodies, multi-stakeholder networks and partnerships.


   AA1000AS specifically addresses CSR assurance engagements, by providing a basis for assurors to go beyond mere data verification, focusing on issues that are material to both the company and its stakeholders. AA1000AS requires assurance to be based on the nature and extent of conformance with the AA1000 series of principles, and on the quality of the disclosed CSR information. It includes the means for capturing and contextualising other verification and certification schemes dealing with specific dimensions of CSR, and establishes a platform for improving alignment of the non-financial and financial aspects of CSR performance.

**2.7.7.5 International Organisation for Standardisation (ISO)**

The International Organisation for Standardisation (ISO) was established in 1926 and has grown
into a NGO comprising a network representing the national standards institutes of 163 countries\textsuperscript{18} coordinated by a centralised secretariat in Geneva, Switzerland.\textsuperscript{19} The ISO positions CSR as the responsibility of companies for the impact of their decisions and activities on society and the environment, through transparent and ethical behaviour, contributing to sustainable development. This includes addressing societal health and welfare; accommodating stakeholder expectations; complying with applicable laws and regulations; conforming to international behavioural norms; and integrated throughout the company as reflected in its relationships (Black & Quach, 2009).

The ISO 14000 series of standards,\textsuperscript{20} released in 1996, introduced environmental management systems to control and monitor the environmental impacts of corporate operations (Feldman, 2012). In 2010, ISO 26000 (Guidance on Social Responsibility) expanded on ISO 14000 by including broader aspects relating to CSR. ISO 26000 facilitates the transformation of environmental management systems into integrated sustainability management systems (Pojasek, 2011). Unlike ISO 14000, ISO 26000 is a guidance document and not a management system standard,\textsuperscript{21} and is not intended for certification or regulatory purposes (Pojasek, 2011). Nevertheless, despite being a guidance document, Pojasek (2011) suggests that ISO 26000 resembles the ISO 14004\textsuperscript{22} guidance by addressing the relevance and significance of CSR ‘core subjects’ and ‘issues’ in a manner similar to the manner in which ISO 14004 deals with environmental aspects, impacts and significance.

2.7.7.6 Integrated reporting

Morimoto et al. (2005) posit that a lack of agreed criteria to define sustainable outcomes implies that CSR reporting methodologies inadequately reflect corporate social and environmental responsibility, or even indicate whether corporate actions contribute to sustainable development. Similarly, Aras and Crowther (2008) argue that CSR reporting is inherently flawed, since financial performance has not historically been recognised as an integral component of CSR reporting. It is suggested that the objective of the global initiative for integrated reporting should overcome this deficiency by presenting a more comprehensive picture of the company’s activities (Eccles, Cheng & Saltzman, 2010; Eccles, Krzus & Watson, 2012; Eccles et al., 2011).

King III suggests that CSR best practice and integrated reporting can only be achieved when

\textsuperscript{18}South Africa’s ISO signatory is the South African Bureau of Standards (SABS).
\textsuperscript{19}Extracted from the ISO website on 17 March 2012 at \texttt{http://www.iso.org/iso/home.htm}.
\textsuperscript{20}There are more than 30 standards in the ISO 14000 series, of which only ISO 140001 is a certification standard against which a third party can verify organisational conformance (Feldman, 2012: 70).
\textsuperscript{21}For example ISO 9001:2008 or ISO 14001:2004
\textsuperscript{22}ISO 14004 – Environmental Management Systems – General Guidelines on Principles, Systems and support techniques (which is referenced in the bibliography to ISO 26000).
company leadership embrace integrated CSR performance and reporting (as described in section 2.7.7.2). Instead of providing separate CSR and financial reports (even when incorporated in one annual report), King III (principle 9.2) specifically requires CSR reporting to be integrated with the company’s financial reporting (IoD, 2009a). While King III recommended practice 9.1.4 requires integrated reporting to convey sufficient information relating to the company’s financial and CSR performance, the focus should be on substance over form (recommended practice 9.1.5). King III defines integrated reporting as “a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability” (IoD, 2009a: 54). More comprehensively, the IIRC (2013a: 8) requires an integrated report to concisely communicate how the reporting company’s strategy, governance, performance and prospects, leads to the creation of value over the short, medium and long term. Integrated company reports are therefore intended to increase the trust and confidence of report users, by providing pertinent forward-looking information about the company as a whole, thereby improving its operational legitimacy.

The integrated reporting initiative establishes a basis for developing holistic accounting practices, involving both IFRS and contextual practices (Eccles et al., 2010). By adding new content to company annual reports, integrated reporting combines company financial and CSR reports into a single document, reconciling the shareholder and stakeholder models of the firm as described in sections 2.4.2 and 2.4.3 (Eccles et al., 2010). Integrated reporting consolidates material information relating to the business model, strategy, governance, performance and prospects of organisations in a manner that reflects the commercial, social and environmental context within which the business operates (IIRC, 2012). Some companies use the CSR report as the base document, supplemented by appropriate financial information (Eccles, 2010). Integrated reporting therefore contributes to annual reports by more comprehensively reflecting the corporate reality (i.e. the ‘big picture’).

The IIRC was established in 2010, representing a global coalition of regulators, investors, companies, standard setters, the accounting profession (both professional bodies and audit firms) and NGOs. The objective of the IIRC is to ensure that company reporting evolves to improve stakeholder oriented communication about the manner in which the company’s strategy, governance, performance and prospects can create value over the short, medium and long term, within the context of its external environment. The IIRC released its first discussion paper on a framework for integrated reporting on 12 September 2011. A prototype framework incorporating public comments on the first discussion paper and the practical experience of more than 80 companies participating in the pilot programme was subsequently issued in November 2012. A consultation draft on the integrated reporting framework was released on 16 April 2013, with the final integrated reporting framework being issued in December 2013. The broad representation of
IIROC participants, including by the major global accounting/auditing bodies, and practitioners representing both the Big 4 as well as smaller audit firms, suggests that integrated reporting is expected to become the primary global framework for stakeholder reporting.

Notwithstanding the stated objective of integrated reporting being to improve stakeholder communication and identifying a reporting company’s human, social, relationship and natural capitals, the final published international integrated reporting framework specifically targets the ‘providers of financial capital’ (IIROC, 2013b: 7; IIROC, 2013c: 14). While the integrated reporting framework does not completely disregard the interests of broader stakeholders, their importance are somewhat trivialised by the comment that ‘all stakeholders interested in an organisation’s ability to create value over time’ should also benefit. Despite this deficiency, integrated reports should nevertheless provide sufficient information to stakeholders about how the company has influenced the economic life of the community (both positively and negatively) during the period under review (IoD, 2009a), albeit from an instrumental perspective. The declared objective of integrated reporting is to concisely incorporate both financial and non-financial information in a single (summarised) report. Integrated reports should therefore concisely communicate company performance, providing additional information through linkages to other reports and communications (IIROC, 2013a). In this way, integrated reports complement and do not replace existing company reports. Since integrated reporting is not intended to replace CSR reporting, the implication of assuring integrated reporting has not been considered further in this thesis.

2.7.7.7 Companies Act no. 71 of 2008

Corporate governance is legally enforced through the provisions of the Companies Act, 2008 (as described in section 2.5.1). Given the significant role of companies in the social and economic life of South Africa, section 7(b)(iii) of the Companies Act encourages transparency and high standards of corporate governance.

The Companies Act imposes a duty on directors to discharge their responsibilities not to “gain an advantage for the director, or for another person other than the company or a wholly-owned subsidiary of the company” (s 76(2)(a)(i)); or “knowingly cause harm to the company or a subsidiary of the company” (s 76(2)(a)(ii)). Moreover, directors “must exercise the powers and perform the functions of director in good faith and for a proper purpose; in the best interests of the company; and with the degree of care, skill and diligence that may reasonably be expected of a person” carrying out the functions of a director; and “having the general knowledge, skill and experience of that director” (s 76(3)). According to Esser (2008), when drafting the Companies Act, legislators considered the enlightened shareholder value approach, and argues that the
interests of other stakeholders should also be considered (as described in section 2.4.3). When acting in the best interests of the company, directors should therefore not only consider the best interests of shareholders, but of stakeholders as well.

The increased importance of CSR is illustrated by the new South African Companies Act introducing the CSR concept, albeit at a rather superficial and unenforceable level (Esser, 2008). Despite not imposing any CSR responsibility or accountability on companies, section 7(k) requires companies to balance the rights and interests of all relevant stakeholders. While emphasising the significant role that companies play in national social and economic life, section 7(a)(iii) encourages (but does not compel) companies to be transparent or to implement high governance standards. Section 7(d) confirms government’s stated objective of using companies to achieve economic and social benefits. Section 72(4) gives the Minister the right to prescribe that certain companies must have a social and ethics committee, if it is in the public’s interest. How this provision will be interpreted in law, or whether it will ever be exercised or enforced, remains questionable. Finally, section 159(3)(b)(iii) provides whistle-blowers with protection where companies have acted in a manner that has endangered, or is likely to endanger the health or safety of any individual, or to damage the environment. While it may be argued that these provisions do not go far enough, it nevertheless represents a step in the right direction, away from the provisions of the previous Companies Act, 1973, and subsequent amendments that did not even acknowledge the stakeholder concept.

King III (IoD, 2009a) emphasises the linkage between good governance and the law by suggesting that good governance does not exist separately from the law, implying that governance and the law are intrinsically intertwined and cannot be considered separately. Legal systems therefore constantly evolve in response to structural changes in society (Frankel, 1983). This evolutionary process is evidenced by the Companies Act, 2008, incorporating many of the King II principles (IoD, 2009a). Responding to the expectations of society, it is conceivable that South African company legislation will similarly be amended to incorporate some, if not all, of the King III principles as well, including those related to CSR-related issues. Force for Good [sa] concurs by contending that self-regulation (like King III) is often the springboard from which national regulation and legislation can be created.

2.7.8 CSR reporting characteristics and components

Transparency and accountability are the fundamental principles underpinning good CSR reporting (CorporateRegister, 2008). Boundary setting for CSR reporting is important to ensure the provision of pertinent information required by stakeholders and to avoid companies only choosing to disclose
positive CSR performance and to conceal the activities of others with less commendable or even adverse CSR records (Archel et al., 2008). This is particularly relevant for TNCs that may adopt different CSR reporting approaches in the developed and developing countries where they operate (Archel et al., 2008).

Effective CSR reporting should not be confined to the reporting company and its subsidiaries, but should include all entities over which the reporting company exercises control (Archel et al., 2008), which could even include downstream suppliers. The GRI (2005) requires reporting companies to account for the following entity relationships:

- Contractual relationships requiring specific operating standards and practices which have a direct impact on the reporting entity’s CSR performance.
- Reporting companies that have purchasing agreements which account for a substantial proportion of the entity’s sales.
- Reporting companies that impose downstream contractual obligations relating to aspects of CSR performance.
- Reporting companies where licensed technology or patented products comprise a significant part of the entity’s CSR performance.

However, simply providing voluntary disclosures does not necessarily imply that reporting is credible, or even that it reflects the true state of corporate affairs. The components of CSR are influenced by the type of reporting company, the industry sector, the operating country and the reasons for engaging in and reporting CSR practices (AccountAbility, 2006). Moreover, the ostensibly voluntary nature of CSR reporting implies that no definitive standard/framework presently exists.

Establishing the scope of reportable CSR activities requires reporting companies to engage with stakeholders in identifying, understanding and responding to issues of material concern to both reporting companies and their stakeholders (AccountAbility, 2006). In the absence of a definitive CSR reporting framework, the detailed dimensions of the GRI G4 (GRI, 2013a: 44) may be regarded as a proxy for a CSR reporting framework. Using the GRI G4 as a CSR reporting guidance partially overcomes the ambiguity and inconsistency of the standards and frameworks described above. The CSR reporting dimensions that should be addressed in CSR reports may be concisely categorised as reflected in Table 2.1 below:
Table 2.1 – Core reportable CSR dimensions (GRI 2013a, PRI 2013a & PRI 2013b)

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Economic</th>
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</thead>
<tbody>
<tr>
<td>• Air/water/physical pollution</td>
<td>• Access to skilled labour</td>
<td>• Economic performance</td>
</tr>
<tr>
<td>• Bio capacity and ecosystem quality</td>
<td>• Community/consumer/stakeholder relations</td>
<td>• Market Presence</td>
</tr>
<tr>
<td>• Biodiversity</td>
<td>• Crime and safety</td>
<td>• Indirect Economic Impacts</td>
</tr>
<tr>
<td>• Climate change</td>
<td>• Democratic change</td>
<td>• Procurement Practices</td>
</tr>
<tr>
<td>• Energy resources and management</td>
<td>• Diversity</td>
<td></td>
</tr>
<tr>
<td>• Natural disasters</td>
<td>• Education and human capital</td>
<td></td>
</tr>
<tr>
<td>• Renewable and non-renewable natural resources</td>
<td>• Employment levels</td>
<td></td>
</tr>
<tr>
<td>• Water resource utilisation</td>
<td>• Employee relations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Food security</td>
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<tr>
<td></td>
<td>• Health and safety</td>
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<td></td>
<td>• Human rights</td>
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<td></td>
<td>• Political freedoms</td>
<td></td>
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<tr>
<td></td>
<td>• Product responsibility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Social exclusion and poverty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Trust in society/institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Economic performance</td>
<td></td>
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<tr>
<td></td>
<td>• Market Presence</td>
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<td></td>
<td>• Indirect Economic Impacts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Procurement Practices</td>
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</tr>
</tbody>
</table>

2.7.9 CSR reporting challenges

Meaningful CSR reports should be as important, detailed, rigorous and reliable as the financial statements (Gray & Milne, 2002). It may however, be argued that existing company reporting does not facilitate meaningful investor decision-making (Hummels & Timmer, 2004), with the quality of CSR reporting often being poor (Gray & Milne, 2004; Polonsky & Jevons, 2009). CSR reporting seldom cover the more sensitive aspects of CSR performance, often ignoring complex and contextual issues. Gray and Milne (2002) found that CSR reporting tended to cherry-pick the "good news". Similarly, many CSR reports still vaguely describe what CSR entails, sometimes only confirming little more than the company will continue to exist in the future, without reflecting on its environmental and social dimensions (Aras & Crowther, 2008). According to Aras and Crowther (2008), companies are inadequately equipped to monitor and quantify the environmental and social impacts. Similarly, Archel et al. (2008) found that 70% of CSR reports do not disclose their indirect operational impacts. Where these impacts were disclosed, they tended to focus on the positive economic aspects, while ignoring the adverse indirect social, environmental or economic impacts.

Confirming the flawed nature of the CSR reporting process, Adams and McNicholas (2007) contend that despite the potential for CSR reporting to drive change, it does not really occur in practice. The availability of accurate and reliable information, as well as the underlying supporting systems, processes, policies and strategies, determine the mechanisms used by individuals, society and governments to direct activity towards more sustainable and responsible outcomes (Spencer [sa]).
Archel et al. (2008) caution against companies that may use CSR reporting opportunistically, ignore disclosure requirements and deliberately conceal non-disclosure of pertinent indicators. Since a substantial proportion of CSR activity may exclude impacts that fall outside the ‘strict’ company boundaries, companies may fail to accurately disclose their CSR impacts.

Moreover, the absence of a generally accepted framework for contextual accounting causes many CSR reporting challenges, including the decision of which matters to report on, which performance metrics to use and how to overcome comparability difficulties (IIA, 2010b; Eccles, 2010). Despite CSR reporting practices being constrained by the lack of broadly acceptable accounting and reporting frameworks, the contemporary CSR discourse continues to generate different approaches and frameworks. It is predicted that as the volume of the discourse grows louder, more approaches will emerge before a standardised and widely accepted approach and framework will be developed.

2.8 Conclusion

Since companies are juristic bodies, they require natural persons to act on their behalf. Within this context, it is acknowledged that company management and the board of directors are responsible for establishing and implementing company strategy and for embedding the desired corporate culture necessary to drive the company’s approach to CSR-related issues. To protect the interests of the company (as principal) and to ameliorate the effects of the agency problem, effective board oversight is necessary to ensure that management discharge their fiduciary responsibilities in the best interests of the company.

The approaches to CSR adopted by companies are informed by various social and management theories. In this regard, the pertinent theories considered in this thesis include shareholder primacy, stakeholder theory, legitimacy theory, agency theory and slack resource theory. Despite the relative applicability of these theories, the primary theories impacting on CSR were identified as being shareholder primacy (particularly from an instrumental perspective) and stakeholder theory.

Shareholder primacy was found to militate against CSR, by initially arguing that the sole purpose of business was to maximise shareholder returns, while complying with society’s norms, rules, regulations and laws. By contrast, stakeholder theory holds that companies should take the interests of legitimate stakeholders into account in their operational decision-making, on the philosophical premise that CSR is the ‘right thing to do’. The prevailing corporate reality is that the respective CSR approaches of companies fall somewhere along the continuum, reflecting no responsibility at the one extreme and maximum responsibility at the other. The shareholder model was subsequently adapted to accommodate CSR-related issues, by introducing the enlightened
self-interest model. In terms of enlightened self-interest, any CSR intervention should only be considered if it is in the best interests of the company to do so (by implication for the benefit of shareholders). The instrumentalist perspective emerged from combining these seemingly incompatible shareholder and stakeholder theories.

The primary frameworks, regulations, legislation and guidelines on how companies account for their CSR performance were identified as being the GRI, the AA1000 series of standards, King III and to a lesser extent the integrated reporting framework. It was importantly acknowledged that these CSR approaches may be either voluntarily adopted or mandatorily imposed.

The board’s CSR role was described from the perspective of not only acting in the best interests of shareholders, but also relating to other stakeholders as well. Companies are beginning to respond to increased stakeholder demands for responsible corporate behaviour by timeously providing relevant non-financial information. Company responses to stakeholder expectations are driving the rapid development of CSR accounting and reporting practices. In the absence of a broadly applicable and widely accepted framework, these practices remain the subject of intense debate, both academically and within the corporate sector. Despite the existence of several different approaches, tools, frameworks and standards to guide the CSR reporting process, it is predicted that the major frameworks and standards will begin to converge over time, improving the usability and comparably of reported CSR data.

The accounting profession has developed its financial accounting practices over several millennia, which still continues to evolve. It is therefore understandable that the tools and techniques used to account for non-financial matters are still in the early stages of development. As such, since the evolution of CSR reporting should be regarded as being ‘a journey and not a destination’, it is expected that lessons will be learned and processes adapted as practices stabilise over time. This evolutionary process may resolve some of the challenges to CSR reporting outlined in this chapter. Although integrated reporting is expected to become one of the primary methods through which companies will report on their overall performance, it should be reiterated that integrated reporting will complement and not replace CSR reporting, and is accordingly not particularly relevant to this study which focuses on CSR reporting and assurance.

Whereas the merits and deficiencies of voluntary and mandatory CSR practices and the most significant frameworks and standards were considered in this chapter, the underlying assumption is that CSR disclosure is expected to increase demonstrating improved corporate accountability. Irrespective of the underlying reasons for companies engaging in responsible CSR-related practices and disclosing their CSR performance, it is clear that companies are beginning to recognise the
importance of non-financial reporting to shareholders while considering the interests of other stakeholders as well. Without stakeholders being confident about the veracity of company CSR disclosures, not only will any perceived benefits be forgone, they may even be counterproductive.

This chapter provides the necessary context for this study by introducing and explaining the interrelated topics of CSR performance and reporting, particularly explaining what is meant by CSR. At the same time, recognising that that a universally applicable CSR reporting framework does not exist against which a meaningful CSR assurance engagement can be undertaken, the chapter identifies the CSR dimensions that should be reported and accordingly independently assured. Since the specific objective of this thesis is to identify the primary providers of independent CSR assurance and understand the emerging CSR assurance practices, this context provides the necessary understanding about the CSR phenomenon and the challenges involved in providing independent assurance about the veracity of the public CSR performance disclosures.

It is acknowledged that CSR involves finding a sustainable balance amongst its interrelated, but often conflicting, economic, social and environmental dimensions; while simultaneously providing shareholders with a viable return on their investment. Moreover, the lack of a clear CSR definition causes confusion about what CSR involves, both from a reporting company and a stakeholder perspective. Notwithstanding the recent growth in the global CSR reporting movement, it is argued that this confusion has impaired its widespread adoption and implementation.

In conclusion, this chapter clearly illustrates that irrespective of the underlying reasons that companies disclose their CSR performance, it is becoming an important component of the corporate agenda. The litany of corporate scandals, unethical business practices and green-wash, exacerbated by the agency problem, highlights the need for the independent assurance of CSR disclosures. In addition to responding to regulatory pressures, companies should voluntarily consider their broader impact on society and the environment in order to maintain their legitimacy and to enhance their reputations. The adoption of an apathetic approach to CSR fails to recognise the associated risks and opportunities, exposing the company to avoidable risk. The primary CSR-related risks relate to losing legitimacy (potentially impacting the licence to operate), substantial remediation costs as well as fines and penalties, and reputational damage that could impair company sales and accordingly profitability.
# CHAPTER 3

**CORPORATE SOCIAL RESPONSIBILITY ASSURANCE**

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3.1 Introduction

Assurance completes the corporate accountability equation by providing a vital economic link that strengthens accountability while reinforcing the trust and confidence of stakeholders about company reporting (ICAEW, 2005). The information asymmetries arising from the principal-agent conflict (described in section 2.4.5) and the different motives of agents and principals may result in concerns about the reliability of information, impairing the levels of trust between agents and principals. Assurance attempts to mitigate the agency costs associated with information asymmetry and the resultant loss of control (Chow, 1982). Together with expenditure related to independent non-executive directors and audit committees, assurance may be considered as a 'bonding cost', with the objective of satisfying stakeholder demands for increased corporate accountability, while providing an effective contractual relationship between owners and managers (Adams, 1994).

More specifically, the objective of CSR assurance is to reassure stakeholders that the information contained in CSR disclosures is trustworthy and may be relied upon (Jones et al., 2014). The independent verification of CSR disclosures promotes balanced corporate reporting and provides report users with assurance about the relevance, completeness, validity and integrity of CSR disclosures. CSR assurance therefore involves the entire process through which companies determine and measure their social and environmental impacts, reporting thereon to affected stakeholders (Owen et al., 2000). It should however, be noted that verification is not an end in itself, but merely one of many tools that aim to improve corporate transparency and accountability.

A CSR assurance report is the published opinion reflecting the result of an assuror's verification processes examining the veracity and completeness of a CSR report (CorporateRegister, 2008). Although the CSR reporting drive is steadily gaining momentum, CorporateRegister (2008) found that most reports were not independently reviewed, or assured. Similarly, Nkonki’s 2011 integrated reporting awards (Financial Mail, 2011) found that very few South African companies had their 2010 CSR disclosures assured. Nkonki, however, predicted that the provision of independent CSR assurance will accelerate in response to the increased demand.

As established by several researchers, around the world, the primary providers of CSR assurance are the audit profession, certification bodies and specialist consultancies (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & van Dyk, 2011; O’Dwyer, Owen & Unerman, 2011). As described in section 3.2.3.6, the audit profession includes both external and internal auditors. The primary objective of an external audit is to provide external stakeholders (primarily shareholders) with independent assurance on the reliability of the
primarily financial disclosures contained in the AFS (Reding et al., 2011). By contrast, the objective of internal audit is to assist internal company stakeholders (management and the board) achieve the company’s objectives through the provision of a combination of independent assurance and advisory services.

Traditionally, the primary type of stakeholder oriented assurance was provided by external auditors reporting to shareholders on the reliability of the AFS. Today, it is increasingly being recognised that other stakeholders may also have a legitimate interest in the company’s activities, similarly requiring verified information about the company’s non-financial performance. This assertion is confirmed by Mitchell and Hill (2010), who observed a widespread stakeholder need for external CSR assurance.

This chapter builds on from the description on CSR reporting in chapter two, by examining the manner through which stakeholders obtain confidence that a company’s CSR disclosures may be relied upon. The chapter commences by introducing the concept of CSR assurance, motivating a need for CSR assurance, establishing the providers of independent CSR assurance and identifying the primary components of CSR assurance. Since the dominant providers of CSR assurance are the audit profession (Ackers, 2009; Al-Hamadeen, 2007, Manetti & Becatti, 2009; Marx & van Dyk, 2011), the chapter concludes by examining the CSR assurance role of the audit profession.

3.2 Corporate social responsibility assurance

3.2.1 Background

Merriam-Webster defines ‘audit’ as “the final report of an audit engagement or methodical examination and review”, while the Compact Oxford English Dictionary defines ‘audit’ as being “an official inspection of an organisation’s accounts; or to make an audit of”. To provide the necessary context to this thesis, it may therefore be concluded that ‘accounting’ is about providing a record or explanation of performance, whereas ‘auditing’ is about the methodological examination of an organisation’s records and practices to establish the authenticity of the reported information. An audit should accordingly result in the production of a final written report in which an independent opinion or conclusion is expressed about the veracity of corporate accounting and reporting (including non-financial reporting).

While the International Framework for Assurance Engagements (IFAE)23 (SAICA, 2012) includes the verification of both financial and non-financial information, the terms ‘assurance’, ‘assure’ and

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23 Issued by the IAASB.
‘assuror’ are used to generically refer to non-financial information, whereas the terms ‘auditing’, ‘audit’ and ‘auditors’ usually relate to financial information. Being constrained by international auditing standards (ISAE 3000 in particular), auditor assurors tend to avoid using the term ‘audit’ (usually referring to financial audits) for their CSR assurance engagements, instead preferring to use ‘assurance’ which conveys a lower level of endorsement (Al-Hamadeen, 2007; Owen & O’Dwyer, 2004). By comparison, certification bodies and specialist CSR consultants are more likely to use the term ‘verification’. Therefore, for the purpose of differentiation, this thesis uses the term ‘auditor’ to refer to members of the conventional audit profession (Ackers, 2009), whereas ‘assuror’ generically refers to other assurance providers. To distinguish between CSR assurance provided by auditors and by non-auditors, this thesis refers to ‘auditor assurors’ and ‘non-auditor assurors’, respectively.

Despite still being largely unregulated and not a mandatory legislative or regulatory requirement, the demand for independent CSR assurance is growing (ICAEW, 2008). In response, CSR assurance practices are rapidly evolving (Perego, 2009). Approaches to CSR assurance include the independent verification, audit, consultancy, accountancy and/or stakeholder commentary models (Al-Hamadeen, 2007). The independent verification model represents an assurance process separate from the report preparer, which has not been compromised by any consultancy relationship. The audit or accountancy model focuses on the consistency and accuracy of CSR report information, in terms of which the assuror issues an assurance report covering pertinent aspects of the assurance process or assurance findings. The consultancy model reflects a variety of relationships between the assuror and the report preparer, with the assuror assisting the reporting company to produce the CSR report while also providing CSR assurance thereon. The consultancy or stakeholder commentary model focuses more on the completeness, fairness and overall balance of CSR disclosures in the assurance report, while providing commentary on systems, reporting and performance weaknesses, thereby assisting the reporting company improve its CSR-related processes (O’Dwyer & Owen, 2005). Despite IFAC (2006) supporting independent CSR assurance by external parties, they acknowledge that internal audit actively contributes to the integrity of CSR reporting.

Presupposing that CSR data and assertions can be verified, Al-Hamadeen (2007) suggests that assurance involves more than simply providing a statement commenting on reported CSR information. It should also refer to the underlying processes and systems generating the reported information (Al-Hamadeen, 2007; Morimoto et al., 2005). Reported information should therefore be recorded, compiled, analysed and disclosed in a manner that facilitates the provision of assurance about the reliability, accuracy and completeness of the underlying CSR data. Morimoto et al. (2005) argue that it is necessary to use both quantitative and qualitative assurance
approaches to verify the integrity of CSR data and improve the balance amongst the social, environmental and economic objectives of companies. CSR assurance includes evaluating all aspects of CSR systems and performance and should therefore include on-site inspections and management system reviews to establish compliance with the predetermined criteria set out in the codes and standards that the reporting company identifies with.

Companies voluntarily providing independent CSR assurance tend to be larger, since they tend to engage in more activities that have an impact on the environment and have more stakeholders who are concerned with the non-financial effects of their operations (Moroney, Windsor & Aw, 2012; Nitkin & Brooks, 1998). This observation confirms the slack resource arguments presented in section 2.4.6 that larger companies have the spare resources to provide independent CSR assurance. In South Africa, King III principle 9.3 (as described in section 2.7.7.2) specifically requires CSR disclosures to be independently assured (annually by implication). A recent study by Deloitte (2012) found that only 27% of South African companies provided independent CSR assurance.

Improving reporting company responses to stakeholder demands, requires CSR assurers to go beyond conventional audit practice by considering aspects of performance that are not usually covered in company financial disclosures (Swift & Dando, 2002). Audit firms usually issue conventional ‘audit reports’ relating to highly regulated and reasonably comparable company AFS.24 By contrast, CSR assurance reports covering non-financial information are usually neither regulated, nor comparable. Moreover, the ambiguity and inconsistency of the terms used in CSR assurance reports makes it difficult for stakeholders to determine the exact nature, purpose and scope of the assurance engagement, or the precise meaning of the resultant assurance opinion(s).

CSR reporting should provide stakeholders with confidence about the relevance, usefulness, reliability and completeness of CSR-related disclosures (Dando & Swift, 2003). To enhance decision-making, it is therefore necessary for CSR reports and, accordingly CSR assurance reports to be addressed to stakeholders. Within this context, CorporateRegister (2008) identifies two areas of difficulty:

1. There are no generally accepted methodologies for collecting, evaluating and reporting non-financial company performance data. Furthermore, the underlying processes are often opaque, complex and company-specific, impairing the ability of report users to assess the

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24 Stating that the AFS “present fairly, in all material respects, the financial position of the Company and their financial performance and their cash flows for the year ended … in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act ...”.
extent to which a CSR report reflects real company performance. Therefore, until reporting companies can clearly and consistently define the scope of their CSR disclosures, a CSR assuror will be unable to define the assurance engagement scope.

2. Similarly, there is no accepted approach for providing non-financial assurance, although AA1000AS (as described in section 3.2.6.2) and ISAE 3000 (as described in section 3.2.6.3) are emerging as the primary CSR assurance standards (Ackers, 2009; Manetti & Becatti, 2009; Marx & Van Dyk, 2011). Until the various CSR assurors agree on what assurance should entail and how it should be communicated, simply because a CSR report has been ‘verified’ by some type of assurance process does not necessarily indicate that the assurance engagement scope and quality will be comparable (CorporateRegister, 2008).

While the CSR assurance reports of leading assurors may address important principles such as completeness, materiality and accuracy, others may only mention that the underlying systems have been checked, or refer to assurance over some limited aspect of the CSR report (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009). Although CSR assurors are appointed by the company and are accordingly accountable to the company and not to its stakeholders, the fundamental objective of CSR assurance should be to improve CSR disclosure credibility for the benefit of all stakeholders (Owen et al., 2000). CSR assurors should therefore take cognisance of legitimate stakeholder interests when preparing the assurance report. To provide stakeholders with confidence about the veracity of information contained in company CSR disclosures, CSR assurance engagements and accordingly the CSR assurance report should clearly define and/or require the following (Al-Hamadeen, 2007; CorporateRegister, 2008; Nitkin & Brooks, 1998):

- measurable standards against which to evaluate CSR performance
- the subject matter of the engagement
- the objective of the assurance engagement
- the scope of the assurance engagement
- the parties that should collect, evaluate and report non-financial data
- how should non-financial data be collected
- a trained and competent assurance team
- an independent and objective assurance team
- scheduling regular assurance engagements to cover all material issues at all operational sites
- the assurance engagement method
• the extent of assurance provided
• the release of a progress report on the CSR engagement to internal or external stakeholders, or to both
• a conclusion and an opinion about the veracity of the CSR disclosures
• the public release of the final CSR assurance report for use by affected stakeholders.

The nature and scope of the CSR assurance engagement varies significantly according to several factors, including the company’s reporting experience, the size and scale of its operations, the available budget and the stakeholder requirements (CorporateRegister, 2008). The IFAE issued by the International Auditing and Assurance Standards Board (IAASB), defines an assurance engagement as one in which an independent assurance provider “expresses an opinion designed to enhance the confidence of intended users, other than the responsible party about the evaluation or measurement of the subject matter, against specific criteria” (FEE, 2003; SAICA, 2012: Framework).

![Figure 3.1 - The four dimensions of assurance (ACCA & AccountAbility, 2004: 16)](image)

The framework depicted in Figure 3.1 outlines the four primary assurance dimensions and identifies critical assurance-related components that should be considered (ACCA & AccountAbility, 2004). These issues representing the primary characteristics of CSR assurance are summarised below:

(i) Assurance functionality (i.e. establishing the reason that assurance is provided and identifying the intended beneficiaries)

(ii) The extent to which evidence can be obtained during the assurance engagement (i.e.
identifying the assurance standards and/or frameworks used and determining the level of assurance provided)

(iii) The assurance subject matter and the scope of the assurance engagement (i.e. identifying the issues that are covered by the assurance engagement and the extent to which these are verifiable)

(iv) Aspects relating to the assuror (i.e. identifying the assurance provider and the competencies required to conduct a meaningful assurance engagement and to provide a credible opinion).

3.2.2 The need for CSR assurance

It is submitted that unscrupulous companies may be tempted to make false claims about their CSR performance in order to capitalise on the positive benefits associated with strong CSR performance being perceived to be a responsible corporate citizen. Pile (2008) warns that companies making false and/or unsubstantiated claims about their CSR performance are likely to experience a backlash when stakeholders realise that they have been misled. Within a CSR context, this 'window dressing' is referred to as 'green-wash' (Alves, 2009; Delmas & Burbano, 2011; Hamann & Kapelus, 2004; Laufer, 2003; Lyon & Maxwell, 2011; Polonsky, Landreth & Garma, 2010). Green-wash or 'linguistic hijacking' may be described as a cynical intention to deceive by selectively disclosing positive CSR-related information and concealing others. This hypocrisy represents the practice of professing beliefs, feelings or virtues that are not really held or possessed (The Free Dictionary25).

Companies disclosing CSR information may therefore not necessarily be good corporate citizens, but may simply wish to favourably influence the perceptions of stakeholders, including consumers and investment analysts (Aras & Crowther, 2008; Okoye, 2009; Teoh & Shiu, 1990). The illusion of responsible corporate behaviour could provide uninformed investors with an unjustified positive image about the company, reducing the associated cost of capital (Aras & Crowther, 2008). To address stakeholder concerns about green-wash, the integrity of corporate CSR disclosures should be independently assured, which requires extending accountability beyond shareholders to include stakeholders as well (Nitkin & Brooks, 1998). Cramer et al. (2004) however, argue that CSR has moved beyond mere window dressing and is more comprehensively beginning to reflect CSR issues that are material to both reporting companies and their stakeholders.

Independent CSR assurance enhances the quality of voluntary CSR reporting (Sierra, Zorio & Garcia-Benau, 2013). Reporting companies are therefore increasingly relying on assurance to

improve the credibility and transparency of their CSR disclosures (Kolk & Perego, 2010; Perego, 2009). Since independent assurance increases user confidence about the veracity of CSR disclosures (FEE, 2002; Zorio et al., 2013), it may be considered a fundamental element for establishing the veracity of CSR reporting (Manetti & Toccafondi, 2012). Independent CSR assurance attempts to bridge the credibility gap arising from a lack of stakeholder confidence in both the reported data and the sincerity of reporting companies (Owen & O’Dwyer, 2004).

O’Dwyer and Owen (2005) however caution that the benefits of emerging CSR reporting practices are not universally acknowledged due to managerial capture26, at the expense of stakeholder accountability and transparency. Providing independent external assurance reduces the risk of managerial capture (Martinov-Bennie & Hecimovic, 2011).

Users of company annual reports perceive statutory (primarily financial) information as more credible than contextual non-financial information. The former is subject to audit, whereas the latter is usually not (Gouws & Cronjé, 2008). As stakeholders demand credible, comparable and transparent CSR reports, independent CSR assurance has become an important characteristic of a good CSR report (CorporateRegister, 2008). Without some form of assurance, CSR reports only provide stakeholders with limited value, possibly only representing what may be the unverified assertions of company management (Jenkins, 2001; Utting, 2005). Notwithstanding variations in assurers, approaches and assurance opinions (Ackers, 2009; ICAEW, 2004), the provision of independent CSR assurance legitimises CSR practices and helps bridge the credibility and expectation gap between stakeholders and reporting companies (Al-Hamadeen, 2007; CorporateRegister, 2008; ICAEW, 2004). Since a wide variety of stakeholders require information about the manner through which companies discharge their social, environmental, economic and ethical responsibilities, CSR assurance enhances stakeholder confidence about the veracity of the CSR disclosures (Jones et al., 2014). Stakeholder trust and confidence in company information is enhanced when companies provide assurance that CSR reports are transparent and contain relevant, accurate, reliable and credible information (Marx & Van Dyk, 2011). CSR assurance further mitigates the risk of organisations merely claiming to be accountable, instead of presenting the actual situation (Eccles et al., 2008). In addition to increasing the credibility of CSR disclosures, independent CSR assurance also (Al-Hamadeen, 2007):

(i) improves public perceptions about the veracity of the reporting company’s CSR activities
(ii) promotes continuous improvements in control and reporting systems enhancing both the

26 Managerial capture refers to management controlling the CSR reporting process and influencing the outcome, thus undermining the intended accountability (O’Dwyer & Owen, 2005).
reporting process and CSR report content

(iii) transfers learning and knowledge from the assurors to the reporting company.

CSR assurance engagements could assist the reporting company comply with relevant legislation and regulations; identify risk (which could avoid substantial remediation costs and penalties, as well as potential litigation against the company) (CorporateRegister, 2008); improve the company’s image among stakeholders; and improve relationships with regulatory authorities through effective self-regulation (Sawyer, Dittenhofer & Scheiner, 2003). Some companies may provide CSR assurance to facilitate comparability with other companies. At the same time, CSR assurance enhances their eligibility for CSR reporting awards or schemes (Al-Hamadeen, 2007), improving the company’s reputation management. While both Tiger Brands Limited27 and Sasol Limited28 intentionally position themselves as having a strong ethical culture and being concerned about consumer interests and perspectives, both have been convicted of engaging in unethical practices at the expense of consumers through price fixing/collusive practices.

The accountability relationship between an assuror and the reporting company may be compared to the agent–principal relationship (as described in section 2.4.5), and establishes the basis for the assurance relationship (Al-Hamadeen, 2007). CSR assurance may assist companies avoid the risk of their principals being exposed to ‘moral hazards’ caused by the agent acting against the principal’s best interest. An example of this risk may be when company managers pursue short-term profitability objectives to capitalise on incentive programmes, while constraining the longer-term growth potential of the business to the detriment of shareholders. Boards are appointed by shareholders to reduce the information asymmetry resulting from the agency problem (as described in sections 2.4.5 and 2.5.2). As described in sections 2.5.2 and 2.7.7.2, King III requires South African company boards to consist of a majority of independent non-executive directors. Therefore, given the growing importance of CSR-related issues, it is argued that the board requires confidence that CSR disclosures (for which they are accountable) may be relied upon. Improving company accountability is therefore a fundamental objective of CSR assurance (Owen et al., 2000). Effective CSR assurance requires a tripartite relationship amongst the reporting company, the intended report user(s) and the assurance provider (Al-Hamadeen, 2007).

Institutional investors do not usually base their investment decisions on unverified CSR disclosures in annual reports, although they tend to be favourably considered when they have been quantified,

27 For more information relating to the Tiger Brand’s case refer to the 2008 Annual Report, p. 42.
focus on specific issues and have been obtained from disinterested parties\textsuperscript{29} (Graves & Waddock, 1994; Teoh & Shiu, 1990; Waddock & Graves, 1997). The ICAEW (2008) cautions that the value of CSR assurance reports may change when stakeholders lose confidence about the quality and reliability of the information provided.

Kolk and Perego (2010) assert that in stakeholder-oriented societies\textsuperscript{30} management were more likely to provide independent CSR assurance as part of their stakeholder relationship management. Moreover, they suggest that the demand for voluntary assurance appears to be greater in countries with weaker legal regimes, where assurance serves as a substitute for enforcement. Depending on the company, sector, nature, tone and style of report, certain CSR reports may however be perceived as being sufficiently credible without a need for independent assurance (CorporateRegister, 2008).

3.2.3 CSR assurance providers

3.2.3.1 Background

The question about who should provide independent assurance characterises the contemporary CSR assurance discourse (Martinov-Bennie & Hecimovic, 2011). Unlike the oligopolistic financial audit market dominated by the Big 4 audit firms, there is currently no consensus about whom/which parties should provide independent CSR assurance, the assurance approach that should be adopted, or even the competencies the assuror should possess (Al-Hamadeen, 2007; Sierra et al., 2013). The largely unregulated voluntary CSR assurance market therefore exhibits a higher level of competition and is accordingly subject to fewer legal constraints and enforcement mechanisms (Sierra et al., 2013). According to Wiertz (2009), report credibility is enhanced when users can identify the assuror and the assurance engagement type.

Around the world, the primary providers of CSR assurance may traditionally be divided into certification bodies, specialist consultancies and the Big 4 audit firms (Marx & van Dyk, 2011; O’Dwyer et al., 2011). This is confirmed by an analysis of almost 650 global assurance reports in 2007, revealing that the dominant global assurors were the Big 4 audit firms (40%), followed by certification bodies (25%) and specialist CSR consultancies (24%), with the remaining 11% being divided amongst five other minor assurors (CorporateRegister, 2008: 28). Similarly, in a study of 34 global CSR assurance reports issued in 2007, Manetti and Becatti (2009: 293) found that the Big 4 audit firms produced 71% of assurance reports, with the remaining 29% being produced by

\textsuperscript{29} In this context, disinterested parties refer to unbiased, impartial and objective parties.

\textsuperscript{30} Stakeholder-oriented societies include Norway and Denmark, whereas the USA represents a shareholder orientation and accordingly has a weaker emphasis on social issues (Kolk & Perego, 2010: 186).
other uncategorised assurors. These results are in line with a 2008 South African study finding that the Big 4 audit firms produced 80% of CSR assurance reports, followed by specialist CSR consultancies with 20% (Akers, 2009: 12). By contrast, Al-Hamadeen (2007: 134) found that UK-based FTSE100 companies were assured by CSR consultancy firms (69%), audit firms (20%) and certification bodies (11%) in 2004.

The heterogeneity of CSR reporting, assurance and assurance providers have produced several different approaches to CSR assurance provision. O’Dwyer and Owen (2005) argue that a clear distinction should be made between the CSR assurance approaches adopted by auditor assurors and by non-auditor assurors. Auditor assurors tend to be more cautious, focusing on the consistency of CSR report information with the underlying datasets, while providing lower levels of assurance (O’Dwyer & Owen, 2005; Perego & Kolk, 2012; Wiertz; 2009). By comparison, non-auditor assurors tend to adopt a more evaluative approach by focusing more on completeness, fairness and overall balance in their assurance reports, but providing higher assurance levels (O’Dwyer & Owen, 2005; Perego & Kolk, 2012; Wiertz; 2009).

Auditor assurors tend to leverage their financial auditing expertise to provide a competitive advantage, whereas non-auditor assurors usually have greater CSR assurance expertise, especially relating to the complexity of environmental and social processes (Perego, 2009). Perego (2009) contends that the Big 4 auditor assurors place greater emphasis on report format and standardised assurance procedures than other assurors, and are accordingly reluctant to provide unambiguous and precise opinions given the inherent uncertainties of CSR reporting and assurance. The reluctance of auditor assurors to report on compliance and to provide high levels of assurance is substantiated by the absence of mandatory CSR reporting and assurance guidelines.

By contrast, non-auditor assurors usually provide more elaborate and informative recommendations for improvement and comprehensive assurance opinions (Perego, 2009; Perego & Kolk, 2012). Suggesting that CSR assurance quality is directly related to the type of assurance provider, Perego and Kolk (2012) however, assert that audit firms and certification bodies tend to provide better quality (i.e. more reliable) assurance opinions. Other researchers found no difference in the CSR disclosure quality of companies using auditor assurors and those using non-auditor assurors (Moroney et al., 2012; Sierra et al., 2013). The quality of CSR reporting and assurance is therefore not necessarily influenced by the type of CSR assuror, but by the reporting company and the specific CSR assuror (or branch) selected, and the pre-negotiated terms of reference and scope. De Beelde and Tuybens (2013) however, posit that the quality of CSR assurance by auditor assurors and specialist CSR assurors is converging, suggesting that the CSR assurance market will continue to be fragmented by diverse assurors.
CSR report users may derive different levels of confidence from CSR assurance reports provided by the various types of CSR assurance provider (De Beelde & Tuybens, 2013). While the choice of a CSR assurance provider may reflect regional heterogeneity, it is broadly influenced by the needs of legitimate stakeholders; the assuror’s perceived independence, credibility and expertise; the value accruing to the reporting company; and the engagement cost (De Beelde & Tuybens, 2013).

3.2.3.2 Assurance provided by the preparer

Potential conflicts of interest arise when the party preparing and drafting the CSR report, also provides assurance thereon. Within the context of independence and objectivity (as described in section 3.2.5.3), the question arises as to whether an assuror could and would criticise, document and publish their own deficiencies. Confirmation that this type of assurance is not usually regarded as acceptable is illustrated by only 150 such reports of a total of 4 733 assurance reports having been issued globally over the past 15 years (CorporateRegister, 2008: 7).

3.2.3.3 Assurance provided by expert/stakeholder panels

Reporting companies may establish an independent advisory board, or panel of interested parties to examine the CSR report and provide a statement of their findings and opinions. Despite lacking methodological rigour, the acceptability of this approach is usually enhanced by the credentials and perceived independence of the participants and the strength of their collective views (CorporateRegister, 2008). However, since the panel may not necessarily possess the expertise, access, time or ability to meaningfully critique and/or evaluate the CSR report or the underlying data, the risk exists that the panel may accept the information provided at face value. Even though an expert opinion may be perceived as providing authoritative support to a CSR report, doubts may persist about the extent to which the expert(s) had access to the primary data necessary for an informed evaluation (Jones et al., 2014). It is therefore argued that this approach does not constitute proper assurance, since assurors should use ‘professional scepticism’ during an assurance engagement (SAICA, 2012: ISAE 3000). Conflicts of interest may also arise when underrepresented stakeholder groups feel marginalised (CorporateRegister, 2008).

The general unacceptability of assurance by stakeholder panels is illustrated by only 11 of the 650 assurance reports produced during 2007 being provided by stakeholder panels (CorporateRegister, 2008). Despite first emerging in 1999, by 2007 only 38 such statements had been published.

3.2.3.4 Assurance provided by individuals

Individuals may also issue assurance reports, often without declaring the methodology used or providing evidence of investigation. While using well-known CSR experts may build stakeholder
trust, the reliability of the information provided and/or the integrity of the underlying systems is not usually evaluated. According to the CorporateRegister database, by 2007, only 536 such reports had been produced. While these ‘opinion statements’ may be seen as a low cost assurance option, it is expected that these will be replaced over time by assurance reports from the more mainstream CSR assurors (CorporateRegister, 2008).

3.2.3.5 Assurance provided by consultancy firms and certification bodies

The explosion of the provision of CSR assurance by non-auditors is driving efforts to define universal CSR assurance standards (CorporateRegister, 2008; Jenkins, 2001; Owen & O’Dwyer, 2004). Many of the reports issued by these assurors may however, be confidentially produced for their principals, without being made publicly available, thus impairing transparency. Consultants appear to provide higher levels of assurance, providing added value to the CSR reporting process by focusing on improving CSR processes, potentially impairing independence (O’Dwyer & Owen, 2005). A shortcoming of some of these reviews is that the assurance engagement information may be obtained from management (and not from the staff working with the systems), possibly involving brief and perfunctory factory walk-through inspections, potentially depicting a false reality (Jenkins, 2001). While specialist CSR assurance providers may possess higher levels of CSR-related expertise than auditor assurors, the confined scope of their assurance engagements may not accommodate the interests of all stakeholders (De Beelde & Tuybens, 2013).

3.2.3.6 Assurance provided by the audit profession

Independence and objectivity are the philosophical foundations of the audit profession (Maury, 2000). The audit profession is typically associated with its traditional role of AFS attestation. The lack of a historical CSR attestation role by the audit profession (Loots, 1989) is completely understandable, since CSR assurance has only recently become a prominent item on the global corporate agenda. Percy (1997) argues that assurance is a fundamental corporate governance element, with the public believing that auditors have responsibilities that extend beyond simply reporting on the AFS, introducing the ‘audit expectation gap’ described in section 3.3.3.5. Auditor assurors should adopt a responsible attitude to environmental and social issues by providing all stakeholders with confidence that all the disclosures in company annual reports may be relied upon. It is however, acknowledged that auditor assurors (the non-Big 4 firms in particular) may not necessarily possess the relevant competencies to undertake an effective CSR assurance engagement (De Beelde & Tuybens, 2013).

Expanded services provided by the audit profession may strategically bridge the credibility gap that characterises CSR reporting (Manetti & Becatti, 2009). Auditor assurors may enhance CSR report
credibility by providing assurance that (i) complies with rigorous ethical standards; (ii) utilises a defined framework and standards covering the entire assurance engagement; (iii) deploys the requisite skills and expertise to undertake the assurance engagement; (iv) complies with professional standards; (v) and has appropriate internal quality control procedures (ICAEW, 2008).

Big 4 auditor assurors were less inclined to provide positive assurance opinions, primarily due to the ambiguity and complexities associated with providing assurance on their large complex corporate clients (Mock et al., 2007). Furthermore, Big 4 assurors tended not to disclose recommendations for improvement in their CSR assurance reports, unless by prior arrangement with management (Mock et al., 2007). Perego (2009) suggests that the Big 4 auditor assurors provide a higher quality of assurance, with their standardised CSR assurance approach improving comparability, even possibly reducing the costs associated with each assurance engagement (Mock et al., 2007).

De Beelde and Tuybens (2013) attribute the following reasons for reporting companies using auditor assurors to provide independent assurance on their CSR disclosures:

- The fundamental financial auditing principles apply to CSR assurance engagements as well.
- Auditor assurors are perceived as being more independent than non-auditor assurors.
- Auditor assurors are perceived as being more credible than non-auditor assurors.
- Auditor assurors are perceived to provide a higher quality of assurance than non-auditor assurors, due to their mandatory global application of well-developed auditing standards, stringent ethical and independence requirements, and rigorous quality control mechanisms.

The audit profession is represented by both external and internal auditors. External auditors have a statutory obligation to provide the reporting company’s shareholders with independent assurance about the reliability of the AFS (Reding et al., 2011). By contrast, the primary objective of internal audit is to voluntarily assist companies achieve their business objectives through the provision of independent assurance and advisory services. The internal audit activity plays a strategic role by providing top management and the board (the internal stakeholders) with independent assurance that all material risks have been identified and are being effectively mitigated. At the same time it plays a strategic role by providing advisory services to assist management improve their business operations and governance processes (Cascarino & Van Esch, 2007).

As described in section 3.2.3, prior research found that auditor assurors are the primary providers of independent CSR assurance (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & van Dyk, 2011; O'Dwyer et al., 2011). Within this context, since
this study focuses on independent CSR assurance, it is pertinent that section 3.3 specifically examines the role played by the audit profession in the provision of independent CSR assurance.

3.2.4 Intended audience for CSR assurance reports

The addressee of the CSR assurance report identifies the party or parties for whom it is intended (Wiertz, 2009). It is nevertheless recognised that parties other than the intended users, may also rely on the CSR assurance report.

The practice whereby AFS auditors address their audit reports to shareholders is aligned to one of the objectives of the Companies Act, namely, to protect shareholder rights (s 7(i)). This is supported by the statutory interaction between auditors and shareholders expressed in terms of section 93(1)(c) of the Companies Act; and paragraphs 20 and 21 of the International Standard on Auditing (ISA) 700, which require auditors to ‘ordinarily’ address their audit reports to those for whom the report is produced. Auditors therefore usually address their audit reports for AFS audit engagements to the shareholders of the company, or to those charged with company governance.

By comparison, since CSR performance includes the company’s impacts that extend beyond the shareholders, it may be argued that assurance reports relating to CSR assurance engagements are similarly intended for broader stakeholder consumption, and should accordingly be addressed to the stakeholders (Wiertz, 2009). Many CSR assurors do not however, address their assurance reports to their stakeholders (Ackers, 2009). This practice is confirmed by Al-Hamadeen (2007), who suggests that unlike AFS audit reports where legal requirements prescribe that audit reports must be addressed to shareholders, no similar obligation exists for CSR assurance reports.

O’Dwyer et al. (2011) identify the three primary audiences for CSR reports (and by implication the addressees of CSR assurance reports) as being:

- executives and management of the reporting company
- company stakeholders who may use those reports
- internal technical divisions of the assurance provider that are responsible for approving the wording of CSR assurance reports, prior to their release.

Concerned about establishing the veracity of company CSR disclosures, these three audiences are driving efforts to develop and/or refine CSR assurance practices (O’Dwyer et al., 2011). Al-Hamadeen (2007) however, found that many CSR assurance reports did not indicate an addressee and where addressees were identified, without exception they were internal company stakeholders. Al-Hamadeen’s (2007) study found no instances where assurance reports were
addressed to non-shareholder stakeholders, despite acknowledging that they also rely on the CSR and CSR assurance reports. The revised ISAE 3000, which is mandatory for auditor assurors and becomes effective after 15 December 2015, confines the possible users of non-financial assurance reports to major stakeholders with significant and common interests.

Confirming a stakeholder primacy orientation, prior research suggests that despite the reporting of CSR performance arguably being intended for consumption by broader stakeholders, they are often not the intended audience for CSR assurance reports. While the intended users of CSR and CSR assurance reports may be identified by agreement between the assurance practitioner and the reporting company, it is suggested that this CSR assurance anomaly can only be overcome through the imposition of mandatory stakeholder-oriented laws or regulations.

3.2.5 Characteristics of CSR assurance

3.2.5.1 Background

While CSR assurance practices vary considerably, company attitudes to CSR assurance depend on the demands of society, are influenced by what society is prepared to trust and the nature of the risk to which the company may be exposed (Al-Hamadeen, 2007). Despite Al-Hamadeen (2007) finding a correlation between the increased provision of CSR reports and the demand for independent CSR assurance, Eccles et al. (2012) argue that the significant growth in CSR reporting is not replicated by CSR assurance growth. It is submitted that this divergence may be attributed to the respective researchers using different study populations. Moreover, although CSR reporting was already an established practice, CSR assurance provision remained an emerging phenomenon.

Stakeholders require confidence that the assuror(s) undertaking the assurance engagement have the necessary skills and knowledge; and possess the requisite integrity, independence and impartiality (CorporateRegister, 2008). Independent CSR assurance assists to operationalise corporate stakeholder responsibilities (Owen et al., 2000). CSR assurance reports should address issues relating to the materiality and completeness of CSR disclosures, thereby ensuring that all significant company impacts have been considered (Adams & Evans, 2004; Al-Hamadeen, 2007).

Cohen et al. (2011) argue that companies should acknowledge the misalignment between the information provided by the company and what investors (as well as stakeholders) require. The

31 Assurance engagement risk is the risk that assurors may provide inappropriate conclusions because of material misstatements in the reported information (ICAEW, 2007: 14). Components of engagement assurance risk include (i) inherent risk (susceptibility of the information to material misstatement); (ii) control risk (the risk that material misstatements will not be prevented or detected timeously by internal controls; and (iii) detection risk (the risk that assurors will not detect material misstatements).
impact of this mismatch is exacerbated by potential errors and/or irregularities in corporate
reporting, or by management malfeasance. Moreover, stakeholder concerns about the impact of
CSR information on the broader economy and the reporting company, increases the need for
independent assurance about the veracity of company disclosures upon which stakeholders rely for
effective decision-making.

3.2.5.2 CSR assuror competencies

To improve stakeholder confidence about the reliability of CSR reports, professional and credible
assurors with appropriate qualifications and using suitable assurance methodologies should verify
information contained in the management prepared CSR report, against supporting documentation
(Al-Hamadeen, 2007). Moroney et al. (2012) submits that the expertise of the assurance provider
is frequently used as a proxy for assurance quality. In this regard, the GRI G4 (2013b)
recommends that assurance should be provided by competent groups or individuals external to the
organisation that follow professional assurance standards, and apply systematic, documented and
evidence-based processes. Where germane to the assurance scope, assurors increase user
confidence in CSR reporting by disclosing their competencies (Al-Hamadeen, 2007). Establishing
CSR report credibility requires more than professionalism, accuracy and technical competence; the
legitimacy of the assurance provider is equally important (Owen et al., 2000).

Auditor assurors have a duty to “maintain professional knowledge and skill at the level required to
ensure that a client or employer receives competent professional services based on current
developments in practice, legislation and techniques and act diligently and in accordance with
applicable technical and professional standards” (SAICA, 2010). While this is a specific requirement
for the audit profession, it is submitted that this requirement should similarly apply to non-auditor
assurors. This is appropriate, since AA1000AS (frequently used by non-auditor assurors) prohibits
assurors from accepting assurance engagements when they lack the necessary competencies. It is
however, acknowledged that some assurors may lack the necessary technical knowledge and skills
to undertake an effective CSR assurance engagement (Huggins, Green & Simnett, 2011; Perego &
Kolk, 2012). It is accordingly necessary for assurors to disclose competency-based information
about their ability to undertake the assurance engagement (AccountAbility, 2008a). Where
applicable, these disclosures should include competence in: (i) the AccountAbility principles (as
described in section 2.7.7.4); (ii) CSR reporting and assurance practices and standards; (iii) specific
CSR subject-related matter; (iv) the stakeholder engagement process; and (v) legal aspects
relating to the assurance process; while having the necessary infrastructure, systems and oversight
mechanisms to ensure the quality of the assurance process.
3.2.5.3 Independence and objectivity

Independence may be defined as the objective discharge of responsibilities in a manner that is free from influence, persuasion or bias (Al-Hamadeen, 2007). IFAC (SAICA, 2012) identifies two independence dimensions, namely, ‘independence of mind’ and ‘independence in appearance’. Independence of mind describes a state of mind allowing individuals to act with integrity and to exercise objectivity and professional scepticism when formulating an opinion. By comparison, independence in appearance refers to avoiding significant facts and circumstances, allowing a reasonable and informed person to conclude that the integrity, objectivity or professional scepticism of the assurance provider has been compromised. Objectivity refers to a state of mind allowing individuals to make emotionally and psychologically detached judgements, based on a meaningful evaluation of the available evidence relating to the area being reviewed/assured (Spencer Pickett, 2010). Assurors are expected to be objective, competent and free of commercial influence, while realistically assessing the engagement subject matter and avoiding merely reflecting management’s wishes (Percy, 1997).

An expert providing an independent opinion about the veracity of CSR disclosures accordingly helps reinforce the credibility of information (ICAEW, 2008). Independence is considered to be one of the most important indicators of assurance quality, which is enhanced when assurors comply with the relevant professional and ethical requirements (Al-Hamadeen, 2007). Concerns about the assurors’ independence and their ability to objectively and impartially assess the information provided undermines the objective of the assurance service provided (Chandler & Edwards, 1996) and impairs the credibility of the resultant CSR assurance report (Wiertz, 2009). The assurance provider’s independence is therefore a fundamental characteristic for credible CSR assurance engagements (De Beelde & Tuybens, 2013).

Instead of referring to ‘independent’ assurors, the GRI (2011a; 2013b) requires ‘external assurors’ to be independent from the organisation. In this regard, external assurors include groups or individuals undertaking assurance engagements, who are not unduly constrained by their relationship with the organisation or its stakeholders, and who are capable of providing an independent and impartial opinion on the report.

Despite an assuror appearing to be independent, the real question should be about whether more robust assurance could be provided when the assuror actually accounts to corporate management, which not only defines the scope of the assurance engagement but also pays for the assurance engagement (also refer to the description on page 48) (O’Dwyer & Owen, 2005). Ashbaugh

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32 Professional scepticism is an attitude involving a questioning mind and a critical evaluation of evidence.
(2004: 144) concurs, suggesting that the “dog will not bite the hand that feeds it”, posing a challenge to independence of mind. According to Chandler and Edwards (1996), this dilemma is nothing new, having been a contentious issue in the financial auditing environment for many years. Corporate management have effectively controlled this process at least since the Victorian era, with shareholders merely rubber stamping their actions and leaving the auditors exposed to undue management influence. Perego (2009) suggests that audit firm size may be regarded as a proxy for auditor quality and independence, partially explaining why Big 4 auditor assuror opinions tend to be held in such high regard. While this may be theoretically attributed to Big 4 audit firms usually regarding all clients as being equally important, at the same time the consequences and impacts of incorrect assurance opinions are greater. In addition, Big 4 audit firms are more capable of using internal mechanisms to ensure the consistent quality of their assurance reports.

Deegan, Cooper and Shelly (2006) found that few assurance reports clearly disclosed the independence of the assuror. Al-Hamadeen (2007) suggests that this trend was changing, finding that 56% of CSR assurance reports issued in the FTSE100 in the United Kingdom over a five-year period, explicitly stated that the assurance process was independent, with the occurrence frequency increasing over the period.

### 3.2.5.4 CSR assurance levels

The nature and scope of CSR assurance engagements and CSR assurance reports tends to be wide. Some assurors may simply review the CSR report and perform rudimentary desktop research, while others may conduct comprehensive audits at multiple sites, over protracted periods, even possibly generating different assurance levels for various CSR components (CorporateRegister, 2008). Irrespective of the nature of the assurance engagement, it is important to communicate the results in the CSR assurance report. The heterogeneity of non-financial data introduces a need to provide different levels of assurance according to the various types of CSR disclosures and the assurance engagement objectives (CorporateRegister, 2008).

The concept of an ‘assurance level’ derives from the audit profession, and describes the work underlying an assurance engagement (Christensen, Glover & Wood, 2013). Given that an assurance engagement does not verify every transaction, it is impossible for any assuror to provide absolute assurance about the completeness and integrity of every detail contained in disclosures (Reding et al., 2013). Instead, based on the assurance engagement risk, an assurance level may be declared according to the quality of the reporting company’s systems and evidence, the scope of work performed and the time spent on the engagement (Al-Hamadeen, 2007). Disclosing the

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33 This relates directly to the description of agency theory (as described in section 2.4.4).
assurance level may clarify the aim of the assurance engagement to report users, by indicating the level of risk involved in the assurance engagement and the particular assurance engagement circumstances; hence, justifying the procedures deployed when gathering assurance evidence. Disclosing the assurance level should indicate the extent of reliance that stakeholders may place on the contents of the CSR report.

CSR assurors either provide ‘reasonable assurance’ or ‘limited assurance’ (Wiertz, 2009). In this context, a limited assurance engagement and the resultant assurance opinion reflects a narrower scope of work than one providing reasonable assurance. Al-Hamadeen (2007) suggests that some assurors may be deterred from providing reasonable assurance due to the complexity of the specific engagement, which may in turn increase engagement assurance risk, consequently exposing the assuror to potential liability. The GRI G4 (2013b) advocates ‘reasonable’ rather than ‘limited’ assurance by requiring assurors to assess whether company CSR disclosures provide a reasonable and balanced representation of performance, taking the veracity of reported CSR performance and the selection of overall report content into account.

Limited assurance engagement opinions are expressed in the negative form, suggesting that sufficient work had been performed to indicate that ‘nothing had come to the assuror’s attention to cause them to believe that the reported data do not accurately reflect the reporting company’s CSR performance’ (Ackers, 2009; Manetti & Becatti, 2009; Marx & Van Dyk, 2011). By contrast, reasonable assurance engagement opinions, expressed in the positive form, indicate that the assuror had performed sufficient work to indicate that the reported information reasonably reflected the reporting company’s actual CSR performance. Eccles et al. (2012) cynically illustrate the difference by suggesting that positive assurance indicated that ‘the company did it right’, while negative assurance revealed that ‘nothing leaped out at the assuror as being terribly wrong’.

Perego and Kolk (2012) found a positive correlation between the type of assurance providers and the CSR assurance level provided. Prior research suggests that auditor assurors were more likely to provide limited assurance on CSR issues than non-auditor assurors (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & Van Dyk, 2011).

Instead of reasonable and limited assurance levels, AccountAbility (2008a) advocates a different approach by identifying two different engagement assurance levels, being high and moderate levels. AccountAbility recognises that different subject matter may be accommodated in one assurance engagement, with high levels of assurance being provided over some areas and

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34 Assurance engagement risk is defined as the “risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated” (SAICA, 2008: Gloss 2).
moderate assurance levels for others. While high assurance levels may provide users with greater confidence in company disclosures about the subject matter, moderate assurance levels enhance user confidence about the veracity of company disclosures. In terms of AA1000AS, the evidence required for high assurance levels is gathered from a combination of internal and external sources, requiring extensive evidence-gathering procedures. As indicated in sections 3.2.5.5, 6.13 and 6.16, these assurance levels mean different things and imply different levels of confidence that users should place on the underlying CSR disclosures, increasing user confusion about the extent to which the CSR assurance reports may be relied upon.

Al-Hamadeen (2007) suggests that substantiated assurance requires a qualified and objective assuror to systematically and formally evaluate and verify the subject matter and report the results thereof. By comparison, in unsubstantiated assurance the assuror subjectively evaluates the subject matter, based on experience or expertise, instead of through a systematic and detailed evaluation of the underlying performance measurement and management processes (Al-Hamadeen, 2007).

CSR reports often contain non-financial information that is inherently difficult to verify. Moreover, since the information systems producing the information reflected in CSR reports is presently not designed to reliably measure the required information, it is difficult to provide high levels of assurance (Martinov-Bennie & Hecimovic, 2011).

The wide and heterogeneous nature of the possible subject matter comprising the CSR assurance universe makes it particularly difficult to predetermine the assurance level, especially given the complex combination of available quantitative and qualitative data (Manetti & Becatti, 2009). The assurance level provided is influenced by the extent of tests performed, internal control system limitations and the intrinsic nature of the subject matter. This complexity is exacerbated by the indicative but not conclusive nature of evidence gathering, compounded by the assuror’s subjective discretion when collecting evidence and drawing opinions. Auditor assurors may therefore tend to avoid providing reasonable assurance for CSR disclosures, instead strongly preferring to provide limited assurance, or at best combining reasonable assurance for some more objectively verifiable aspects, with limited assurance for other aspects that may be more complicated to verify (Manetti & Toccafondi, 2012).

3.2.5.5 CSR assurance opinions

While the terms ‘opinions’ and ‘conclusions’ tend to be used interchangeably, this thesis uses ‘conclusion’ in the broader context and ‘opinion’ to refer to the assuror’s view as expressed in the assurance report on the veracity of the CSR disclosures. Where CSR assurance is provided, the
GRI G4 (2013b) requires assurors to produce a written publicly available assurance report providing an opinion or set of conclusions, describing the responsibilities of the report preparer and the assurance provider, and summarising the work performed. Aligned to the assurance levels described in section 3.2.5.4, the CSR assurance opinions may be categorised as limited or reasonable.

An assuror increases the credibility of the CSR information provided by expressing an opinion on the veracity of public disclosures, based on an evaluation of a company's performance against suitable predetermined criteria and standards (AccountAbility, 2008a). An assurance report should accordingly clearly indicate the assuror's opinion about the assurance subject matter. The assurance opinion provided is therefore a key aspect of the CSR assurance engagement (Al-Hamadeen, 2007).

AA1000AS is intended to provide assurors with guidelines about issuing an assurance opinion relating to a company's disclosed CSR performance (AccountAbility, 2008a). ISAE 3000 requires the assurance report to clearly express the assuror's opinion about the subject matter (paragraph 46) and provide the context for the assurance engagement. CSR assurance opinions may be influenced by several factors, including the assurance level pursued; the assurance engagement objective(s); and any limitation(s) on the assurance engagement scope. CSR assurance opinions should address the systems, processes and underlying data together with any assertions made, and should be based on evaluating evidence relating to the pre-agreed criteria, which should be concisely and unambiguously presented (AccountAbility, 2008a).

When the assurance engagement covers several aspects of a CSR report, separate opinions may be provided on each (ISAE 3000, paragraph 49(j)). Depending on the materiality or pervasiveness of the assurance evidence, CSR assurance opinions may be categorised as follows:

- **Unqualified opinion(s)** – when the assurance evidence supports the disclosures made.
- **Qualified or adverse opinion(s)** – when the assurance evidence does not support the disclosures made.
- **Qualified opinion(s) or disclaimer(s)** – when the engagement scope is limited.
- Where the assuror finds that the reporting criteria are unsuitable, or that the subject matter is inappropriate for the assurance engagement, it may be necessary to express a qualified or adverse opinion, or even a disclaimer.

35 In this context, a disclaimer of opinion indicates that an assurance either lacked independence or was unable to gather sufficient evidence to form an opinion (Ashbaugh, 2004).
• Under certain circumstances, the assuror should even consider withdrawing from the assurance engagement.

The voluntary nature of CSR assurance may result in management of the reporting company not being inclined to disclose opinions that may question the accuracy and completeness of their CSR reports, or to withhold the publication of qualified reports (Deegan et al., 2006). Owen and O’Dwyer (2004) point out that there are clear distinctions between the opinions provided by audit professionals and consultants. They argue that consultant opinions tend to provide a greater level of assurance, especially in terms of its greater robustness and enhanced commentary.

This thesis predicts that following the implementation of King III, the demand for CSR assurance in South Africa will continue growing, with auditor assurors continuing to be the primary providers of CSR assurance. The dominance of the Big 4 audit firms is however, expected to decline over time as more parties (both non-auditor assurors and non-Big 4 auditor assurors) begin actively providing independent CSR assurance in response to the increased demand. Despite auditor assurors tending to provide lower levels of assurance, it may be argued that CSR assurance provided by auditor assurors is perceived by stakeholders as being more credible than assurance provided by non-auditor assurors possibly as a result of the:

• combination of the strong audit profession brands (especially by the Big 4 audit firms)
• rigorous assurance methodologies deployed
• strict application of globally recognised assurance standards36
• adopting an inherently more conservative assurance approach.

3.2.6 Standardised CSR assurance approaches

3.2.6.1 Background

Although several assurance standards and approaches dealing with CSR matters have emerged in recent years, none are universally accepted (ICAEW, 2008). While some assurors may use professional engagement standards that have been developed over extended periods through rigorous, independent and transparent processes, others rely on subjective judgement to determine the nature, timing and extent of assurance procedures and the content of assurance reports (IFAC, 2006). Standardisation improves comparability by establishing a uniform platform and common terminology which will reduce report user confusion (Al-Hamadeen, 2007; Owen

36 In this regard, the IFAE and ISAE 3000 issued by the IAASB particularly apply.
et al., 2000). Providing information relating to the standards and guidelines used in the CSR assurance engagement process assist users to understand the nature and extent of the assurance provided (Al-Hamadeen, 2007). The variation in CSR assurance standards may cause assurors to combine different heterogeneous operating instruments and even to mix possibly conflicting guidelines and standards, thereby increasing user confusion (Manetti & Toccafondi, 2012).

CSR assurance provides a mechanism for evaluating economic, social and environmental planning; facilitating economic decision-making; and identifying social and environmental needs as being significant criteria for resource allocation (Owen et al., 2000). Rigorous CSR verification procedures should be developed, based on attestation principles, but drawing heavily on financial auditing procedures (Al-Hamadeen, 2007; Owen et al., 2000). Three dominant approaches to non-financial assurance have emerged in the absence of universally accepted principles or standards. These are AA1000AS, ISAE 3000 and the GRI Guidelines (CorporateRegister, 2008; Perego, 2009).

CSR assurance should shift from being a collection of discreet audits of individual CSR components to more closely represent the integrated and systemic nature of CSR-related issues (Grafé-Buckens & Beloe, 1998). Given its interrelated nature, CSR assurance should therefore more holistically reflect the environmental, social, economic and human performance of company operations. In the absence of universally applicable CSR assurance standards, the various CSR assurance-related frameworks and standards from other disciplines should be adapted and applied (ICAEW, 2004).

While the assurance provider should be an independent expert, the evaluation of CSR report reliability should extend beyond merely checking calculations to incorporate the assessment of the adequacy of organisational compliance with fundamental CSR principles (Sierra et al., 2013). The ICAEW (2004) concludes that a typical independent assurance report should identify the:

- assurance engagement objectives and scope
- respective responsibilities of management and the assuror
- assurance methodology deployed
- stakeholder engagement process
- opinion regarding the completeness and fairness of the company performance disclosures against predetermined targets, while providing recommendations for improvements.

To advance the professionalism and uniformity of the CSR movement, current SEAAR interventions are attempting to converge the disparate social, ethical, environmental, accounting, reporting and assurance standards. O’Dwyer et al. (2011) argue that the structural and content standardisation of CSR assurance reports reduces stakeholder confusion that may arise from the generalised,
vague and limiting nature of assurance opinions, stimulating a need for clearer and less ambiguous assurance reports and conclusions. Clear guidance or regulations, requiring cooperation between the professional bodies and other parties involved in the provision of CSR assurance, are accordingly necessary to overcome the uncertainties inherent in existing CSR assurance practices (Deegan et al., 2006). For example, the IAASB, GRI and AccountAbility should cooperate to collaboratively develop comprehensive CSR assurance guidelines.

3.2.6.2 AA1000AS

The AA1000 Assurance Standard (AA1000AS) issued by The Institute of Social and Ethical Accountability (AccountAbility) is the only internationally recognised standard specifically designed to provide CSR assurance (AccountAbility, 2008a; Al-Hamadeen, 2007). Being a principles-based standard, AA1000AS provides assurors with sufficient flexibility to adapt to different organisations and sectors (CorporateRegister, 2008). AA1000AS addresses CSR report credibility through the principles of inclusivity, materiality and responsiveness (AccountAbility, 2008a). Unlike ISAE 3000 (as described in section 3.2.6.3) that was specifically developed by the audit profession for use by its members, AA1000AS is a non-proprietary assurance standard intended for use by all CSR assurors (Manetti & Becatti, 2009). AA1000AS has been designed to complement the GRI principles (AccountAbility, 2008a). Al-Hamadeen (2007) argues that AA1000AS is the only standard that effectively aligns the CSR assurance engagement with the material interests of stakeholders, by specifically requiring the assurance engagement to consider a stakeholder perspective.

In order to provide an assurance opinion, AA1000AS assurance engagements should evaluate the nature and extent of the reporting company’s adherence to the AA1000APS principles and the quality of publicly disclosed CSR performance information (AccountAbility, 2008a). Instead of simply evaluating CSR performance where data are readily available, the assuror should identify the most important CSR issues (CorporateRegister, 2008) and the methodology available for their verification. In addition to providing an assurance opinion, AA1000AS’ forward-looking orientation requires assurors to move beyond merely reviewing historical performance by providing observations and recommendations to improve identified deficiencies, thereby adding value to both the intended users and the reporting company (AccountAbility, 2008a).

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37 Whereas completeness was included as a principle in the 2003 edition of the standard, the 2008 revision concluded that completeness involved the depth and breadth to which the other principles have been achieved and was embedded in the explanation and criteria for each of the other principles.
38 Inclusivity means recognising the right of stakeholders to be heard and the obligation of organisations to respond.
39 Materiality is about the relevance and significance of an issue to a corporation and its stakeholders.
40 Responsiveness is an organisation’s response to stakeholder issues that affect its sustainability performance and is realised through decisions, actions and performance, as well as stakeholder communication.
In order to provide a clear overview of the assurance process and establish the context for the assurance opinions, AA1000AS requires the assurance engagement scope and the extent of work undertaken to be clearly communicated. To improve credibility, an AA1000AS assurance report should clearly indicate the assuror’s independence and competencies (CorporateRegister, 2008).

AA1000AS identifies two different assurance levels. Type 1 assurance relates to whether the report contains the right information (i.e. are all the material issues covered, or is the report complete) by evaluating the nature and extent of the company’s adherence to all three of the AA1000APS principles. By contrast, Type 2 assurance addresses whether the report disclosures are correct (i.e. reliable, accurate and complete). While Type 1 assurance allows assurors to rely on information provided by management and not necessarily to independently verify the information, Type 2 assurance requires assurors to verify the CSR report against reliable evidence. In addition to evaluating the nature and extent of the reporting company’s adherence to the AA1000APS (as in Type 1 assurance), Type 2 assurance also evaluates the reliability of specified sustainability information.

The selection of the CSR performance information that should be assured is based on the assuror’s assessment of materiality and should be meaningful to the intended assurance report users. Both Type 1 and Type 2 engagements allow an assurance engagement to provide either a ‘high’ or a ‘moderate’ level of assurance, or a combination of the two. The assurance levels agreed between the assuror and the reporting organisation should therefore be documented in the assurance agreement, with the assurance report disclosing the reasons for any deviation. Since different subject matter may be addressed in one assurance engagement, high assurance levels could be provided for some aspects of a CSR report and moderate levels for others.

3.2.6.3 ISAE 3000

The International Standard on Assurance Engagements 3000 (ISAE 3000), also known as the standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, was specifically developed by the audit profession, for use by its members. Members of the global audit profession are obliged to comply with the IFAC Code of Ethics for Professional Accountants and the IAASB standards (Al-Hamadeen, 2007), which contain important provisions relating to competence, due care and objectivity. Based on the framework underpinning the IAASB standards used for AFS audits (ICAEW, 2004), ISAE 3000 provides the audit profession with guidance on how to apply the necessary principles and procedures to conduct non-financial assurance engagements (Al-Hamadeen, 2007; Manetti & Becatti, 2009).

Unlike AA1000AS, ISAE 3000 is a generic standard for non-financial assurance and has not been
specifically designed to provide assurance on CSR reports (Ackers, 2009; FEE, 2006; Manetti & Becatti, 2009). Therefore, even though the audit profession’s CSR assurance role is expected to continue growing, it may be argued that ISAE 3000 may actually impair meaningful CSR assurance. Instead, the predicted growth of CSR assurance by auditor assurors may be attributed to other attributes of the audit profession, including the perceived credibility and strong brands of the audit profession generally, and of the Big 4 audit firms\(^\text{41}\) in particular. This credibility is enhanced by the perceived rigorous assurance methodologies that have been carefully honed by the global audit profession over many years (Ackers, 2009).

ISAE 3000 requires assurors to understand the needs of intended assurance report users when discharging their assurance engagement responsibilities (ICAEW, 2008). Since assurors should have the necessary skills to undertake specific assurance engagements, assurance practitioners involved in CSR assurance engagements often utilise multidisciplinary teams when undertaking specific assurance engagements. In this regard, ISA 620 provides auditors with guidance for using the work of independent experts, when that work is used to assist the auditor to obtain sufficient appropriate evidence relating to the assurance engagement.

While ISAE 3000 does not propose a standardised format, it provides for both short form (i.e. a basic list of elements) or long form (i.e. including additional items such as the terms of engagement and findings) assurance reporting. ISAE 3000 provides two assurance levels, namely, ‘reasonable’ and ‘limited’ which are directly linked to the engagement risk (Al-Hamadeen, 2007; CorporateRegister, 2008). The ISAE 3000 assurance level descriptors inherently undermine the acceptability of assurance provided by auditor assurors (O’Dwyer et al., 2011). Limited assurance opinions may however, underplay the extent of the engagement work actually performed and the extent to which stakeholder-related issues were addressed, impairing their usefulness to potential users (O’Dwyer et al., 2011).

As in AA1000AS, ISAE 3000 specifically requires assurors to recommend improvements to the company’s non-financial reporting as well as to the underlying processes and systems (Al-Hamadeen, 2007). Despite ISAE 3000 having originally been intended for the audit profession, other assurors are also referencing ISAE 3000 (Ackers, 2009; CorporateRegister, 2008).

ISAE 3000 has recently been reviewed with a revised version being released in December 2013. Despite this revision, ISAE 3000 remains a generic standard for non-financial assurance. To date, the audit profession has still not developed an assurance standard that specifically addresses CSR

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\(^{41}\) The Big 4 audit firms are Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers (PwC).
reporting. Since the revised ISAE 3000 is due for implementation for assurance reports issued on or after 15 December 2015, it has not been analysed in greater detail in this thesis.

3.2.6.4 Global Reporting Initiative (GRI)

Although the GRI is a reporting guideline and not an assurance standard, it is often referenced in CSR assurance reports. Therefore, despite being described in section 2.7.7.3, it is included in this section, but within an assurance context. Interestingly, McAusland and Fogelberg (2010) found that only few CSR reports based on the GRI framework were externally assured.

In addition to any internal resources to enhance report credibility, the GRI G4 recommends that reporting companies provide external assurance on their CSR disclosures (GRI, 2013a). Where companies disclose that their CSR reports were prepared 'in accordance' with the GRI Guidelines, and especially where the report, or parts thereof, were externally assured, GRI section 3.3 and guideline G4-32 require the GRI Content Index to refer to the external assurance report. While not prescribing external assurance, GRI G4 guideline G4-33 requires reporting companies to disclose their current policy and practice on external CSR assurance. In addition to self-declaring their GRI level, reporting companies may have an external assuror provide an independent opinion on the self-declaration, and/or the GRI check the validity of their self-disclosures (GRI, 2011a). Even though the GRI may examine the assurance report, it will not attempt to verify whether the assurance engagement has met any of the stipulated assurance criteria.

Despite reporting companies using a variety of approaches to enhance report credibility, the GRI (2011a) recommends that the assurance engagement should be conducted by competent groups or individuals external to the company. While some of these engagements may use professional assurance standards, others may involve proprietary approaches following a systematic, documented and evidence-based process, which may not necessarily be incorporated into any specific standard. The key attributes for independent assurance using the GRI Reporting Framework are that the assurance engagement should:

- be conducted by groups or individuals external to the company who are demonstrably competent in both the subject matter and assurance practices
- be implemented in a systematic, documented and evidence-based manner, and characterised by the use of defined procedures
- provide a reasonable and balanced representation of company performance, taking account of the veracity of the data presented, as well as the overall selection of the report content
- utilise independent and objective assurors where the relationship amongst the reporting
company, its stakeholders and the assurance provider does not impair the assuror’s ability to
provide an independent and impartial opinion on the CSR disclosures

- assess the extent to which the reporting company has applied the GRI Reporting Framework
- provide an assurance opinion or a set of opinions, and the assuror’s statement describing the
  nature of the relationship between the report preparer and the assurance provider.

3.3 The audit profession’s CSR assurance role

3.3.1 Background

As described in section 3.2.3 auditor assurors are the primary providers of independent CSR
assurance and it is predicted that the status quo will continue into the foreseeable future (as
described in section 3.2.5.5). It is accordingly appropriate to include a section that examines the
characteristics of the audit profession. This is particularly necessary within the context of the
prescribed regulatory framework and the public’s expectations of auditors. Moreover, as previously
stated, the audit profession is represented by both internal and external auditors, each arguably
with its own characteristics and responsibilities.

Auditing is widely acknowledged as one of the world’s oldest professions. Auditing commenced
when one party assumed stewardship over the property of another. Porter, Simon and Hatherly
(2003) suggest that the accuracy and reliability of information reported should be subjected to
some sort of critical review (i.e. an audit). While the literature is unclear about how long auditing
has existed, recorded evidence of ‘tick and check’ patterns goes back over 5500 years to the
ancient Egyptians (Cascarino & Van Esch, 2007), the Babylonians from 2285 to 2242 BC (Gouws &
Cronjé, 2008) and the Chinese in the Hsia Dynasty between 2206 BC and 1766 BC (Loots, 1989).
This was followed some time later by the ancient Greek and Roman civilisations.

The word ‘auditor’ probably derives from the Latin word audire – ‘to hear’ (Jackson & Stent, 2012),
or auditus – ‘the hearing’ (Cascarino & Van Esch, 2007). Owing to the low literacy rates at the
time, auditing was probably initially done orally, resulting in ‘auditor’ acquiring a secondary, but
more common meaning as “one who satisfies himself as to the truth of the accounting of another”
(Taylor, Kritzinger & Puttick, 1983).

Through their ‘attestation’ function, the audit profession has historically been the primary provider
of relevant, high quality accounting information for public decision-making. Attestation is usually
associated with issuing a signed report, rendering an objective opinion about whether the
disclosures were fairly presented (i.e. unbiased) and free from material misstatements (i.e.
anything that could influence decision-making). The acceptability of the audit report and opinion is
based on the assumption that it was provided by a competent, independent, objective party. Independence has become the normative standard for auditing, ensuring credible, reliable and trustworthy reporting, usually produced by corporate management, upon which stakeholders may rely for informed decision-making (Maury, 2000). Conceptually, auditing requires a clearly defined object of the audit process; independence from the matter being audited; an examination of the supporting evidence; and drawing a conclusion or providing an opinion based on the evidence gathered (Al-Hamadeen, 2007).

Independent assurance provides the reporting company with value-added benefits, while meeting stakeholder expectations and complying with internationally recognised guidelines such as the GRI and AA1000 series of standards (CorporateRegister, 2008). It is suggested that the principles and processes traditionally associated with financial auditing should equally apply to non-financial assurance (Al-Hamadeen, 2007; ICAEW, 2004; Owen et al., 2000). A comprehensive CSR assurance report should therefore identify areas to improve the underlying management systems, data collection, report content, or the scope, boundaries or approach adopted for the assurance engagement. In 1999 and 2002, the FEE issued two discussion papers relating to the provision of assurance on CSR reports (Al-Hamadeen, 2007), which propose three CSR assurance approaches:

(i) **Accountancy** – based on financial auditing and utilising IFAC standards and guidelines.

(ii) **Social audit** – based on evidence sourced from outside the company and focusing primarily on assurance of the management systems that provide CSR performance information.

(iii) **Consultancy** – in terms of which advisory services are provided to help in improving management systems and non-financial performance.

Percy (1997) argues that auditors have two CSR responsibilities. Their first involves identifying material CSR issues that could affect the AFS. The second involves providing stakeholders with independent assurance about the veracity of CSR reports prepared by management. Effectively addressing these issues allows auditors to demonstrate their due consideration of the expectations of broader stakeholders, addressing the expectation gap. According to Dando and Swift (2003), possible overreliance on financial auditing models that inadequately evaluate qualitative non-financial CSR dimensions may result in questionable robustness of assurance practices.

### 3.3.2 Internal audit

The IIA (2010b: 5) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate
and improve the effectiveness of risk management, control, and governance processes”. While internally provided assurance may be a cheaper alternative to external assurance, it may lack the credibility that external stakeholders may require (Jones et al., 2014). Although the IIA (2010b) suggests that internal audit’s CSR-related role may be determined by the extent to which CSR has been entrenched in the corporate fabric (i.e. the CSR maturity level), this role has not yet been clearly defined, and may include the following:

- **Auditing** – providing assurance about the adequacy of CSR-related internal controls and the veracity of CSR-related disclosures.

- **Facilitation** – facilitating management’s self-assessment of CSR-related controls and results, based on a risk assessment and prompting remedial action to improve controls.

- **Consultation** – providing advisory services relating to the design and implementation of CSR programmes and reports, or serving as a technical advisor on CSR-related matters.

Complying with a risk-based auditing approach, as mandated by the IIA Standards, requires the internal audit activity to understand the CSR-related risks and controls, as determined by the company’s CSR maturity level (IIA, 2010b). In this regard, the CAE should ensure that the audit plan includes coverage of material CSR-related issues (IIA, 2010a). In order to effectively discharge their CSR-related responsibilities, internal auditors should therefore ensure that they have the necessary knowledge and skills to understand CSR-related governance, risks and controls (IIA, 2010a). Sawyer et al. (2003) argue that internal auditors should already be reviewing compliance with legislation and regulations; determining the propriety of social and environmental issues; and ensuring adequate and proper disclosure. At the same time, internal auditors should ensure that CSR risks are effectively mitigated; CSR interventions are efficient, effective and economical; and company CSR-related decisions are based on reliable and complete information. The CAE should therefore understand the CSR risks, and incorporate that knowledge into the internal audit activity’s audit universe, audit plan and audit approach (IIA, 2010a). Unlike external auditors whose reporting efforts are primarily aimed at external stakeholders, the internal audit activity focuses on internal stakeholders, including the:

- **The engagement client** – operational staff and management, whose functions could be improved by the audit engagement results.

- **The board and top management** – that require independently verified information about the company’s operations for which they are accountable.

The International Professional Practice Framework (IPPF) of the IIA provides the internal audit
activity with authoritative guidance on independence, objectivity, competence, proficiency and due professional care (IIA, 2013). An internal audit activity that conforms to the IPPF can therefore provide management and the board with independent assurance about CSR programmes and reporting (IIA, 2010b). This was confirmed by KPMG (2008) finding an increasing trend for internal auditors to review CSR data. Just as compliance with the IAASB standards is mandatory for auditors in public practice (SAICA, 2012), compliance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards) is mandatory for internal auditors. IIA Standard 2010 requires the internal audit activity to establish risk-based plans that ensures that the priorities of the internal audit activity are consistent with the organisation’s goals. IIA Standard 1210 requires internal audit activities collectively lacking the necessary skills and knowledge to decline CSR-related engagements (IIA, 2010a).

The specialised nature of CSR implies that most auditors (both internal and external) should possess all the necessary competencies to effectively perform meaningful CSR assurance engagements. This deficiency may be overcome by co-opting the necessary skills, or outsourcing or co-sourcing these services to specialists when required (Sawyer et al., 2003). To maintain objectivity, these CSR experts should be independent from the area being assured (IIA, 2010a). Where external service providers perform CSR assurance engagements, internal auditors could be seconded to the assurance team to facilitate their knowledge and skill development. Partnering internal auditors with CSR experts (either within or external to the company) provides an opportunity for internal auditors to acquire the necessary knowledge and skills through skills transfer (IIA, 2010b).

While King III (as described in section 2.7.7.2) may have intended CSR reports to be assured by independent external assurors, the present wording of King III principle 9.3 simply refers to ‘independent assurance’ (IoD, 2009a). Contradictorily, recommended practice 3.4.4 requires the audit committee to recommend the board to engage an ‘external’ assurance provider on material sustainability issues. IIA Standard 1100 requires internal auditors to be independent. This independence is reinforced by the IIA’s definition of internal audit, specifying its independent and objective nature, Moreover, IIA Standard 1110 requires the CAE to report to an organisational level that allows the internal audit activity to fulfil its responsibilities and to confirm the internal audit activity’s independence to the board. It is therefore submitted that CSR assurance provided by the internal audit activity may actually meet the requirement of the King III principle, despite not complying with the recommended practice.

Al-Hamadeen (2007) however, argues that since internal audits are not undertaken by independent external parties, they do not provide independent assurance. Al-Hamadeen’s argument does not
however, consider whether internal audit engagements outsourced to external parties (in terms of IIA Standard 2070) constitute independent assurance as envisaged. Nevertheless, as previously stated, assurance provided by the internal audit activity is typically directed at the internal stakeholders tasked with corporate governance, adding value by facilitating an improvement in operational performance, instead of providing external stakeholders with assurance that company disclosures may be relied upon.

3.3.3 External audit

3.3.3.1 Background

Broadly speaking, an external audit is performed by external experts, independent of the auditee, in accordance with requirements that are defined by, or on behalf of, the parties for whose benefit the audit is conducted (Brown, 1962; Jackson & Stent, 2012; Peecher, Solomon & Trotman, 2010; Porter et al., 2003). The primary objective of external or statutory audits\(^\text{42}\) (required by legislation\(^\text{43}\)), is to provide an informed opinion on the fair presentation of the AFS. Auditors certify that the audited AFS have been presented in an unbiased manner and are free from material misstatements, or not, as the case may be (Maury, 2000). Since shareholders receive confidence from the audit profession’s oversight over the veracity of the annual report disclosures, external auditors have almost exclusively focused on the AFS when discharging their statutory audit responsibilities (Percy, 1997).

Recent corporate governance developments, more demanding stakeholders, the introduction of non-financial performance measures and revised corporate reporting requirements and standards, require new types of audit. In addition to auditing the conventional financial disclosures, auditors are now also expected to provide assurance on the non-financial components of the annual report, often containing CSR-related information (Percy, 1997; Sierra et al., 2013). Stakeholders may therefore believe that the responsibility of auditors extends beyond mere AFS attestation, implying that auditors are obliged to consider the broader interests of stakeholders.

Auditing is conceptually underpinned by a clearly defined audit objective; independence from the audit subject matter; performance of technical work relating to documentation examination and evidence gathering; and provision of an opinion based on the evidence gathered (Al-Hamadeen, 2007). As described in section 3.2, in order to differentiate external auditors from other parties or bodies claiming to be ‘auditors’, this thesis uses the term ‘auditor’ or ‘auditor assuror’ to refer to

\(^{42}\) Audit professionals are represented by Chartered Accountants (CAs) and Certified Public Accountants (CPAs).

\(^{43}\) In South Africa, section 30(2)(a) of the Companies Act, 2008, requires the AFS of public companies to be audited. In this context the auditing profession is regulated by the Auditing Profession Act, 2005.
members of the external audit profession.

The global audit profession is rapidly undergoing major change. Due to the largely saturated financial audit market, the services provided by audit firms are evolving, expanding their range of services from simply providing financial audit services to increasingly providing consulting and non-financial assurance services (Maury, 2000; Sierra et al., 2013). This diversification is illustrated by the revenue streams of large auditing firms now including tax planning, compliance and forensic audits, outsourced internal audits, consulting services, information systems and human resource recruitment, with fees for non-audit services representing 32% of audit firm revenue (Ashbaugh, 2004). This expanded range of services however, introduces a potential conflict of interest, which became evident after the collapse of Enron and WorldCom, where the same external auditing firms also provided additional services. This risk to independence and objectivity has been partially addressed in the USA with the promulgation of the Sarbanes-Oxley Act (SOX), which prohibits external auditors from performing AFS audits for their clients and providing additional assurance services (Asthana, Balsam & Kim, 2009).

Where audit firms lack the specialist skills required for specific CSR assurance engagements, the auditing and assurance standards (ISA 620 and ISAE 3000 in particular) explicitly allow auditors to be assisted by interdisciplinary experts during their assurance engagement (as described in section 3.3.3.4). Huggins et al. (2011) concur by arguing in favour of using multidisciplinary assurance teams comprising an appropriate mix of assurance and subject-matter expertise. These multidisciplinary assurance teams must however, be led by an auditor assuror who remains responsible for the assurance engagement. Recognising the diverse list of possible experts and their respective roles, Manetti and Becatti (2009) attempt to reduce the confusion by providing three alternative CSR assurance models:

- **Undivided responsibility** – based on the ISAE 3000 perspective on using experts. The auditor who retains sole responsibility for the entire engagement signs the assurance report.

- **Multidisciplinary cooperation with joint responsibility** – based on auditors and external experts cooperating on all phases of the engagement. One collaborative assurance report is issued for which both the auditor and the expert(s) take collective responsibility.

- **Separate engagements for each discipline** – based on the reporting company contracting two (or more) separate assurors to address different aspects of the assurance engagement. Despite possible cooperation on the assurance engagement between the auditor and the external expert(s), separate reports are usually issued.

The expansion of services to include CSR assurance represents an opportunity for the audit
profession to capitalise on new markets (ICAEW, 2004). According to the ICAEW (2004), auditors are pre-eminently qualified to provide CSR assurance by building on initiatives such as the IAASB Framework and ISAE 3000, while working together with other interdisciplinary experts. Competence and relevant expertise are prerequisites for establishing the type of assurance service that will be provided. Audit firms (the Big 4 in particular) are perceived as the preferred providers of non-financial information assurance, especially when professional reputation and integrity are considered important (Al-Hamadeen, 2007). Moreover, Sierra et al. (2013) argue that providing both CSR assurance and AFS audit services produces synergies, while at the same time enhancing the audit firm's image and reputation.

The ICAEW (2004) cautions that unless the audit profession stops neglecting CSR-related issues, its involvement in key areas such as strategic planning, statutory requirements and taxation, internal and external reporting, as well as in assurance, may consequently be reduced. Similarly, without the audit profession developing definitive assurance standards for its CSR assurance engagements, it is likely that the criteria for CSR assurance engagements will be provided by non-auditor disciplines (ICAEW, 2004).

3.3.3.2 The regulatory auditing environment

The South African Companies Act, 2008, obliges all public companies 44 (and certain other categories of companies) to have their AFS audited (s30(2)(a)) by a registered auditor (s90(2)(a)). Registered auditors in South Africa are regulated by the Independent Regulatory Board for Auditors (IRBA) operating in terms of the Audit Profession Act, 2005. To demonstrate their professional competence and due care, section 130 of the code of professional conduct for chartered accountants, imposes the following obligations on all registered auditors 45 (SAICA, 2010):

- Maintaining and developing the knowledge and skills necessary to provide a competent and professional service.
- Acting diligently according to established technical and professional standards when providing professional services.
- Exercising sound judgement when applying professional knowledge and skill when providing professional services.
- Continuing awareness of relevant technical, professional and business developments to

---

44 The Companies Act defines a public company as a profit company that is not state-owned, a private company or a personal liability company (South Africa, 2008b: 30).
45 In South Africa, registered auditors are designated as chartered accountants.
ensure that auditors possess the requisite capabilities to competently discharge their responsibilities.

- Carefully, thoroughly and timeously complying with the engagement requirements.

- Taking reasonable steps to ensure that those working in a professional capacity under the auditor's authority are appropriately trained and supervised.

- Ensuring that clients, employers and other users of professional audit services are aware of the limitations inherent in the service.

- Declining any engagement that the auditor is not competent to perform, unless the auditor is advised and assisted by appropriate 'experts', thus enabling them to satisfactorily undertake the engagement.

Unlike mandatory AFS auditing, CSR assurance by the auditor assurors is currently voluntarily provided in South Africa, with neither the Companies Act, 2008, nor the Audit Profession Act, 2005, requiring auditors to undertake CSR assurance engagements. As indicated in sections 2.7.5.2 and 2.7.7.2, the JSE regulations require all JSE-listed companies to adopt the King III principles on an 'apply or explain' basis. Within this context, King III principle 9.3 requires reporting companies to provide independent assurance on their CSR disclosures, introducing a de facto regulation for companies to comply with.

Globally, auditors are obliged to comply with the principles of the IAASB and the IFAE. These principles include the International Standards on Auditing (ISAs); the International Standards on Review Engagements (ISREs); and the International Standards on Assurance Engagements (ISAEs). ISA 720 stipulates that where annual reports contain non-financial information, the auditor must read this information to ensure that there are no material inconsistencies between the AFS and other information which may undermine the credibility of the audited AFS. Except where specifically required, the audit opinion does not usually cover this information.

ISA 700 requires the auditor's report in respect of AFS audits to be addressed to those for whom the report is prepared. By contrast, ISAE 3000 which covers non-financial assurance engagements is rather vague, simply stating that the assurance report should identify the party or parties to whom the report is addressed. It does however, ambiguously suggest that the report should consider all intended users (paragraph 49(b)). Dubious about corporate accountability to broader stakeholders, O'Dwyer and Owen (2005) suggest that since auditor assurors usually address their CSR assurance reports to the management of the reporting company, they only provide internal stakeholders with CSR assurance, thereby disregarding broader stakeholders. The ICAEW (2008) however, cautions that despite assurors not accepting any responsibility to parties who were not
directly party to the assurance engagement that may rely on the CSR assurance report, this does not eliminate the risk of legal action from these ‘non-intended’ users. It is therefore necessary for auditor assurers to carefully assess the risks associated with particular engagements before deciding on whether to accept the assurance engagement, and the engagement terms.

The IAASB principles require all verification activities provided by auditors to specifically indicate the level of assurance provided (Manetti & Becatti, 2009; SAICA, 2012). This reduces uncertainty between report user perceptions about the verification process and its actual effectiveness. ISAE 3000 (as described in section 3.2.6.3) specifically requires assurance opinions on limited assurance engagements to be expressed in the negative form (as described in section 3.2.5.5), suggesting that the assurance report does not necessarily address the reporting company’s entire performance in a truthful and correct manner (Manetti & Becatti, 2009). It may therefore be argued that negatively oriented CSR assurance reporting (as described in sections 3.2.5.4 and 3.2.5.5) does not adequately add value or communicate effectively to stakeholders.

While the lack of a definitive mandatory regulatory framework for CSR assurance engagements may have stimulated competition amongst Big 4 audit firms, at the same time it has created a barrier to entry for smaller (non-Big 4) audit firms (Sierra et al., 2013). This particularly applies to reporting companies with higher media profiles tending to leverage the use of Big 4 firms to assure their CSR disclosures (De Beelde & Tuybens, 2013).

3.3.3.3 The auditor’s framework for assurance engagements (IFAE)

As stated in section 3.3.3.2, registered auditors are obliged to comply with the IFAE which provides the audit profession with a framework for conducting assurance engagements. It is accordingly considered appropriate to provide a brief overview of pertinent IFAE provisions (SAICA, 2012). The IFAE proposes a tripartite relationship for assurance engagements involving the auditor, the reporting company and the intended users. While all three parties should be involved in determining the requirements of the assurance engagement, the IFAE specifies that the auditor alone should be responsible to establish the nature, timing and extent of audit procedures utilised.

The subject matter covered by an assurance engagement may include both financial and non-financial performance; physical characteristics; systems and processes; and behaviour. It is therefore necessary for the subject matter to be identifiable and capable of consistent evaluation against the established criteria. The evidence gathered informs the assurance opinion provided. The subject matter characteristics may consist of varying degrees of qualitative or quantitative data; objectivity or subjectivity; be historical or future-oriented; or relate to a particular date or period. These characteristics influence the precision with which the subject matter may be
evaluated against the criteria and the persuasiveness of the available evidence.

The criteria against which the subject matter is evaluated establish the benchmark for assessing performance within the context of the auditor’s professional judgement. Assurance conclusions derived from evaluating the evidence against the criteria may however, be subject to interpretation, and could be contextually sensitive to the specific engagement circumstances. Relevant evaluation criteria include judgementally assessing the characteristics of relevance, completeness, reliability, neutrality and understandability. It is accordingly important for intended users to be provided with these criteria to improve their understanding of how the subject matter was evaluated.

Auditors should apply professional scepticism to ensure that sufficient appropriate evidence, free from material misstatement, is collected about the subject matter. Professional scepticism requires auditors to critically assess the validity of the evidence obtained and to be aware of evidence that may contradict or indicate that the disclosures are not trustworthy. Whereas sufficiency is an indicator of the quantity of evidence, appropriateness relates to the quality of the evidence. Materiality indicates the auditor’s assessment of the factors that may influence decision-making by intended users. Assurance engagement risk relates to the risk that the auditor may express an inappropriate conclusion as a result of an undetected material misstatement of the subject matter. The quantity and quality of the available evidence is influenced by the characteristics of the subject matter and the engagement circumstances. The assurance process concludes when the auditor issues a written report reflecting the conclusion(s) or opinion(s), relating to the extent to which the assurance evidence gathered supports the disclosures that were subject to the assurance engagement.

3.3.3.4 Auditor competencies and skills

As indicated in section 3.3.3.3, the audit profession is compelled to comply with the IFAE, which includes the auditing standards that regulate the audit work performed. In addition to the stringent educational and experiential requirements prescribed for entry into the audit profession, members ongoing participation in continuing professional development (CPD) programmes are mandatory to retain their certification. In order to provide particular services, auditor assurors must comply with certain competency benchmarks (Huggins et al., 2011). The strict quality control requirements of the audit profession, ideally positions it to undertake CSR assurance engagements, albeit at a price premium (Huggins et al., 2011).

The complexity of CSR related issues suggests that auditors may lack the necessary time, autonomy or skills to really understand and appreciate the relevant dynamics of CSR in order to
competently undertake CSR assurance engagements (Gouws & Cronjé, 2008; Manetti & Becatti, 2009; Utting, 2005). As described in section 3.2.5, auditors assigned to CSR assurance engagements must understand the business, have the necessary technical knowledge about the CSR processes and systems, and deploy suitable verification methodologies and expertise (Owen et al., 2000). CSR assures should therefore not only develop new competencies through education and training (Al-Hamadeen, 2007), but also experientially (Percy, 1997). To ensure that relevant and reliable CSR information is timeously provided, auditors should constantly update and maintain their legal and regulatory knowledge about the businesses with which they are associated (SAICA, 2012).

It is unlikely that audit firms will ever have (or need) all the specialist skills required for all types of CSR assurance engagements. Where auditor assures lack requisite skills, this deficit can be addressed through consulting experts (ICAEW, 2004). ISAE 3000 explicitly provides for auditors to use interdisciplinary experts to assist during the assurance engagement. The auditor assure should assign tasks to the various experts, evaluate the adequacy of human resource deployment, determine the available sources of information and the collection methods used, as well as review the conclusions reached by each expert. While the entire team should collaborate on the assurance engagement, the auditing standards\(^\text{46}\) require the auditor to ultimately accept responsibility for expressing the final opinion(s) in the assurance report, based on the diverse evidence gathered and interpreted by the experts (Manetti & Becatti, 2009). Auditors may also address the skills deficit by working closely with other interdisciplinary experts with the objective of transferring skills (Percy, 1997). Addressing the knowledge and skills deficit is particularly necessary during the audit profession’s early involvement in CSR assurance, while they develop the necessary competencies.

According to Gouws and Cronjé (2008: 128), the majority of accounting/auditing academics (63%) believed that the existing accounting and auditing curriculum does not adequately equip students to deal with the ambiguity of non-financial information contained in annual reports. Anecdotally, informal discussions with South African accounting and auditing academics revealed that the current curriculum for chartered accountants, as prescribed by the South African Institute of Chartered Accountants (SAICA), is too intensive to provide the necessary latitude to incorporate CSR-related issues into the academic accounting curriculum.

Given the thorough financially oriented skills training and development regimen for auditors, it is unlikely that typical auditors would have the necessary knowledge and skills to participate in CSR

\(^{46}\) International Standard on Auditing (ISA) 620 in particular.
assurance engagements. Auditors involved in CSR assurance engagements should therefore supplement their skills, knowledge and expertise relating to the subject matter being assured. They should, for example, acquaint themselves with matters such as carbon accounting, and environmental and social issues. The diverse nature of CSR-related issues, the complexity and heterogeneity of CSR assurance requires multidisciplinary input, for example in respect of accounting, management, engineering, environmental, economic and legal functions (Manetti & Toccafondi, 2012).

3.3.3.5 Stakeholder expectations of auditors

To effectively discharge their responsibilities, auditors should also provide assurance on the non-financial disclosures in the annual report (Percy, 1997). The auditor’s responsibility should therefore extend beyond mere attestation of the AFS, for the benefit of shareholders, by also considering the non-financial disclosures that are of interest to broader stakeholders. While the strongest support for external CSR assurance was from trade unions, chartered accountants, environmental groups and bankers respectively, the lowest demand was from financial analysts (Mitchell & Hill, 2010).

Existing audit practice produces an ‘audit expectation gap’ between the services provided by auditors and the stakeholders’ expectations of auditors (Lin & Chen, 2004; Percy, 1997). While the extent of this gap is the subject of intense debate, according to the American Institute of Certified Public Accountants (AICPA), the ‘expectation gap’ represents the difference between public expectations and needs, and what auditors believe that they can reasonably accomplish (Haniffa & Hudaib, 2007; Lin & Chen, 2004).

Auditors can bridge this expectation gap by ensuring that the expectations and needs of legitimate stakeholders are considered and that each interested party benefits from the audit opinions provided (Maury, 2000). Haniffa and Hudaib (2007) however, caution that the nature of the expectation gap and the remedies available to mitigate the liability and credibility issues in one country, may not work in another.

3.4 CSR assurance challenges

In their examination of CSR assurance reports, Deegan et al. (2006) found considerable variation in the titles used for assurance reports, the nature and extent of work performed, the parties to whom the assurance reports are addressed, the criteria and standards underpinning the assurance process, and the impact of limitations on the scope of the assurance engagement. Despite CSR assurance reports arguably providing report users with some level of confidence, the variations in
terminology compound uncertainty, especially when users presume that the different terms imply different assurance levels (O’Dwyer & Owen, 2005). Even the inconsistency of CSR assurance report titles contributes to report user confusion (Al-Hamadeen, 2007). Improving the quality and comparability of information should therefore address concerns arising from the lack of consistent and comparable CSR assurance standards and the proliferation of diverse assurors, thereby encouraging stakeholders to rely on the underlying CSR report (PwC, 2005).

Utting (2005) suggests that overall CSR reporting and assurance quality was quite poor, often not accurately depicting actual CSR performance. CSR reports may lack the necessary indicators to meaningfully measure CSR performance and impacts, often concealing negative performance (Utting, 2005). The considerable variation in CSR assurance methodologies and terminologies by the various CSR assurance providers makes it unlikely that existing assurance practices would provide external users with added value (Al-Hamadeen, 2007). Moreover, variances in the volume, character and detail of different CSR disclosures of reporting companies, compounded by the lack of consensus about how CSR data should be collected, evaluated and reported, impairs the ability of assurors to provide meaningful and comparable CSR assurance reports (Jones et al., 2014).

There is a risk that CSR reporters may control the assurance process, resulting in ‘managerial spin’, instead of reflecting a sincere commitment to greater corporate transparency and accountability (Al-Hamadeen, 2007). Management may, for example, selectively disseminate information in order to manage their corporate image, rather than meaningfully reflect enhanced stakeholder transparency and accountability (Owen et al., 2000; Utting, 2005). Insincere management interests and commercial motivations may therefore raise doubts about the credibility of CSR accounting and reporting initiatives (Owen et al., 2000). Moreover, since reporting companies appoint the assurors, they could impose restrictions on the assurance engagement, resulting in the assurors effectively reporting to the company rather than to the stakeholders (O’Dwyer, 2005). This reporting dilemma is highlighted by the tendency of some assurors to specifically address their assurance reports to their principals, and deliberately excluding other parties that may rely thereon (as described in section 3.2.3). This assertion is confirmed by Al-Hamadeen (2007) who posits that assurance practices often have a strong management orientation and benefit the reporting company to the exclusion of external users. The poor involvement of stakeholders in the assurance process, management-imposed limitations on the assurance scope, the appointment of the assuror by the reporting company, the incompleteness of reported information and the assuror’s inability to unambiguously express an opinion, may therefore undermine CSR assurance practices (Adams & Evans, 2004).

Stakeholders are usually unable to evaluate the effectiveness of the CSR assurance process unless
the engagement results, limitations on scope and the opinions are clearly communicated in the assurance report (Ackers, 2009; Manetti & Becatti, 2009). Despite providing assurors (and reporting companies) with a choice between reasonable and limited assurance, ISAE 3000 does not exclude or explicitly require various parts of a CSR assurance report to provide different assurance levels or to use different verification procedures. The assuror should therefore clearly indicate on which parts of the CSR report they provide reasonable assurance, which they provide limited assurance and which they do not provide any assurance (Manetti & Becatti, 2009). While this may appear to be a pragmatic approach, the provision of multi-level assurance could compound CSR report user confusion. According to the FEE (2011), the confusion resulting from multi-level assurance can only be overcome when assurors provide limited assurance on the entire document, clarifying exactly which aspects of the CSR report has been covered by the assurance engagement.

3.5 Conclusion

Whereas the second chapter described the CSR concept and the reporting of CSR performance, this chapter completes the CSR accountability cycle by describing the need to provide stakeholders with confidence about the veracity of the reporting company’s CSR disclosures. Independent assurance of CSR disclosures improves stakeholder confidence about the veracity of the underlying disclosures while ameliorating the risk of companies using green-wash to falsely disclose their CSR performance, or deliberately concealing deficient CSR performance.

Pertinent aspects of the literature review relating to CSR assurance are depicted in Table 3.1. This synopsis represents the primary characteristics of CSR assurance against which the results of the three empirical phases are considered and described in chapters 5 and 6.
Table 3.1 – Synopsis of key aspects of CSR assurance

<table>
<thead>
<tr>
<th>Benefits of CSR assurance</th>
<th>Primary CSR assurance providers</th>
<th>CSR assurance components</th>
<th>Intended audience of CSR assurance reports</th>
<th>Frameworks, laws and regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduces green-wash&lt;br&gt;• REDuces the risk of managerial capture&lt;br&gt;• Enhances stakeholder trust and confidence in the veracity of company CSR disclosures&lt;br&gt;• Improves public perception about the truthfulness of the reporting company’s activities&lt;br&gt;• Promotes continuous improvement in control and reporting systems to improve both the reporting process and the content of CSR reports&lt;br&gt;• Transfers learning from the assurors to the reporting company&lt;br&gt;• Improves regulatory and legislative compliance&lt;br&gt;• Improves comparability of CSR reports</td>
<td>• Auditor assurors&lt;br&gt;• Internal auditors&lt;br&gt;• Certification bodies&lt;br&gt;• Specialist CSR assurors</td>
<td>• CSR assuror competencies&lt;br&gt;• CSR assuror independence&lt;br&gt;• CSR assurance levels&lt;br&gt;• CSR assurance opinions&lt;br&gt;• CSR assurance standards&lt;br&gt;  - AA1000AS&lt;br&gt;  - ISAE 3000&lt;br&gt;• The CSR assurance engagement subject&lt;br&gt;• The CSR assurance engagement objective&lt;br&gt;• The CSR assurance engagement conclusion&lt;br&gt;• Confirmation that all material issues are covered&lt;br&gt;• Publication of the CSR assurance report for use by affected stakeholders</td>
<td>• Reporting company executives and management&lt;br&gt;• Board of directors&lt;br&gt;• Shareholders&lt;br&gt;• Stakeholders</td>
<td>• King III principle 9.3&lt;br&gt;• JSE regulation 8.63(a)&lt;br&gt;• GRI G4</td>
</tr>
</tbody>
</table>

Globally, the primary CSR assurance providers were identified as being audit firms (the Big 4 in particular), certification bodies and specialist CSR assurance providers. The characteristics of emerging CSR practices were described within the context of CSR assurance reports. In this regard, this chapter considers CSR assurance reports in terms of its intended audience; the competencies and expertise that CSR assurance providers should possess; the prerequisite for the assurance providers to be independent and objective; the various assurance levels and the resultant CSR assurance conclusions and opinions provided. The two primary CSR assurance standards presently utilised by CSR assurors were identified as AA1000AS and ISAE 3000. Despite frequently being referred to in CSR assurance reports, it was argued that the GRI is a CSR reporting framework and not an assurance standard. Recognising that despite the objective of independent CSR assurance being to improve the confidence of both reporting companies and their stakeholders about the veracity of the underlying CSR disclosures, some of the challenges impairing the realisation of this objective were briefly considered.
Since auditor assureds are the primary CSR assurance providers, and are expected to remain so in the foreseeable future, the chapter concludes by specifically examining the audit profession within the context of its CSR assurance role. In this regard, the audit profession comprises both internal and external auditors. This thesis argues that both internal and external auditors meet the King III requirement as independent CSR assurance providers. The development of the audit profession and its perceived stakeholder responsibilities were described, as were the auditor’s regulatory environment and the mandatory components of the international framework for assurance engagements. The existence of an expectation gap between the services provided by auditors and stakeholders’ expectations of an audit were acknowledged; the emerging nature of CSR assurance was explored; and the approaches adopted by auditors to develop their capacity to perform CSR assurance engagements were considered.

The inconsistent application of diverse CSR assurance standards, frameworks and practices increases report user confusion and undermines the expected benefits for both reporting companies and stakeholders. This highlights the need to develop a specific CSR assurance standard that is universally applicable in order to addresses existing inadequacies.

In conclusion, the fundamental characteristic of independent CSR assurance provided by any assurance provider is that any conclusion reached and opinion provided must be based on verifiable evidence. This rigour should reassure stakeholders that the underlying CSR disclosures are trustworthy and may be relied upon. Even though global provision of independent assurance on CSR disclosures still remains at relatively low levels, it does reflect an upward trend. It is predicted that King III and the JSE regulations will accelerate this upward trend in South Africa.
CHAPTER 4

RESEARCH METHODOLOGY

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4.1 Introduction

The emerging nature of CSR assurance makes it appropriate to use an exploratory research approach to improve the understanding of the nature and characteristics of the underlying phenomena (Sekaran & Bougie, 2010). To provide the necessary context, this chapter acknowledges that the preceding chapters provide an overview of the CSR reporting and assurance discourse and introduces a conceptual framework for this study. Drawing on this conceptual framework, this chapter aligns the research objectives to the discourse highlighted in the preceding literature review chapters. In particular, this chapter:

- identifies the aims and objectives of this thesis
- outlines the research problem, defines the research topic and identifies and conceptualises the thesis title
- describes the primary research paradigms and substantiates the selection of the research design adopted for this thesis
- identifies the research population and substantiates the sampling method deployed
- describes the primary techniques used for data gathering
- considers the limitations inherent in the research approach adopted
- concludes by explaining how the empirical results are presented, analysed and described

An underlying assumption of this thesis is that despite active involvement by the Big 4 audit firms in CSR assurance provision, the majority of the audit profession are still not involved in any CSR-related issues. This lack of involvement is despite a growing expectation by stakeholders that the audit profession should be more actively involved in CSR. Auditors are expected to provide stakeholders with independent assurance that the reporting company’s non-financial performance and accountability disclosures may be relied on. Auditors should therefore visibly play a more definitive and important role in providing stakeholders with assurance about the veracity of what are ostensibly voluntary CSR disclosures.

4.2 Research method and design

4.2.1 Background

Research methodology considers and explains the logic behind selecting particular research methods and techniques (Welman, Kruger & Mitchell, 2011) and refers to the methods, techniques and procedures used to implement the research design or research plan (Babbie & Mouton, 2011). The research design in turn, provides the framework that indicates how the research process
addresses the underlying research problem. Within this context, two major aspects of research design should be considered (Babbie & Mouton, 2011). Firstly, the researcher must clearly articulate what should be established. Secondly, the most appropriate manner to address the research objectives should be determined. The core elements of the research design used in this study are considered and described in the sub-sections below.

This research is conducted in three distinct phases, each utilising different research approaches. The first phase involved reviewing recently published company annual and/or CSR reports to understand the extent to which independent CSR assurance was being provided. In the second phase, a survey instrument was distributed to internal stakeholders at reporting companies to gain insights into reporting company perceptions about CSR reporting and assurance. In the final phase, semi-structured interviews were conducted with the primary South African CSR assurance providers identified in the first research phase. Collectively, the three research phases may be described as being a descriptive exploratory study.

4.2.2 Research rationale

As described in section 2.5.2, existing corporate governance practices clearly identify the board as the organisational level entrusted by shareholders and mandated by law, with the fiduciary responsibility of ensuring that the principles of effective corporate governance are being consistently applied. As described in section 2.7.7.2, in terms of King III a board should consist of a majority of independent non-executive directors with all audit committee members being independent non-executive directors. Since the board is appointed primarily to safeguard the interests of shareholders (as described in section 2.4.5), the agency problem gives rise to the question about how the board obtains confidence that management’s disclosures are trustworthy and may be relied upon.

Companies are required to report to shareholders on their financial performance and financial position by producing annual financial statements (AFS). It is a mandatory requirement for the AFS of public companies to be audited by registered auditors. Responding to increased stakeholder demands for broader corporate accountability, many companies are also voluntarily disclosing their non-financial impacts on the economy, society and the environment. Independent assurance on these CSR disclosures reduces the risk of green-wash, and provides users of CSR reports with confidence that these CSR disclosures may be relied upon.

4.2.3 Research objectives

As stated in sections 2.7.7.2 and 3.3.3.2, the provision of independent CSR assurance is a de facto
mandatory requirement for all companies listed on the JSE. The objective of this South African exploratory research study is to identify the characteristics of CSR assurance at JSE-listed companies. Since assurance is not provided in a vacuum, but in order to provide report users with confidence that the underlying CSR disclosures may be relied upon, the following secondary objectives arise:

- establishing the extent to which JSE-listed companies have complied with the JSE regulations requiring JSE-listed companies to provide independent assurance on their CSR disclosures
- understanding the reasons that reporting companies disclose their CSR performance
- understanding the reasons that reporting companies provide independent assurance on their CSR disclosures
- exploring the reasons that reporting companies select particular CSR assurance providers
- identifying the primary providers of independent assurance on CSR reporting
- understanding the CSR assurance role of internal audit
- comparing the practices of auditor assurors with those of non-auditor assurors, within the context of the objectives identified above
- understanding the implications of various CSR assurance practices adopted by the primary assurance providers
- identifying the primary standards and/or frameworks used in CSR assurance engagements
- determining whether appropriate universally applicable frameworks exist for the provision of independent assurance on CSR disclosures. Should such a framework not exist, further objectives include:
  - identifying the factors inhibiting the development of such a framework
  - identifying the key elements that should be incorporated into such a framework

Within this context, this exploratory research seeks to

- establish prevailing South African CSR assurance practices
- compare the CSR assurance practices of the various CSR assurors in South Africa
- understand the extent to which existing CSR assurance practices contribute to the veracity of CSR disclosures
4.2.4 Thesis proposition

This exploratory study aims to improve the understanding of the emerging CSR assurance phenomena, rather than to collect detailed, precise and replicable data that may be used to accurately predict the phenomena across the entire population (Babbie & Mouton, 2011). A hypothesis is a statement or proposition that may be unambiguously tested using quantifiable statistical techniques (Welman et al., 2011). Since the primarily exploratory mixed methods approach adopted for this study is rooted in interpretivism, hypothesis testing is considered inappropriate. The alternative approach adopted for this thesis is the submission of a 'thesis statement', which identifies the central argument of a work, and is capable of being challenged, either for or against, by a knowledgeable person in the field (Hofstee, 2006). Within this context, a 'thesis' may be described as a statement, theory, position or proposition advanced and maintained by argument, or one advanced without definitive proof (Oxford; Merriam-Webster; Cambridge). The following propositions are advanced for this thesis:

- Stakeholders require companies to disclose their impacts on the economy, environment and society.
- These disclosures should be independently assured to provide users with confidence about the veracity of the underlying company CSR disclosures.
- CSR assurance provision will increase following the promulgation of the JSE regulations requiring JSE-listed companies to apply the King III provisions.
- New entrants will begin providing independent CSR assurance to meet the increased demand.
- Despite these new entrants, the audit profession will continue to be the primary collective providers of independent CSR assurance.
- Despite tending to provide lower levels of CSR assurance, the audit profession will continue to be perceived as providing more credible assurance than non-auditor assurors.
- Although auditor assurors are expected to remain the primary providers of independent CSR assurance, the extent of this dominance will diminish over time.

Given that the board represents one of the primary company stakeholders, especially in respect of its mandated fiduciary responsibilities (as described in section 2.5.2), it too requires independent assurance that company CSR disclosures may be relied upon. This need is heighted by the agency problem (as described in section 2.4.5). In line with its exploratory nature, this thesis accordingly attempts to present coherent arguments relating to the thesis propositions advanced, instead of providing statistically valid and tested hypotheses. It is accordingly recognised that other
knowledgeable persons in the field may differ with the interpretation and conclusions reflected in this thesis. These diverse interpretations are exacerbated by the interdisciplinary nature of this thesis, with the interpretation potentially being influenced by the respected core disciplines of the researchers and/or readers.

4.2.5 Research paradigms

4.2.5.1 Background

The dominant paradigms used in scientific research are positivism (quantitative) and interpretivism (qualitative). Pragmatism is emerging as an appropriate paradigm for exploratory research by introducing a mixed methods approach utilising both qualitative and quantitative methods and mixing the two when appropriate (Goldkuhl, 2012; Johnson & Onwuegbuzie, 2004; Leech, Dellinger, Brannagan & Tanaka, 2010; Onwuegbuzie & Leech, 2005). While qualitative research usually involves inductive reasoning and quantitative research relies on deductive reasoning, the reasoning in mixed methods research relies on induction and/or deduction based on the specific research questions (Morse, Niehaus, Wolfe & Wilkins, 2006). Pragmatism requires researchers to retain sufficient flexibility in their research methodology and collaborate with other researchers who hold multiple epistemological perspectives (Leech et al., 2010). Research is accordingly viewed as a holistic endeavour, requiring prolonged engagement, persistent observation and triangulation (Leech et al., 2010).

Irrespective of the paradigmatic orientation, all research in the social sciences attempts to identify emerging phenomena relating to the study subject and to substantiate any assertions made in the context of the environment within which the research is undertaken (Johnson & Onwuegbuzie, 2004). While specific methodologies tend to be associated with particular research paradigms, it is not uncommon for the objectives, scope and nature of enquiry to be consistent across different research methods and paradigms (Leech et al., 2010; Onwuegbuzie & Leech, 2005).

For completeness and contextually, the two primary research paradigms (i.e. qualitative and quantitative) and the emerging mixed methods paradigm used in this study are described in the sub-sections below. Quantitative and qualitative researchers each tend to view their own paradigms as being the most suitable research approach, resulting in the emergence of a controversial incompatibility thesis, which holds that the qualitative and quantitative research paradigms cannot and should not be mixed (Johnson & Onwuegbuzie, 2004; Onwuegbuzie & Leech, 2005). This thesis however, adopts a different approach by advocating that the incompatibility thesis is countered by paradigm pluralism (Teddlie & Tashakkori, 2012) and by a third approach involving a revised mixed methods paradigm (Johnson & Onwuegbuzie, 2004).
4.2.5.2 Quantitative paradigm

Quantitative researchers adopt a positivist approach by regarding social interventions as being entities, in a similar manner that physical scientists treat physical phenomena (Johnson & Onwuegbuzie, 2004). Positivism is a metatheory based on the assumption that social sciences research should emulate research in the natural sciences (Babbie & Mouton, 2011). Positivist research searches for universal laws of human behaviour, measurement quantification, in which the researcher must be objective (Babbie & Mouton, 2011).

Ontologically, the quantitative paradigm holds that there is usually ‘only one truth’; an objective reality existing independently of the observer and waiting to be discovered (Sale, Lohfeld & Brazil, 2002). Epistemologically, researchers should be separated from the entities being observed, maintaining their independence and objectivity. This enables the researcher to study a phenomenon without influencing, or being influenced by it. Independence requires researchers to eliminate their biases and remain emotionally detached and uninvolved during the study. In reality though, despite quantitative research being underpinned by the principles of independence and objectivity, all research contains an element of subjectivity. This subjectivity may be in the selection of research tools and techniques, or even in the interpretation of the results, as encapsulated by the aphorism, ‘lies, damned lies and statistics’. It is accordingly necessary to ensure the rigour of the research and validating the data collected (Williams, 2007).

The characteristics of quantitative research include focusing on deduction, confirmation, theory/hypothesis testing, explanation, prediction, standardised data collection and statistical analysis (Johnson & Onwuegbuzie, 2004). Quantitative sample sizes tend to be much larger than qualitative research samples, often requiring sophisticated statistical techniques to collect and analyse the data (Sale et al., 2002). Since quantitative researchers tend to interpret the results and conclusions within the context of the entire study population, it is necessary to ensure that the samples drawn represent the population being studied. Quantitative research may use advanced inferential statistical tools to reflect causal relationships between two or more variables (Babbie & Mouton, 2011).

4.2.5.3 Qualitative paradigm

Qualitative research assumes that reality is a constructed, multidisciplinary and constantly changing concept; without the existence of a single immutable truth that may be observed and measured (Merriam, 1995). Exploratory studies frequently use qualitative research methods to understand the phenomena identified by the study and provide a rigorous approach to theory development (Birkinshaw, Brannen & Tung, 2011).
Using inductive reasoning, or interpretivism, qualitative research holistically involves a process of discovery (Morse et al., 2006; Williams, 2007). Unlike positivism, interpretivism is a metatheory based on the assumption that human phenomena are fundamentally different to natural phenomena (Babbie & Mouton, 2011). In this regard, some of the critical differences relate to the inherent nature of human behaviour and historicity, which require different research methods from that used for studying natural phenomena. Babbie and Mouton (2011) suggest that the objective of interpretivism is to interpret or understand human behaviour, and not necessarily to explain or predict it. Merriam (1995) asserts that qualitative research is ideal to:

- clarify and understand phenomena and situations where the operating variables cannot easily be identified beforehand
- establish creative approaches for considering pre-existing conditions
- understand participant perspectives about their respective roles and responsibilities
- establish the history of a situation
- build theory, hypotheses or generalisations

Qualitative researchers tend to reject positivism, instead arguing that constructivism, idealism, relativism, humanism, hermeneutics and postmodernism are superior research approaches in the social sciences (Sale et al., 2002). Qualitative research involves an element of subjectivity, since the diverse nature of reality may require qualitative researchers to provide their own interpretation of somebody else’s reality (Merriam, 1995). Qualitative researchers are usually concerned with the changing nature of reality created experientially (in terms of which the researcher and the research subject mutually interact) (Sale et al., 2002). Qualitative research therefore plays an important role in interpreting and understanding the complex plurality of research contexts (Birkinshaw et al., 2011).

Ontologically, multiple constructed realities are common, with time and context-free generalisations being neither desirable nor possible (Johnson & Onwuegbuzie, 2004). As a result, qualitative research tends to be value-bound implying that a detailed cause and effect analysis is not feasible. Qualitatively, logic usually flows from specific to general (with the data inductively explaining the underlying phenomena). Epistemologically, reality cannot be independent of mind without an external referent to which claims of truth may be compared (Johnson & Onwuegbuzie, 2004). The major characteristics and tools of qualitative research are induction, discovery, exploration and theory/hypothesis generation, with the researcher being the primary ‘instrument’ for data collection (Johnson & Onwuegbuzie, 2004).
4.2.5.4 Mixed methods paradigm

For more than a century, quantitative and qualitative researchers have debated the merits of their respective paradigmatic approaches to research (Johnson & Onwuegbuzie, 2004). Sale et al. (2002) however, suggest that quantitative and qualitative research approaches are merely tools to address important research questions that may only be answered through their effective integration. Researchers who use either quantitative or qualitative approaches exclusively, may miss important insights about pertinent information relating to important characteristics of the research subject, which may only emerge from the other (Johnson & Onwuegbuzie, 2004). Researchers constantly question the appropriateness of various research approaches within specific situations, and especially when considering whether to mix or combine research approaches (Johnson & Onwuegbuzie, 2004).

Traditionally, research in the accounting sciences relied exclusively on quantitative research methodologies (Mazzola, Walker, Shockley & Spector, 2011). Johnson and Onwuegbuzie (2004) suggest that even though quantitative measures may be objectively driven by theory, quantitative measures could still reflect the researcher’s bias. Although, quantitative and qualitative paradigms have historically dominated empirical scientific research, a mixed methods approach combining aspects of positivism and interpretivism is beginning to emerge as a third research paradigm (Johnson, Onwuegbuzie & Turner, 2007). This revised approach to mixed methods research may be defined as a category of research where the researcher mixes or combines elements of both quantitative and qualitative research techniques, methods, approaches, concepts or language within a single study (Johnson & Onwuegbuzie, 2004; Onwuegbuzie & Johnson, 2006).

Mixed methods research should accordingly be regarded as an extension of, rather than a replacement for, quantitative and qualitative research approaches. Mixed methods research draws heavily on the respective strengths of the one approach while minimising the weaknesses of the other (Williams, 2007). Philosophically, mixed methods research makes use of a combination of pragmatism, induction, deduction and abduction and relies on the most appropriate set of explanations to understand the research results (Williams, 2007). Rejecting methodological dogmatism, the objective of mixed methods research is to legitimise the simultaneous use of multiple approaches to comprehensively answer the research questions, rather than confining the researcher to using either a qualitative or quantitative approach.

The principle underlying mixed methods research requires the collection of multiple data by deploying a combination of various research strategies, approaches and methods in such a manner that the resultant combination complements the strengths and minimises the non-overlapping
weaknesses of each approach (Johnson & Onwuegbuzie, 2004). Mixed methods researchers do not therefore only collect and analyse numerical data (customary in quantitative research), but also narrative data (the norm in qualitative research), in order to address the research question in a particular study (Williams, 2007). By combining quantitative and qualitative elements, mixed methods research improves the breadth and depth of understanding the emerging phenomena and enables the corroboration of data from multiple sources (Johnson et al., 2007). While the one research approach tends to complement the other, today’s interdisciplinary, complex and dynamic research environment makes it particularly appropriate to promote epistemological and methodological pluralism. Mixed methods research may therefore be regarded as being superior to single method research, since adding qualitative to quantitative data facilitates a deeper understanding of the research phenomena, by probing the perspectives and meanings of the participants (Johnson & Onwuegbuzie, 2004).

A single method research approach (either qualitative or quantitative) is unlikely to adequately address the research objectives of this study, which seeks to explore and understand the emerging CSR assurance phenomena. The exploratory nature of this thesis, involving the analysis and interpretation of both qualitative and quantitative data from multiple sources, supports the decision to use a mixed methods research paradigm for this study. Moreover, mixed methods research is ideally suited to combine elements of both qualitative and quantitative data collection and analysis, within the context of the theoretical frameworks, from an exploratory or interpretative perspective, and not necessarily to achieve robust predictions. This study utilises an integrated mixed methods paradigm by performing a quantitative and qualitative content analysis of CSR assurance reports (establishing the observed phenomena), a primarily quantitative survey of reporting company respondents (providing a reporting company perspective of CSR reporting and assurance) and through qualitative interviews with assurors (introducing an assuror’s perspective).

Instead of using separate qualitative and quantitative approaches linked through triangulation, this thesis accordingly deploys an integrated mixed methods approach. Triangulation of different research methods is not merely a validation tool or strategy, but should represent an alternative to validation (Denzin, 2012). Moreover, effective methodological triangulation is seldom used in mixed methods research (Sale et al., 2002). Since qualitative and quantitative paradigms may not necessarily study the same underlying data, simply combining the two approaches may not be a feasible alternative (Sale et al., 2002).

Despite using a mixed methods research approach, and since the objective of qualitative research is to interpret and understand the phenomena being studied, this thesis has a primarily qualitative focus, deploying inductive reasoning. Despite Denzin (2012) and Sale et al. (2002) suggesting that
triangulation may be inappropriate for mixed methods research, this study recognises that cross referencing the results of the various phases facilitates the validation of the various observations of the different empirical research phases. This also improves the understanding of the CSR reporting and assurance phenomena.

4.2.6 Research population and units of analysis

In the broadest sense, the research population for this study includes all entities operating in South Africa, including sole proprietors, partnerships, private and public companies, and government entities. As described in sections 1.7 and 1.8, for the purpose of this study it is appropriate to confine the study population to only JSE-listed public companies. This delineation is justified by the JSE requiring all listed companies to adopt the King III principles. At 30 April 2012, there were 376 companies listed on the JSE, representing a total market capitalisation of R6 889 billion. The completeness of the study population was established by extracting the reporting companies from the Sanlam I-Trade website.47

The units of observation in this study include JSE-listed companies, both in terms of their published annual and/or CSR assurance reports, and survey respondents representing the same companies. To introduce an assurance provider’s perspective, the primary providers of independent CSR assurance in South Africa represented a secondary research population. Participant assurance providers were confined to those providing CSR assurance to the identified JSE-listed companies. The observations in this study relate to JSE-listed public companies, as well as to the independent CSR assurors at these companies.

Given the exploratory mixed methods approach adopted in this study, within the context of the research population as described, the information sources used for the various empirical research components include published company annual, CSR and CSR assurance reports; responses to a survey questionnaire at the reporting companies; as well as transcripts of semi-structured interviews with CSR assurors. To ensure the comparability of the data from the various empirical research phases, the same reporting companies were used for each of the three empirical research phases. The empirical research phases covered similar periods, with assurance provider participants being selected from the primary assurors identified during the content analysis of the CSR assurance reports.

4.2.7 Research sample/study participants

Probability sampling methods ensure that the selected sample is representative of the population from which it was drawn, with each population unit having an equal chance of selection (Welman et al., 2011). In probability sampling, the study results can be generalised across the entire study population. By contrast, in purposive non-probability sampling, each unit in the population does not have an equal chance of being selected. This lack of representivity implies that any inferences drawn from non-probability samples cannot be generalised across the entire population, making the use of inferential statistical tools inappropriate.

Unlike probability sampling primarily used in quantitative research, non-probability sampling tends to be associated with qualitative research, in terms of which the researcher purposively selects a sample without intending to draw conclusions about the entire population from which the sample was drawn. In non-probability sampling it is more important to understand the characteristics of the phenomena being studied. Qualitative researchers therefore tend to use their own knowledge of the population characteristics to select a purposive non-probability sample (Babbie & Mouton, 2011). Therefore, given the exploratory nature of the study and prior research finding that larger companies were more likely to have the resources to provide independent assurance on their CSR disclosures, this research uses purposive non-probability (non-statistical) sampling and not probability (statistical) sampling methods to select the companies being studied (as described in section 2.4.6) (Ackers, 2009; CorporateRegister, 2008; KPMG, 2011).

It is important to note that purposive sampling is not simply about obtaining information from those who are readily or conveniently available, but rather about obtaining pertinent information from specifically targeted respondent groups. Respondents are selected to provide the desired information, either because they are the only ones who have it, or because they conform to some criteria set by the researcher (Sekaran & Bougie, 2010). Unlike convenience sampling, also associated with qualitative research, purposive sampling includes an element of subjectivity while providing researchers with some control over the selection process (Barbour, 2001).

To delineate the study into a manageable sample, only the largest 200 JSE-listed companies were included in the purposively selected sample used in this thesis (Welman et al., 2011). The decision to only examine the annual, CSR and CSR assurance reports of the largest companies was based on slack resource theory (as described in section 2.4.6), which holds that larger companies are more likely to have the ‘spare resources’ to provide independent assurance on their CSR disclosures.

48 Pertinent information pertaining to the corporations comprising the top 200 companies is included in Annexure 1.
disclosures. Within this primary sample of 200 companies, one company was subsequently delisted (making the annual report unavailable), and seven companies incorporated their various corporate reports into the annual publications of their holding companies. Therefore, after cleaning the data, the sample was subsequently revised to only 192 companies. Even though this revised sample only represented 53% of JSE-listed companies on 30 April 2012, at that time the largest 200 JSE-listed companies accounted for 99.3% of the total market capitalisation of the JSE.

Table 4.1 - Alignment of research population, sample and empirical phases

<table>
<thead>
<tr>
<th>Phase 1 - Content Analysis</th>
<th>Phase 2 - Research survey</th>
<th>Phase 3 - Semi-structured interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research population</td>
<td>JSE-listed companies</td>
<td>CSR assurance providers at JSE-listed companies</td>
</tr>
<tr>
<td>Empirical research sample</td>
<td>200 largest JSE-listed companies</td>
<td>200 largest JSE-listed companies</td>
</tr>
</tbody>
</table>
| Information source / type of data | Annual, CSR and CSR assurance reports | Responses to survey questionnaires from the following reporting company respondents:  
- company secretary  
- chairperson of the board  
- independent non-executive directors  
- chairperson of the audit committee  
- independent audit committee members  
- members of the CSR committee  
- chief executive officer (CEO)  
- chief financial officer (CFO)  
- chief risk officer (CRO)  
- executive manager responsible for CSR  
- CAE/internal audit manager  
- external audit manager/partner  
- managing partner/member/manager of the external CSR assurance provider | Interview responses from the following CSR assurance provider participants:  
- the Big 4 auditor assurors  
- a mid-tier auditor assuror  
- an independent specialist CSR assuror |
As described in section 4.2, the empirical research component was undertaken in three phases. Although all three phases considered the CSR assurance characteristics of the same companies, it is necessary to examine the specific samples and participants used in each research phase. Table 4.1 summarises key information about the research population, sample and respondents/participants for each of the three research phases.

The first phase examined the published annual, CSR and CSR assurance reports of the largest 200 JSE-listed companies to establish the extent of independent CSR assurance provided and to establish its characteristics.

The second phase involved purposively inviting respondents at the same reporting companies identified in the first phase, to complete an online survey instrument. Potential survey respondents were selected on the assumption that they could meaningfully respond to the survey questions, given the responsibilities usually associated with their respective roles at the reporting companies.

The third phase involved examining the independent assurance reports identified in the first phase, to determine the primary providers of independent CSR assurance. To proportionally represent the perspectives of the CSR assurance providers (based on the frequency of assurance provided by the various assurors), only senior officials at the respective assurance providers identified in the first phase were interviewed in the third phase. Collectively, the assurors interviewed provided 86% of CSR assurance reports in 2011/2 (n = 43); 90% in 2010/1 (n = 38); and 83% in 2007/8 (n = 15). In this regard, the following six participants were selected for semi-structured interviews:

- the partners and/or directors at each of the Big 4 audit firms (justified by the collective dominance of the Big 4 auditor assurors)
- a partner at one of the mid-tier audit firms
- the owner/principal assuror of the primary specialist CSR assuror

The integrated mixed methods approach adopted for this thesis considers different data extracted from various populations and using different tools. The quantitative research component of this study analysed data collected using a self-administered research survey questionnaire distributed to participants at the top 200 JSE-listed companies. Using the same population and sample as the quantitative survey component, the qualitative data components were extracted from a content analysis of recently available annual, CSR and/or CSR assurance reports. To understand the perspective of CSR assurance providers, semi-structured interviews were conducted with the primary CSR assurors identified in the content analysis described above. To ensure the consistency of the data across the various data gathering and analysis techniques, the same core sample of the
top 200 JSE-listed companies was used for both the content analysis of CSR assurance reports and
the survey questionnaire distributed to respondents. Furthermore, the CSR assurance providers
interviewed were identified from the same sample of the top 200 JSE-listed companies as used for
the content analysis.

4.2.8 Data collection methods

4.2.8.1 Background

Irrespective of the research paradigm adopted, data collection methods should be based on a
systematic and replicable49 observation of the phenomena (Welman et al., 2011). Although the
study may be replicable, it is acknowledged that the results may differ, particularly given the
interpretivist approach adopted for this research. As described in section 4.2.5.4, this thesis uses
an exploratory mixed methods research approach, incorporating both qualitative and quantitative
components.

As previously described, the empirical data in this study were collected in three distinct phases. To
establish the prevailing CSR assurance practices, the first phase involved sourcing and analysing
recently published annual, CSR and CSR assurance reports. To gain insights into the perspectives
of internal stakeholders at reporting companies, the second phase involved the use of a survey
questionnaire distributed to purposively selected respondents at the reporting companies covered
by this study (as identified in 4.2.7). Despite being a primarily quantitative tool, this survey
instrument contains both quantitative and qualitative elements. The third and final phase used
semi-structured interviews with the major CSR assurors (identified in the first phase) to provide an
assuror’s perspective. Collectively, the analysis and interpretation of the various data gathered
during the three empirical research phases provide the evidence against which the thesis
proposition may be evaluated. Although the data has been collected in three separate phases, the
primary data covers comparable periods.

4.2.8.2 Phase 1 - content analysis of CSR assurance reports

Simplistically, a content analysis may be described as the quantitative analysis of qualitative data
(Welman et al., 2011). The primary research approach adopted for this study expands on this
concept by critically analysing the information contained in company CSR assurance reports and, to
a lesser extent, company annual and/or CSR reports.

49 Replicability is not necessarily restricted to repeating the events or phenomena, but rather to the ability to duplicate
the procedures, analyses and conclusions, allowing other researchers to arrive at a similar conclusion (Welman et al.,
2011: 190).
This research phase examines the most recent annual or CSR reports of the selected companies to identify published CSR assurance reports available at the study date. In addition, since the study commenced prior to the implementation of King III, the content analysis forms part of a longitudinal study to identify the prevalence of CSR assurance and its emerging characteristics during the period 2007 to 2012. This period covers reporting periods both prior to (i.e. 2007/8) and after (i.e. 2010/1 and 2011/2) King III implementation.

As indicated in section 4.2.7, the research sample is confined to the top 200 JSE-listed companies. While this represented only 53% of all JSE-listed companies, it accounted for 99% of the total market capitalisation of the JSE. The dynamic nature of the stock exchange implies that although most of the same companies appeared on the top 200 lists for 2008 and 2012, there were some differences. Nevertheless, this thesis assumes that the top 200 have similar characteristics and are accordingly reasonably comparable.

The first part of the content analysis involved scrutinising the published annual reports, CSR reports and/or websites of the respective companies studied, to establish whether their CSR disclosures were independently assured and particularly whether the results of any CSR assurance processes were readily available for stakeholder consumption. To understand the impact of King III on the extent of CSR assurance provided, the annual, CSR and CSR assurance reports of the top 200 companies in April 2008 (prior to King III implementation) were examined and compared to those of subsequent periods (after King III implementation). Since internal auditors also provide independent assurance on CSR performance, albeit for internal company stakeholders (as described in section 3.3.2), these reports were perused to understand whether the internal auditing activity played an active CSR assurance role.

The second part of the content analysis involved a critical review of publicly available CSR assurance reports, in order to identify the type of assurance provider and the emerging CSR assurance trends. The diverse practices of the various assurors were compared to understand the role of the auditor assuror. In particular the following components of published CSR assurance reports were examined:

- the parties to whom the CSR assurance report is addressed
- the titles of the CSR assurance report
- the scope of the CSR assurance engagement
- the standards, guidelines and frameworks used in the CSR assurance engagement
- the assurance provider
• the assurance provider’s independence
• the assurance provider’s competencies
• any limitations on the liability of the CSR assurance provider
• the levels of assurance provided
• the assurance opinion(s) provided
• the recommendations for improvement provided

4.2.8.3 Phase 2 – research survey questionnaire

A self-administered research survey instrument was used for the second empirical phase of this study. This questionnaire was distributed to purposively selected officials involved in governance and CSR-related functions at the top 200 JSE-listed companies identified for this study (as described in section 4.2.7). Respondents invited to complete the online survey, were purposively selected (as described in section 4.2.7) on the assumption that they could meaningfully respond to the survey questions, given the responsibilities usually associated with their respective roles at the reporting companies. Responses to this questionnaire provided insights into the perspective of reporting companies about the emerging CSR phenomena identified by the content analysis in the first phase. These responses also provide reasons for reporting companies using particular CSR assurance providers.

Despite the diversity of potential company respondents (reflected in Table 4.1), it was anticipated that only one official would probably respond on behalf of the company (usually the company secretary). Anecdotally, the so called c-suite\textsuperscript{50}, audit committee members and directors, do not usually respond to surveys. Despite acknowledging that more than one respondent from the same company might respond, multiple responses from the same companies were not expected to significantly distort the research findings. Moreover, since the content analysis in the first phase identified the primary characteristics of CSR assurance, the survey phase seeks to understand the underlying reasons for the identified practices. This potential methodological deficiency was therefore not expected to invalidate this interpretative phase of the study.

Although the external auditors and external CSR assurors were included as potential survey respondents, the survey covering letter and, accordingly, the hyperlink to the research survey questionnaire were only sent to reporting companies and not directly to assurors. Prospective

\textsuperscript{50} The ‘c-suite’ is the collective term used to describe executive management with ‘chief’ in their titles (i.e. chief executive officer, chief financial officer, chief information officer, chief risk officer, chief operating officer, etc.).
respondents may therefore be realistically described as representing a group of internal company stakeholders. Respondents were encouraged, but not compelled, to respond and reassured that their individual responses would be treated anonymously and confidentially. The survey questionnaire used a combination of 32 nominal,\(^{51}\) interval\(^{52}\) and ordinal questions (obtained using a 7-point Likert-type scale)\(^ {53}\). These were appropriately supplemented by open-ended questions (as reflected in Annexure 3).

The survey questionnaire was systematically developed from pertinent issues emerging from the literature review. As a result, several of the survey questions relate to the corporate governance and CSR reporting practices of the reporting companies, but were not necessarily directly related to CSR assurance provision. These questions were included to provide contextual background and provide important insights into aspects of CSR aimed at improving the understanding of CSR assurance practices. These questions were categorised into the following five core sections: (i) demographics; (ii) CSR practices; (iii) governance and risk management; (iv) CSR assurance; and (v) internal audit. The responses to certain questions in sections (ii) and (iii) that were not considered germane to this study and that did not significantly affect the outcomes of the study were excluded from this thesis.

Being an online research survey questionnaire, the covering letter sent to potential respondents (refer to Annexure 2) contained a hyperlink that took respondents directly to the web-based, self-administered online survey (refer to Annexure 3). Respondents were required to capture their responses to the survey questions by directly into an online survey manager\(^ {54}\). The first email requesting participation was sent to potential respondents in August 2011. In order to improve the response rate, several follow-up letters, emails and reminders continued to be sent until May 2012. These follow-up requests also asked respondents who had already completed the survey not to duplicate their responses by completing the survey more than once.

To ensure the validity of the data input by respondents, the input parameters were correctly labelled, requiring the input variables and variable values to be captured according to a predefined range of input criteria. Responses to survey questions were captured directly by the respondents into the online database created for the survey, further reducing the risk of invalid data capturing

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51 Nominal data – numbers are only used to identify different categories of people, objects or other entities, without actually reflecting a particular quantity. For example, 1 may represent male whereas 2 may represent female (Leedy & Ormrod, 2005: 254).
52 Interval data – reflects standard and equal units of measurement, where the difference in the numbers explains the differences in the characteristic being measured (Leedy & Ormrod, 2005: 254).
53 Ordinal data – where the assigned numbers reflect a particular order or sequence, where people, objects or other entities fall along a continuum of a particular variable (Leedy & Ormrod, 2005: 254).
54 MyNetResearch was the free online website used for this purpose.
and/or finger trouble. The aggregated survey data were downloaded into an Excel spreadsheet format for further analysis. The comparability of results and the contextual understanding of the study were improved by selecting the same companies for both the content analysis and the questionnaire distribution. At the same time, the mixed methods research approach adopted was validated by collecting both the quantitative and qualitative data separately, but during a similar period (as described in section 4.2.5.4).

It is acknowledged that the results of survey questionnaires may be distorted by possible respondent bias (Podsakoff, MacKenzie & Podsakoff, 2012). The survey responses may therefore not actually represent the phenomena being studied, but merely the perspectives of those who actually responded, or even those who may wish to misrepresent the situation by providing answers they believe were expected. The pressure for companies to disclose their CSR performance and to provide independent assurance thereon may therefore result in the extent of CSR assurance arising from the survey being overstated. Given the interpretive nature of this exploratory study, understanding the characteristics of the emerging CSR reporting and assurance phenomena are considered more important than definitively depicting the status quo and/or robustly predicting the application of the trend across the entire population.

4.2.8.4 Phase 3 – semi-structured interviews with CSR assurors

The third and final empirical phase of this thesis involved semi-structured interviews with a purposive sample of parties representing the primary CSR assurors identified during the content analysis in the first phase. Interviews have become the main method of collecting qualitative data (Englander, 2012). According to Qu and Dumay (2011), semi-structured interviews are the most common of all qualitative research methods. The interviews seek to understand the specific experiences relating to qualitative, open accounts about the subject matter (Qu & Dumay, 2011). The interviewer seeks to obtain new insights into the studied phenomena, by remaining open to new and unforeseen phenomenon instead of imposing ready-made frameworks or categories (Qu & Dumay, 2011).

In semi-structured interviews, the researcher is guided by a list of themes and questions, which may vary from one interview to the next (Welman et al., 2011). As described in section 4.2.7, interviews were held with senior officials (i.e. partners, directors or owners) at the Big 4 audit firms, a mid-tier audit firm and the dominant specialist CSR assuror. Despite this thesis arguing that CSR assurance by internal audit may meet the King III requirement to be an independent CSR assurance provider, since the perspectives of internal auditors were already probed in the survey in phase two, it was considered appropriate to exclude internal auditors from this research phase.
Unlike everyday conversations or philosophical dialogues, where participants are on an equal footing, the research interview is characterised by an asymmetry of power in which the researcher is in charge of questioning an interviewee who participates voluntarily (Qu & Dumay, 2011). Interviews are more conducive to developing a qualitative understanding of what is ostensibly a complex social phenomenon (Qu & Dumay, 2011). Semi-structured interviews provide an opportunity for interviewees to respond in their own terms and in the way that they think and use language, which assists researchers understand the way interviewees perceive the social world being studied (Qu & Dumay, 2011). Both the interviewer and interviewee participate in the interview, producing questions and answers through a discourse of complex interpersonal talk (Qu & Dumay, 2011).

According to Alvesson (2003), the three primary interview perspectives are (i) neopositivism, romanticism and localism. The interview approach adopted in this research phase can best be described as a combination of romanticism and localism. In this regard, the interviewer establishes rapport with the interviewee and encourages the interviewee to reveal their authentic experiences, within a specific context (Qu & Dumay, 2011). It is however, recognised that different interviewers may evoke different responses from the same interviewee based on the way questions are asked and probed, which is different to structured interviews that assume that the same objective truth will be told irrespective of whom conducts the interview, provided the right questions are asked and the same structures are followed (Qu & Dumay, 2011). The localist perspective does not perceive the interview process to be a neutral tool to evoke rational responses and uncover truths, but rather a situated event in which the interviewer creates the reality of the interview situation.

The informal conversational style adopted during the interviews was considered appropriate for this primarily qualitative mixed methods research phase, with the research paradigm recognising the researcher’s role as an integral part of the research process (Babbie & Mouton, 2011). At the commencement of each interview, permission was obtained from the interviewee to digitally record the meeting. In addition to the digital recording, brief notes were also taken during the interviews. The interviewees were assured that their individual responses would be treated collectively and anonymously. In this regard, the individual responses were incorporated into the thesis in a

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55 In terms of neopositivism, research interviews are tools to establish a context-free truth by producing objectively relevant responses, with minimal bias. The interview process is may therefore be regarded as a ‘pipeline for knowledge transmission’.

56 Romanticism views research interviews as a human encounter, encouraging interviewees to reveal their authentic experiences by establishing rapport, trust and commitment between the interviewer and interviewee. The interviewee becomes a ‘productive source of knowledge’, and not simply a repository of opinions and emotions.

57 Localism is based on understanding interviews in a social context, and not merely a tool to collect data in isolation. Localism holds that interviews are empirical phenomena which should be examined since the narratives produced are ‘contextual accounts’ of the phenomenon.
manner that prevents the respective identities of the individual interviewees from being linked to their specific responses. Interviewees were informed about the research objective and the research approach adopted, as well as how their responses would contribute to improving the quality of the research by providing important insights from an assurance provider's perspective.

Since researchers should have sufficient knowledge about a subject in order to collect meaningful interview data, it is appropriate that the interviews were only conducted after the literature review and the first two empirical phases (Qu & Dumay, 2011). This established the extent of CSR assurance provided as well as its characteristics. It also provided insights into the perspective of reporting companies, which in turn guided the questions that were posed to participants. While the semi-structured interviews were guided by the questions in the research survey described in phase two, and aligned to the exploratory interpretive nature of this thesis phase, where considered appropriate the interview questions posed were adapted in response to the individual responses of participants. To gain deeper insights into the CSR assurance phenomena, where considered necessary, interview participants were probed to provide further information. Semi-structured interviews involve the use of guiding questions aimed at identifying themes in a consistent and systematic manner interposed with probing questions to elicit more specific responses (Qu & Dumay, 2011). In this regard, the broad guiding questions posed to interview (in terms of the themes identified in section 4.2.9) included:

- Which stakeholders rely on CSR disclosures?
- Why do companies disclose their CSR-related performance?
- Should government enact legislation compelling companies to mandatorily disclose their CSR-related performance and to have these independently assured?
- Why do companies provide independent assurance on their CSR disclosures?
- Why do certain companies resist providing independent CSR assurance?
- What are the factors that reporting companies take into account when selecting an independent CSR assurance provider?
- What competencies should an independent CSR assurance provider possess?
- Why do certain CSR assurance providers limit their liability to non-intended report users?
- Which assurance standards should be used on a CSR assurance engagement?
- What should be included in a CSR assurance report?
- What is the CSR assurance role of the internal audit activity?
• Since the audit profession are the primary providers of independent CSR assurance, is the existing auditing/accounting curriculum adequate?

It is however, acknowledged that a methodological shortcoming of this empirical phase is that interview participants may be tempted to favourably position their own firms by providing the ‘right answers’. The assurance provider participant’s responses may not therefore necessarily reflect the actual situation on the ground, but merely the position that the participant wishes to advance. Conceding this methodological shortcoming, the analysis and description of the assuror responses in this thesis phase maintains the anonymity of interview participants to reduce the impact of possible participant bias. In this regard, the assuror participants were not identified nor were they linked to any of the individual statements made. The manner in which the data have been recorded and analysed is not intended to definitively quantify CSR assurance practices. Instead, it is considered more important to gain deeper insights into the emerging CSR reporting and assurance phenomena and to validate the results of the other empirical phases.

4.2.9 Data analysis and interpretation

Since there is usually no single ‘right’ way to analyse data, data should be analysed and interpreted within the context of the specific research objectives (Leedy & Ormrod, 2005). Even though surveys are usually paradigmatically associated with quantitative research, they often contain qualitative interpretive components (i.e. such as open-ended questions) that cannot be analysed using conventional quantitative techniques. The responses to the open-ended questions should therefore be classified into categories and then combined. Although interviews are usually considered to be qualitative, certain elements require quantitative analysis. Similarly, the content analysis contains both qualitative (e.g. analysing the words used) and quantitative (e.g. establishing the frequency of an observation) components.

Parametric statistics are appropriate for analysing interval or ratio scale data, or data falling within a normal distribution. By contrast, non-parametric statistics are more appropriate for ordinal rather than interval data, or where the distributions may be skewed (Leedy & Ormrod, 2005). While there are many different and sophisticated tools that may be used to statistically analyse data, this study primarily utilised descriptive statistics (particularly the measures of central tendency) to analyse the responses to the survey questionnaire. Moreover, the exploratory mixed methods research approach adopted involved integrating both qualitative and quantitative data to understand the nature of the emerging CSR reporting and assurance phenomena (Johnson & Onwuegbuzie, 2004; Onwuegbuzie & Johnson, 2006; Williams, 2007). The use of advanced inferential statistical analysis, usually associated with hypothesis testing, is accordingly not considered appropriate for
this study. Despite the various research approaches adopted in this study, all three research phases broadly deal with similar research populations and data pools, covering similar periods. While the tools and techniques used to analyse and interpret the research data depend on the type of data, within the context of the research objectives the data analysis approach adopted for the different phases of this study is briefly described below.

Despite having collected the empirical data in this study in three separate phases, an integrated data analysis was performed. The results and description have accordingly been presented in two separate chapters. The first results chapter (chapter 5) describes the characteristics of CSR reporting, whereas the second (chapter 6) specifically considers aspects relating to CSR assurance.

- **Phase 1** – The data extracted by the content analysis of CSR assurance reports in this phase were qualitatively and quantitatively analysed on a spreadsheet according to the primary dimensions reflected in section 4.2.7.1. These dimensions informed the main themes used to analyse and interpret the research observations in phase 1.

The quantitative data collected in the first phase were analysed in order to establish the extent to which independent CSR assurance was provided in the 2007/8, 2010/1 and 2011/2 reporting periods. The established CSR assurance frequencies were further analysed in terms of the:

- market capitalisation
- industry sector represented
- company size
- type of assurance provider
- the assurance standards referenced
- the type of the type of assurance opinion provided

The qualitative data collected in the first phase were analysed and described in terms of the following primary themes:

- the extent to which the internal audit activity is involved in the provision of CSR assurance
- the assurance provider’s independence
- the competencies of the assurance provider
- limitations on the CSR assurance provider’s liability
- the title of the CSR assurance report
- the CSR assurance engagement scope
- the intended audience for the CSR assurance report
- the CSR assurance engagement
- the levels of assurance provided
- the assurance opinion(s)
- the recommendations for improvement

The first part of the content analysis involved scrutinising the published annual reports, CSR reports and/or websites of the respective companies studied to establish whether their CSR disclosures were independently assured and particularly whether the results of any CSR assurance processes were readily available for broader stakeholder consumption. To understand the impact of King III on the extent of CSR assurance provided, the annual, CSR and CSR assurance reports of the top 200 companies in April 2008 (prior to King III implementation) were examined and compared to those of subsequent periods (after King III implementation).

Since internal auditors also provide independent assurance on company CSR performance, albeit restricted to internal company stakeholders (as described in section 3.3.2), the annual and/or CSR reports were perused to understand whether the internal auditing activity played an active CSR assurance role. As described in section 4.2.5, despite adopting a mixed methods paradigm, this research included a significant qualitative component.

- **Phase 2** - The data collected by the research survey in this phase (as described in section 4.2.7) were downloaded into an Excel spreadsheet directly from the online survey database for statistical data analysis. Recognising that these research findings are intended to provide important insights from reporting company officials to understand the nature of the emerging CSR assurance phenomena, it is not to draw inferences that can be applied to the entire population. It is accordingly acknowledged that the results are not generalisable owing to the purposive non-representivity of the companies selected for the study. It was therefore considered inappropriate for this study to utilise advanced inferential statistical techniques. Instead, descriptive statistics describing the body of data in terms of the points of central tendency\(^{58}\) and the extent of variability (Leedy & Ormrod, 2005) were used to

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58 Including mode – the most frequently occurring single number or score; median – the numerical centre of a set of
understand the emerging CSR reporting and assurance characteristics (Welman et al., 2011).

It should be noted that only survey responses on questions directly relating to CSR reporting and assurance have been included in the analysis and description in chapters 5 and 6. Survey responses to questions involving broader CSR practices, governance and risk management that are not directly related to the CSR assurance dimensions covered by this study, have been excluded from this thesis.

- **Phase 3** – the semi-structured interviews conducted with the primary CSR assurance providers (as described in 0) in this phase were recorded, transcribed and analysed, with the significant themes being identified and interpreted. The transcripts were compared to the notes taken during the interview to ensure completeness. The interview results were categorised according to the core CSR assurance characteristics identified in the content analysis of the first phase, which informed the themes used to analyse the data. To ensure that the data from the various empirical phases are aligned, the questions posed to reporting company representatives in the survey questionnaire were used to guide the semi-structured interviews with assurance providers. Moreover, the interview transcripts were analysed and grouped into similar categories as those used in the other two empirical phases. The themes used to collate and analyse the interview data are:

  - stakeholders that rely on company CSR disclosures
  - reasons reporting companies disclose their CSR performance
  - reasons reporting companies provide independent assurance on their CSR disclosures
  - reasons reporting companies resist having their CSR disclosures independently assured
  - limitation on the liability of assurance providers to broader stakeholders
  - parties that should provide independent CSR assurance
  - competencies that CSR assurance providers should possess
  - important components of CSR assurance reports
  - assurance standards used in CSR assurance engagements
  - role of the internal audit activity in the provision of independent CSR assurance
  - whether CSR disclosures and assurance should be mandatory or voluntary

* data; and **mean** - the single point at which the two sides of a distribution ‘balance’.
adequacy of the auditing/accounting curriculum to prepare auditor assurors to provide CSR assurance

To maintain confidentiality and interview participant anonymity, it was considered inappropriate for the interview responses to be classified according to the type of assurance provider that would allow readers to link particular participants to their specific responses. This was considered particularly necessary since only one specialist CSR assuror and one mid-tier auditor assuror were interviewed. Given the participation by senior representatives of all the Big 4 auditor assurors, this measure was not considered necessary when describing Big 4 responses. Without mentioning the name of the audit firm, Big 4 responses may be attributed to any one of the four participants. Furthermore, collectively identifying the responses of Big 4 participants is justified by the content analysis establishing that the Big 4 auditor assurors were the primary providers of independent CSR assurance in the study.

In summary, the analysis and interpretation of the results of the three empirical research phases addresses the following thesis propositions advanced that (in section 4.2.4):

- stakeholders require companies to disclose their impacts on the economy, environment and society
- CSR disclosures should be independently assured
- CSR assurance provision will continue to increase
- new entrants will start to provide independent CSR assurance
- despite providing lower levels of CSR assurance, the audit profession will continue to be perceived as providing more credible assurance than non-auditor assurors
- that the audit profession will continue to be the primary collective providers of independent CSR assurance
- the extent of the dominance of auditor assurors will diminish over time

4.3 Survey response rate

As described in section 4.2.7, the 200 reporting companies purposively selected for this study was subsequently reduced to 192 companies, which attracted a total of 39 responses, representing a 20.3% response rate. As stated in section 4.2.3, the purpose of this exploratory study is to understand the nature of the emerging CSR assurance phenomenon and identify its characteristics. In this regard, since the content analysis of annual, CSR and CSR assurance reports represents the primary data collection instrument, the survey improves the understanding of the CSR reporting
and assurance phenomenon by providing insights from a reporting company perspective. The survey results are accordingly not intended to be generalised across the population.

Therefore while the survey response rate may be poor, it assists to understand the CSR assurance phenomenon and does not invalidate the study. Nevertheless, suggested reasons for the poor survey response rate may include survey fatigue (Adams & Umbach, 2012), the survey instrument not reaching the intended respondents, or respondents not understanding the survey questionnaire (Warshawsky, 2014). These reasons may contribute to respondent bias in terms of which only respondents who agreed with CSR reporting and assurance practices completed the survey questionnaire, possibly skewing the results. Since these data were intended to provide insights into the phenomena emerging from the content analysis, possible respondent bias is not expected to significantly influence the study results.

Since the survey instrument was designed to compel all respondents to complete the first 24 questions, it is appropriate that all 39 respondents answered these questions. By contrast, questions 25 to 32 were optional and were originally intended for optional completion by internal auditing practitioners. In this regard, only between eight and ten responses were received in respect of these optional questions, representing a response rate of between 21 and 26% of total respondents, or between 4 and 5% of the selected companies.

To determine the appropriateness of the purposive selection of survey respondents described in section 4.2.7, the first question probed the type of organisation represented by the respondent. Since the study sample and population were confined to JSE-listed companies, all survey respondents appropriately represented JSE-listed companies.
Figure 4.1- Company position held by survey respondents

Aligned to the purposive sampling approach (Babbie & Mouton, 2011; Sekaran & Bougie, 2010) adopted for this phase of the study, in order to establish the suitability of respondents to complete the survey questionnaire, the second question asked them to describe their position in the company. As indicated by Figure 4.1, survey respondents represented executive managers responsible for CSR (n = 9); CAEs (n = 8); members of the CSR committee (n = 4); company secretaries (n = 7) and 11 representing other positions. Included in the broad category ‘other’ were chief financial officer (n = 1); CSI senior specialist (n = 1); sustainability manager (n = 2); sustainability director (n = 1); sustainability reporting/group reporting manager (n = 2); social and labour plan group manager (n = 1); executive assistant for public affairs (n = 1); and risk and sustainable development manager (n = 1). Based on these responses, it may be concluded that all respondents were sufficiently knowledgeable to competently complete the survey questionnaire, thus validating the use of purposive sampling.

4.4 Research rigour/ reliability

4.4.1 Background

Thomas and Magilvy (2011) distinguish between trustworthiness and reliability/validity by arguing that trustworthiness usually refers to qualitative research, whereas reliability or validity tends to apply quantitatively. Reliability establishes whether a particular technique, applied repeatedly to the same subject matter, would yield the same result each time (i.e. repeatability) (Babbie & Mouton, 2011; Welman et al, 2011). Reliability does not however, necessarily guarantee accuracy, since two researchers observing the same event could still draw different conclusions (Welman
et al., 2011). It is therefore important to ensure that participants are only asked questions for which they are likely to know the answer. By comparison, trustworthiness refers to the extent to which empirical measures adequately reflect the real meaning of the phenomena being studied (i.e. the credibility of the findings) (Babbie & Mouton, 2011; Welman et al., 2011).

Onwuegbuzie and Johnson (2006) suggest that validity is not about establishing a singular truth but rather about ensuring the quality of the research, its components, the conclusions drawn, and the resultant applications. The research quality is evaluated by the research community and may therefore have subjective, interjective and objective components and influences. Moreover, since qualitative and quantitative paradigms do not necessarily study the same phenomena, certain phenomena may be more suited to qualitative enquiry, whereas others may be more suited to quantitative research (Sale et al., 2002). Even when the qualitative and quantitative paradigms use common terminology to refer to phenomena, they may not have the same meaning (Dellinger & Leech, 2007). The diverse terms used to evaluate and describe research validity depend on the research paradigm adopted (as described in section 4.2.5) and introduce a validation framework incorporating both established and emerging validity terminologies from the quantitative, qualitative or even mixed methods paradigms (Dellinger & Leech, 2007).

Although this research utilises a mixed methods research paradigm, the mechanisms used to ensure the validity of the quantitative components, and the trustworthiness of the qualitative components of this study are described in the sub-sections below. To identify the manner through which the rigour of this study is ensured, the final sub-section concludes by presenting an overview of the validation and/or reliability measures used in the three research paradigms of this study.

4.4.2 Quantitative research validity

Quantitative research validity may be established through three types of validation procedures, namely (i) content validity; (ii) criterion-related validity; and (iii) construct validity (Dellinger & Leech, 2007). Content validity requires establishing a measurement instrument to reflect the domain being studied. Criterion-related validity may be demonstrated when measurement scores are hypothesised and correlated with other constructs. Construct validity overlaps with both content and criterion-related validity by requiring researchers to demonstrate that the results of the research instruments actually measure the intended constructs. Construct validity is not however restricted to measurement-related issues, but could include other validity evidence including design-related validity and statistical inference validity (Dellinger & Leech, 2007). In addition, internal validity may be established by controlling specific threats that could provide alternative explanations for the outcomes being studied, whereas external validity reflects the extent to which
the study results may be generalised to different places or persons.

The content and criterion-related validity of the quantitative component of the interview phase of the study was achieved through ensuring that the significant issues relating to both CSR and CSR assurance arising from the literature review informed the survey questionnaire to ensure that the questions posed were relevant and addressed the specific criteria being studied. The construct validity was achieved by maintaining control of the survey response database, downloading the survey responses directly into the SPSS statistical software package for analysis.

In addition, the validity of the quantitative component of the content analysis was achieved through a thorough scrutiny of all annual, CSR and CSR assurance reports for the period covered by the study to establish the characteristics of disclosed CSR assurance practices amongst the companies studied. These observations were captured on an Excel spreadsheet to establish the occurrence frequencies.

4.4.3 Qualitative research trustworthiness

People's personal experiences tend to be seen through different cultural, experiential, environmental and other contextual lenses, causing qualitative researchers to argue that a single, generalisable, external truth may not be possible (Thomas & Magilv, 2011). Although traditionally associated with quantitative data, the principle of validity remains contentious for qualitative research too (Dellinger & Leech, 2007). Qualitative researchers however, tend to regard validity as being conceptually unclear and ambiguous. Whereas quantitative research uses the term ‘validity’ to ensure the appropriateness of the instrument, the construct and the resultant data; this is usually replaced by the ‘trustworthiness’ in qualitative research (Babbie & Mouton, 2011; Onwuegbuzie & Johnson, 2006). In a qualitative context, the following trustworthiness objectives emerge (Babbie & Mouton, 2011; Guba, 1981, Merriam, 1995; Thomas & Magilv, 2011):

- credibility or truth-value (as the replacement for internal validity)
- transferability or applicability (as the replacement for external validity)
- dependability or consistency (as the replacement for reliability)
- confirmability or neutrality (as the replacement for objectivity).

Qualitative research uses subjective, interpretive and contextual data, unlike quantitative research that attempts to control these factors (Thomson, 2011). Credibility is established when the study results represent an accurate description or interpretation that other similarly experienced persons would recognise (Babbie & Mouton, 2011; Merriam, 1995; Thomas & Magilv, 2011).
Transferability refers to the extent to which the study findings may be applied to other situations or contexts, or use different subjects or participants (Babbie & Mouton, 2011; Merriam, 1995; Thomas & Magilvy, 2011). Dependability relates to the extent to which the research findings are replicable and whether another researcher could follow the decision trail (Babbie & Mouton, 2011; Merriam, 1995; Thomas & Magilvy, 2011). Confirmability reflects the extent to which the findings reflect the study focus in an unbiased manner (Babbie & Mouton, 2011). The qualitative researcher should be reflective and maintain a sense of awareness and openness to the study and the unfolding results (Thomas & Magilvy, 2011).

The qualitative components of the three empirical phases draw on the primary themes identified in the literature review to ensure the credibility of the data collected. Unlike quantitative research, it is not uncommon for qualitative research to involve an element of subjectivity, since the diverse nature of reality may require qualitative researchers to provide their own interpretation of somebody else’s reality (Merriam, 1995). Qualitative researchers are therefore usually concerned with the changing nature of reality and not to establish an immutable truth. Neutrality is accordingly not considered to be imperative for qualitative research. The primary tools used to establish the trustworthiness of the qualitative component of the study includes:

- **Credibility**, which include
  - prolonged engagement and persistent observation of the study objects – elements of this thesis included a longitudinal study conducted over a period of five years
  - triangulation – the results of the three empirical research phases were integrated in a mutually reinforcing manner
  - referential adequacy – copies of CSR assurance reports were filed, with their core characteristics having been analysed on a MS Excel spreadsheet; the survey responses were stored on an online database, with a copy exported into a MS Excel spreadsheet; and the interviews were digitally stored and transcribed copies filed

- **Transferability** was established by using purposive sampling to
  - select the reporting companies studied
  - identify the respondents at the selected reporting companies
  - identify the assuror participants who were able to provide data that could meaningfully address the research questions
  - provide sufficiently detailed descriptions and explanations that provide deep insights into the CSR reporting and assurance phenomena being studied
• Dependability was confirmed by
  - triangulating the results of multiple research phases
  - examining comparable research objects over a similar study period
  - reflecting the extent to which the research evidence could be replicated

• Confirmability indicates the extent to which the findings impartially reflect the study focus. In this regard, the research audit trail included
  - copies of all annual and CSR assurance reports of the selected companies
  - an online database containing the raw survey data captured by respondents
  - digital copies and detailed transcripts of interviews held with assurance providers

4.4.4 Mixed methods research validity and trustworthiness

The manner in which research data are analysed, depends on the specific research approach(es) adopted. Mixed methods research combines aspects of both quantitative and qualitative research paradigms that have complementary strengths and non-overlapping weaknesses (Onwuegbuzie & Johnson, 2006). Similarly, since the mixed methods research approach used in this study comprises both quantitative and qualitative components, it is important that the research rigour considers the primary attributes relating to both validity and trustworthiness (as described in sections 4.4.2 and 4.4.3. Mixed methods researchers should therefore be thoroughly conversant with multiple research methods and become paradigmatic generalists, capable of mixing and matching various design components to provide the best opportunity to answer their specific research objectives.

Establishing the rigour of mixed methods research usually requires a separate assessment of the quantitative and qualitative dimensions (Dellinger & Leech, 2007). To validate mixed methods research, problems relating to representation, integration and legitimation should first be overcome (Onwuegbuzie & Johnson, 2006). Representation refers to the difficulty of using text and/or numbers to capture experiences, while legitimation refers to the difficulty in obtaining findings and/or drawing inferences that are credible, trustworthy, dependable, transferable and/or confirmable. These concerns are intensified by problems of data integration. Dellinger and Leech (2007) suggest that interpretive rigour components comprise (i) interpretive consistency; (ii) theoretical consistency; (iii) interpretive agreement; (iv) interpretive distinctiveness; and (v) integrative efficacy. To overcome these deficiencies, the quality of inferences drawn may be used to assess the validity of mixed methods studies in order.
Despite establishing the rigour of the various observations from the different research phases separately, triangulation (as described on page 137) not only validates the research findings, but also improves the understanding of the emerging CSR reporting and assurance phenomena. In this context, triangulation may be defined as the combination of different methodologies within a single study of the same phenomena, which may incorporate within-methods\(^{59}\) or between-methods\(^{60}\) triangulation (Johnson et al., 2007). In addition to the validation and trustworthiness measures described in sections 4.4.2 and 4.4.3, the mixed methods research rigour of this study is enhanced by (Onwuegbuzie & Johnson, 2006):

- collecting both the quantitative and qualitative data separately, at approximately the same point in time
- acknowledging that neither the quantitative nor the qualitative data analysis should build on the other during the data analysis stage
- only consolidating the results from each type of analysis after both sets of data have been collected and analysed separately, not at the data integration stage
- drawing a meta-inference, integrating all the inferences made relating to the interpretation of the separate quantitative and qualitative data components collected, within the two chapters where the empirical research results are analysed and interpreted

The exploratory nature of this thesis and the emerging nature of the study objects implies that the emerging CSR assurance phenomena are not yet clearly understood, supporting the decision to use exploratory mixed methods for this thesis. This allows for the deployment of various research tools and techniques deemed appropriate for each empirical phase. In this way the study attempts to provide an overall balanced perspective of the study object within the context of the observed phenomena, underscored by the perceptions of both reporting companies and CSR assurance providers. It is accepted that qualitative research incorporates an element of subjectivity, resulting in the researcher interacting directly with the research subject (Sale et al., 2002; Merriam, 1995). It is also acknowledged that the interpretation of the results of the empirical research may be influenced by the researcher’s primary discipline, and that other researchers from different disciplinary and contextual backgrounds may interpret the same phenomena differently (Birkinshaw et al., 2011).

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\(^{59}\) Within-methods triangulation refers to the use of either multiple qualitative or multiple quantitative approaches.

\(^{60}\) Between-methods triangulation refers to the use of both qualitative and multiple quantitative approaches.
4.4.5 Research rigour conclusion

As described in the sub-sections above, since personal experiences are seen through an individual’s own diverse lenses, this thesis asserts that a universal, generalisable, external truth does not exist to adequately answer the research questions posed in this thesis. Based on their own lenses, other researchers or experts may draw different inferences and conclusions from the data collected and analysed in each research phase. The mixed methods research approach adopted for this study requires both the validity of the quantitative data component and the trustworthiness of the qualitative data component to be ensured. It is however, accepted that evaluating a research study may differ from one evaluator to another, since value judgements are required to assess the meaning of data or inferences drawn from that data (Leech et al., 2010).

The mixed methods research approach, comprising both qualitative and quantitative components, combined with the exploratory nature of the research and the poor understanding of both the conceptual framework and the emerging CSR assurance phenomena, suggests that although the underlying theory remains poorly developed, it was rapidly evolving. It is accordingly considered appropriate to inductively interpret the research results, despite containing a quantitative survey component which usually requires deductive reasoning. Without disregarding quantitative validity, the qualitative bias inherent in this study makes it more appropriate to establish research trustworthiness. In several instances secondary data were used to establish the reasonableness of the empirical observations. In this manner, the research approach adopted provides a balanced perspective of the phenomena being studied, supported by research results reflecting observed phenomena and confirmed by reporting company respondent perceptions as well as by assurance providers.

4.5 Ethical research considerations

Prior to the commencement of this study, the thesis proposal was reviewed and approved by the two doctoral promoters as well as by an experienced external doctoral evaluator. The approved research proposal was subsequently submitted to the research ethics committee of the University of South Africa (Unisa) for ethical clearance. The research project only commenced after receipt of the necessary ethical clearance from the university. In addition to the ethical clearance by Unisa, other ethical considerations related to the three empirical research phases described in section 4.2.7 included:

- The first content analysis phase consisted of a review of published information, not involving human subjects and accordingly did not require specific ethical approval.
• In the second survey phase, the covering letter that was sent to all potential respondents clearly stated that participation in the survey was entirely voluntary and confirmed that the privacy and anonymity of the respondents would be safeguarded.

• Similarly, in the interviews of the third phase, participants were contacted telephonically and asked whether they were prepared to voluntarily participate in the semi-structured interviews. Participants were advised of their right to discontinue participating at any stage. Prior to the commencement of the interviews, participants were assured that they would not be individually identified as interview participants. In addition, permission to digitally record the interview was obtained before each interview commenced. Despite recording the interviews, participants were assured of their anonymity and that their respective responses would be treated confidentially.

4.6 Conclusion

This chapter introduced and described the primary research paradigms used in this study, specifically motivating the use of a mixed methods approach. In particular, the research topic, research problem and research objectives briefly introduced in chapter 1, were described and justified in greater detail. The rationale for using a thesis approach to understand the phenomena being studied and not a hypothesis to definitively prove a ‘single truth’ was substantiated. Further, the methodological issues associated with this thesis were broadly introduced, with particular reference to the research paradigms, research population, sampling and data collection, data analysis techniques, research rigour and ethical considerations. Delineating the research population to the top 200 JSE-listed companies was motivated using a combination of the JSE listing requirements and slack resource theory, and supported by secondary evidence from prior studies.

Despite the limitations of the research paradigm used, the exploratory nature of the research and the objective of gaining insights into the contextual nature of the emerging CSR reporting and consequently, the CSR assurance phenomena were highlighted. This interpretive approach may be classified as ‘hermeneutics’ which refers to ‘the science of interpretation’. This thesis accordingly considers it more important to examine and understand significant emerging CSR assurance trends, than to estimate CSR assurance prevalence across the entire population and to predict future trends. This inductive approach improves the understanding of the reasons for the increased demand for, and provision of, CSR assurance.

A mixed methods approach, using both qualitative and quantitative techniques, is accordingly considered appropriate for this study. Empirical data were sourced from publicly available sources,
from respondents at CSR reporting companies and from CSR assurance provider participants. Of particular importance to this study is the fact that the evidence gathered during the empirical research approaches outlined in phases one to three are aligned to the common research objective. In this regard, the various CSR assurance providers operating at JSE-listed companies were identified from the content analysis in the first phase. Moreover, their respective CSR assurance characteristics were identified and compared, within the context of the primary standards, guidelines and frameworks deployed, from the perspective of their implications. This alignment was achieved with reference to the framework for assurance engagements identified in Figure 3.1.

In conclusion, within the context of the reporting companies included in this study, the collective objective of the three research phases of this thesis introduces readers to the historical development and the present state of the CSR assurance discourse; identified the prevailing CSR assurance situation at JSE-listed companies; ascertained the rationale for companies reporting CSR performance and providing independent assurance thereon; and considered insights from a CSR assurance provider perspective. While chapters 2 and 3 provided the contextual and conceptual framework for this study, chapters 5 and 6 presents a detailed analysis of the empirical component described in phases one to three.
## CHAPTER 5

**EMPIRICAL CORPORATE SOCIAL RESPONSIBILITY REPORTING RESULTS**

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5.1 Introduction

This exploratory study aims to understand the nature of the emerging CSR assurance phenomenon and identify its characteristics (as described in section 4.2.3). As described in section 4.2.7, the exploratory mixed methods research empirical approach adopted for this thesis was undertaken in three separate phases. The first phase used a content analysis of annual, CSR and CSR assurance reports to determine the extent of CSR assurance provided by reporting companies and to identify the primary characteristics of CSR assurance. Since assurance is arguably provided in order to provide stakeholders with confidence that the underlying CSR disclosures may be relied upon, it cannot be examined in isolation. Therefore although this research focuses on CSR assurance, it is nevertheless contextually appropriate to first understand the nature of the CSR reporting phenomenon that forms the basis of the CSR assurance engagement.

Although the data gathered in each empirical phase were analysed and interpreted separately, the data are interrelated and improve the interpretation of the phenomena emerging from the other empirical phases. Even though the content analysis in the first phase yielded no data directly relating to CSR reporting, this chapter describes, analyses and interprets the results of the survey of reporting company respondents and the interviews with CSR assurance provider. This chapter therefore describes the results from the second and third phases, but not the first phase. The results of the survey of reporting company respondents in the second phase provide important insights into the CSR reporting phenomenon, from a reporting company perspective. Similarly, the semi-structured interviews provide CSR reporting insights from an assurance provider’s perspective.

This chapter describes pertinent observations relating to CSR governance and reporting. In particular, the stakeholders that rely on company CSR disclosures are identified, the reasons that reporting companies disclose their CSR performance are investigated, and perspectives on the mandatory vs. voluntary CSR reporting discourse are obtained. Figure 5.1 (extracted from Figure 1.2 in section 1.14) depicts the alignment of the CSR reporting related research objectives with the relevant empirical research phase(s), and indicating where the results are described.

**Figure 5.1 - Alignment of research objectives, empirical phases and results**

This section includes both verbatim and paraphrased quotations extracted from the survey responses or by CSR assurors, both reflected in “quotation marks”. Unless otherwise indicated, all data and graphs included in this chapter were extracted from an analysis of the survey instrument.
results and the semi-structured interviews with CSR assurance providers.

5.2 Stakeholders relying on CSR reporting

By identifying their key stakeholders, reporting company survey respondents in phase two provided important insights into the reasons for disclosing their CSR performance. The dimensions of a survey question relating to the stakeholders that may rely on CSR disclosures were not mutually exclusive. Respondents were accordingly allowed to indicate more than one option, resulting in the cumulative total exceeding 100%. As indicated in Figure 5.2, respondents to this question indicated that the following stakeholders rely on company CSR disclosures:

- activists - 82% (n = 32)
- trade unions - 79% (n = 31)
- government - 69% (n = 27)
- existing customers - 56% (n = 22)
- employees - 54% (n = 21)
- institutional investors - 54% (n = 21)
- rating agencies - 49% (n = 19)
- potential (new) customers - 46% (n = 18)
- media - 44% (n = 17)
- shareholders - 38% (n = 15)
- NGOs - 38% (n = 15)
- suppliers - 13% (n = 5)
- other - 41% (n = 16)
- not applicable - 3% (n = 1)

Other identified stakeholders included bodies such as the JSE SRI index; investment structures with specific mandates; financial institutions; community members; and all stakeholders. One respondent however, cynically commented that

“The publishing of information is aimed at all the groups above, but there is great doubt that some of them place any reliance on it, either because they do not want to engage (activists) or it is not important (investors). As to the media, they only focus on what drives a story, not what you publish (unfortunately).”
Counterintuitively, the data appear to indicate that government and civil society were perceived to be the primary audiences for CSR reports, and not the shareholders. This may confirm the instrumental theory perspective (as described in sections 2.4.2 and 2.4.3) that companies may be reporting their CSR performance, primarily to comply with regulatory and legislative requirements and to enhance corporate legitimacy (as described in section 2.4.4), by being perceived as responsible corporate citizens. These disingenuous motivations for disclosing CSR performance may increase the risk of companies using green-wash to falsely represent their CSR performance (as described in section 3.2.2). This may in turn drive the need to establish the veracity of company CSR disclosures through the provision of independent assurance (as described in section 3.2).

![Figure 5.2 - Stakeholders relying on CSR disclosures (survey responses)](image)

Despite acknowledging the importance of CSR assurance reports to all stakeholders, assuror participant responses appear to confirm the propensity for reporting companies to adopt a shareholder primacy approach (as described in section 2.4.2) (Freeman, 1994), particularly from an instrumental perspective (as described in section 2.4.7) (Morimoto et al., 2005; Owen et al., 2000). Assuror interview participants unanimously agreed that the primary stakeholders having an interest in company CSR reports were management, the board of directors and investors, and not other stakeholders (as described in sections 2.4.2 and 2.4.3) (Ackers, 2009; Al-Hamadeen, 2007; IIA, 2010b; O’Dwyer et al., 2011; Ramasamy & Yeung, 2009; Trudel & Cotte, 2009; Wiertz, 2009). Emphasising the importance of stakeholder engagement, one assuror commented that companies...
should engage with stakeholders to establish who were most critical and to understand how they would benefit. While the majority of assurors recognised the importance of employees and organised labour as important stakeholders, some differed on whether employees or organised labour actually looked at CSR performance information.

It is suggested that the perceptual difference between a shareholder (identified by the interviews) and a stakeholder (identified by the survey) orientation may be attributed to possible survey respondent bias (as described on page 146) and a propensity to provide the ‘right answer’. The prevalence of shareholder primacy, as advocated by assurors, is confirmed by the majority of CSR assurors addressing their CSR assurance reports to their principals, (i.e. management, the board and the shareholders) and not the broader shareholders (as described in section 6.10). In addition, certain companies may leverage their CSR performance instrumentally to improve the legitimacy of their companies. One participant however, insisted that the CSR assurance report was really intended for broader stakeholders, and not for the company’s board and shareholders.

Confirming shareholder primacy, the assuror participants responded that where companies had many institutional investors, their requirements had to be taken into account. This was particularly necessary when the company was looking to raise capital on the stock market, as indicated by the statement that “institutional investors are where the money is. We always tell our clients: do it for the money. Obviously it is the bottom line”.

5.3 Reasons for disclosing CSR performance

The literature suggests that companies are beginning to respond to increasing global stakeholder concerns about the adverse effects of corporate activity, by reporting on their non-financial impacts on the economy, environment and society (as described in sections 2.2 and 2.7). Company CSR performance and reporting practices are therefore moving beyond the moral or ethical arguments and recognising the merits of the CSR business case (as described in section 2.6) (Utting, 2005).
Figure 5.3 – Reasons companies disclose CSR-related performance (survey responses)

As illustrated in Figure 5.3, survey respondents identified the following reasons that companies disclose their CSR performance:

- A majority of 36 respondents (92%) agreed {very strongly agreed (n = 11), strongly agreed (n = 14) and agreed (n = 11)} with the assertion that CSR reporting assists the company to project a positive corporate image (reputation management); three (8%) were uncertain (neither agreeing nor disagreeing); and none (0%) disagreed.

- A majority of 36 respondents (92%) agreed {very strongly agreed (n = 17), strongly agreed (n = 10) and agreed (n = 9)} with the assertion that CSR reporting reflects the company’s commitment to responsible corporate citizenship; two (5%) were uncertain; and one (3%) disagreed.

- A majority of 35 respondents (90%) agreed {very strongly agreed (n = 15), strongly agreed (n = 10) and agreed (n = 10)} with the assertion that CSR reporting resulted from the application of King III; three (8%) were uncertain; and one (3%) disagreed.

- A majority of 34 respondents (87%) agreed {very strongly agreed (n = 13), strongly agreed (n = 11) and agreed (n = 10)} with the assertion that CSR reporting demonstrates improved transparency; three (8%) were uncertain; and two (5%) disagreed.
• A majority of 34 respondents (87%) agreed {very strongly agreed (n = 7), strongly agreed (n = 13) and agreed (n = 14)} with the assertion that CSR reporting provides information about how the company was managing its CSR-related risks; four (10%) were uncertain; and one (3%) disagreed.

• A majority of 32 respondents (82%) agreed {very strongly agreed (n = 9), strongly agreed (n = 13) and agreed (n = 10)} with the assertion that CSR reporting reflects the reporting company’s commitment to improved stakeholder responsibility; five (13%) were uncertain; and two (5%) disagreed.

• A majority of 32 respondents (82%) agreed {very strongly agreed (n = 10), strongly agreed (n = 8) and agreed (n = 14)} with the assertion that investors want to know the company’s CSR track record and risks; six (15%) were uncertain; and one (3%) disagreed.

• A majority of 30 respondents (77%) agreed {very strongly agreed (n = 6), strongly agreed (n = 14) and agreed (n = 10)} with the assertion that CSR reporting positions the company to compete favourably in global markets; six (15%) were uncertain; and three (8%) disagreed.

• A majority of 29 respondents (74%) agreed {very strongly agreed (n = 9), strongly agreed (n = 10) and agreed (n = 10)} with the assertion that CSR reporting reflects the reporting company’s commitment to improved stakeholder accountability; seven (18%) were uncertain; and three (8%) disagreed.

• A majority of 29 respondents (74%) agreed {very strongly agreed (n = 6), strongly agreed (n = 9) and agreed (n = 14)} with the assertion that CSR reporting is a useful marketing and public relations tool; seven (18%) were uncertain; and three (8%) disagreed.

• A majority of 28 respondents (72%) agreed {very strongly agreed (n = 2), strongly agreed (n = 9) and agreed (n = 17)} with the assertion that customers want to know the company’s CSR track record, six (15%) were uncertain and five (13%) disagreed.

• Only 17 respondents (44%) agreed {very strongly agreed (n = 1), strongly agreed (n = 7) and agreed (n = 9)} with the assertion that suppliers want to know the company’s CSR track record; 17 (44%) were uncertain; and five (13%) disagreed.

• Other reasons advanced for the provision of CSR-related information included, “it is simply the right thing to do” or even the cynical comment from one respondent that “legislation and public sentiment drive companies to display a positive social impact, even if this is for window dressing”. The qualitative comments in this section improve the understanding of the reasons for the emerging CSR reporting and assurance phenomena, since respondents
actually had to think about their responses instead of merely ticking the ‘right box’ from a list of predetermined options.

While the survey respondents overwhelmingly agreed with the assertions, even when they did not agree, they tended to provide a neutral response, neither agreeing nor disagreeing. The highest rate of disagreement with any of the assertions in this question was only by five respondents (13%), suggesting that CSR performance should not be disclosed. As CSR becomes more embedded into corporate practice, it is expected that respondents will become more aware of its impact, thus improving the quality of responses even further. Aligned to the survey responses, interviewees suggested that companies disclose their CSR performance due to a combination of King III adherence, maintaining a licence to operate, demonstrating responsible corporate citizenship and maintaining their investment attractiveness. Despite assuror participants suggesting that their engagement principals were the primary stakeholders relying on company CSR disclosures (as described in section 5.2), assursors confirm that stakeholders have a right to reliable information on CSR-related performance. The reasons provided by assuror participants are broadly aligned to the survey responses of reporting company respondents (reflected in Figure 5.3). This perspective is illustrated by assuror comments such as:

- “Stakeholders want to know how much companies have invested in the community”.
- “They are not doing it to show that they are good corporate citizens any longer. It’s about keeping the doors open to run as a business”.
- “Asset managers want to see strong governance, strong financial performance and some form of acknowledgement that they fall in line with society”.
- “While initially a fair amount of companies provided CSR disclosures as part of a tick-box exercise, it is becoming more of an industry-like expectation, with everyone else doing it”.
- “After getting on the bandwagon, companies are now recognising that it may be a strategic advantage, and are beginning to see the cost savings and the need for improvement”.

From the above, confirming the broad findings of several authors (Aras & Crowther, 2008; Archel et al., 2008; Black & Quach, 2009; Creyer & Ross, 1997; Eccles et al., 2011; Gouws & Cronjé, 2008; Hummels & Timmer, 2004; Lii & Lee, 2012; Morimoto et al., 2005; Orlitzky et al., 2003; Page & Fearn, 2005; Ramasamy & Yeung, 2009; Trudel & Cotte, 2009; Utting, 2005; Zorio et al., 2013), the survey and interview responses identified the primary reasons for disclosing CSR-related performance as being:

- stakeholders have a right to the information
• it reflects the company’s commitment to good corporate citizenship
• it assists the company project a positive corporate image (reputation management)
• it is a King III requirement
• it demonstrates improved transparency
• it provides information about how the company manages its CSR-related risks

5.4 Attributes of CSR reports

In order to conduct a CSR assurance engagement, it is imperative that CSR assurors understand the nature of the CSR assurance phenomenon. In this regard it is contextually appropriate to briefly consider some aspects of CSR reporting. In particular, this section describes perspectives on the titles used for CSR reports, identifies the parties that should approve CSR reports, and considers whether CSR reporting should be a mandatory requirement.

Figure 5.4 - CSR report titles (survey responses)

As reflected in Figure 5.4, responses to a survey question on the titles used for CSR reports reveal that 19 respondents (49%) indicated that their respective companies called their CSR disclosures a "sustainability report"; two companies (5%) called it a “CSR report”; one company (3%) called it a “CSI report”; 15 companies (39%) called it something else; and two respondents (5%) indicated that the question did not apply to their respective companies. The category ‘other’ include the related terms of “integrated annual report”; “sustainability report”; “carbon disclosure project submission”; “governance and sustainability report”; “sustainability development report”;
“governance report”; “integrated report”; “social and labour plan report”; and “the good business journey report”. Since the majority of CSR-related disclosures were included in ‘sustainability reports’ and only two were included in a ‘CSR report’, this would appear to confirm the emerging reporting company trend of preferring to use the term ‘sustainability’ (as described on page 36). This supports the assertion by Gray and Milne (2002) that true sustainability will remain elusive due to the inherent unsustainability of profit seeking business, within the context of its resource base, and the cumulative effect of all activity on the carrying capacity of given ecosystems. Therefore, as previously indicated, CSR remains the preferred term used in this thesis.

Assuror participants indicated that despite this lack of standardisation, the different terms used to refer to the CSR phenomena (as indicated in section 2.2) are evolving. The evolutionary nature of the CSR reporting and assurance discourse and the confusion caused by the various terms used to describe CSR-related issues are illustrated by assuror participants identifying their approach with comments such as:

- “I no longer talk about sustainability, or triple bottom line, or CSR or CSI; I now talk about linking corporate leadership and values with long-term strategy”.
- “CSR relates more to corporate citizenship and sustainability relates more to risk, in terms of long-term viability”.
- “Even the term ‘sustainability’ is confusing, as it used to mean economic, social and environmental. This is basically the triple bottom line. That is now outdated. Even John Elkington is not talking about that. I have got a very simple formula. It is governance and strategy that has to be linked to risks and also a bit of opportunities and KPIs linked to long-term viability”.
- “We have completely moved away from CSR, because everybody wants to tell you about their CSI. So we don't need CSI. We have actually found that using key non-financial indicators in our opinion is more appropriate. I know it kind of puts it relative to financial which is not ideal, but it is a term that is being debated internationally. We have found that the definition of sustainability is a word that has been a little bit overused. So either people think green or you run into the argument that corporate sustainability does not depend on social sustainability. So you will see in our opinions that we do not refer to sustainability. It says non-financial indicators. I don't know what the right answer is, but I believe we don't use the term CSR anymore”.

Despite the apparent intention of CSR reporting being to demonstrate the manner through which companies account to their broader stakeholders, it is suggested that the divergent perspectives
provided by reporting company respondents and assurers may be attributed to respondent bias (as described on page 146). It is therefore likely that the assurers interviewed were provided the ‘real reasons’ that companies report their CSR performance, whereas reporting company survey respondents were providing the ‘right answers’. This observation appears to confirm that companies report their CSR performance for instrumental reasons and not because it is the ‘right thing to do’, increasing the risk of green-wash (as described on page 90). Moreover, the assertion that neither CSR nor sustainability appropriately describes company non-financial reporting (Gray & Milne, 2002) suggests that a new reporting paradigm is required. While some may argue that the integrated reporting initiatives will fill this void, as argued in section 2.7.7.6, that integrated reporting will supplement and not replace CSR reporting.

Figure 5.5 – Audit committee approval of CSR disclosures (survey responses)

As stated in sections 2.5.2 and 2.5.3, since the board has a fiduciary responsibility to ensure effective corporate governance (including i.r.o. CSR) practices, it is appropriate that the audit committee, acting on behalf of the board, approves the CSR disclosures in the same way that it approves the AFS prior to publication. Responding to a question about whether the audit committee approves the CSR disclosures prior to publication, Figure 5.5 reveals that a majority of 23 respondents (59%) confirmed that the CSR disclosures of their respective companies were approved by the audit committee prior to publication; four (10%) did not; four (10%) were uncertain; three (8%) referred to ‘other’; while five (13%) indicated that the question did not apply to their respective companies. The category ‘other’ includes CSR disclosures being approved by the board, the risk management committee and the sustainability committee. Despite indicating that
the audit committee did not approve CSR disclosures prior to publication, these ‘other’ responses appear to suggest that approval was not considered unimportant, but was dealt with by other structures within the company.

Figure 5.6 - CSR disclosures should be a mandatory requirement (survey responses)

Responding to a question relating to mandatory and voluntary CSR reporting, Figure 5.6 reveals that 21 respondents (54%) agreed that government should promulgate legislation compelling companies to disclose their CSR performance; nine respondents (23%) disagreed; and nine respondents (23%) were uncertain. Mandatory legislation and regulation could facilitate the standardisation of CSR reporting and assurance practices, which would accelerate the development of CSR reporting and assurance practices. This standardisation should enhance report usability and comparability. Despite the majority of respondents favouring government legislation, company management’s aversion to government regulation and intervention (as described in section 2.7.5) makes it is unlikely that companies would lobby government to intervene, instead preferring the vagaries of self-regulation (as described in section 2.7.5.3). Mervyn King, the widely acknowledged advocate of good governance (both globally and in South Africa) rejects government intervention and strongly supports voluntarism as reflected in King III (IoD, 2009a) and the GRI.

Predictably, several interview participants suggested that CSR reporting (and/or assurance) should be a mandatory requirement as posited by Ho and Wong (2001). Arguing that non-financial and financial reporting (which is legislated) should not be treated differently; one participant stated that "you got to have company's financial statements audited on an annual basis. So why is this any
different?” The participant however, conceded that there was still a long way to go, especially since CSR reporting standards were at an early stage of development, as illustrated by the comment that financial reporting took “the accountants a 100 years to get to the point. We kind of have to work at 10 times that pace”.

Other participants pointed out that some aspects of CSR reporting were already mandatory in South Africa. Examples cited include employment equity, occupational health and safety, transformation and BBBEE. Participants suggested that carbon accounting and disclosure was also going to become necessary because of “carbon taxes and things like that”. It was however, proposed that other aspects should continue on “a voluntary sort of basis from the perspective of what is material to each company”. On the other hand, confirming the principle of voluntarism, Windsor (2006) argues that, to be effective, CSR disclosure and assurance should be embraced as a living breathing policy in the organisation. Compulsory compliance simply because there is something that can be reported may therefore not achieve the objective.

Participants pointed out that CSR reporting (and/or assurance) was mandatory in some countries around the world. Examples cited included India (mandatory for the top 100 companies), France (mandatory for all listed companies) and the New York Stock Exchange (mandatory for all listed companies). Participants stated that it would probably become mandatory for the JSE-listed companies too. Despite the de facto mandatory nature of CSR reporting (and assurance) resulting from the application of King III and the JSE regulations, its application remains voluntary (Ackers, 2009; Esser, 2008; Jenkins, 2001; Marx & Van Dyk, 2011; Orlitzky et al., 2003; Rea, 2011; Williams & Zinkin, 2008; Wood, 1991). JSE-listed companies that do not adhere to the King III principles can simply explain why they have not done so.

5.5 Conclusion

As stated in the introduction to this chapter, although the study focus is on CSR assurance and not on CSR reporting, CSR reporting has introduced to provide the necessary context for the detailed discourse on CSR assurance in chapter 6. While not ignoring the importance of shareholders, survey respondents overwhelmingly confirmed the assertion in section 2.7, that non-shareholder stakeholders were the primary intended audience of company CSR reports. This observation is directly aligned to stakeholder theory (as described in section 2.4.3) which states that business should account to various groups in society that may have a legitimate interest in the non-financial operational impacts of company (Freeman, 1984). By contrast, and despite acknowledging the importance of all stakeholders, assurance providers interviewed indicated that company management and shareholders were the primary users of CSR reports. The divergent views of
company survey respondents and assuror interview participants may be attributed to a combination of survey respondent bias together with certain companies only disclosing their CSR performance as an instrument to establish their legitimacy amongst stakeholders and to enhance their reputation (as described in section 2.4.4).

Survey respondents indicated that the main reasons that companies disclose their CSR performance is to be perceived as responsible corporate citizens, and by implication to project a positive corporate image and maintaining a licence to operate. Other significant factors include: applying the King III principles; improved risk management; improved reputation management; and improved competitive positioning. These observations are confirmed by the assurance providers interviewed. Juxtaposing the reasons for reporting CSR with the intended users of CSR reports, appears to confirm instrumentalism described in the previous paragraph.

Despite the myriad of titles used for CSR reports, and even though this thesis uses the term CSR report, the most common title used was sustainability report. The preference for ‘sustainability’ is confirmed by King III which is widely acknowledged as the global leader of corporate governance practices, and often globally emulated. Despite expecting integrated reporting to contribute to the manner in which companies report their performance, as previously stated, it is not intended to replace CSR reporting. Placing CSR within a broader corporate governance context, survey respondents indicated that the audit committee or some other senior management structure approved the CSR report before its publication.
CHAPTER 6
EMPIRICAL CORPORATE SOCIAL RESPONSIBILITY ASSURANCE RESULTS

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6.1 Introduction

Whereas chapter 5 provides the necessary context for CSR assurance, this chapter more specifically examines the study results within the context of the core characteristics of CSR assurance. In this regard, as stated in chapter 4, the primary objective of this study may be summarised as being to establish the extent to which the largest 200 JSE-listed have complied with the JSE regulations by providing independent CSR assurance as advocated by King III. Within this context, this chapter describes the results of the content analysis of CSR assurance reports (phase 1), the survey of reporting company responses (phase 2), and interviews with CSR assurance providers (phase 3).

While the data gathered in each phase were collected and analysed separately, the data are interrelated. As a result, the manner in which the results of the three phases are integrated in this chapter provides a richer description of the CSR assurance phenomena being studied.

Since it may be argued that company CSR performance should be available to the broader stakeholders, the content analysis observations were appropriately extracted in two stages from publicly available information. The first stage included a scrutiny of the annual/CSR assurance reports of the selected companies to establish whether they provided independent assurance on their CSR disclosures. The second stage involved a detailed evaluation of the CSR assurance practices published in the identified CSR assurance reports. The first stage of this research phase, established the frequency with which the selected reporting companies provide CSR assurance, while the second stage provided a detailed analysis and description of the observations emerging from the content analysis of CSR assurance reports. The study revealed that, where provided, CSR assurance reports were included in the company annual and/or CSR reports. Some CSR assurance reports were however, only available on the internet and in two instances the reporting companies had to be contacted directly to provide copies of their CSR assurance reports, as these were not available on the internet nor were they included in the annual/CSR reports.

The content analysis included a limited longitudinal study relating to reporting periods both prior to and after King III, to understand its impact on CSR assurance practices. This decision is substantiated by Ackers’ (2009) prediction that CSR assurance provision would increase following the implementation of King III in 2010. The 2007/8 data therefore provided the base year for the study, and was subsequently compared to more recent post-King III data for 2010/1 and 2011/2. The data presented in this chapter identifies emerging CSR assurance trends that provide a basis for comparison across the various reporting periods. Unless germane to the study, only the results of the most recent data (i.e. 2011/2) are analysed and described. Where data relating to previous periods (other than 2011/2) are included for contextual purposes, this has been indicated as such.
The purpose of the survey of respondents at reporting companies in the second phase was to understand the characteristics of CSR assurance that emerged from the content analysis in the first phase. The perspectives of respondents to the survey questionnaires provide important reporting company insights into the reasons for the content analysis observations. The analysis of the survey results also attempts to understand the reasons for the apparent paradox in terms of which auditor assurors were collectively the primary providers of independent CSR assurance, despite appearing to provide lower levels of assurance than non-auditor assurors.

The semi-structured interviews held with the primary assurance providers identified in the content analysis provide additional insights into the CSR assurance phenomena, but from an assuror’s perspective. Despite relatively few companies in the study providing independent assurance on their CSR disclosures, several participant assurors indicated that they had already been providing independent CSR assurance for their client companies for around 15 years. Therefore, despite its relative topicality, it is clear that CSR assurance is not a new South African phenomenon.

The results of all three empirical phases are grouped together in this chapter under the broad themes identified in the literature review. In this regard, the results of the content analysis are described in each sub-section first, followed by the survey and interview responses respectively. Where an element has not been covered in one or more of the empirical phases, the relevant sub-section has been excluded. Each sub-section concludes with an integrated synopsis and description of the results of the three empirical phases.

To ensure alignment between the various phases of the research, the content analysis in the first phase established the extent of CSR assurance provided, identified the primary assurance providers and determined the primary characteristics of CSR assurance. These data, together with the literature review, informed the questions posed to reporting company respondents in the survey in the second phase, and to assurance providers in the semi-structured interviews in the third phase. Since all three phases examined the CSR assurance practices of the same companies during similar reporting periods, the results of the three separate empirical phases therefore validate each other.

The alignment of the CSR assurance related research objectives, research phases and results description is depicted graphically in Figure 6.1 (extracted from Figure 1.2 in section 1.14). This diagram enhances the ability of readers of this thesis to understand which empirical phase(s) were used to achieve each research objective, as well as to identify the sub-section where the research findings are described.
<table>
<thead>
<tr>
<th>Research objective</th>
<th>Empirical research phase</th>
<th>Results sub-sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Phase 1 – content analysis Phase 2 – survey</td>
<td>6.2 – extent of CSR assurance</td>
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<tr>
<td>4</td>
<td>Phase 2 – survey Phase 3 – interviews</td>
<td>6.3 – reasons for providing CSR assurance</td>
</tr>
<tr>
<td>5</td>
<td>Phase 2 – survey Phase 3 – interviews</td>
<td>6.4 – CSR assurance providers</td>
</tr>
<tr>
<td>6</td>
<td>Phase 1 – content analysis Phase 2 – survey Phase 3 – interviews</td>
<td>6.4 – CSR assurance providers</td>
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<tr>
<td>7</td>
<td>Phase 1 – content analysis Phase 2 – survey Phase 3 – interviews</td>
<td>6.5 – internal audit</td>
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<td>9</td>
<td>Phase 1 – content analysis Phase 2 – survey Phase 3 – interviews</td>
<td>6.12 – assurance standards</td>
</tr>
<tr>
<td>10</td>
<td>Phase 1 – content analysis Phase 2 – survey Phase 3 – interviews</td>
<td>6.18 – Adequacy of existing CSR frameworks and standards</td>
</tr>
<tr>
<td>11</td>
<td>Phase 1 – content analysis Phase 2 – survey Phase 3 – interviews</td>
<td>6.18 – Adequacy of existing CSR frameworks and standards</td>
</tr>
</tbody>
</table>

Figure 6.1 – Alignment of research objectives, phases and results
This section includes both verbatim and paraphrased quotations extracted from CSR assurance reports, the survey responses or by CSR assurors, both reflected in “quotation marks”. Unless otherwise indicated, all data and graphs included in this chapter were extracted from an analysis of the survey instrument results and the semi-structured interviews with CSR assurance providers. As described in section 4.2.5, despite the mixed methods paradigm adopted in this study, this thesis follows a primarily interpretive qualitative approach. Within this context, Merriam (1995) asserts that qualitative research is interpretive and involves an element of subjectivity, justifying using a paraphrased interpretation of the data where appropriate. Unless otherwise indicated, all data and graphs included in this chapter were extracted from the content analysis data.

6.2 Extent of independent CSR assurance provision

6.2.1 Background

Following the implementation of King III and the JSE regulations, this section describes pertinent observations from the three empirical phases of this research relating to the extent to which reporting companies provided independent CSR assurance. The results of each phase are described in separate sub-sections, with a concluding sub-paragraph integrating the observations from the different phases.

6.2.2 CSR assurance report content analysis

Figure 6.2 reveals that 50 reporting companies provided independent assurance on their CSR disclosures for the fiscal period ending 2011/2, compared to 42 for the period ending 2010/1, and only 18 for the period ending 2007/8. This growth trend confirms Nkonki’s prediction that the South African CSR assurance rate would increase (as described in section 3.1). When considering the extent of independent CSR assurance provided at the selected companies, 26% of the 192 companies in the study provided independent CSR assurance in 2011/2, compared to 22% in 2010/1 and 9% in 2007/8. The 26% CSR assurance rate in 2011/2 compares favourably with the 27% established by Deloitte’s (2012: 52) South African study.

To understand how the South African independent CSR assurance rate compares globally, when only confining the 2007/8 study results to the top 100 JSE-listed companies 17 companies (17%) provided independent CSR assurance. Although not directly comparable, South African CSR assurance demand is contextualised by comparing these results to the CorporateRegister (2008) study of the top 100 companies in 2007. This illustrative comparison revealed that despite the South African provision of CSR assurance lagging behind the 57% of UK and 29% of Japanese companies of one year earlier, it exceeded that of Australia (12%), Germany (11%) and the USA.
(11%) (also depicted in Figure 6.2). At the same time, adjusting the study from the top 200 to the top 100 confirms the slack resource premise (as described in section 2.4.6) that larger companies are more likely to provide independent CSR assurance, since only one of the additional 100 companies provided independent CSR assurance (Jenkins, 2001; Jones et al., 2014). To facilitate comparison, when examining the CSR assurance rates for the largest 100 companies in 2011/2 and 2010/1, the CSR assurance improved from 26% to 42% in 2011/2 and from 22% to 35% in 2010/1. This trend for a disproportionately higher CSR assurance rate by larger companies is also reflected in Table 6.1 and Figure 6.5.

Figure 6.2 – South African CSR assurance provision measured against CSR assurance in five other countries (Sources: this study and CorporateRegister, 2008: 33)

Figure 6.3 depicts the extent to which independent CSR assurance is provided by the selected reporting companies, as a percentage of the total market capitalisation of the JSE and the market capitalisation of the selected companies. Even though only 26% of the top 200 JSE-listed companies provided independent CSR assurance in 2011/2, this represented 69% of the total market capitalisation of the JSE (61% in 2010/1 and 43% in 2007/8).
Figure 6.3 – CSR assurance rates in terms of market capitalisation

Figure 6.4 reflects the primary JSE industry sectors represented by the reporting companies that have provided independent assurance on their CSR disclosures. In 2011/2, the resources sector (collectively comprising mining, forestry and chemicals) provided 38% of published CSR assurance reports (45% in 2010/1 and 56% in 2007/8). This observation is aligned to the finding by Fernandez-Feijoo et al. (2014) that environmentally sensitive companies were more likely to report on their CSR performance. This was followed by the financial services sector (banking, insurance, financial services and real estate) and the industrial sector (construction and goods & services), representing 18% each (14% and 19% respectively in 2010/1; and 17% and 11% in 2007/8); the consumer sector (retail, food & beverage, automobiles & parts and travel) with 14% (14% in 2010/1 and 11% in 2007/8); and telecommunications with 10% (5% in 2010/1 and 0% in 2007/8).

The primary reason for the disproportionate provision of independent CSR assurance by the resources, financial service and industrial sectors may be ascribed to attempts to legitimise business operations and to protect society and the environment from the adverse consequences of corporate operations. While the resources industry collectively (including oil & gas) provided 62% of the independent CSR assurance statements in 2007/8, by 2011/2 this proportion was reduced to 40%. During this period the financial services, industrial and telecommunications sectors increased their proportion of independent CSR assurance provision. This observation is aligned to previous research establishing that the highly visible ‘polluting industries’ were traditionally the most active providers of independent CSR assurance (Al-Hamadeen, 2007; Fernandez-Feijoo et al., 2014; Perego & Kolk, 2012; Sierra et al., 2013). This was later followed by growth in the banking,
consumer, insurance, manufacturing, mining, and oil and gas sectors. Companies in all these sectors tend to operate in highly regulated environments aimed at protecting social interests. It is posited that some companies may use independent CSR assurance to ameliorate the adverse consequences of their operations, while contributing to social well-being and instrumentally preserving both their literal and figurative ‘licences to operate’.

![Figure 6.4 - Distribution of CSR assurance in terms of the broad JSE industry sector](image)

Although the provision of independent CSR assurance grew by a cumulative 177% over the three-year period between 2007/8 and 2010/1, and by 19% between 2010/1 and 2011/2, the proportion of JSE-listed companies providing independent CSR assurance nevertheless remains low. Even though the initial large increase between 2007/8 and 2010/1 may be attributed to King III implementation, it is clear that most of the JSE-listed companies studied still did not comply with the de facto JSE regulatory requirement to provide independent CSR assurance with effect from the 1 March 2010 (as described in section 2.7.7.2). While some companies indicated that they provided CSR assurance in the narrative of their annual reports, a scrutiny of these companies’ annual/CSR reports revealed that they may have been referring to the verification of specific CSR elements, and not to the overall CSR report. These CSR elements include broad-based black economic empowerment (BBBEE), carbon footprint, GHG emissions and health and safety. The resultant assurance opinions were however, not usually published in a publically available CSR assurance report. Despite the King III ‘apply or explain’ requirement, several companies did not indicate their reasons for not providing independent CSR assurance in their annual/CSR reports.

Since the focus of this research was to identify CSR assurance trends, the study did not attempt to
quantify the number of companies that did not provide independent CSR assurance, nor the
number of companies that did not explain why they did not. Where companies provided reasons
for not having their CSR disclosures independently assured, these included that they were not
ready to do so but were developing their capacity to do so in future (as illustrated in Figure 6.11);
that it was reviewed by internal audit; that it was not legally required; or that it could not be
financially justified. Examples of these reasons extracted from the 2011/2 annual/CSR reports
included the following:

- “it would be premature to obtain external assurance until the group’s recording systems are
  mature”
- “we are preparing to have the CSR report independently assured”
- “environmental issues are not material in the group or its operations”
- “assurance of integrated reports is still a relatively new concept to all companies incorporated
  in South Africa and not all information included in an integrated report is legally required to
  be assured”
- “material sustainability information has been reviewed by internal audit, which was
  considered to be a more cost effective alternative”.

As described in section 2.4.6, this thesis acknowledges the circular argument about whether
responsible CSR practices improve company performance, or whether enhanced company
performance facilitates improved CSR practices. Confirming the assertion that larger companies
were more likely to provide independent CSR assurance, Table 6.1 and Figure 6.5 provide an
analysis of CSR assurance provision according to company size for 2007/8, 2010/1 and 2011/2.
Despite the ‘virtuous cycle’ referred to above, these observations appear to substantiate the slack
resource assertions (Bourgeois, 1981; Jenkins, 2001; Orlitzky et al., 2003; Saleh, 2009; Waddock &
Graves, 1997).

While Figure 6.5 reveals that more large companies were likely to provide CSR assurance than
smaller companies, this distribution appears to be changing as more companies across the
spectrum start implementing the provisions of King III more fully. Therefore, while many reporting
companies indicated that they were not yet ready to provide external CSR assurance, it is expected
that providing reasons for non-disclosure will become unnecessary as more companies (including
those not listed on the JSE) start providing independent CSR assurance reports, even if only to
conform with the King III principles (as indicated in sections 5.3 and 6.3, and by Figure 6.10). This
prediction is based on the underlying rationale that stakeholders (especially investors) were likely
to place greater value on companies that respond to stakeholder demands for greater company
accountability and transparency, by more comprehensively applying King III (and having their CSR
disclosures independently assured), and being sceptical of those continually providing explanations (or excuses) for why they have not done so.

**Table 6.1** – CSR assurance report frequency according to company size

<table>
<thead>
<tr>
<th>Company size range</th>
<th>2007/8</th>
<th>2010/1</th>
<th>2011/2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 40</td>
<td>14</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>41 to 80</td>
<td>3</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>81 to 120</td>
<td></td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>121 to 160</td>
<td>1</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>161 to 200</td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>42</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

**Figure 6.5** – Distribution of CSR assurance according to company size

**6.2.3 Reporting company survey**

To distinguish between CSR assurance provided to internal users (including management and the board), and assurance provided on public CSR disclosures intended for broader external stakeholder consumption, 21 respondents (54%) confirmed that their CSR assurance reports were published; three respondents indicated that their CSR assurance reports were not published (8%); and 15 respondents indicated that the question did not apply to their companies (38%) as reflected in Figure 6.6. The three unpublished CSR reports may be due to respondents referring to CSR assurance provided by internal audit or certification bodies, for the benefit of internal stakeholders.
or to meet some regulatory requirement, and not for publication to broader stakeholders outside of the company. The inference being that 18 companies (46%) either did not provide independent CSR assurance or did not publish their CSR assurance reports. This observation may be compared to responses to the question about whether external CSR assurance was provided (see Figure 6.7), which established that 16 respondents (41%) did not provide independent assurance on their CSR disclosures.

![Figure 6.6 - Publication of CSR assurance reports](image)

**Figure 6.6 - Publication of CSR assurance reports**

To establish the number of companies that provided CSR assurance, Figure 6.7 reveals that a majority of 23 reporting company respondents (59%) indicated that their companies provided external assurance on their CSR disclosures; 15 respondents (39%) indicated that their companies did not; while one respondent (3%) indicated ‘other’. The ‘other’ response indicated that the “financial content is externally assured”, reflecting an extremely limited scope for the CSR assurance engagement.

While Figure 6.2 reveals that only 26% of companies in the content analysis provided independent CSR assurance in 2011/2, 56% of survey respondents indicated that their respective companies provided CSR assurance. A possible reason for the divergence in the results of the two phases may be attributed to respondent bias as described in sections 4.2.8.3 (Johnson & Onwuegbuzie, 2004; Podsakoff et al., 2012). The survey result may therefore not necessarily depict the actual extent of CSR assurance in the study population, but may merely represent the perspectives of those who actually responded, or even those who may wish to misrepresent the situation by providing answers they believe are expected. However, the interpretive nature of this exploratory study
means that it is more important to understand the characteristics of the emerging CSR reporting and assurance practices than to definitively identify the extent of CSR assurance provision. An alternative explanation for the discrepancy could be that respondents may be referring to CSR assurance provided to internal stakeholders only, such as by the internal audit activity (as described in section 3.3.2), or relating to one of the ISO standards (as described in section 2.7.7.5). These internally oriented assurance reports may not necessarily result in the publication of an independent CSR assurance report for use by external stakeholders.

**Figure 6.7 - External assurance of CSR disclosures**

To establish how long respondents’ companies had been providing external CSR assurance for, respondents were required to indicate when their respective companies started having their CSR disclosures externally assured. As indicated in Figure 6.8, 18 respondents (46%) indicated that the question was not applicable, suggesting that those companies were not currently providing independent assurance on their CSR disclosures. This is aligned to the results depicted in Figure 6.6, which found that 54% of companies provided CSR assurance.

Although still in its infancy, it is clear that the provision of external CSR assurance is not a new phenomenon, as suggested by five survey respondents (13%) who indicated that their respective companies had been providing external CSR assurance for more than seven years (i.e. before 2006); two respondents (5%) for seven years (i.e. since 2006); four respondents for six years (i.e. since 2007); three respondents (8%) for five years (i.e. since 2008); two respondents (5%) for four years (i.e. since 2009); and five respondents (13%) for three years (i.e. since 2010). Although several companies did not provide external CSR assurance at the time of the study,
others only started after 2010 (after King III implementation), while some were already providing external CSR assurance prior to King III implementation.

**Figure 6.8 - Year during which company started providing external CSR assurance**

Despite the King III and JSE requirements, many companies still do not have their CSR disclosures independently assured. Figure 6.9 reveals that 24 respondents (62%) disclosed that they were already either providing independent CSR assurance, or intended doing so by 2012. To identify when ‘non-compliant’ companies will provide independent CSR assurance, three respondents (8%) indicated that their companies would provide CSR assurance by 2013; five respondents (13%) by 2014; one respondent by 2015 (3%); while six respondents (15%) indicated that they would comply after 2015. The option that companies ‘would comply’ after 2015 may however, simply imply that respondents recognised the ‘need’ for independent CSR assurance. Respondents may therefore simply have been ‘ticking the box’ because that is what was expected, but without having any meaningful intention to do so. Nevertheless, these observations appear to indicate that respondents recognised the importance of independent CSR assurance on the corporate agenda, even if only to favourably influence stakeholder opinions (Aras & Crowther, 2008; Okoye, 2009; Teoh & Shiu, 1990) and/or to comply with society’s expectations, regulations and/or legislation.
6.2.4 Assurance provider interviews

The future orientation of CSR reporting and, accordingly CSR assurance, is further illustrated by an assuror commenting that: “I also wonder will happen in the field of carbon credits and other things coming in.” There is little doubt that the demand for and provision of CSR assurance will continue to grow as illustrated by the statement: “I think people want more assurance.” Implying that the growth of CSR assurance depends on the activities of the CSR assurance provider, a participant stated that “CSR assurance will continue to grow as long as the assurance providers don’t mess it up. If they continue to diminish its value, then it will sort of disappear.”

6.2.5 Analysis and integration of results

As previously explained, the initial source of empirical data for this study was the content analysis of published CSR assurance reports in the first phase. This established the CSR assurance rate and identified the emerging characteristics of CSR assurance. The survey questionnaire in the second phase provided important insights from a reporting company perspective into the reasons for the emerging phenomena observed in the first phase.

The content analysis established that 26% of the studied companies provided independent CSR assurance. The survey results assist to understand the reasons for the identified phenomena. Therefore, although possible respondent bias in the surveys is acknowledged, the exploratory mixed methods research approach adopted for this study compensates for possible respondent bias.
and does not necessarily invalidate the responses to the question posed.

It is argued that the increase in CSR assurance provision over the five year period covered by the content analysis reflects the adoption of the King III principles which is a de facto requirement for JSE listed, as is evident by the increase of 177% over the reporting periods before and after King III implementation, slowing down thereafter. While several companies already provided CSR assurance before King III, the assertion that King III contributed to the acceleration is supported by the survey results which found that the largest increase was during 2010 (the implementation date of King III). Respondents at companies that were not providing CSR assurance at the time of the study indicated that they were developing their capacity to do so in future.

The propensity for larger companies to provide independent CSR assurance described in section 3.2 (Moroney et al., 2012; Nitkin & Brooks, 1998) is confirmed in Table 6.1 and Figure 6.5. This finding is aligned to slack resource theory which posits that larger companies are more likely to have the ‘slack resources’ to devote to ‘non-core’ activities such as CSR assurance as described in section 2.4.6 (Bourgeois, 1981; Driver & Thompson, 2002; Saleh, 2009; Waddock & Graves, 1997).

Since King III, which requires independent CSR assurance, is the ‘gold standard’ for corporate governance and de facto mandatory requirement for JSE-listed companies (as described in section 2.7.7.2), the provision of independent CSR assurance will continue to grow, as companies start to more comprehensively implement the King III provisions, as illustrated by the 19% growth between CSR assurance provided 2010/1 and 2011/2 (as described on page 186).

6.3 Reasons for providing independent CSR assurance

6.3.1 Reporting company survey

On the assumption that independent assurance of CSR disclosures is considered important, using a 7-point Likert-type scale, Figure 6.10 illustrates that the primary reasons advanced by respondents for their companies providing independent assurance on their CSR disclosures, include:

- The majority of 35 respondents agreed {90% very strongly agreed (n = 10), strongly agreed (n = 13) and agreed (n = 12)} with the assertion that CSR assurance provides stakeholders with verified CSR disclosures that may be relied upon, while four respondents (10%) were uncertain and none disagreed.

- The majority of 33 respondents agreed {85% very strongly agreed (n = 15), strongly agreed (n = 9) and agreed (n = 9)} with the assertion that CSR assurance demonstrates the
company's commitment to improved corporate transparency, while four respondents (10%) were uncertain and two respondents (5%) disagreed.

- The majority of 32 respondents (82%) agreed {very strongly agreed (n = 12), strongly agreed (n = 10) and agreed (n = 10)} with the assertion that CSR assurance demonstrates the company's commitment to 'good corporate citizenship', while five respondents (13%) were uncertain and two respondents (5%) disagreed.

- The majority of 29 respondents (74%) agreed {very strongly agreed (n = 9), strongly agreed (n = 12) and agreed (n = 8)} with the assertion that CSR assurance demonstrates the company's commitment to improved stakeholder responsibility, while seven respondents (18%) were uncertain and three respondents (8%) disagreed.

- The majority of 29 respondents (74%) agreed {very strongly agreed (n = 10), strongly agreed (n = 10) and agreed (n = 9)} with the assertion that CSR assurance demonstrates the company's commitment to improved stakeholder accountability, while seven respondents (18%) were uncertain and three respondents (8%) disagreed.

- The majority of 27 respondents (69%) agreed {very strongly agreed (n = 8), strongly agreed (n = 10) and agreed (n = 9)} with the assertion that CSR assurance is required by King III, while six respondents (15%) were uncertain and six respondents (15%) disagreed {disagreed (n = 5) and strongly disagreed (n = 1)}.

In summary, the primary reasons advanced by respondents about why their companies provide CSR assurance appear to be because it provides verified CSR disclosures that may be relied upon by stakeholders; followed by CSR assurance demonstrating the company's commitment to improved corporate transparency and to being a 'good corporate citizen'; with compliance with the King III principles receiving the lowest score (despite the majority of respondents still being in agreement). While it may appear that respondents believed that their companies were providing CSR assurance for all 'the right reasons', instead of being forced to do so, it is recognised that these results may be skewed by possible respondent bias (as described in section 4.3).
Conversely, to understand the reasons that some companies did not provide independent CSR assurance, Figure 6.11 reveals that 20 respondents (51%) indicated that the question did not apply to their respective companies. This response appears to be inversely related to the finding that 54% of companies published their CSR assurance reports as depicted in Figure 6.6 and the 59% of companies that provided external CSR assurance as depicted in Figure 6.7.

Reasons advanced for not providing CSR assurance included nine respondents (23%) indicating that their companies were developing the capacity to do so in the future; six respondents (15%) suggesting that the process was too expensive; five respondents (13%) indicating that CSR assurance provides little value to stakeholders; four respondents (10%) suggesting that the process was too time consuming to add value; four respondents (10%) indicating that it was not necessary since internal audit reviewed CSR performance; three respondents (8%) indicating that it was not a legal requirement; three respondents (8%) stating that it was not considered important; two respondents (5%) suggesting that stakeholders trusted their disclosures; one respondent (3%) suggesting that stakeholders do not rely on their CSR disclosures for decision-making; and two respondents (5%) providing other reasons. These ‘other’ reasons included low materiality or, that their companies were establishing performance management systems to track CSR performance (which is aligned to the finding that companies were developing their CSR capacity). The most common reasons advanced by respondents for not providing independent CSR assurance confirm that companies were developing their capacity to provide independent assurance on their CSR disclosures in the future. Therefore, as companies strive to develop their capacity to more fully

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**Figure 6.10 – Reasons for providing CSR assurance (n = number of responses)**

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apply the King III principles and the JSE regulations, independent CSR assurance provision will continue to grow. These reasons are aligned to the reasons disclosed by reporting companies in their annual/CSR reports for not providing independent CSR assurance (see page 187), which were included in the content analysis of the first phase. These observations confirm the poor quality of CSR reporting and assurance (Utting, 2005), which does not add value to stakeholders (Al-Hamadeen, 2007).

![Figure 6.11 - Reasons for not providing CSR assurance (n = number of responses)](image)

**Figure 6.11 - Reasons for not providing CSR assurance (n = number of responses)**

Attempting to identify the stumbling blocks to CSR assurance provision, a question using a 7-point Likert-type scale provides negatively oriented assertions about CSR assurance. As summarised in Figure 6.12, the responses to this negatively oriented question include:

- The majority of 22 respondents (56%) disagreed {very strongly disagreed (n = 3), strongly disagreed (n = 12) and disagreed (n = 7)} with the assertion that CSR assurance adds little value to stakeholders, five respondents (13%) were uncertain, 12 respondents (31%) agreed {agreed (n = 8), strongly agreed (n = 2) and very strongly agreed (n = 2)}. 

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• The majority of 20 respondents (51%) disagreed {very strongly disagreed (n = 1), strongly disagreed (n = 8) and disagreed (n = 11)} with the assertion that CSR assurance reports do not provide stakeholders with confidence that the company’s CSR disclosures were complete, accurate, reliable and valid, six respondents (13%) were uncertain, 13 respondents (33%) agreed {agreed (n = 10), strongly agreed (n = 2) and very strongly agreed (n = 1)}.

• The majority of 20 respondents (51%) disagreed {very strongly disagreed (n = 2), strongly disagreed (n = 9) and disagreed (n=9)} with the assertion that CSR assurance reports were unnecessary, since their companies had impeccable reputations as ‘responsible corporate citizens’, 13 respondents (33%) were uncertain and six respondents (15%) agreed.

• Only 15 respondents (39%) disagreed {very strongly disagreed (n = 2), strongly disagreed (n = 3) and disagreed (n = 10)} with the assertion that CSR assurance was too expensive to provide stakeholders with meaningful benefits, while nine respondents (23%) were uncertain and 15 respondents agreed {agreed (n = 11), strongly agreed (n = 2) and very strongly agreed (n = 2)}.

• Only 15 respondents (39%) disagreed {very strongly disagreed (n = 1), strongly disagreed (n = 4) and disagreed (n = 10)} with the assertion that CSR assurance was too expensive to provide any meaningful benefit to the company, while nine respondents (23%) were uncertain and 15 respondents {agreed (n = 11), strongly agreed (n = 2) and very strongly agreed (n = 2)}.

The responses to this question are not as emphatic as responses to other questions in this section of the survey. In summary, despite the majority of respondents acknowledging the importance of CSR assurance (as described earlier in section 3.2.2), they also suggested that CSR assurance was too expensive to provide either stakeholders or to the company with meaningful benefits.

This paradox may be explained by instrumental theory, which holds that companies may only be doing the ‘right things’ in order to improve their competitive positioning, to maintain their corporate legitimacy, and/or to comply with imposed legal, regulatory or industry regulations (as described in section 2.4.2). By contrast, a marginal majority of respondents indicated that CSR assurance added value to stakeholders by providing confidence that the company’s CSR disclosures were fair, with several respondents disagreeing with the assertion that the company’s reputations as ‘responsible corporate citizens’ made CSR assurance unnecessary. Although implementing the King III provisions has emerged as an important reason for providing CSR assurance, the most important reasons provided may collectively be attributed to a desire to be perceived as responsible corporate citizens, albeit for instrumental reasons (Hummels & Timmer, 2004; Morimoto et al., 2005; Palazzo & Scherer, 2006).
6.3.2 Assurance provider interviews

The interviews revealed that assurers believed that it was not sufficient for companies to simply disclose non-financial information; it was more important for stakeholders to know that the CSR disclosures were independently assured so that they may place reliance thereon (Alves, 2009; Aras & Crowther, 2008; Delmas & Burbano, 2011; Kolk & Perego, 2010; Lyon & Maxwell, 2011; Manetti & Toccafondi, 2012; Martinov-Bennie & Hecimovic, 2011; Okoye, 2009; Perego, 2009; Polonsky et al., 2010; Sierra et al., 2013; Teoh & Shiu, 1990). This perspective was illustrated by the following comment: “People are going to starting to look at sustainability reports to see if those numbers that have been such a bone of contention recently, have actually been independently assured.”

In addition, companies also benefit from having their CSR disclosures independently assured by enhancing “their own confidence in the information”. A participant stated that this was especially true with respect to “the bigger companies, where reports are produced by a head office that consolidates the results from multiple operations around the world”, allowing the CEO to “stand with his hand on his heart”, confident about the integrity of the company’s disclosures. Another participant stated that external assurance helps to avoid the pitfalls of setting KPIs, objectives and targets based on inaccurate and incomplete numbers that “do not make any sense”. A participant cautioned that the information relating to the assurance engagement should be relevant and reliable in order for CSR assurance to provide meaningful value as indicated by the comment that “if you’ve got information that is not really meaningful, then it adds zero value”. A participant
commented that when assurors concentrate on material issues, reporting companies receive
greater value for money. This could be regarded as being the ‘bang for their buck’.

Independent CSR assurance partially addresses the information asymmetry arising from the agency
problem (described in section 2.4.5), as illustrated by the comment that “in the same way that
financial information needs to be assured, boards cannot make informed decisions on information
that has not been independently assured”. These concerns are heightened by accountability
concerns with “board members now saying we got to have proper numbers otherwise we are
personally liable”. These concerns were confirmed by an assuror participant who stated that
“Mervyn King recently mentioned that there is a lot of pressure on having each director sign off the
integrated report in his name. This is the pressure by the international community. It is not in the
exposure draft, but this is what has been called for. Now if you are dealing with that level, most
directors like the 30 or 40 directors that run the majority of the large companies in South Africa,
are not going sign off (disclosures) without proper assurance”.

Compliance was identified as an important reason for providing independent CSR assurance,
particularly since King III and the JSE regulations require independent CSR assurance (as described
in section 2.7.7.2). It was suggested that companies would find it increasingly difficult to continue
using the same excuse over and over again for not fully implementing all the King III principles.
One participant posited that several companies only provided independent CSR assurance to
comply with the GRI and to get the ‘+’ added to their indicator (as described in section 2.7.7.3).
This may indicate that the assurance provided was not necessarily robust, as implied by the
statement that “there are companies that just do this with a tick-box, as well to say: we have done
the assurance. And that’s it”. Other participants suggested that CSR assurance practices were
beginning to mature and to provide meaningful benefits as reflected in the statement that “several
companies have now moved beyond that, and are starting to see lots more value from the entire
CSR assurance process itself”.

Peer pressure, in terms of which companies provide independent CSR assurance because other
companies in the industry were doing so, may also be a factor, as reflected by statements such as:
“I have come clean and what are you doing about it?”; or “for some it is about keeping up with the
Joneses to simply indicate that they have an assurance report”; or finally that “CSR assurance puts
you in a favourable light”. Collectively, the assurors’ reasons are aligned to reporting company
survey responses that independent CSR assurance provides verified CSR disclosures that may be

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61 In this regard, the assuror participant was referring to the draft Integrated Reporting Framework described in
section 2.7.7.6.
relied upon by stakeholders, and reflects the company’s commitment to improved transparency and to being a ‘good corporate citizen’ (as depicted in Figure 6.10).

As indicated in sections 2.4.7 and 3.2.2, reporting companies may provide independent assurance on their CSR disclosures for compliance and instrumental reasons to position their companies favourably. Acknowledging that the majority of companies covered by this study did not provide independent assurance on their CSR disclosures at the time of the study, assuror participants advanced the following reasons that some reporting companies resist providing independent CSR assurance (Adams & Evans, 2004; Al-Hamadeen, 2007; FEE, 2011; O’Dwyer & Owen, 2005; Owen et al., 2000; Utting, 2005).

- CSR assurance presents a challenge for company systems that collect and report on the data, since “it is not just about the numbers”; it also involves interrogating the systems in place to report the numbers. The systems of some companies may therefore not yet be ready for independent CSR assurance, as reflected in the comment that “they would rather get their house sorted out first. Let internal audit have a look at all of this for a year or two. Then once they are ready, expose it to external assurance”.

- CSR assurance cannot be done until the evaluation criteria have been clearly defined, with appropriate mechanisms in place to monitor performance, as indicated by “you have to have proper criteria in place and their own guidelines”. Interviewees confirmed the observation in Figure 6.11 that some companies were confident about their numbers and did not need anybody to else to look at them. Conversely, other companies may be concerned that independent CSR assurance could reveal that their disclosures “might not be all that it stacks up to be” or that “the number that was being presented was completely not assurable”.

- Similarly, while some company survey respondents may believe that CSR assurance was too expensive to provide meaningful benefits, assurors also suggested that companies do not appreciate the benefits that independent CSR assurance can provide as reflected in the comment that “these people don’t understand it. I don’t hear the same comment being made about having your financial statements audited is too expensive and it doesn’t add value anyway”. Since financial statement auditing is a statutory requirement for public interest companies (as defined in the Companies Act, 2008), this comment may not be particularly relevant. Although AFS audits are a mandatory requirement, this observation nevertheless confirms the perception that auditing and assurance do not add value to either the company or its stakeholders. To overcome these adverse perceptions assurors should educate their respective client companies and their stakeholders about the assurance process and the accruing benefits.
• Since CSR assurance relates to aspects affecting several operational areas, resistance may also come from operational managers, as illustrated by the comment that “we are often not dealing with people that are used to being audited. So it is not like going to a financial guy, who is used to being audited. Sometimes they get a bit upset I think, about how rigorous our processes are”.

• Senior management may believe that CSR assurance is an unnecessary expense and “still see it as a nice to do. They don’t relate it to risk and risk management. So they say - well, I’m not spending money. It’s a money thing”. Some companies that do not provide independent CSR assurance, may argue that since no one has picked up that it is not being done, they do not need to do it, particularly since their shareholders have indicated that they don’t care about non-financial issues and only want financial information.

• Although some companies recognise the importance of CSR assurance, at the same time the primary reason for not providing such assurance may be attributed to the relative CSR immaturity of many companies. The necessary data collection and reporting systems are therefore unlikely to be ready to withstand the scrutiny of a robust assurance process. This is compounded when reporting companies do not adequately define their evaluation and reporting criteria, impairing the ability to conduct a meaningful CSR assurance engagement. CSR assurance rates are accordingly expected to increase as company CSR processes mature and as companies develop their CSR reporting capacity (ICAEW, 2008; Mock et al., 2007; Perego, 2009).

• Other negative factors impeding independent CSR assurance provision include concerns relating to uncovering green-wash; the perception that CSR assurance does not add value to company CSR disclosures, particularly from a cost perspective; and since CSR assurance was not a mandatory requirement. As depicted in Figure 6.11, these assuror responses are aligned to reporting company survey respondents confirming that their respective companies were developing the necessary capacity to do so in the future, or that CSR assurance was too expensive to provide meaningful benefits to either stakeholders or to the company.

6.3.3 Analysis and integration of results

As indicated in Figure 6.10, the objective of independent CSR assurance is to provide stakeholders with confidence about the relevance, usefulness, reliability and completeness of CSR-related disclosures as described in section 3.2 (Al-Hamadeen, 2007; CorporateRegister, 2008; Dando & Swift, 2003), and to mitigate against green-wash (Alves, 2009; Delmas & Burbano, 2011; Hamann & Kapelus, 2004; Lauffer, 2003; Lyon & Maxwell, 2011; Polonsky et al., 2010). Compliance with the JSE regulations and accordingly King III, or positively influencing stakeholder perceptions (Aras &
Crowther, 2008; Okoye, 2009; Teoh & Shiu, 1990) and improving legitimacy (Morimoto et al., 2005; Palazzo & Scherer, 2006; Suchman, 1995) were also identified as CSR assurance drivers by both reporting company respondents and assuror interviewees.

Assurance providers suggested that independent CSR assurance also improved the confidence that reporting companies have about their own CSR data, while informing their KPIs, objectives and targets. Moreover, independent CSR assurance improves the ability of the board of directors to discharge their governance oversight responsibilities as described in sections 2.5.2 and 2.5.3, mitigating the impact of the agency problem (Black & Quach, 2009; Blair, 2005; Esser, 2008; Fairfax, 2005; Sarens et al., 2012).

While some survey respondents indicated that CSR assurance was unnecessary and could not be financially justified, several recognised its importance revealing that they were building their capacity to do so in future. Similarly, when identifying stumbling blocks that should be overcome, respondents confirmed that CSR assurance does not add value to the company or its stakeholders, primarily due to the associated high costs (De Beelde & Tuybens, 2013). This particularly applies to the high costs associated with CSR assurance engagements (Mock et al., 2007), which was also confirmed by CSR assurors.

6.4 Providers of independent CSR assurance

6.4.1 CSR assurance report content analysis

As indicated in Table 6.2 and Figure 6.13, the CSR assurance reports for the companies selected for this study indicate that auditor assurors remain the collective primary providers of independent CSR assurance across all three reporting periods covered by the study. The Big 4 audit firms issued 31 assurance reports in 2011/2, representing 62% of all CSR assurance reports in the study (2010/1: 29 – 69% and 2007/8: 14 – 78%). In addition, mid-tier audit firms issued two assurance reports – 4% (2010/1: 2 – 5% and 2007/8: nil); with an internal audit activity issuing one assurance report – 2% (2010/1: 1 – 3% and 2007/8: 1 – 6%). In respect of the CSR assurance reports issued by the Big 4 audit firms, two were jointly assured by more than one Big 4 audit firm; and one CSR assurance report from a Big 4 audit firm was combined with an expert opinion. The audit profession’s dominance in CSR assurance provision is confirmed by several researchers (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & Van Dyk, 2011; O’Dwyer et al., 2011). Other providers of independent CSR assurance included 15 assurance reports by specialist CSR assurance providers, representing 30% of CSR assurance reports (2010/1: 10 – 24% and 2007/8: 3 – 17%); and one by a certification body – 2% (2010/1: 0 and 2007/8: 0).
While more companies are having their CSR disclosures independently assured, and even though the Big 4 audit firms collectively continue to dominate CSR assurance provision, this dominance appears to be waning (from 78% in 2007/8 to 62% in 2011/2), as other assurance providers (primarily specialist CSR assurors and non-Big 4 audit firms) more actively engage in the provision of independent CSR assurance. Al-Hamadeen’s (2007) observation that certification bodies were the primary providers of independent CSR assurance, may be attributed to a regional difference and the extent to which certification bodies are entrenched in the UK. Unlike the CorporateRegister (2008: 40) study, which found that certification bodies provided 25% of CSR assurance reports, certification bodies were not found to be significant South African role players. It is expected that the South African CSR assurance market will consolidate to include predominantly auditor assurors and specialist CSR assurors. Within this context, the CSR assurance growth by non-auditor assurors is expected to slowly erode the dominance of auditor assurors (as described on page 206).

When juxtaposing the audit firms responsible for each company’s statutory annual audits against the CSR assurance providers identified for 2011/2, in 50% of cases (n = 25) the same audit firm provided both the independent audit report (i.r.o. AFS) and the independent CSR assurance report. This observation suggests that reporting companies prefer using the same audit firm for assurance of both the financial and non-financial components of company reporting. This revelation appears to be aligned to the objective of bridging the ‘audit expectation gap’ (as described in section 3.3.3.5), by providing stakeholders with coordinated assurance over the complete annual report (Al-Hamadeen, 2007; CorporateRegister, 2008; ICAEW, 2004; Lin & Chen, 2004; Percy, 1997). It is accordingly suggested that using the same assuror to provide assurance over both the financial and non-financial disclosures improves the economy, efficiency and effectiveness of resource deployment of both financial audit and CSR assurance processes. Despite the improved efficiency of using the same assurance provider for both AFS audits and CSR assurance engagements, caution should be exercised to ensure the independence and objectivity of both engagements and avoid conflicting situations. As indicated in Figure 6.15, this observation is confirmed by 51% of survey respondents preferring to use the same auditor assurors for both their AFS audit and CSR assurance engagements.
Table 6.2 - CSR assurance report frequency by assuror type

<table>
<thead>
<tr>
<th>Type of assuror</th>
<th>2007/8</th>
<th>2010/1</th>
<th>2011/2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance by a Big 4 audit firm</td>
<td>14</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Assurance by a mid-tier audit firm</td>
<td>-</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Joint assurance by two Big 4 audit firms</td>
<td>-</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Assurance by an internal audit activity</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Joint assurance by Big 4 audit firm &amp; CSR consultancy</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Assurance by a specialist CSR assuror</td>
<td>3</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Assurance by a certification body</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>42</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

Despite the collective dominance of auditor assurors and the entry and expansion of non-Big 4 assurors, the types of CSR assurors appear to be consolidating to include mainly auditor and specialist CSR assurors. An analysis of the individual assurors (in Table 6.3) reveals that the individual CSR assuror base is expanding as new assurors start providing independent CSR assurance. Although the Big 4 audit firms collectively remain the dominant CSR assurors, when considered separately PricewaterhouseCoopers (PwC) emerged as the dominant Big 4 auditor assuror in 2011/2, namely, 18% (n = 9). Reviewing the independent CSR assurance growth over the five-year period, despite the growth in CSR assurance by PwC from five in 2007/8 to nine by 2011/2, their proportion of CSR assurance reports actually declined from 28 to 18% over the same period. When the joint assurance engagement with Ernst & Young (EY) is added, PwC remained the assuror that issued most of the independent CSR assurance reports, having issued ten (20%) assurance reports. By comparison, CSR assurance by Integrated Reporting & Assurance Services (IRAS), previously known as SustainabilityServices, grew exponentially from only one in 2007/8 to nine by 2011/2, representing an increase from 6% to 18% of CSR assurance reports issued over the same period.
Figure 6.13 - CSR assurance provision by assuror type

Table 6.3 - CSR assurance report frequency by assuror

<table>
<thead>
<tr>
<th>Assuror's name</th>
<th>2007/8</th>
<th>2010/1</th>
<th>2011/2</th>
</tr>
</thead>
<tbody>
<tr>
<td>PricewaterhouseCoopers - PwC (Big 4 audit firm)</td>
<td>5</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Integrated Reporting &amp; Assurance Services (IRAS)</td>
<td>1</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>KPMG (Big 4 audit firm)</td>
<td>3</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Deloitte &amp; Touché – Deloitte (Big 4 audit firm)</td>
<td>2</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Ernst &amp; Young – EY (Big 4 audit firm)</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Environmental Resources Management (CSR consultancy)</td>
<td>-</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>EY and PwC (2 Big 4 audit firms)</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>KPMG and Deloitte (2 Big 4 audit firms)</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>PKF (mid-tier audit firm)</td>
<td>-</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Indyebo Incorporated (mid-tier audit firm)</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Internal audit activity</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Corporate Citizenship (CSR consultancy)</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Maplecroft &amp; KPMG (CSR consultancy &amp; Big 4 audit firm)</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Trialogue (CSR consultancy)</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CA-Governance (CSR consultancy)</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Bureau Veritas (certification body)</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>42</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>
6.4.2 Reporting company survey

Before reviewing the providers of independent CSR assurance at the companies represented by the survey respondents, it is appropriate to first obtain the respondents’ views on the most suitable parties to do so. Similarly, it is important to understand the factors that reporting companies take into account when selecting an independent CSR assurance provider.

As summarised in Figure 6.14, responses to a 7-point Likert-type scale question, seeking to understand the respondents’ perspectives on the entities that are most suitable for providing independent CSR assurance, included:

- The majority of 33 respondents (85%) agreed {very strongly agreed (n = 6), strongly agreed (n = 6) and agreed (n = 21)} with the assertion that specialist CSR assurance consultancies were best suited to provide CSR assurance, four respondents (10%) were uncertain and two respondents (5%) disagreed.

- The majority of 26 respondents (67%) agreed {very strongly agreed (n = 6), strongly agreed (n = 5) and agreed (n = 15)} with the assertion that internal audit was best suited to provide CSR assurance, seven respondents (18%) were uncertain and six respondents (15%) disagreed.

- A majority of 22 respondents (56%) agreed {very strongly agreed (n = 3), strongly agreed (n = 8) and agreed (n = 11)} with the assertion that the Big 4 audit firms are the most suitable providers of CSR assurance, 10 respondents (26%) were uncertain and seven respondents (18%) disagreed {disagreed (n = 4), strongly disagreed (n=1) and very strongly disagreed (n = 2)}.

- The majority of 19 respondents (49%) agreed {very strongly agreed (n = 2), strongly agreed (n = 5) and agreed (n = 12)} with the assertion that certification bodies were best suited to provide CSR assurance, 17 respondents (44%) were uncertain and three respondents (8%) disagreed {strongly disagreed (n = 2) and very strongly disagreed (n = 1)}.

- Confirming the dominance of the Big 4 audit firms, the assurance providers identified as being least suitable to provide CSR assurance were non-Big 4 audit firms, with only 13 respondents (33%) agreeing {strongly agreeing (n = 4) and agreeing (n = 9)} with the assertion that other audit firms were best suited to provide CSR assurance; 17 respondents (44%) being uncertain, and nine respondents (23%) disagreeing {disagreeing (n = 4), strongly disagreeing (n = 4) and very strongly disagreeing (n = 1)}.

Despite a lack of consensus about the parties that should provide independent CSR assurance
(Al-Hamadeen, 2007), the majority of respondents appear to believe that specialist CSR assurance consultancies were the most suitable providers of independent CSR assurance. This may be ascribed to their perceived specialist knowledge of some of the more complex dimensions of CSR and the higher levels of assurance provided and their propensity to add value to the CSR reporting process through the provision of recommendations for improvement (as described in section 6.15). This observation supports the assertion that CSR assurance reports produced by specialist CSR assurors provide greater value than auditor assurors (O’Dwyer & Owen, 2005). This observation is however not supported by the content analysis, which found that the primary providers of CSR assurance at the selected companies were members of the audit profession. As described in section 6.4.1, auditor assurors issued 66% of the CSR assurance reports in 2011/2, compared to specialist CSR assurors that only issued 30%. This incongruence may be attributed to a combination of the following factors:

- the Big 4 audit firms have been actively providing CSR assurance for around 15 years (at the time of the study)
- the established financial auditing relationships between reporting companies and audit firms
- the auditor assurors’ access to deep pools of resources
- the perceived credibility and brands of the audit profession

At the same time, a compounding factor may be the relatively few independent CSR assurors at present (especially with a credible track-record). As the CSR assurance market matures and as more specialist CSR assurors start providing independent CSR assurance, it is predicted that that the CSR assurance growth by specialist CSR assurors depicted in Figure 6.13 will continue to grow. As a result, the current dominance of the Big 4 auditor assurors will slowly be eroded as evidenced by the significant recent growth in CSR assurance provision. This predicted migration to specialist CSR assurors will better reflect the preference of reporting company respondents to use specialist CSR assurors.

While respondents indicated that the Big 4 auditor assurors were only the third most suitable external CSR assurors (as reflected by 56% of responses), non-Big 4 audit firms were perceived to be the least suitable (as indicated by only 33% of responses). Apart from Al-Hamadeen (2007), who found that specialist CSR assurors were the primary providers of CSR assurance, other researchers have observed that auditor assurors were the primary CSR assurance providers (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009). While preference for the Big 4 auditor assurors in South Africa may be due to a combination of the strength of the Big 4 audit firm brands and their access to a deep pool of specialist/expert resources, smaller audit firms may not
have the same brand recognition or access to the necessary expertise or competencies to apply the provisions of ISA 620 (using the work of an expert).

Notwithstanding the predicted growth by specialist CSR assurors described above, this thesis argues that auditor assurors will collectively remain the primary providers of independent CSR assurance.

![Figure 6.14 - Entities suitable to provide CSR assurance (n = number of responses)](image)

Figure 6.14 - Entities suitable to provide CSR assurance (n = number of responses)

In order to gain insights into the factors that influence a reporting company’s decision to appoint a CSR assuror, a 7-point Likert-type scale question required respondents to indicate their most important reasons for selecting a CSR assuror. The majority of respondents agree that the alternative propositions advanced for this question all represent factors that collectively contribute to their respective companies selecting a CSR assurance provider, albeit to varying degrees. As summarised in Figure 6.15, responses to this question include:

- A majority of 35 respondents (90%) agreed {very strongly agreed (n = 11), strongly agreed (n = 12) and agreed (n = 12)} with the assertion that the assuror’s access to the necessary competencies was an important factor, three respondents (8%) were uncertain, while one respondent (3%) disagreed (AccountAbility, 2008a; Al-Hamadeen, 2007; De Beelde & Tuybens, 2013; GRI, 2013b; Huggins et al., 2011; Moroney et al., 2012; Perego, 2009; Perego & Kolk, 2012). Without access to the necessary skills, assurors will not be in a position to conduct a meaningful CSR assurance engagement, and will accordingly be unable to produce a credible CSR assurance report.
A majority of 34 respondents (87%) agreed {very strongly agreed (n = 1), strongly agreed (n = 17) and agreed (n = 16)} with the assertion that providing value-added CSR-related advice during the assurance engagement was an important factor, while five respondents (13%) were uncertain (De Beelde & Tuybens, 2013; Mock et al., 2007; Perego, 2009). To an extent, these responses illustrate the developmental stage of CSR reporting (and assurance) prevailing in many South African companies, with reporting companies expecting assurors to assist them to develop their CSR reporting practices.

A majority of 34 respondents (87%) agreed {very strongly agreed (n = 3), strongly agreed (n = 20) and agreed (n = 11)} with the assertion that the reputation of the assuror was an important factor, while five respondents (13%) were uncertain (De Beelde & Tuybens, 2013; Owen et al., 2000). By comparison, the previous question established that auditor assurors were only the third preferred provider of independent CSR assurance (behind specialist CSR assurors and internal auditors). This observation confirms the results of the CSR assurance report content analysis (as described in section 6.4.1), which established that the Big 4 auditor assurors collectively provided most of the CSR assurance reports in this study; this may primarily be ascribed to the perceived strong credibility of the Big 4 audit firms (as described on page 272).

A majority of 32 respondents (82%) agreed {very strongly agreed (n = 7), strongly agreed (n = 14) and agreed (n = 11)} with the assertion that the assuror specialises in CSR was an important factor, five respondents (13%) were uncertain, while two respondents (5%) disagreed (De Beelde & Tuybens, 2013; Moroney et al., 2012; O’Dwyer & Owen, 2005; Perego & Kolk, 2012; Sierra et al., 2013). Aligned to the finding that assurors should have the requisite competencies to conduct an effective assurance engagement, specialist CSR assurors are presumed to have the requisite knowledge and skills.

A majority of 30 respondents (77%) agreed {very strongly agreed (n = 6), strongly agreed (n = 9) and agreed (n = 15)}, with the assertion that the assuror’s ability to complete the engagement within the required timeframe was an important factor, eight respondents (21%) were uncertain, while one respondent (3%) disagreed. This observation is aligned to the ability of the company to publish their annual, integrated or CSR reports timeously.

A majority of 30 respondents (77%) agreed {very strongly agreed (n = 2), strongly agreed (n = 9) and agreed (n = 19)} with the assertion that the assurance standard(s) referenced by the assuror was an important factor, while nine respondents (23%) were uncertain (Al-Hamadeen, 2007; CorporateRegister, 2008; Deegan et al., 2006; ICAEW, 2008; IFAC, 2006; Manetti & Toccafondi, 2012; O’Dwyer et al., 2011; Owen et al., 2000; Perego, 2009; SAICA, 2010). This observation confirms the need to develop standardised and comparable
assurance practices in order to overcome the impact of the lack of consistency and standardisation described in section 3.2.6 (Al-Hamadeen, 2007; Deegan et al., 2006; O’Dwyer et al., 2011; Owen, et al., 2000).

- A majority of 29 respondents (74%) agreed {very strongly agreed (n = 4), strongly agreed (n = 7) and agreed (n = 18)} with the assertion that the alignment of CSR assurance and certification services was an important factor, although seven respondents (18%) were uncertain, while three respondents (8%) disagreed. This confirms the content analysis finding that 50% of CSR assurance reports were issued by the same audit firm that also provided the AFS audit report as described in section 6.4.1. This observation may be attributed to improved assurance engagement efficiency by leveraging economies of scale and reducing the impact of duplication of assurance efforts.

- A majority of 27 respondents (69%) agreed {very strongly agreed (n = 1), strongly agreed (n = 8) and agreed (n = 18)} with the assertion that the assuror’s ability to assist the company develop its own capacity was an important factor, ten respondents (26%) were uncertain, while two respondents (5%) disagreed. This observation is aligned to the maturity phase of company CSR practices, and confirms the need for assurors to provide reporting companies with value-added CSR-related advice to improve their CSR practices as described above. This confirms the finding that some companies do not provide CSR assurance due to building their capacity to do so in future as depicted in Figure 6.11.

- A majority of 26 respondents (67%) agreed {very strongly agreed (n = 1), strongly agreed (n = 9) and agreed (n = 16)} with the assertion that the assurance engagement cost was an important factor, while ten respondents (26%) were uncertain, while three respondents (8%) disagreed (De Beelde & Tuybens, 2013). Even though the majority of respondents indicated that the cost of assurance was an important factor, it did not appear to be a driving factor but helps to explain the rapid CSR assurance growth by IRAS that has significantly lower infrastructural costs, and can accordingly provide CSR assurance at a lower cost. This assertion is confirmed by the assuror interviews in section 6.4.3.

- A majority of 23 respondents (59%) agreed {strongly agreed (n = 5) and agreed (n = 18)} with the assertion that the level of assurance provided was an important factor, 12 respondents (31%) were uncertain, while four respondents (10%) disagreed (Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Toccafondi, 2011; Martinov-Bennie & Hecimovic, 2011; Perego & Kolk, 2012; Wiertz, 2009). While the high proportion of ‘uncertain’ responses may be attributed to respondents not being fully au fait with CSR assurance, this observation nevertheless confirms the assertion that reasonable assurance engagements provided higher levels of assurance and accordingly provided users with greater confidence than limited
assurance engagements (as described in sections 3.2.5.4, 3.2.5.5, 6.13 and 6.16).

- A majority of 20 respondents (51%) agreed {very strongly agreed (n = 2), strongly agreed (n = 5) and agreed (n = 13)} with the assertion that the assuror’s global reach was an important factor, 16 respondents (41%) were uncertain, while three respondents (8%) disagreed. This observation suggests that the operations of many of the respondents’ companies were based entirely in South Africa, or that the impacts of their international operations were not considered to be significant, obviating the need for a global presence.

- A majority of 20 respondents (51%) agreed {very strongly agreed (n = 3), strongly agreed (n = 8) and agreed (n = 9)} with the assertion that companies prefer using the same auditors for both their AFS audits and CSR assurance engagements was an important factor, 13 respondents (33%) were uncertain, while six respondents (15%) disagreed {disagreed (n = 4), strongly disagreed (n = 1), and very strongly disagreed (n = 1)} (FEE, 2011; ICAEW, 2004; Manetti & Becatti, 2009; Percy, 1997; Sierra et al., 2013). This finding is aligned to the content analysis finding that 50% of CSR assurance reports were issued by the same audit firm that also provided the AFS audit report as described in section 6.4.1. This observation implies that reporting companies expect auditor assurors to have diverse skills and competencies for the different types of assurance engagements that they provide, possibly undermining the ability to benefit from economies of scale and avoiding duplication of effort.

- Only 17 respondents (44%) agreed {very strongly agreed (n = 1), strongly agreed (n = 4) and agreed (n = 12)} with the assertion that external auditors were experts at all types of audits was an important factor, eight respondents (21%) were uncertain, while 14 respondents disagreed {disagreed (n=13), and very strongly disagreed (n=1)}. Despite the collective dominance of auditor assurors in the provision of CSR assurance (as described in section 6.4.1), this observation confirms the finding that non-Big 4 auditor assurors are not necessarily perceived to have the necessary knowledge and skills to provide credible CSR assurance.
Figure 6.15 - Reasons for selecting a CSR assuror (n = number of responses)

To identify the primary providers of CSR assurance, survey respondents were asked to indicate the types of organisation that provided CSR assurance services at their respective companies. As illustrated in Figure 6.16, the most common CSR assurance providers were external auditors with 21 responses (54%); internal auditors with 14 responses (36%); specialist CSR assurors with seven responses (18%); certification bodies with four responses (10%); and one respondent (3%) suggested ‘other’ assurance providers. Thirteen (33%) respondents indicated that the question did not apply to their respective companies. In summary, the responses to this question which were not mutually exclusive (resulting in the cumulative responses exceeding 100%), confirmed that CSR assurance was provided by a variety of assurors. The responses to this question confirm the findings of CorporateRegister (2008), Manetti and Becatti (2009) and Ackers (2009) that auditor assurors were the primary providers of CSR assurance, as observed by the content analysis (as
depicted in Tables 6.2 and 6.3, and by Figure 6.13 in section 6.4.1). It however, contradicts the responses to a question on the preferred CSR assurors (as depicted in Figure 6.14), which found that specialist CSR assurors and internal auditors were preferred over auditor assurors. Suggested reasons for these divergent views are explored in section 6.4.4.

While the responses appear to indicate significant involvement by internal audit (as described in sections 3.3.2 and 6.5), as the second most preferred provider of CSR, this assurance is usually directed at internal company stakeholders. It is not usually meant for broad public distribution in company publications like the annual, integrated or CSR reports (Al-Hamadeen, 2007; O'Dwyer et al., 2011) and is usually intended for use by internal stakeholders and to improve performance and assist in the internal governance process (IIA, 2010b). This thesis nevertheless acknowledges that the internal audit profession plays an important CSR role as described in section 3.3.2. Moreover, this assurance is usually provided in addition to CSR assurance by external assurors, or as an interim measure while companies develop their CSR reporting practices and prepare for the provision of external CSR assurance, or as an integral part of combined assurance (Coetzee & Lubbe, 2011). Even though internal audit usually provides independent CSR assurance to internal company stakeholders, its primary CSR role is to “help an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”, as encapsulated in the official definition of internal auditing (IIA, 2010b: 5). It is therefore suggested that internal audit has a more prominent role to play during the early stages, as implied by the comments included in company annual reports (referred to in section 6.5).

While the responses indicate that four certification bodies (10%) provided assurance on CSR disclosures, this is not validated by the results of the content analysis (as described in section 6.4.1), which only identified one CSR assurance report issued by a certification body (2%). A possible reason for this discrepancy is that the survey respondents may have been referring to assurance provided to internal stakeholders, on selected aspects of CSR. These CSR assurance services may, for example, relate to the implementation of quality, environmental, CSR and occupational health and safety management standards (as described in sections 2.7.7.5 and 3.2.3.5) (Black & Quach, 2009; O'Dwyer & Owen, 2005). As with internal audit reports, and despite its ‘public purpose’ as reflected in company promotional and marketing campaigns, the assurance reports of certification bodies may only be intended for internal use and not for public consumption. This particularly applies when the certification body is only providing assurance on limited aspects of the relevant certification standards (e.g. ISO and/or FSC), and not on the entire CSR report.
Figure 6.16 - CSR assurance providers (n = number of responses)

6.4.3 Assurance provider interviews

The contemporary academic discourse and the first two empirical phases of this thesis clearly identify several different types of entity that provide independent assurance on company CSR disclosures (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & Van Dyk, 2011; O’Dwyer et al., 2011). To understand the factors that companies take into account when selecting a specific assurance provider, assuror participants were prompted to provide their perspective on why their own organisations were chosen as assurors by their respective clients. Despite acknowledging the methodological bias caused by the majority of interviewed assurors representing the Big 4 audit firms, since this phase aims to understand the reasons for the emerging CSR assurance practices, these interviewees appropriately provide the proportionate opinions of the primary providers of independent CSR assurance.

The reasons advanced by CSR assurors that reporting companies consider when selecting a CSR assurance provider were identified as being the engagement cost; the assuror’s track record, experience, expertise and reputation; the assurance engagement methodology; the depth of the assuror’s resource pool; their assuror’s global presence; the strength of the assuror’s brand; the economies of scale when the assuror also performs the financial audit; and the value that the assuror could provide, especially in terms of improving company governance processes. These reasons are more fully illustrated in the following statements by participant assurors:

- Criticising the ability of smaller assurors to undertake a meaningful CSR assurance
engagement, one participant stated that: "One man and his fax machine can come in a lot cheaper than we can. Because we have to go with the full audit experience, we now do everything that the financial guys do, which obviously increases costs".

- The relative experience of the more established CSR assurance providers is illustrated by: "We have been doing this since 1998 and have a good track record of working with big companies".

- Confirming the importance of controlling costs while providing an effective CSR assurance service and leveraging specific skills, an assuror participant commented that: "You need to use the cheapest resource for the engagement, which in our case is South Africa. For example, the Australian fees are phenomenally expensive and our clients have requested us not use them anymore. So we now send an entirely South African team to Australia. Due to language difficulties, in Chile and Brazil we use local people with language skills with whom we work very well. In Canada they do not have enough of certain resources, so we will combine a Canadian CA with our scientists. You can mix and match the team, because even in South Africa, we are very conscious of having a mixed team of CAs and scientists".

- The objective of trying to standardise global CSR assurance practices is illustrated by the statement that: "we are working towards one global methodology, so it does not matter where we are, we are able to serve our multi-national clients using our colleagues in Australia, Peru or even South Africa to visit various sites".

- Reflecting on capacity development, one participant stated that: "we don't just see it as only making money. Thought leadership that we put into this, is our way of giving back".

- Globally, reporting companies may choose CSR assurors because of the strong brand recognition of the firm or the individuals associated with particular assurors. Companies with an international footprint prefer using the internationally recognised brands, as illustrated by the comment that: "we are where they are. Our footprint matches their footprint".

Supporting the notion that reporting companies prefer using parties with whom they already have a relationship, a participant confirmed that their financial auditing clients prefer using the same audit firm for their CSR assurance engagement, because their financial auditors were already familiar with their businesses as observed in section 6.4.2. This established relationship, possibly nurtured over several years, may improve the cost-effectiveness of both the AFS audit and the CSR assurance engagement by leveraging off the shorter learning curves and resultant economies of scale. The tendency to use the same audit firm for both the financial audit and CSR assurance

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services, presents an opportunity "to offer quite a holistic view on the full annual report that goes out". These assertions are validated by the content analysis finding that 50% of reporting companies studied used the same audit firms for both their AFS audits and CSR assurance engagements (as described in section 6.4.1).

Implying possible green-wash, one participant suggested that the appointment of an assuror depended on the CSR indicators selected. While some companies may select indicators that are easy to assure and simply require ticking all the boxes, other more responsible reporting companies select indicators that they believe represented critical information relating to their respective organisations. Supporting shareholder primacy, assurors may be selected on the basis of how serious the reporting company was about disclosing its key sustainability or non-financial information. The inherent weakness of the interview research sample implies that each assurance provider category would typically promote their own organisation(s) or category of assurors in a biased manner. More reliable reasons are provided by reporting company survey respondents (as reflected in Figure 6.15).

To counter the widely held perception that assurance engagements by Big 4 audit firms were more expensive than non-Big 4 assurors, a participant suggested that the Big 4 audit firms typically attempt to provide their full range of products in order to maximise revenue generation. Pressurising reporting companies to make use of the ‘full range of services’, even if they are not yet ready to receive that level of services which may result in them not receiving the value expected.

6.4.4 Analysis and integration of results

Confirming the findings of other researchers, the survey found that auditor assurors were the primary providers of independent CSR assurance (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & Van Dyk, 2011; O’Dwyer et al., 2011). All audit firms have an immediate customer to whom they can provide CSR assurance services. Audit firms all have existing clients with whom they already have an established relationship and to whom they can provide CSR assurance services by motivating the need for integrated reporting and assurance practices. The underlying rationale being that reporting companies would find it easier to use assurors with whom they were already familiar. The auditor assuror’s ability to provide CSR assurance therefore presents a huge opportunity for the audit profession to capitalise upon. This is an especially pertinent observation given an anticipated decline in AFS audit engagements resulting from the uncertainty about the effect of the Companies Act, 2008, on the demand for AFS audits, and the resultant impact on audit firms.

Despite the dominance of auditor assurors established by the content analysis, survey respondents
however, expressed a preference for specialist CSR assurors even though the majority conceded that auditor assurors actually provided CSR assurance at their respective companies. It is posited that this incongruence may be ascribed to the relative newness of CSR assurance, only few specialist CSR assurors with credible track records, and the entrenched position and strong brand association with the audit profession (the Big 4 in particular). It is submitted that the declared preference for specialist CSR assurors is due to their perceived specialised knowledge and skills, lower assurance engagement costs, and their tendency to provide reporting companies with much needed assistance by providing recommendations for improvement as well as higher assurance levels. As new specialist CSR assurors begin providing independent CSR assurance and existing specialist CSR assurors increase their traction, the extent of the audit profession’s collective dominance will continue to be eroded.

The primary reasons advanced by respondents that reporting companies use when selecting a CSR assuror include the assuror having the ability to access the requisite skills; the extent to which the assuror is able to assist the company to improve its own CSR reporting practices; the reputation of the assuror that could be leveraged to improve the credibility of their CSR disclosures; and the fact that the assuror specialises in CSR-related matters (Al-Hamadeen, 2007; De Beelde & Tuybens, 2013). Despite the important need for assurors to have the requisite competencies, the content analysis observations suggest that reporting companies and auditor assurors presume that CSR report users perceive auditor assurors and particularly, the Big 4 audit firms, as having the required competencies and credibility to undertake CSR assurance engagements thereby enhancing the credibility of their CSR disclosures (Perego, 2009). They may therefore not see any need to specify, identify and confirm these competencies.

By comparison, despite some specialist CSR assurors being perceived as CSR assurance ‘experts’, the relative anonymity of their organisational or personal brands may explain the reasons that non-auditor assurors tend to describe their organisational and practitioner competencies and expertise more comprehensively than auditor assurors. The respondents’ perception that the CSR assuror should assist the reporting company to improve its CSR practices, confirms the expectation that CSR assurors should add value to the reporting company by identifying and reporting on areas requiring improvement as described in section 3.2.3 (Gonella, Pilling & Zadek, 1998; Jones et al., 2014; Perego, 2209; Perego & Kolk, 2012; O’Dwyer & Owen, 2005). As described in section 6.15, this ‘value-added’ component is usually contained in the CSR assurance report recommendations and/or the confidentially issued ‘management report’. This strong need for ‘assistance’ implies that reporting companies acknowledge that their CSR practices and, accordingly, their CSR disclosures are still undeveloped (as described in section 2.7.6).
The prevailing practice of auditor assurors confidentially providing management with reports containing their detailed observations and recommendations for improvement (as described in section 6.15) illustrates the information asymmetry caused by the agency problem (Blair, 2005; Maury, 2000). The agency problem increases the risk that survey respondents may have provided biased perspectives of their respective reporting companies. This observation further highlights a significant inadequacy in the existing CSR assurance reporting practices, since ‘uninvolved’ users would not be aware of, or privy to, the contents of the detailed reports provided to management, thereby undermining the objective of independent CSR assurance. Even though companies may consider several different factors when choosing a CSR assurance provider, this decision may simply be motivated by the reporting company’s underlying reason for providing CSR assurance.

Some audit firms are responsible for both the AFS audit and CSR assurance engagement at the same reporting companies, as evidenced by 50% of CSR assurance reports being issued by the same audit firm that provided the AFS audit report. This is aligned to 51% of survey respondents confirming that they preferred using the same audit firm for both AFS audit and CSR assurance engagements. Similarly, an interviewed assuror confirmed that their financial auditing clients preferred using them for their CSR assurance engagement, because their financial auditors were already familiar with the company and its operations.

Some reporting companies may for example, select an auditor assuror instead of a non-auditor assuror as a result of a combination of the associated public relations benefit, the perception that the assuror could help to improve the quality of CSR practices, the strong brand association with the audit profession (the Big 4 audit firms in particular), as well as the company’s established relationships with members of the auditing profession (as described in sections 6.36.4). This proposition may be illustrated by a significant comment in the Capitec Bank Integrated Report for 2012 (p. 79): “the prestigious international firm, PricewaterhouseCoopers Inc., acts as external auditors”. Similarly, the decision by Merafe Resources to change its assurors from IRAS (in 2011) to KPMG (in 2012) may illustrate the preference for ‘prestigious’ Big 4 audit firm assurors. These positive perceptions about auditor assurors are further enhanced by the perceived rigorous assurance methodology developed by the global audit profession over many centuries and entrenched through highly regulated and structured educational and vocational training programmes (Wiertz, 2009: 7). The perception that the highly regulated auditor assurors provide better quality assurance than non-auditor assurors is enhanced by the prescribed requirement for auditor assurors to participate in continuing professional development/education (CPD/CPE), which is not a mandatory requirement for the largely unregulated non-auditor assurors. Conversely, the decision by Royal Bafokeng Platinum to change its assurors from PwC (in 2011) to IRAS (in 2012) or by Consolidated Infrastructure Group’s decision to change assurors from PKF (in 2011) to IRAS
(in 2012), may have been influenced by a combination of the specialised CSR skills of the assuror, the engagement cost and/or perceived value added to the company. It is, however, acknowledged that as circumstances change over time, that the factors used by companies to select an assurance provider may similarly change.

As the CSR assurance process unfolds and non-Big 4 assurors develop their capacity and establish their credibility, it is predicted that there will be a closer alignment between the actual providers of CSR assurance providers, the preference for CSR assurance to be provided by specialist CSR assurors, and the disclosed reasons for selecting a CSR assurance provider. Nevertheless, this thesis argues that auditor assurors will collectively remain the primary providers of independent CSR assurance.

### 6.5 Internal audit

#### 6.5.1 CSR assurance report content analysis

As indicated in Tables 6.2 and 6.3 and by Figure 6.13, the internal audit activity produced one CSR assurance report in each of 2011/2, 2010/1 and 2007/8, but not necessarily for the same company. While the number of CSR assurance reports issued by the internal audit activity remained constant across all three periods reviewed, the proportion of CSR assurance reports by the internal audit activity, has declined from 5% in 2007/8 to 2% in both 2010/1 and 2011/2 as a percentage of all CSR assurance provided. Despite this trend, there is no evidence to suggest that the actual involvement of internal audit in CSR assurance has diminished. On the contrary, it may be argued that internal audit’s involvement in CSR assurance may actually have increased as a result of adopting a risk-based auditing approach as required by the IIA Standards and King III (as described in section 3.3.2). This internal audit role may however, be for the benefit of internal stakeholders and has thus not necessarily been disclosed.

In their 2007 sustainability report (p. 78) (prior to the period covered by this study), Massmart's Internal Audit Services issued a conventional CSR assurance report, similar to that issued by external assurors, informing readers that the assurance engagement was conducted according to AA1000AS (as described in section 3.2.6.2). Adapting this approach in their 2008 sustainability report, Massmart included an Internal Audit Verification Statement, signed by the Massmart Internal Audit Services, confirming that they were:

"satisfied to report that the data presented in the scorecards fairly represents the position of Massmart’s sustainability performance for the year ending 30 June 2008" (p. 45).

At that stage Massmart justified their decision to use internal audit and not an external assurance
provider, with the comment that:

"we remain of the firm opinion, given their intimate knowledge of the group and our information systems, that Massmart Internal Audit Services is better placed than any external organisation to verify the statistical scorecard information contained in this report" (p. 37).

By 2012 however, the CSR assurance role of Massmart’s internal audit activity was relegated to the following note in the annual report: “The King III Report requires that the company’s sustainability report be audited by an independent external professional”. Even though Massmart’s sustainability report had not been audited, they confirmed that the key sustainability metrics had been verified by their internal audit activity by performing certain agreed procedures (p. 145).

Although FirstRand did not provide assurance on its 2007/8 CSR disclosures, it subsequently followed the approach initially adopted, but subsequently abandoned by Massmart (as described above). FirstRand’s internal audit activity provided an Independent assurance report on selected non-financial information in its 2012 annual report (p. 110). Unlike Massmart, FirstRand did not disclose the assurance standard used, instead indicating that the assurance engagement considered the GRI G3 sustainability reporting criteria (as described in section 2.7.7.3), the JSE SRI index (as described in section 2.7.4), BEE transformation requirements (as described in sections 2.7.5.2, 5.4 and 6.2.2) and King III (as described in section 2.7.7.20).

The scope of the CSR assurance engagement included identifying material qualitative and quantitative report components, and verifying the accuracy and validity of selected material statements against supporting evidence. Although ISAE 3000 (as described in section 3.2.6.3) distinguishes between ‘reasonable’ and ‘limited’ assurance engagements, it was not referenced in the actual CSR assurance report. The CAE issued a ‘negatively-framed limited assurance opinion’ worded “nothing has come to our attention that causes us to believe that the identified sustainability information selected for our review has not been prepared, in all material respects, in accordance with the defined reporting criteria’. The disclosure that various CSR components were assured by a range of different parties seems to indicate that FirstRand’s internal audit activity played a key role in coordinating combined assurance, as envisaged by Coetzee and Lubbe (2011).

Although CSR-related issues are often included in the scope of internal audit activities, the engagement objective is not generally to provide assurance to external stakeholders, but is intended to provide assurance to internal users, with the dissemination of the resultant reports being similarly confined to internal users only. This is aligned to internal audit’s objective of providing management and the board with independent assurance that material risks have been identified and are being effectively mitigated, as required by the IPPF (IIA, 2013). While the
detailed scrutiny of every word in the annual and CSR reports falls outside the scope of this research, examples of companies that reported that their internal audit activities were involved in CSR-related issues include ABSA, Clicks, Distell, Investec, Reunert, Santam and Sappi. The scope of the internal audit activity’s CSR-related involvement often included reviewing, testing and validating non-financial data, systems and procedures, but usually without publishing their CSR assurance report to external stakeholders.

The extent of the internal audit activity’s involvement in CSR-related matters appears to be driven by the relative CSR maturity of the company, as illustrated by comments such as “this has proved to be valuable in entrenching sustainability throughout the organisation”. The discourse about the appropriateness of internal auditors providing independent CSR assurance is probably encapsulated in the 2012 Massmart comment that King III requires the company’s CSR report be audited by an independent external professional, confirming Al-Hamadeen’s (2007) assertion that CSR assurance engagements should be undertaken by external assurance providers.

6.5.2 Reporting company survey

As described in section 4.3, although eight questions were asked in this section, the responses to each were included in a single graph as depicted in Figure 6.17. This section seeks to gain insights into the perspective of respondents at reporting companies about the CSR assurance role of internal audit. Unlike the previous sections of this survey, which required all respondents to respond to each question, the questions in this section were optional and were only intended to be answered by CAEs or internal audit managers.

Despite receiving a total of 39 responses to the survey, only between eight and ten respondents (between 21% and 26% of the total responses received) respectively, answered the various questions in this section. It should however, be noted that the demographic profile (as described in section 4.3) established that only eight internal auditors (21%) responded to the survey. Although this section of the survey questionnaire was intended for internal audit practitioners only, it is clear that non-internal auditors responded as well. A detailed analysis of the responses received reveals that the non-internal auditor respondents included company secretaries, CSI specialists, CFOs, executive CSR managers, and/or members of the CSR committee. Therefore, despite not being internal auditors, these respondents are presumed to be sufficiently knowledgeable about internal audit’s role at their respective companies, to prevent their respective answers being excluded. At the same time, two respondents who indicated that they were internal auditors did not respond to these questions.
As depicted in Figure 6.17, a question to determine internal audit’s CSR governance role received ten responses (26% of total responses and 5% of the population sample). Eight respondents (80% – all of whom were internal auditors) indicated that internal audit played an active CSR governance role, while two respondents (20% – both being non-internal auditors) indicated that it did not. Providing deeper insights into the responses to this question, additional responses relating to this role provided in the open-ended section highlighted the following:

- confined to advisory services
- participating in training for familiarisation with CSR-related issues
- have dedicated resources to handle CSR
- limited CSR components
- compliance with CSR processes, policies and procedures
- regulatory compliance
- included in the scope of the risk-based audit plan
- ethical issues will be subjected to future audits

The responses to a question to determine whether internal audit had completed a recent CSR assurance engagement is summarised in Figure 6.17. A total of nine responses (23% of total
responses) were received to this question. Six respondents (67% – five of whom were internal auditors) confirmed that they had recently completed a CSR audit, while three respondents (33% – one being an internal auditor) indicated that they had not. While one respondent indicated that they had already been auditing CSR for five years, additional comments by respondents in the open-ended section of the question identified the following CSR roles for internal audit:

- determining the CSR risk to the business
- assessing the impact of non-adherence to policies and procedures
- conducting internal audit reviews on the processes for collecting non-financial data used for reporting to regulatory and governance bodies
- continuous auditing of CSR processes to assess the adequacy of the control environment and verify the accuracy and validity of data disclosed in the governance and sustainability report

While the nature of internal audit’s CSR assurance role does not clearly emerge from the content analysis (as described in section 6.5), the responses to this question confirmed internal audit’s involvement in CSR-related assurance engagements. Internal audit’s role may therefore be as part of the conventional risk-based audit cycle and/or at the year end to verify the CSR disclosures.

A total of nine respondents (23% of total responses) indicated that internal audit had provided CSR consulting services, revealing that four respondents (44% – all of whom were internal auditors) confirmed that internal audit provided CSR-related consulting services, while five respondents (56% – two of whom were internal auditors) did not. Responses to the open-ended question identified the scope of internal audit’s consulting role (as described in section 3.3.2) (IIA, 2010b), as assisting in the development of the environmental social and governance framework; facilitating the assessment of materiality; and providing limited advisory services. These responses confirm the assertion that internal audit assists reporting companies to develop their capacity to meaningfully disclose CSR performance.

A question to determine whether internal audit had assisted certification bodies on assurance engagements related to certification schemes yielded a total of eight responses (21% of total responses). Two respondents (25% – one of whom was an internal auditor and one who was not), indicated that internal audit had assisted certification bodies to provide assurance on certification schemes, while six respondents (75% – four of whom were internal auditors and two were not) did not. Respondent comments in the open-ended section of the question identified internal audit’s role in certification body engagements as relating to the ISO and OHSAS standards, some of which have CSR implications (as described in section 2.7.7.5).
A question to establish whether internal audit had assisted external assurance providers in their CSR assurance engagements received a total of eight responses (21% of total responses). Three respondents (38% – all representing internal auditors) confirmed that their internal audit activity had assisted external assurors in their CSR assurance engagements, and five respondents (62% – two of whom were internal auditors and three who were not) did not. It cannot be concluded from this low response rate that internal audit does not provide CSR assurance, but merely that internal and external CSR assurance providers appear to operate independently, disregarding the advantages that may arise from the deployment of the combined assurance model identified in King III (refer to section 2.7.7.2). This may result in the duplication of aspects of the respective CSR assurance engagements by internal and external assurors. Alternatively, the respondents may simply be indicating that their respective companies did not provide external assurance on their CSR disclosures. It should however, be noted that combined assurance does not necessarily involve internal and external auditors assisting each other on audits, even though they may rely on each other’s work. The objective of combined assurance is to ensure that overall exposure to material risk has been covered by the ‘three lines of defence’ (as described in section 2.7.7.2).

Nine respondents (23% of total responses) answered the question attempting to establish whether their internal audit activity complied with the IIA Standard 2130 on governance, requiring the internal audit activity to consider governance issues that will impact the achievement of organisational objectives. Although the number of the IIA standard on governance changed to 2110 after the survey questionnaire had been designed and distributed, this amendment was not expected to significantly influence the survey responses. Eight respondents (89% – all of whom were internal auditors) confirmed their compliance and one respondent indicated non-compliance (11% – a non-internal auditor). While all internal auditor respondents confirmed compliance, even though compliance with the IIA Standards is mandatory for all practising internal auditors, the 2010 CBOK study revealed that the extent of compliance differed across different regions around the world (IIA, 2011).

The question relating to internal audit’s ability to be more actively involved in CSR governance, received a total of nine responses (23% of total responses). Seven respondents (78% – all of whom were internal auditors) confirmed that they could be more actively involved in CSR governance, one respondent (11% – a non-internal auditor) was uncertain and another (11% – a non-internal auditor) indicated that internal audit could not. This result confirms that internal auditors realise the importance of ensuring that CSR-related issues were incorporated into the scope of their activities. Analysing the respondent comments in the open-ended section of the question clearly reveal that internal audit’s position within the company and its intimate knowledge of the business could assist companies to develop their CSR capacity and competence, especially as
company CSR processes mature. It was however, acknowledged that internal audit’s ability to assist companies develop their CSR governance and reporting practices would be enhanced by devoting resources to developing the competencies of individual internal auditors and through the establishment of a specific CSR-related qualification.

The final survey question, seeking to establish whether internal audit had the existing capacity to play a more proactive CSR governance role, received a total of nine responses (23% of total responses). Six respondents (67% – all of whom were internal auditors) confirmed their capacity to increase internal audit’s CSR governance role, while no respondents indicated that they did not have the capacity to do so and three respondents (33% – none of whom were internal auditors) were uncertain. It is expected that, as company CSR practices mature, internal audit will play a more active CSR role, by providing assurance to internal company stakeholders and/or advisory services in order to develop the capacity of companies to report more comprehensively on their CSR performance. This is aligned to the internal audit activity’s consulting role, as reflected in the IIA’s definition of internal auditing, which emphasises the need to add value and improve the organisation’s operations and help it accomplish its objectives (IIA, 2013: 2).

In addition, to clarify responses to the survey questions, respondents were requested to provide additional comments on sections that were not adequately covered by the survey questionnaire. Pertinent responses to this open-ended question reflect the diversity of CSR-related issues and confirm that aspects of CSR were already mandatory and, accordingly, already subject to some type of assurance requirement.

### 6.5.3 Assuror Interviews

Although the role of internal audit was not explored in depth in this phase, the only responses relating to internal auditing’s CSR assurance role were as a component of the broader corporate governance mechanisms implemented by the company. This is illustrated by the comment that “investors want to know whether internal audit is looking at the non-financial information as well”. Confirming Al-Hamadeen’s (2007) perspective (as described in section 3.3.2), participants overwhelmingly agreed that internal audit did not qualify to provide CSR assurance to external stakeholders. They suggested that even though internal audit was ‘independent’, it was not external, and that although King III refers to ‘independent’ CSR assurance, what it actually meant was externally provided assurance.

### 6.5.4 Analysis and integration of results

While King III-recommended practice 3.4.4 requires the board to “engage an external assurance
provider on material sustainability issues”, the present wording of principle 9.3 simply requires *CSR reporting and disclosure to be independently assured*. As described in section 3.3.2, although it may be argued that internal audit is ‘independent’ and accordingly qualifies to provide ‘independent CSR assurance’, the objectives of internal audit effort are usually directed at internal stakeholders. By comparison, within a CSR context, the objectives of external assurance are usually intended for external stakeholders. This confirms Al-Hamadeen’s (2007) assertion because, since internal audits are not performed by external parties, it is not a sufficiently independent assurance provider from an external stakeholder perspective.

Although internal audit may comply with the King III requirement for independent CSR assurance, this thesis argues that a CSR assurance engagement undertaken by internal audit is simply an extension of conventional risk-based internal auditing. Since both King III and the IIA Standards require risk-based auditing, it may be assumed that internal audit’s involvement in CSR may actually be increasing as companies begin moving away from simple controls-based or compliance auditing. In this regard, it should be reiterated that internal auditors are responsible to assist the company achieve its objectives (including those related to CSR), while simultaneously providing independent and objective assurance to internal stakeholders charged with corporate governance.

The content analysis (described in section 6.5) disclosed that the internal audit activity of several companies had audited or reviewed CSR-related performance in their published annual, integrated and/or CSR reports, albeit to a limited extent or without publishing a CSR assurance report. This is aligned to the assuror interviews that found that independent CSR assurance should provide by a party external to the company. Similarly, the survey responses reflected a lack of clarity on whether internal audit’s CSR activities complement or substitute externally provided CSR assurance.

While internal audit’s CSR role has not yet been clearly defined, this role continues to rapidly evolve. It is suggested that internal auditing may provide a more cost-effective and value-adding alternative to external CSR assurance, especially during the developmental phase as companies build their capacity to provide external CSR assurance. This transitional role is aligned to the objective of internal auditing, which is to *assist organisations accomplish their objectives by adding value and improving operations through a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes* (IIA, 2013).

As part of the global audit profession, the internal audit activity is identified as having a clear CSR assurance role (as indicated in section 3.3.2) (IIA, 2010a & 2010b; KPMG 2008; Sawyer et al., 2003). Even though one instance was found where the internal audit activity issued an independent CSR assurance report (as described in section 6.5), the conceptual CSR role of internal
audit is primarily intended to benefit internal company stakeholders. The provision of independent CSR assurance to a reporting company’s broader stakeholders is therefore not internal audit’s primary CSR role.

6.6 Most important components of CSR assurance reports

Reporting company respondents were asked to identify the components of CSR assurance reports that reporting companies consider most important. As summarised in Figure 6.18, responses to this question include the following:

- A majority of 37 respondents (95%) agreed {very strongly agreed (n = 4), strongly agreed (n = 12) and agreed (n = 21)} with the assertion that the depth of work undertaken is an important component of a CSR assurance report, while two respondents (5%) were uncertain.

- A majority of 36 respondents (92%) agreed {very strongly agreed (n = 6), strongly agreed (n = 13) and agreed (n = 17)} with the assertion that disclosure of the assurance engagement activities undertaken is an important component of a CSR assurance report, while three respondents (8%) were uncertain.

- A majority of 35 respondents (90%) agreed {very strongly agreed (n = 6), strongly agreed (n = 16) and agreed (n = 13)} with the assertion that assurance report clarity is an important component of a CSR assurance report, while two respondents (5%) were uncertain and two respondents (5%) disagreed. This observation is strongly correlated to the responses to the question depicted in Figure 6.15, which found that the assuror’s reputation was an important variable.

- A majority of 35 respondents (90%) agreed {very strongly agreed (n = 6), strongly agreed (n = 15) and agreed (n = 14)} with the assertion that the assurance provider’s reliability (reputation) is an important component of a CSR assurance report, two respondents (5%) were uncertain, while two respondents (5%) disagreed. This observation is strongly correlated to the responses to the question depicted in Figure 6.15, which found that the assuror’s reputation was an important variable.

- A majority of 35 respondents (90%) agreed {very strongly agreed (n = 8), strongly agreed (n = 11) and agreed (n = 16)} with the assertion that the audit opinion provided (i.e. qualified, unqualified or disclaimed) is an important component of a CSR assurance report, while three respondents (8%) were uncertain and one respondent (3%) disagreed.

- A majority of 33 respondents (85%) agreed {very strongly agreed (n = 8), strongly agreed (n = 9) and agreed (n = 16)} with the assertion that the assurance standard (framework) utilised is an important component of a CSR assurance report, while five respondents (13%)}
were uncertain while one respondent (3%) disagreed. This observation is aligned to the responses to the question depicted in Figure 6.15, which found that the assurance standard referenced was an important factor when selecting an assuror.

- A majority of 31 respondents (80%) agreed (very strongly agreed (n = 2), strongly agreed (n = 8) and agreed (n = 21)) with the assertion that the disclosure of any limitations on assurance scope is an important element of a CSR assurance report, while seven respondents (18%) were uncertain, and one respondent (3%) disagreed.

Respondents perceived all the variables provided in the question as being important components of a CSR assurance report, albeit to a varying extent. Specific variables considered to be important relate to assurance report clarity; the extent of work undertaken; the transparency of assurance activities; and predictably, the CSR assurance opinion provided (Adams & Evans, 2004; Al-Hamadeen, 2007; Eccles, 2010; Kolk & Perego, 2010; Manetti & Becatti, 2009; Marx & Van Dyk, 2011; Morimoto et al., 2005; Nitkin & Brooks, 1998; Perego, 2009; O’Dwyer & Owen, 2005; Owen et al., 2000; Owen & O’Dwyer, 2004; Wiertz, 2009).

![Figure 6.18 - Important CSR assurance report elements (n = number of responses)](image)

**Figure 6.18 - Important CSR assurance report elements (n = number of responses)**

### 6.7 CSR assurance report titles

The report title should succinctly indicate the nature of the assurance engagement. Despite the content analysis identifying four different types of CSR assurance provider, no particular type of assuror prescribes a specific title for its assurance reports. Moreover, the study found that even
the same assuror used different terms to describe its own assurance reports.

Although the most commonly used report title by all types of assuror is ‘independent assurance report’, the use of ‘independent assurance report on selected sustainability information’ that provides users with a more complete picture of the assurance report objective and content is growing in popularity (especially amongst auditor assurors). Other titles used include ‘assurance report, independent third party assurance reports’, or ‘statement of assurance’. In one instance, the assuror (Maplecroft – Gold Fields) referred to their report as being ‘second party: assurance on reporting’. In the same report, Gold Fields also included a ‘third party assurance report on selected sustainability information’ issued by KPMG.

Although the IFAE clearly distinguishes between auditing and assurance engagements, three CSR auditor assurors specifically include the term ‘auditor’ in the titles of their CSR assurance reports. In this regard, Deloitte called its reports to Bidvest an: ‘independent auditor’s limited assurance report’ and, to Barloworld: a ‘report of the independent auditors’. Similarly, Indyebo calls its report to Discovery Holdings: an ‘assurance report of the independent auditors’. The titles of other CSR assurance reports correctly referred to ‘assuror’ and not to ‘auditor’ (Ackers, 2009; Al-Hamadeen, 2007; Owen & O’Dwyer, 2004).

Despite ISAE 3000 section 49(a) specifically requiring auditor assurors to use a title clearly indicating that the report is an independent assurance report, a few auditor assurors disclosed their independence in the body of the report, instead of the title. Disclosing the assuror’s independence in the CSR assurance report title allows assurors to clearly illustrate their desire to highlight the importance of the independence dimension, improving stakeholders’ perceptions about the assuror’s objectivity and accordingly their ability to place reliance on the CSR disclosures.

6.8 CSR assurance engagement scope

6.8.1 CSR assurance report content analysis

The scope of the CSR assurance engagement illustrates the diverse nature of the CSR activities that companies should report on (Adams & Evans, 2004; Al-Hamadeen, 2007; Archel et al., 2008; GRI, 2005; Marx & van Dyk, 2011; Utting, 2005) and should identify the extent to which company CSR-related disclosures have been independently verified. The engagement scope should therefore disclose the CSR-related areas of company performance that were covered by the assurance engagement, as well as the areas that were excluded. To establish the CSR-related areas that are material to the respective reporting companies, the assuror should not only be familiar with the industry within which the company operates but, more importantly, should also
possess the technical knowledge and skills required to undertake the engagement (as described in sections 3.2.5 and 3.3.3.4) (AccountAbility, 2008a; Al-Hamadeen, 2007; GRI, 2013b). What may be considered important in one company or industry may however, be unimportant in another. For example, effluent or emission control would be more important for manufacturing companies than for banks. While this thesis does not provide a detailed analysis of the technical aspects relating to the CSR assurance engagement, it does attempt to provide an overview of key aspects relating to the CSR assurance engagement scope. Depending on the reporting company, the diverse scope of the CSR-related activities covered by assurance engagements included, but were not limited to:

- all disclosures in the CSR report
- the sustainability risk management framework
- the extent to which the GRI framework is applied
- energy, waste and water data usage and disposal
- emissions control (including greenhouse gas and carbon dioxide equivalent)
- the company’s adherence to its own sustainability principles, industry sustainability principles and/or to applicable industry charters
- industrial relations and conflict management
- job creation
- employment-related disclosures within the context of local, indigenous and diversity employment practices
- registered HIV cases and number of employees participating in anti-retroviral therapy
- employee training and development
- safety issues, occupational injuries, illnesses and fatalities
- operational impacts on communities
- community engagement and development
- environmental incidents
- CSI spend
- downstream suppliers, etc.

In addition, illustrating the breadth of their assurance engagements, some assurors disclose the number of sites they visited and/or the number of remote reviews performed. Despite these disclosures, unless specifically identified by assurors, report users may not be able to establish the
sites that were visited or reviewed, the percentage of total operations represented by these sites, or even the basis for selecting these sites.

Paradoxically, as reflected in the CSR assurance reports, the scope of CSR assurance engagements are determined by the reporting companies and not by the assurance provider, by any industry, regulatory or statutory bodies, or even by the stakeholders. Therefore, since the assurance engagement scope is determined by reporting companies, it may impair the ability of report users to establish whether the CSR assurance report meaningfully verifies the reporting company’s material CSR disclosures (Adams & Evans, 2004; Al-Hamadeen, 2007; Owen et al., 2000; Utting, 2005). This deficiency is further complicated by the inconsistent scope of CSR assurance engagements, exacerbated by company and/or industry nuances and incomplete disclosure of the engagement scope, undermining the ability of report users to understand exactly which aspects of the CSR report were assured and which were not. The limited scope of some CSR assurance engagements may, for example, be illustrated by Corporate Citizenship indicating that the scope of its assurance engagement for SABMiller “did not extend to a complete audit of the report’s contents”. Similarly, PwC disclosed that the subject matter of its CSR assurance engagement for MTN was confined to the quality of the services provided, CSI spend, survey of employee culture, fraud management framework and the whistle-blower hotline data. In this regard, PwC emphasised that they had “not conducted any work outside of the agreed scope”. The scope of PKF’s assurance report in respect of the Allied Technologies CSR assurance engagement was confined to the GRI indicators, but without any disclosure of the indicators that had been included or excluded. These examples suggest that the CSR assurance engagement scope may not necessarily cover the company’s material issues, particularly from the perspective of what the company’s stakeholders may consider important.

While CSR assurors should have knowledge of the industry and the necessary technical skills to undertake a CSR assurance engagement, report users should also be sufficiently knowledgeable about the reporting company and the industry within which it operates. Possessing this knowledge improves interpretation of the CSR and CSR assurance report and enhances users’ understanding of the areas that were covered by the assurance engagement and which areas were not. To address this deficiency, organisations such as the PRI are providing training and workshops such as the PRI Responsible Investment Research Forum that was held in Singapore on 20 November 2013 to educate investors about CSR-related issues. Institutional investor signatories to the PRI commit to act in the best long-term interests of their beneficiaries and accept that environmental, social and corporate governance issues can affect the performance of their investment portfolios.

In addition to issues relating to the assurance engagement scope, the diverse nature and depth of
assurance procedures further impair CSR assurance report clarity and usability. Therefore, despite contending that CSR assurance should provide legitimate stakeholders with confidence that the underlying company CSR disclosures may be relied upon, this thesis suggests that CSR assurance is really intended to benefit informed investors and not non-investor stakeholders. This assertion is supported by the observation that the primary providers of independent CSR assurance (i.e. auditor assurors) usually address their CSR assurance reports to the company, deliberately excluding 'non-intended' users from relying on their assurance reports (as described in sections 6.10 and 6.11).

### 6.8.2 Reporting company survey

The reasons companies resist providing independent CSR assurance as depicted in Figures 6.11 and 6.12 are confirmed by the confusion relating the scope of CSR assurance engagements described above. While Figure 6.18 and section 6.6 reveal that the survey respondents considered the extent of work undertaken and the disclosure of any limitations on assurance scope as important CSR assurance report elements, the nature of the coverage of CSR assurance reports should be clear. These observations imply that existing CSR assurance practices and the resultant CSR assurance reports do not meet stakeholder requirements or expectations of reporting companies.

### 6.8.3 Assuror interviews

Despite recognising that several aspects of a CSR assurance report were important, assuror interview participants disagreed about which they were. They however, agreed that the most important aspect of a CSR assurance report was the scope, which should address the most relevant issues that are material to the reporting company. As a result, the assurance report could be very misleading when the CSR assurance engagement scope was not clearly defined. Conversely, when the assurance engagement scope is clear and all the material issues have been included, it indicates exactly what was evaluated during the assurance engagement. This results in an assurance report and a resultant assurance opinion that adds value to stakeholders. The importance of ensuring that the scope reflects all issues that are material to a reporting company is illustrated by the following comments:

- "I want to see that the scope leads to material issues to the company".
- "The mines must start talking about socio-economic and socio-political issues" affecting their employees and the neighbouring communities.
- "British American Tobacco must talk about the health hazards of using their product".
- "Measuring electricity is not material to long-term viability of a bank. They only measure..."
electricity, water and that sort of stuff because they want to be seen as being good corporate citizens”.

Notwithstanding the importance of the CSR assurance report components reflected in section 6.6 and Figure 6.18, assurers interviewed concluded that it was imperative for both the reporting company and the assurance provider to understand exactly what the indicators were actually asking for. This was articulated by an assurer who stated that “when doing assurance, what you test for is accuracy, consistency, completeness and reliability. And what we are looking at are the quality of procedures, systems and controls in place”.

Recognising the importance of scope, a participant emphasised the importance of the assurer’s credibility by commenting that “the credibility of the assurance provider, which is not always linked to the name and I don’t think that can only be meant to be the Big 4. But, I think you need a credible organisation and I think you need a scope that does not mock the intent”.

One assurer questioned the value of the assurance provided by some assurers, suggesting that “it was not proper assurance. It was almost a rubber stamping, tick-box exercise. You cannot provide meaningful assurance for as little as R20 000. For meaningful assurance you require 13 person-days to go through everything that you need to do and provide the feedback that needs to happen”. While this statement was intended to legitimise the assurance approach adopted by this assurer and to justify its assurance approach and fees, the definitive reference to ‘13 days’ for an assurance engagement implies that even this assurance provider may be adopting a similar ‘tick-box’ approach to assurance. In this regard, it is argued that the nature and scale of the reporting company’s operations should determine the extent of assurance work performed and, accordingly, the duration and cost of the assurance engagement.

6.8.4 Analysis and integration of results

Since independent CSR assurance is intended to provide stakeholders with confidence that the underlying CSR disclosures may be relied upon, it is imperative that the CSR assurance engagement scope covers all material CSR-related issues.Disclosing the scope of the CSR assurance engagement, informs stakeholders about the extent to which CSR-related performance disclosures can be relied upon (Adams & Evans, 2004; Al-Hamadeen, 2007; Owen et al., 2000; Utting, 2005). Conversely, when the scope is not disclosed, stakeholders are unable to establish the aspects of CSR performance that have been assured, and accordingly the disclosures that should be relied upon.

The diversity and inconsistency of the disclosure of the CSR assurance engagement scope reflected
in section 6.8.1 impair the ability of stakeholders to understand which CSR-related aspects have been assured, which in turn makes it difficult to compare one company’s performance against another. Moreover, even when the scope is disclosed the complexity and technical nature of some CSR-related components imply that many stakeholders may not be sufficiently knowledgeable to understand and interpret the CSR report and/or the CSR assurance report.

The importance of ensuring that the CSR assurance engagement scope addresses all material CSR-related issues and of disclosing the assurance engagement scope, are confirmed by both the reporting company survey respondents and the assurors interviewed.

6.9 Independence

6.9.1 CSR assurance report content analysis

Unlike previous studies which found that many CSR assurance reports did not disclose the assuror’s independence (Al-Hamadeen, 2007; Deegan et al., 2006), apart from one assuror in the study that specifically acknowledged that it was not independent, all the remaining assurors (including internal audit) disclosed their independence. In this regard, Maplecroft, one of the assurors of Gold Fields, referred to its report as a “second party: assurance on reporting”. Clarifying its lack of independence, Maplecroft disclosed that it was not an independent party due to its close involvement with the reporting company by stating that “employees to collect, analyse and review information and data” (Gold Fields 2012 Integrated Annual Review, p. 157–158). This lack of independence is ameliorated by Gold Fields also including a more conventional third party assurance report by KPMG. The “first party assurance” in the Gold Fields annual report refers to the internal audit statement, but does not mention any CSR-related issues (p. 159–163). Apart from Gold Fields, no other reporting company provided similar ‘multi-level’ assurance.

As described in section 6.7, most assurors disclose their independence in the report title. A few isolated auditor assurors (i.r.o. Sasol, Exxaro Resources and Pretoria Portland Cement) and specialist consultancies (i.r.o. SABMiller and Telkom) only disclosed their independence in the body of the report. In addition to declaring their independence in the report title, assurors also provide additional information relating to their independence in their CSR assurance reports, as required by AA1000AS, even when AA1000AS was not specifically referenced in the assurance report. The importance of disclosing some level of independence appears to be a widespread South African practice, compared to the Al-Hamadeen (2007) observation where only 56% of assurors disclosed their independence.

All auditor assurors provided a generic statement confirming their compliance with the IFAC code
of ethics, by implication including the independence requirement. Consultant assurors (IRAS in particular) tend to contextualise their independence more comprehensively by emphasising the reporting company’s responsibility to prepare the CSR report and explaining why their independence was not compromised. While auditor assurors tend to rely on their accepted professional status, non-auditor assurors appear to believe that they should explain how they are independent and to specifically justify why their independence enhances the credibility of their assurance reports.

Assuror comments provided in CSR assurance reports pertaining to independence primarily related to their professional independence and confirmed the absence of conflicts of interest during the assurance engagement. Examples of comments provided include:

- “We are not responsible for preparing any part of the report and have not undertaken any commissions for that would conflict with our independence”.
- “We remain an independent assuror over the content and processes pertaining to this report”.
- “We have not compromised our ability to afford independent third party assurance over this year’s report”.
- “We have not provided any form of advisory services, and have not been responsible for the preparation of any part of this report”.
- “Our responsibility is to independently express a conclusion”.
- “An independent assurance report from an appropriately qualified organisation”.

These above extracts from CSR assurance reports relating to assuror declarations of independence clearly illustrate the perception by all assurors that assurance report credibility is enhanced when they confirm their independence. These extracts confirm the perception that assurors enhance their independence and objectivity when they disclose that they do not provide other related services.

6.9.2 Assuror interviews

An assuror interviewee attributed the decrease in the proportion of CSR assurance engagements provided by the Big 4 audit firms to their focusing “on other things. One thing that they have probably identified is that assurance does not generate the type of money that advisory does. So you can get more sort of ongoing revenue on advisory services than you can get from assurance”. Despite supporting the need for CSR assurors to remain independent and objective, it was suggested that some assurors were “guilty of providing both advisory and assurance services”. This presented a conflict since it may intuitively be argued that “you can’t check your own work”.
Therefore, to maintain independence and objectivity, the assuror suggested that after completing three assurance cycles, or a maximum of five years, assurors should ideally walk away from assurance engagements for about two years. The principle of assuror rotation remains a contentious issue, since the typical business model deployed merely recovers the costs for the first couple of years, with the profits only accruing thereafter.

6.9.3 Analysis and integration of results

As argued in section 3.2.5.3, an assuror helps to reinforce stakeholder trust about the veracity of disclosed CSR-related information by rendering an independent and objective opinion on the reliability of the disclosed information (Al-Hamadeen, 2007; Chandler & Edwards, 1996; Deegan et al., 2006; Maury, 2000; Percy, 1997; Wiertz, 2009). Questionable assuror independence therefore severely undermines the credibility of the assurance provided, and the extent to which stakeholders may rely on the underlying disclosures. AA1000AS requires assurors to decline any assurance engagement where their relationship with the company or its stakeholders may compromise the production of an independent and impartial assurance report (AccountAbility, 2008a). Similarly, section 210 of the SAICA Code of Professional Conduct requires auditor assurors to maintain their independence during assurance engagements (SAICA, 2013). All assurance providers, irrespective of assuror type, should therefore publicly disclose their independence and objectivity in their CSR assurance reports.

The content analysis of CSR assurance reports findings confirm the importance of assurors disclosing their independence in their CSR assurance reports. This finding was similarly confirmed by the assurors interviewed.

6.10 Report addressee

As described in section 3.2.3, the parties to whom the assurance report is addressed should include both the intended and unintended audiences of the assurance report (Ackers, 2009; Wiertz, 2009). Section 49(b) of ISAE 3000 specifically requires the assurance report to identify the party or parties to whom the report is directed, which should include ‘all possible users’. Similarly, AA1000AS requires the assurance report to clearly identify the intended assurance report users (AccountAbility, 2008a). Since the primary audiences for CSR assurance reports include a variety of both internal and external stakeholders (O’Dwyer et al., 2011), CSR assurance reports should be addressed to all users that could reasonably be expected.

While the content analysis revealed that two of the specialist CSR assurors did not identify the party/parties to whom their report was addressed, the remaining specialist CSR assurors and the
certification body addressed their assurance reports jointly to both the board and stakeholders. All auditor assurors (including internal audit) however, addressed their assurance reports to their principals, being the board, directors, members, shareholders and even the company itself. It is argued that the reason that auditor assurors confine their CSR assurance report users to their principals and deliberately exclude broader stakeholders from placing any reliance thereon, may be attributed to the risk of potential assuror liability combined with the general conservatism of the audit profession.

6.11 Limitations of the assurance provider’s liability

6.11.1 CSR assurance report content analysis

Aligned to the parties to whom the CSR assurance report is addressed, as indicated in section 6.10, auditor assurors usually include a statement indemnifying themselves from any liability that may arise from any ‘non-intended users’ placing reliance on the assured CSR report. Examples of terms used by auditor assurors to limit their liability to non-intended users include:

- “We do not accept or assume liability to any party other than the company, for our work, for this report, or for the conclusions we have reached”.
- “To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the (company)”.
- “We do not accept or assume responsibility to anyone other than the directors of the company and the company for our work, or this report, save where terms are expressly agreed and with our prior consent in writing”.
- “We disclaim any assumption of responsibility for any reliance on this report, or the sustainability report to which it relates, to any person other than the directors or management, for any purpose other than for which it was prepared”.

While several auditor assurors specifically denounce any liability towards non-intended users, this practice is inconsistent. For example, independent assurance reports issued by the same audit firm and even signed by the same audit partner (at PwC) do not always contain a similar exclusionary paragraph. By comparison, non-auditor assurors did not exclude any party from placing any reliance on their CSR assurance reports.

6.11.2 Assuror interviews

Assuror participants confirmed the practice of auditor assurors limiting their liability to their principals in their CSR assurance reports (as described in section 6.11). While auditor assurors ascribe this practice to their mandatory compliance with ISAE 3000 (which prescribes what should
be included in their CSR assurance reports), there is no evidence that this practice is covered by ISAE 3000. Another reason advanced by auditor assurors for including this exclusionary paragraph is that since the assuror was engaged by their principals, it is accordingly obliged to report to them (Al-Hamadeen, 2007; Eccles, 2010). This assertion is confirmed by paragraph 10 of ISAE 3000 which requires the assurance practitioner to agree on the assurance engagement terms with the reporting company. Auditor assurors also argue that the contents of the CSR assurance report cannot be appreciated without contextualising the terms of the engagement. They assert that this matter is addressed by providing management with a separate report containing the detailed assurance observations and recommending improvements to supplement the CSR assurance report. Outside stakeholders do not have access to the management reports and they cannot therefore contextualise the findings, nor place reliance on partial information. This practice is illustrated by the comments such as the following:

- “Management have engaged us to do a piece of work”.
- “We are presenting our results to management. Because, remember – management doesn’t only see our assurance opinion, they see our management report as well”.
- “The assurance opinion is only one part of the work that we do. I don’t think that we can be held responsible to outsiders who were not involved in the engagement”.
- “The value that external stakeholders can get from the assurance report is confirmation that the company’s CSR information has been looked at by persons external to the organisation. But I think if people do something beyond that, they can’t hold us liable for it”.

Auditor assurors justified this practice by arguing that if they reach the wrong opinions then their firms will be exposed, for example by getting the carbon footprint wrong. Since assurors were engaged by the reporting company, they asserted that their liability was limited to the company, explaining the reason that their reports were addressed to their engagement principals (as described in section 6.10).

Denouncing the practice of limiting liability to external stakeholders, the non-auditor participant argued that the objective of CSR reporting was to disclose the impact of corporate operations on society and the environment. It is therefore necessary for independent CSR assurance to provide broader stakeholders with confidence about the veracity of the underlying company CSR disclosures, by reflecting an independent and objective opinion. The unacceptability of the current auditor assuror practice of limiting any liability to broader stakeholders was illustrated by the following comment: “For goodness sake, why bother. If you can’t place reliance on the assurance statement, why are you giving it? It’s a waste of time.”
6.11.3 Analysis and integration of results

While qualitative non-financial data may be subject to more inherent limitations than quantitative financial data, it is suggested that the work undertaken and the evidence gathered by the assuror, are simply to support the opinion(s) reached in the assurance report, resulting in them only reporting for that purpose. It would therefore appear that the processes of audit firms are typically designed to limit the liability resulting from unreliable CSR assurance reports (as described in section 6.11).

Audit professionals and the professional audit bodies consulted informally\textsuperscript{63} suggest that this practice may be attributed to the undefined external boundaries of CSR-related issues and the potential impact of litigation on the global audit firms, and the Big 4 audit firms in particular. By comparison, the boundaries of AFS auditing are more controllable by being confined to transactions directly initiated by the reporting company and accordingly, primarily verifiable by evidence available within the company and/or from the parties with which it interacts directly. Therefore, failing to limit their liability to internal stakeholders who appreciate the intricacies of the assurance engagement and the implications of the engagement constraints may expose the assuror to the risk of legal action by ‘unintended stakeholders’, who may also rely on the underlying CSR disclosures. This risk is compounded when the stakeholders do not have access to the supplementary information contained in the assuror’s reports to management.

A review of the IFAE and of ISAE 3000 in particular, does not appear to justify the practice whereby auditor assurors disclaim responsibility to any parties other that the principals of the company, who may rely on the CSR report or on the assurance opinion provided. This unacceptable practice is therefore confined to auditor assurors and not to any other CSR assurance providers. Irrespective of whether this practice may be justifiable, this observation confirms Al-Hamadeen’s (2007) assertion that the assurance engagement risk may expose the assuror to potential liability.

It is submitted that the practice of auditor assurors intentionally renouncing any responsibility to external stakeholders and deliberately restricting the intended users of their assurance reports to their principals, together with the practice of limiting their liability, fundamentally defeats the purpose of independent assurance, which should be to provide CSR report users with confidence that the underlying CSR disclosures may be relied upon.

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\textsuperscript{63} During the study period, the researcher held meetings with the South African Institute of Chartered Accountants (SAICA), the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS) and the Institute of Singapore Chartered Accountants (ISCA).
6.12 Standards, guidelines and frameworks

6.12.1 CSR assurance report content analysis

As reflected in Table 6.4 and Figure 6.19, this study found that although two assurance reports (4%) did not indicate the assurance standard used for 2011/2 (one in each of 2010/1 and 2007/8), AA1000AS and ISAE 3000 were the two primary CSR assurance standards referenced by assurers across the study period. Where Gold Fields provided multi-level assurance on its CSR disclosures, only Maplecroft indicated an assurance standard, while KPMG remained silent. In 2011/2, apart from KPMG, which did not refer to an assurance standard in its assurance report to Gold Fields, all the remaining auditor assurers referenced ISAE 3000, with EY referencing both ISAE 3000 and AA1000AS in its CSR assurance report to British American Tobacco.

By comparison, except for ERM, which referenced ISAE 3000 as well as ISO 14064-3:2006 and ISO 19011 in its assurance report for Mondi, the remaining specialist CSR assurers all referenced AA1000AS, with CA Governance also referencing ISO 14064-3. The internal audit activity did not reference any standard. Apart from EY (i.r.o. British American Tobacco only), auditor assurers did not reference AA1000AS in their assurance reports, although several specifically referred to AA1000APS (as described in section 2.7.7.4) and its principles of inclusivity, materiality and responsiveness.

As expected, the CSR assurance reports of Standard Bank, ABSA, Nedbank, Arcelor Mittal and Liberty Holdings (all assured by Big 4 audit firms that are obliged to comply with the IFAE) were assured according to ISAE 3000 and not AA1000AS (as described in section 3.2.6), although they referenced the AA1000APS principles (as described in section 2.7.7.4). Depending on the nature and scope of the assurance engagement, assurers also referred to the following (reporting) frameworks and guidelines in their CSR assurance reports (as described in section 2.7.6): GRI G3, AA1000APS, King III, JSE SRI, GHG, BEE and UNGC. In several, but not all instances, CSR assurers indicated that this information provided the criteria against which the assurance engagement was undertaken. Even though the GRI is a reporting framework and not an assurance standard, it does provide reporting companies with the guidelines necessary to implement CSR assurance and allows compliant companies to add a ‘+’ (plus) to their self-declared GRI status.
Table 6.4 - Assurance standards referenced in CSR assurance reports

<table>
<thead>
<tr>
<th>Assurance standard</th>
<th>2007/8</th>
<th>2010/1</th>
<th>2011/2</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISAE 3000</td>
<td>13</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>AA1000AS</td>
<td>3</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>AA1000AS &amp; ISAE 3000</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>AA1000AS &amp; ISO 14064-3:2006</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>AA1000AS, ISO 14064-3:2006 &amp; ISO 19011</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Not stated</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>42</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

Figure 6.19 - Assurance standards referenced in CSR assurance reports

In summary, as depicted in Table 6.4 and Figure 6.19, in 2011/2, 66% of assurors referenced ISAE 3000 (2010/1 – 74% and 2007/8 – 78%) and 32% referenced AA1000AS (2010/1 – 26% and 2007/8 – 22%). Therefore, whereas 90% of the CSR assurance reports in this study only referenced one standard, two (4%) referenced two standards and one (2%) referenced three standards (as depicted in Table 6.4 and by Figure 6.19). By comparison, CorporateRegister (2008: 12–13) found that 31% of assurance reports for 2007/8 of the combined ‘top 90’ companies (by market capitalisation) in the UK, the USA, Germany, Australia and Japan referenced AA1000AS, 37% referenced ISAE 3000 and 44% referred to the GRI guidelines. Similarly, the Manetti and Becatti (2009) study of 34 selected CSR assurance reports across Europe, North America, South America, Australia and Asia found that 41% of assurance reports referenced ISAE 3000, 12%
referenced AA1000AS, 26% referencing both ISAE 3000 and AA1000AS, with 21% referring to other criteria.

The greater South African reference to ISAE 3000 is aligned to the finding that auditor assurers were the primary providers of independent CSR assurance. Al-Hamadeen (2007) however, observed that the primary standard used in CSR assurance reports was AA1000AS, which is aligned to his observation that consultants and not the audit profession were the primary providers of independent CSR assurance in the UK. CorporateRegister (2008) however, assert that this lack of standardisation may result in assurers ‘cherry-picking’ by complying with certain principles from one approach and with other principles from another, without being fully compliant with either, but referencing both.

Since the GRI is not an assurance standard, this study only considered the GRI to the extent that it provides a guideline for reporting companies. It has therefore not been specifically quantified in this study.

6.12.2 Reporting company survey

As summarised in Figure 6.15 responses to a question to establish the most important reasons for selecting a CSR assurance provider revealed that the assurance standard(s) referenced by the assurer was an important factor. This is confirmed by Figure 6.18 in section 6.6, which confirms that the assurance standard (framework) utilised was an important component of a CSR assurance report.

6.12.3 Assuror interviews

Confirming the content analysis observations in section 6.12, participants confirmed that the two primary standards used for CSR assurance were ISAE 3000 and AA1000AS (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Becatti, 2009). Auditor assurers preferred using ISAE 3000, whereas non-auditor assurers preferred AA1000AS.

The contentious debate about CSR assurance standards is illustrated by an auditor assurer arguing that ISAE 3000 was a more appropriate standard for CSR assurance. Suggesting that it was inappropriate for smaller niche CSR assurers to perform CSR assurance engagements only using AA1000AS, the participant commented that “if they are serious about numbers and risk, and making decisions, they would take ISAE 3000 plus maybe AA1000AS”. Confirming that assurers should respond to the requirements of their principals, the auditor assurer participant indicated that when requested by their clients, they provided assurance based on both AA1000AS and ISAE 3000. The use of multiple assurance standards is however infrequent, and not widely used by either
auditor assurors or non-auditor assurors. An auditor assuror however, commented that the "quite hefty annual fee for using AA1000AS, was not necessarily offset by the associated benefits".

Another participant argued that AA1000AS was an inappropriate assurance standard from an investor perspective by stating that: "I'm not sure that people understand what an AA1000AS opinion means. The investment community are used to financial reporting being assured according to the recognised auditing standards." This finding is aligned to the practice of auditor assurors addressing their CSR assurance reports to their principals, representing the company’s interests and not its non-investor stakeholders, and the perceived rigour of assurance provided by auditor assurors.

The ambiguity of CSR-related assurance standards and the obligation for auditor assurors to comply with ISAE 3000 is illustrated in the following comment from a Big 4 auditor assuror: "What interests me is the number of opinions that are coming out from non-Big 4 companies that conclude in the same way in which we do." "We are doing limited assurance and we are bound in our conclusion to say based on the work performed, nothing has come to our attention to indicate whatever." These comments suggest that while auditor assurors were obliged to comply with ISAE 3000, other non-auditor assurors were coming to the same conclusions, but without adhering to the provisions of ISAE 3000.

A non-auditor participant cynically suggested that negatively-framed CSR assurance reports issued by auditor assurors adhering to ISAE 3000 and stating that “nothing has come to our attention that information contained in this report is not correct”, actually indicate that the assurors did not know what they were looking for. Put more strongly, the participant emphatically argued that this negatively oriented assurance opinion “is not actually a finding. That's a 'cover your arse' statement". The participant suggested that this negatively oriented assurance opinion indicated that in order “to provide that statement you can take a lawn chair and you can park in front of the company for two weeks. And if nobody comes to you and tells you that there is something wrong with the information going into the report, then nothing has come to your attention. They don't give you the information. So you don't look at the right data”.

Despite the apparent divergence and ambiguity of CSR reporting and accordingly CSR assurance practices, its evolving nature is reflected by the comment that “I think we are going to see standards emerging to deal with integrated reporting. I don't think sustainability assurance will survive in its current form. Obviously certain firms will fight that. But, I think that we need to devise standards that will withstand similar scrutiny of financial auditing.” The participant argued that properly applied, ISAE 3000 would be adequate for the market to use, but suggested that
more detailed standards would emerge over the next two years (i.e. by 2014).  

As described in sections 2.7.7.3 and 3.2.6.4, even though the GRI guidelines do not constitute an assurance standard, they are the most widely used framework for reporting CSR performance. Suggesting that different assurance standards should be applied in particular contexts, a participant commented that “Comparability is pertinent when you are looking at the three primary types of assurance. There’s the AA1000AS which is looking at the stakeholder stuff and is basically the entire report. Then there is the GRI that looks at comparability for which you can use ISAE 3000. And then finally, there is the integrated report that is looking at materiality, the driver for the new ISAE 3000.” Confirming the emerging integrated reporting trend (as described in section 2.7.7.6), it was suggested that meaningful assurance should more effectively consider integrated reporting, instead of merely focusing on the CSR disclosures. Since the IR<FW> does not presently require assurance, correct application of the combined assurance model may address this concern. It will however, require skilful coordination of the different assurance components provided by the various assurance providers.

Participants confirmed that a new assurance standard was being collaboratively developed by the professional standards bodies to address some of the deficiencies in the standards presently in use. At the same time, the global audit profession was currently considering revising ISAE 3000. It was proposed that in order to improve the usefulness of CSR assurance reports, the new CSR assurance standard must include the principles of inclusivity, materiality and responsiveness. It should also be opened up for use by non-auditor assurers. Whether the intended collaboration will produce the desired result remains questionable, primarily due to matters relating to who will control the proposed standards body. It is suggested that the impact of recent corporate reporting developments, particularly those relating to integrated reporting, may render this proposed standard obsolete. Alternatively, the proposed new standard could be adapted to account for integrated reporting.

The reasons advanced by auditor assurers for primarily using ISAE 3000 in their CSR assurance engagements was that it was developed specifically for the audit profession and that its application was mandatory (as described in section 6.12). By contrast, AA1000AS was primarily used by non-auditor assurers since they were not members of the global audit profession, implying that

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64 Despite being issued in December 2013, the IR<FW> (as described in section 2.7.7.6) does not address assurance. The revised ISAE 3000 however, acknowledges that integrated reporting includes both historical and future-oriented financial and non-financial information.

65 While the revised ISAE 3000 was subsequently released in December 2013, its provisions have not been considered in detail since it is only due for implementation after 15 December 2015.

66 While ISAE 3000 includes a significant revision in respect of materiality, the principles of inclusivity and responsiveness have still not been addressed.
ISAE 3000 was not applicable to them. To substantiate the appropriateness of their assurance approach, non-auditor assurors therefore reference AA1000AS.

6.12.4 Analysis and integration of results

As described in section 3.2.6, providing information about the standards used on the CSR assurance engagement improves report comparability and enhances user understanding about the nature and extent of the assurance provided (Al-Hamadeen, 2007). The inconsistent application of standards and frameworks, exacerbated by the tendency for auditor and non-auditor assurors to use different assurance standards (Ackers, 2009; Al-Hamadeen, 2007; CorporateRegister, 2008; Manetti & Becatti, 2009), impair the ability of users to meaningfully interpret, analyse and compare CSR assurance reports and the underlying CSR disclosures.

The study observes that the primary CSR assurors (i.e. auditor assurors) use ISAE 3000, a generic non-financial assurance standard, not specifically designed for CSR assurance engagements (Ackers, 2009; Al-Hamadeen, 2007: 27; Manetti & Becatti, 2009). Since ISAE 3000 is a generic and not a CSR assurance standard, it does not adequately provide stakeholders with meaningful assurance about the reliability of company CSR disclosures (as described in section 3.2.6.3) (Ackers, 2009; FEE, 2006; Manetti & Becatti, 2009). While it may be argued that IFAC should develop a specific CSR assurance standard for auditor assurors, instead, it is proposed that the various CSR assurance providers should collaborate to develop a comprehensive CSR assurance standard that could be consistently applied by all types of CSR assurors around the world. This new standard should reduce stakeholder confusion about CSR and CSR assurance reports by introducing a consistency mechanism that could improve user understanding and facilitate report comparability.

These observations are aligned to the survey responses in the second phase indicating that the assurance standard(s) referenced were an important factor that their respective companies considered when selecting a CSR assurance provider (as reflected in Figure 6.15). Similarly, Figure 6.18 confirms the importance of the assurance standard referenced as an important CSR assurance report component.

The growth of CSR assurance by non-auditor assurors is reflected in the increased referencing of AA1000AS from 22% in 2007/8 and 26% in 2010/1, to 32% in 2011/2. During the same period, ISAE 3000 has gradually declined from 78% in 2007/8 and 74% in 2010/1, to 66% in 2011/2.
6.13 CSR assurance levels

6.13.1 CSR assurance report content analysis

The study found that all auditor assurors, as well as the specialist CSR assuror that referenced ISAE 3000 and the internal audit activity, provided negatively-framed limited assurance conclusions (n = 35). Ten of these assurance reports by auditor assurors and the assurance report by the specialist CSR assuror that referenced ISAE 3000 provided reasonable assurance on some dimensions of the CSR report, and limited assurance on others.

The specialist assuror that referenced AA1000AS and ISO 14064-3 provided reasonable assurance on GHG emissions. But instead of applying either high or moderate levels of assurance on the complete assurance engagement, introduced a nine-level assurance scale that exceeded the type 2 assurance requirements of AA1000AS, ranging from ‘none’ (being 0 – 4% sure) to ‘extremely high’ (being more than 90% sure). To assist report users understand the nature of the assurance provided, the assuror included a detailed explanation of the assurance scale together with the assurance report. Although the certification body did not reference any assurance standard, it did provide positively-framed reasonable assurance. One specialist CSR assuror (Maplecroft i.r.o. Gold Fields) did not indicate the level of assurance provided. Despite being an auditor assuror, KPMG, the co-assuror of Gold Fields, provided reasonable assurance, although the assurance standard used was not disclosed.

ERM (i.r.o. Sasol) provided high levels of assurance on some aspects of the CSR report and moderate levels on others. Assurance reports by the remaining non-auditor assurors that applied AA1000AS, all provided moderate levels of assurance (n = 11) for a combination of type 1 and type 2 engagements. These findings are aligned to the observations that auditor assurors were more likely to use ISAE 3000, whereas non-auditor assurors tended to use AA1000AS (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & Van Dyk, 2011).

6.13.2 Reporting company survey

As indicated in Figure 6.15 in section 6.4.2, the majority of survey respondents identified the level of assurance provided as an important factor when selecting an assurance provider. This observation suggests that assurors providing higher levels of assurance on reasonable assurance engagements were more likely to be appointed to undertake CSR assurance engagements than assurors providing limited assurance.
6.13.3 Analysis and integration of results

Despite the wording used in CSR assurance reports, the quality and extent of assurance provided may not necessarily depend on whether reasonable or limited assurance levels were provided. Instead, it may relate directly to the reporting company’s reason for providing CSR assurance, the scope of the CSR assurance engagement, or the rigour of the assurance process.

As described in sections 3.2.5.4 and 3.2.6, the ability of users to compare CSR assurance reports is complicated by the assurance levels provided by the two primary CSR assurance standards (i.e. AA1000AS and ISAE 3000). These assurance levels mean different things and relate to different aspects of the assurance engagement. While AA1000AS requires the assurance provider to indicate the level of assurance provided (i.e. type 1 and/or type 2), these assurors usually provide reasonable assurance opinions. By contrast, ISAE 3000 (SAICA, 2012) compels auditor assurors to provide for two types of assurance engagement, namely, ‘reasonable’ and ‘limited’ (Wiertz, 2009). In a reasonable assurance engagement the assurance conclusion is expressed in a ‘positive form’, whereas a ‘negative form’ assurance conclusion is expressed in a limited assurance engagement.

The evidence suggests that reasonable levels of assurance are perceived as being stronger than limited levels, as implied by the survey finding that the level of assurance provided was an important factor when selecting a CSR assuror. Nevertheless, it is submitted that most reporting companies still tend to use auditor assurors that usually provide negatively-framed limited assurance opinions since they do not fully appreciate the difference between the two levels. Moreover, stakeholders may also believe that assurance provided by auditor assurors is more rigorous than assurance provided by non-auditor assurors (as described in section 6.4.3). As indicated in sections 3.2.3.6 and 3.3, the assurance methodologies of the audit profession have been developed over centuries and have been entrenched by legislation.

While it may be argued that CSR assurance should provide stakeholders with a mechanism to improve their confidence about the extent to which CSR disclosures may be relied upon, it is posited that this can only be effectively achieved through the development and adoption of a universal CSR assurance standard that can effectively and consistently regulate CSR assurance engagements by all CSR assurors. This proposed standard that should apply to all CSR assurors (Deegan et al., 2006) could reduce stakeholder confusion and improve comparability, as argued by O’Dwyer et al. (2011). This may facilitate the ability of assurance providers to improve the quality and coverage of their respective assurance reports and ensure that all material CSR-related issues are consistently disclosed and verified.
6.14 Assuror competencies

6.14.1 CSR assurance report content analysis

This study found that 37 (74%) CSR assurors disclosed the competencies or expertise of their organisations and/or of their assurance team in their CSR assurance reports, with the remaining 13 (26%) assurors not providing similar disclosures. However, where assurors disclosed their competencies, these were often generically referred to in terms of the ‘available competencies’ of their institutions. While non-auditor assurors generically indicated the expertise of their assurance practitioners, the internal audit activity and the mid-tier auditor assurors did not refer to their competencies to conduct the assurance engagement. Although the Big 4 auditor assurors usually disclosed their competencies, this practice was inconsistent. Examples of specific references by assurors relating to their respective competencies disclosed in the 2011/2 CSR assurance reports include the following:

• Big 4 auditor assurors inconsistently disclosed their competencies in some CSR assurance reports but not in others. While some Big 4 auditor assurors generically referred to their compliance with the IFAC Code of Ethics, which inter alia includes the requirement for ‘professional competencies’, others also disclosed the depth of their competency resource pool. More specifically, several Big 4 auditor assurors illustrated their capacity to provide CSR assurance by disclosing that their “work was carried out by a multidisciplinary team of health, safety, social, environmental, governance, economic and assurance specialists with extensive experience in sustainability reporting”. Since the IFAC Sustainability Framework does not require this disclosure (IFAC, 2011), it is asserted that these Big 4 auditor assurors have collaborated to produce similarly worded statements. Since auditor assurors deliberately confine the intended users of their CSR assurance reports to their principals, it may be presumed that these intended users are aware of the competencies of the assurors whom they have engaged to conduct the CSR assurance engagement.

• Corporate Citizenship (i.r.o. SABMiller) disclosed its institutional capacity by stating that “Corporate Citizenship is a leading assuror of corporate responsibility reports”. The expertise of its assurance practitioners is reflected in a separate section titled “Methodological notes”, wherein the assuror reported that the assurance team had “a variety of professional and technical competencies and experience”, and referred readers to the assuror’s website for further information.

• Bureau Veritas (i.r.o. Capital Shopping Centres) disclosed its institutional capacity by indicating that “Bureau Veritas is an independent professional services company that
specialises in quality, environmental, health, safety and social accountability with over 180 years history in providing independent assurance services”. The competencies of its assurance team and their suitability to conduct the assurance engagement is confirmed by the statement that its “assurance team has extensive experience in conducting assurance over environmental, social, ethical and health and safety information, systems and processes in accordance with best practice”.

- CA-Governance (i.r.o. Telkom) disclosed its institutional capacity by stating that “CA-Governance is a specialist firm in the field of corporate governance, with a focus on the provision of independent assurance to stakeholders”. It described the competencies of its assurance team by revealing that “the firm provides teams of assurance experts from a pool of persons with individual experience levels ranging from 22 to 33 years”. In addition, it confirmed its competence by disclosing that it applied an ‘advocate model’, in terms of which “only highly experienced members serve on the assurance team”.

- ERM (i.r.o. Sasol and Northam Platinum, but not for Mondi) reflected on its institutional capacity by stating that “ERM is an independent global provider of environmental, social and corporate responsibility consulting and assurance services”. The competence of its CSR assurance team is generically referred to as a “multidisciplinary team of sustainability and assurance practitioners with experience”.

- PwC (i.r.o. Anglo American) disclosed its institutional capacity by emphasising that its assurance report was issued by “an appropriately qualified organisation in connection with the selected subject matter”, but without referring to the specific competencies of the members of the assurance team assigned to the engagement.

6.14.2 Reporting company survey

Figure 6.15 in section 6.4.2 reveals that a majority of survey respondents agreed that the ability of the assuror to access to the necessary competencies was an important factor considered when appointing a CSR assurance provider. Similarly, the fact that the assuror specialises in CSR was also considered important.

6.14.3 Assuror interviews

To establish the necessary attributes and competencies for CSR assurance providers, participant assurors were probed about their skills and expertise (AccountAbility, 2008a; Al-Hamadeen, 2007; GRI, 2013b; Huggins et al., 2011; Moroney et al., 2012; Perego & Kolk, 2012). CSR assuror responses confirmed the evolutionary, developmental and multidisciplinary nature of CSR
assurance that requires the adoption of an appropriately rigorous assurance methodology in order to be effective, as illustrated by the following participant comments:

“When we first started providing CSR assurance 13 years ago, we checked every single thing without any focus on risk. Only once we started interacting with people from an assurance background, we quickly recognised the rigour and structure of the methodology utilised by the audit profession. For example, by asking questions like: what is the system, what are the risks, and what controls do you have in place. As our assurance practice has grown and matured, our methodology was subsequently formalised to incorporate global considerations and methodologies. Our revised approach now uses a team consisting of a combination of mostly scientists and technical experts, with some not even having any accounting or assurance backgrounds. Sometimes we have six people on site and it’s not about keeping bodies busy, but rather to ensure that the assurance team has the correct mix of technical skills for a particular engagement. The fact is that we have subject matter specialists particular to certain sectors, whether it is in mining, or banking, or pharmaceuticals. We put the right people on the right job. We started combining our teams and saying that for any assurance engagements we would make certain that we have relevant subject matter specialists on it”.

The content analysis reveals that the CSR assurance reports issued by audit firms are usually signed by registered auditors, and not necessarily by the persons responsible for the assurance engagement. It is posited that this practice is due to the inherent conservatism of the audit profession and their interpretation of the IFAE, resulting in the technical CSR assurance team looking at all the details, with the chartered accountant (CA) partner merely signing the assurance report as evidence of approval at the end of the engagement. Moreover, an assuror participant asserted that some auditor assurors do not add value to CSR assurance engagements because "they keep sending junior accounting clerks without any industry or technical experience to provide assurance on something they know nothing about". To address these deficiencies, it is proposed that a succession plan should be developed that ensures that the assurance team includes a registered auditor with extensive sustainability experience.

Reflecting its relatively small size, but leveraging on the primary practitioner’s reputation and emphasising the certification and registration of its primary member as a CSR assurance practitioner, IRAS usually included the following statement in its CSR assurance reports “the assurance team comprised primarily of Michael H. Rea, our Lead Certified Sustainability Assurance Practitioner (CSAP), with 13 years’ experience in environmental and social performance measurement, including sustainability reporting and assurance”. In this regard, it should be noted
that the CSAP qualification was developed by AccountAbility and the International Register of Certificated Auditors (IRCA) in 2007. CSAP is the first internationally recognised professional qualification in sustainability assurance, aimed at improving stakeholder confidence about the CSR assurance practitioner’s expertise and suitability to conduct the assurance engagement.67

6.14.4 Analysis and integration of results

Stakeholder confidence about the reliability of CSR reports can be improved by using appropriately qualified and credible assurors, using suitable assurance methodologies to verify the information contained in the CSR report against adequate supporting documentation (Al-Hamadeen, 2007; Moroney et al., 2012). CSR assurors therefore reflect their professionalism and suitability to undertake assurance engagements by disclosing their expertise relating to the dimensions covered by the assurance engagement (AccountAbility, 2008a). Assurors accordingly increase user confidence in CSR reporting when they disclose their competencies in a publicly issued CSR assurance report (AccountAbility, 2008a; Al-Hamadeen, 2007). Conversely, CSR assurance reports are weakened when CSR assurors do not disclose their competencies, impairing the ability of users to rely on the underlying CSR disclosures (Al-Hamadeen, 2007).

Both AA1000AS and ISAE 3000 require assurors to only accept assurance engagements for which they have the necessary technical knowledge and skills. CSR assurors however, usually only ambiguously disclose their generic competencies. While this may appear to simply reflect the assurors’ compliance with the competency requirements of both ISAE 3000 and AA1000AS (as described in section 3.2.5), it does not provide stakeholders with any reassurance about whether the assurance provider and/or the particular assurance practitioner(s) is (are) suitably qualified, experienced and skilled to conduct a meaningful CSR assurance engagement.

Despite the important need for assurors to possess the requisite competencies, the content analysis observations suggests that reporting companies and auditor assurors presume that CSR report users perceive auditor assurors and particularly, the Big 4 audit firms, as having the required competencies and credibility to undertake CSR assurance engagements and enhance the credibility of their CSR disclosures (Perego, 2009). They may therefore not see any need to specify, identify and confirm these competencies. This may be ascribed to the audit profession’s strong reputation and brand, and its entrenched position within the global business environment. By comparison, despite some specialist CSR assurors being perceived as CSR assurance ‘experts’, the relative anonymity of their organisational brands may explain why non-auditor assurors tend to describe

their organisational and practitioner competencies and expertise more comprehensively than auditor assurors.

Given the multidisciplinary and often technical nature of CSR activities and what may be covered in a typical CSR assurance engagement, there is a risk that the presumed knowledge and skills necessary for specific engagements may not actually exist. The detailed declaration by IRAS about the qualifications and expertise of its lead assurance practitioner provides pertinent information that IRAS has the necessary competencies to undertake the assurance engagement. This should reassure stakeholders that the CSR assurance report and the underlying CSR disclosures may be relied on. At the same time, since no other CSR assurors provides this level of disclosure, this practice may simply be a component of the IRAS marketing strategy to differentiate itself and establish its legitimacy as a competent independent CSR assurance provider. This may be especially necessary when considering the intensity of competition amongst well-established organisations.

Even though assuror participants confirmed that assuror competencies were important to undertake effective CSR assurance engagements, the content analysis revealed that not all CSR assurors disclosed the competencies or expertise of their organisations, or of their respective assurance practitioners in their CSR assurance reports. Apart from the small specialist CSR assuror, which comprehensively disclosed the competencies and expertise of its lead assuror, other assurors usually generically disclosed their competencies by referring to the ‘available competencies’ at their respective institutions.

While SAICA (2010) requires auditor assurors to maintain professional knowledge and skill at the appropriate level to undertake the assurance engagement, it is proposed that this competency requirement should apply equally to non-auditor assurors (Huggins et al., 2011; Perego & Kolk, 2012). Moreover, all CSR assurance providers should be required to provide additional information about their specific competencies as they relate to their suitability to undertake particular CSR assurance engagements. Aligned to the recommendation that a uniform CSR assurance standard should be introduced to improve the consistency of the assurance provided (as described in section 6.12.4), it is suggested that a global oversight body should be established to deal with CSR assurance. All CSR assurance providers should be encouraged to register as members of this proposed oversight body.

Assuming the development and implementation of a universally applicable CSR assurance standard, it is proposed that a qualification similar to the CSAP (referred to on page 251), should become a mandatory qualification for CSR assurance practitioners. While this may improve stakeholder
perceptions of whether specific CSR assurors and/or their individual assurance practitioners have the necessary professional competencies to generically provide CSR assurance, it does not address the technical skills that may be required for complex CSR assurance engagements. Although unsupported by empirical evidence, it is suggested that some of the smaller CSR assurance providers may lack access to the technical CSR-related skills required to undertake certain CSR assurance engagements, despite being skilled in the use of assurance methodologies.

6.15 Recommendations for improvement

6.15.1 CSR assurance report content analysis

AA1000AS specifically requires the assuror to provide recommendations for improvement in a publicly issued assurance report. By contrast, ISAE 3000 does not mention recommendations at all. Nevertheless, using both AA1000AS and ISAE 3000, one Big 4 audit firm, EY (i.r.o. British American Tobacco), included a section titled “observations and areas for improvement” in its CSR assurance reports. Attempting to add value to their clients and reduce the perception that auditing was a ‘grudge purchase’, the current practice in statutory financial statement audits is that the auditor issues a ‘report to management’. This management report incorporates the detailed findings of the audit engagement and provides recommendations for improvement. This management report is however, not widely distributed and is usually only intended for internal company stakeholder use. It may therefore be reasonably assumed that auditor assurors have adopted a similar practice for their CSR assurance engagements as well.

Despite being a specialist CSR assuror and not an auditor assuror, ERM confirmed this assumption by disclosing in their CSR assurance report for Sasol that it had issued a detailed report to management, listing its observations and recommendations for improvement. ERM however, emphasise that its assurance conclusions have not been compromised by this practice. In addition to providing a summary of the key recommendations made in the CSR assurance report, Bureau Veritas (i.r.o. Capital Shopping Centres) confirmed that it provided management with detailed recommendations for improvement. CorporateRegister (2008) confirms the practice of auditor assurors providing internal and not external company stakeholders with additional information.

Whereas Manetti and Becatti (2009) found that 59% of assurors provided recommendations for improvements to consolidate the CSR management processes, programmes and systems, only 36% (n = 18) of CSR assurance reports in this study included recommendations for improvements in their 2011/2CSR assurance reports. Apart from EY i.r.o. British American Tobacco, all CSR assurance reports issued by auditor assurors did not disclose recommendations for improvement. By comparison, the assurance reports issued by non-auditor assurors (n = 17), either included or

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disclosed that they had provided recommendations for improvements.

Manetti and Becatti (2009) however, argue that assurance services should be confined to expressing a professional opinion on the reliability of the information contained in the CSR report, and not to providing recommendations. Since IRAS uses AA1000AS in its assurance engagements, the recommendations for improvement included in its CSR assurance reports are appropriately aligned to the AA1000APS principles of inclusivity, materiality and responsiveness. While several recommendations for improvement provided by CSR assurors relate to information about their specific engagement clients, examples of some of the generic areas highlighted for improvement in the CSR assurance report, include:

- “A strategic review of CSR reporting, including the political risk-management dimension and updated risk-opportunity analysis, should be periodically undertaken to ensure its continued relevance and that the needs of significant stakeholders are being met”.
- “Policies, procedures, reporting standards and measurement criteria should be improved to provide stakeholders with comparable data that stimulates improvements in performance”.
- “More specific data on CSR performance targets should be provided. For example, what is measured, whether it can be measured, how often is it measured, who benefits, how is value shared, etc.?"
- “Having achieved several quick-wins, methods of sustaining current positive performance should be developed and implemented”.
- “On-going stakeholder engagement is required to ensure that significant stakeholder interests are considered, with enhanced stakeholder feedback/explanation of the manner in which CSR information is measured and reported”.
- “The linkages between the actions of management and performance outcomes should be enhanced”.
- “People issues should be reported in appropriate depth”.
- “As a result of known incomplete reporting, the importance of ensuring complete and accurate reporting must continue to be emphasised. This would include the continued training of persons responsible for collating CSR data”.
- “Management review controls should be improved to timeously identify reporting errors”.
- “The formal documentation of assumptions, calculations and the audit trail should be improved”.
- “Reporting standards/frameworks should be more consistently applied”.

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“Assurance processes should be expanded to include site visits where data is tested”.

While the areas for improvement recommended by CSR assurers reflected above illustrate the emerging nature of CSR reporting practices and the need to improve CSR data collection and reporting practices, these recommendations are usually too generic and ambiguous to provide report users with any meaningful insights into the weaknesses requiring remedial action. Assurers confirmed the principle that CSR practices should be aligned to the reasonable expectations of legitimate stakeholders, and should be continually adapted to changing external environmental factors. Recommendations contained in CSR assurance reports suggest that CSR reporting practices will be enhanced through the continued improvement of CSR policies, procedures and reporting practices.

As described in sections 3.2.5.3 and 6.8, assurer independence and objectivity are considered critical elements of a CSR assurance engagement. Providing recommendations for improvement may however, constitute a ‘consulting engagement’, which should be distinctly separate from an assurance engagement. It may therefore be argued that by providing detailed recommendations for improvement, assurers could compromise their independence and objectivity and undermine the credibility of their assurance reports. It is suggested that this dilemma may be resolved by accepting that while assurers should identify weaknesses in CSR processes and reporting, they should refrain from giving advice during an assurance engagement in order to preserve their independence and objectivity.

6.15.2 Reporting company survey

The majority of survey respondents agreed that the assurer’s ability to assist the company to develop its own CSR reporting capacity by providing them with recommendations for improvement was an important factor when selecting a CSR assurance provider (as reflected in Figure 6.15). This also confirms the finding that one of the reasons that some reporting companies do not yet provide independent CSR assurance is that they were still busy building their capacity to do so in the future (as reflected in Figure 6.11).

6.15.3 Assurer interviews

Auditor assurers interviewed confirmed that they issued management with reports containing recommendations for improvement in order to assist them to improve their CSR governance processes and controls. By contrast, arguing that AA1000AS was a more appropriate and comprehensive standard for CSR assurance, specifically requiring the disclosure of “findings, conclusions and recommendations”, the specialist CSR assurer argued that the recommendations
provided for improvement were one of the most important parts of the CSR assurance report. Illustrating how recommendations could add value to reporting companies, the assuror cited the following example: “That number is wrong and this is the right one. This is how I got to it, which is how you ought to get to it. That’s where the value comes. You can’t just end with that number. It is wrong. And unfortunately, because of the increased competitiveness in this space, what the companies are doing is depleting the value from the management report”.

6.15.4 Analysis and integration of results

The observations in the three empirical phases relating to the provision of, and need for recommendations for improvement, confirm the developmental nature of CSR reporting and assurance in South African companies. This is confirmed by the finding that only 26% of JSE-listed companies complied with the de facto requirement to provide independent assurance on their CSR disclosures at the time of the study (as described in sections 2.7.7.2, 3.3.3.2, 6.2.2 and 6.2.4). This observation is aligned to the maturity phase of CSR practices within South African reporting companies, and highlights the need to improve CSR practices (as confirmed by the description on capacity development relating to Figure 6.11).

In addition, as indicated by CSR assurors in section 6.11.2, without having access to the detailed management report containing the recommendations for improvement that auditor assurors provide to their engagement principals, other CSR assurance report users will not have the necessary context to fully appreciate the nature and scope of the assurance engagement, existing weaknesses, or understand the CSR challenges that the reporting company should still overcome. It is accordingly argued that the recommendations for improvement provide stakeholders examining CSR and CSR assurance reports with important insights into a reporting company’s systems, processes and the quality of CSR reporting.

6.16 Assurance opinions

6.16.1 CSR assurance report content analysis

CSR assurance provides stakeholders with confidence that the underlying CSR disclosures may be relied upon. It usually refers to a process that follows professional assurance standards, and leads to the production of an assurance report to accompany the CSR report (IFAC, 2011). The opinion or conclusion expressed in the assurance report is arguably the most important component of an assurance engagement (Al-Hamadeen, 2007). The expression of the assurance opinion is therefore the fundamental objective of the entire assurance engagement, which should not be materially different from what is suggested by the evidence. As described in section 3.2.5.5, CSR
assurance opinions may be influenced by several factors including the assurance level pursued; the assurance engagement objective; and any limitations on the assurance engagement (AccountAbility, 2008a; O’Dwyer et al., 2004). Where warranted by the evidence, assurance opinions may provide additional information and/or include disclaimers or qualified opinions. Examples of assuror statements published in CSR assurance reports providing adverse opinions include “the following could have been covered in more depth”, or “we are not able to obtain sufficient appropriate evidence to draw a conclusion on the accuracy, completeness and validity. Accordingly, we do not express an opinion...

As described in section 3.2.6.3, ISAE 3000 requires the assurance level to be disclosed in the wording of the assurance opinion. Unlike ISAE 3000, AA1000AS does not differentiate between either positively or negatively-framed opinions. Table 6.5 and Figure 6.20, reveal that 25 (50%) of the CSR assurance reports for 2011/2 provided negatively-framed limited assurance opinions (2010/1: 24 – 57% and 2007/8: 8 – 44%); 12 (24%) provided positively-framed reasonable assurance opinions (2010/1: 10 – 24% and 2007/9: 7 – 24%); while 13 (26%) provided a combination of limited assurance on some aspects of the CSR report and reasonable assurance on others (2010/1: 8 – 19% and 2007/8: 3 – 17%).

Table 6.5 - Assurance opinions provided in CSR assurance reports

<table>
<thead>
<tr>
<th>Assurance standard</th>
<th>2007/8</th>
<th>2010/1</th>
<th>2011/2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negatively-framed limited assurance</td>
<td>8</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Positively-framed reasonable assurance</td>
<td>7</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Combination of positive and negative assurance</td>
<td>3</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>42</td>
<td>50</td>
</tr>
</tbody>
</table>
The study established that CSR assurance reports issued by auditor assurors (66% of all CSR assurance reports) all provided negatively-framed assurance opinions, including a few (n = 11, i.e. representing 22%) that provided negatively-framed limited assurance opinions on some dimensions and reasonable assurance opinions on others. In addition, Corporate Citizenship (i.r.o. SABMiller), ERM (i.r.o. Mondi) and the internal audit activity (i.r.o. FirstRand, which did not specify an assurance standard) also provided negatively-framed limited assurance opinions. The certification body provided reasonable assurance, and apart from Corporate Citizenship, the assurance reports of the remaining non-auditor assurors (26%) referencing AA1000AS, all provided positively-framed reasonable type 1 and/or type 2 assurance according to moderate (usually) or high assurance levels. In total, therefore, 38 assurance reports (76%) provided negatively-framed limited CSR assurance opinions.

By comparison, the CorporateRegister (2008) analysis of CSR assurance reports for the five countries depicted in Figure 6.2 established that 50% of assurance reports had positively-framed assurance opinions, 42% had negatively-framed opinions, and 8% did not express any opinion. CorporateRegister (2008) found that certification bodies and specialist consultants usually framed their opinions positively in their assurance reports (i.e. 92% and 73% respectively). By comparison, it found that 83% of assurance reports from the Big 4 auditor assurors tended to provide negatively-framed assurance opinions, and accordingly a limited level of assurance, thus confirming the trend observed in this study.

Negatively-framed limited CSR assurance opinions are usually worded as “nothing has come to our
attention causing us to believe that the ... is not fairly stated in all material respects" or "we are not aware of ...". By comparison, positively-framed CSR assurance reports (i.r.o. reasonable, high and moderate assurance opinions) are usually worded as “in our opinion ... is prepared in all material respects, in accordance with ...” or “are fairly stated in all material respects”.

A deeper scrutiny of the wording used in assurance opinions appears to indicate that auditor assurors tend to confine their reporting to the disclosed information. This disclosure may, for example, be limited in terms of the engagement scope and worded as “the selected sustainability information” or as “presented in the report”. By comparison, the opinions provided by non-auditor assurors tend to refer more comprehensively to the broader CSR performance and/or reporting frameworks. The IRAS assurance opinions, for example, tend to conclude more comprehensively by stating that the “report provides a comprehensive and balanced account of (the company’s) environmental, safety and social performance for the period under review”. When examining the nature of the opinion provided, while some reports acknowledged isolated errors, or identified areas requiring improvement, no assurance opinions were withheld (i.e. disclaimers of opinion) or were qualified (i.e. reporting major contraventions and/or significant reporting errors).

The prominent CSR assurance role currently played by auditor assurors and the fact that they tend to adopt ISAE 3000 reflects the clear preference for providing negatively-framed limited assurance engagements, and accordingly, assurance opinions. Nevertheless, while the provision of limited assurance opinions may appear to have remained relatively constant, the combination of the provision of both positive and negative assurance has grown. Multiple assurance opinions within a single CSR assurance report are expected to continue growing as the assurance processes and methodologies of (primarily) auditor assurors mature and adapt to accommodate the needs of their engagement principals, which may in turn be responding to stakeholder requirements.

6.16.2 Reporting company survey

As illustrated in Figure 6.18 in section 6.6, the majority of survey respondents confirmed that the audit opinion provided was one of the most important components of a CSR assurance report.

6.16.3 Assuror interviews

Aligned to the ultimate objective of independent CSR assurance being to confirm the veracity of CSR disclosures, some assuror participants asserted that the assurance opinion was the most important aspect of an independent CSR assurance report. The assurance opinion should therefore indicate whether the underlying CSR disclosures could be relied upon for decision-making. This is implied by the comment that: “More recently our engagement is really going high up in the
organisation. It is going to the CEO. It is going to the CFO. It is going to the audit committee.”
At the same time, the comment’s focus on internal stakeholders appears to confirm instrumental
shareholder assertions described in sections 2.4.2 and 2.4.7.

6.16.4 Analysis and integration of results

The assurance opinion provided reflects the assuror’s view as expressed in the assurance report
about the veracity of the underlying CSR disclosures, as measured against appropriate
predetermined criteria and standards (AccountAbility, 2008a). The assurance opinion is therefore a
key component of the CSR assurance engagement (Al-Hamadeen, 2007). Paragraph 49(j) of
ISAE 3000 allows assurors to provide separate opinions when the assurance engagement covers
several aspects of a CSR report.

While reasonable and limited assurance opinions may refer to fundamentally different assurance
levels, the actual wording used is usually so discreet that an uninformed person may not notice the
difference. At first reading there appears to be little difference between negatively-framed and
positively-framed assurance opinions expressed in CSR assurance reports. When delving deeper, it
becomes clear that by expressing a positively-framed assurance opinion, the assurance provider
confirms that the evidence suggests that the disclosed information is reliable. By contrast, in
negatively-framed assurance opinions the assuror indicates that it cannot see any reason why the
results should not be as expected. Since auditor assurors are the primary collective providers of
independent CSR assurance reports, it may be argued that the implied limitations of their
negatively-framed limited assurance opinions impair the underlying objective of independent CSR
assurance. This is exacerbated by the tendency for auditor assurors to limit their liability to their
engagement principals (as described in section 6.11). Conversely, CSR assurance opinions
provided by non-auditor assurors tend to provide higher assurance levels (Owen & O'Dwyer, 2004).
This nuanced differentiation however, creates user confusion that undermines the purpose of
independent assurance.

The empirical results suggest that by providing positively-framed reasonable assurance opinions,
non-auditor assurors tend to provide higher levels of assurance (Ackers, 2009; Manetti & Becatti,
2009; Marx & Van Dyk, 2011; Wiertz, 2009). By comparison, auditor assurors tend to provide
negatively-framed limited assurance opinions. Moreover, specialist CSR assurors typically consist of
CSR experts who can add value to both the reporting company and its stakeholders through
enhanced commentary (Owen & O'Dwyer, 2004). Despite auditor assurors tending to provide
lower levels of assurance, it may paradoxically be argued that CSR assurance provided by auditor
assurors continue to be perceived by stakeholders as being more credible than assurance provided
6.17 Adequacy of existing CSR reporting and assurance frameworks and standards

6.17.1 Background

Unlike the standardised format and layout of AFS audit reports with which all auditors must comply (Al-Hamadeen, 2007; Maury, 2000), this study identified significant variation in the layout and structure of CSR assurance reports. This variation is particularly evident amongst the different CSR assurance providers, even reflecting differences in the CSR assurance reports issued by the same CSR assuror. Not only did the structure of the various CSR assurance reports differ, but the nuanced wording used in CSR reports also tends to result in different interpretations of the same phenomena. This assertion may be illustrated by the description on limited and reasonable assurance levels and opinions reflected in sections 6.13 and 6.16. A further example relates to the nature and extent of work performed during the assurance engagement. Whereas some assurance engagements may involve verifying CSR-related disclosures, others may only consist of interviews or perfunctory reviews of processes and/or documentation (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009).

This study reveals that existing CSR assurance practices, and accordingly, CSR assurance reports do not provide stakeholders, who are arguably the intended audience for CSR reporting (Aras & Crowther, 2008; Eccles, 2010; Gouws & Cronjé, 2008; Morimoto et al., 2005) with confidence that the underlying CSR disclosures can be relied upon, or are comparable. This is exacerbated by the wide range of terminologies used to describe CSR-related issues (Aras & Crowther, 2008; Kirdahy, 2007b; Votaw, 1972). These terms, possibly meaning different things to different people, are often used interchangeably. The absence of a standardised framework for reporting CSR performance results in different issues being reported, impairing the ability to ensure that all material CSR-related issues are consistently disclosed (Aras & Crowther, 2008; Jenkins, 2001; Manetti & Becatti, 2009; Morimoto et al., 2005).

The lack of clarity in CSR assurance reports is highlighted when reviewing the engagement scope, the assurance work undertaken and the disclosed assurance engagement limitations. Moreover, the nature of the company’s operations and/or the industry sector implies that different CSR-related issues may be material to the various reporting companies. The complex scope of CSR-related issues directly influences the nature and scope of the CSR assurance engagement, which not only impairs user comprehension about the aspects of CSR performance that have been assured, but more importantly, by omission, the areas that have not. Report users may therefore require in-depth knowledge about the company and/or industry in order to properly comprehend
the impact of CSR reporting and assurance.

Despite still being in the early developmental stages, both the demand for, and the provision of CSR reporting and assurance are expected to continue growing, even if only to comply with the King III and JSE listing requirements in South Africa. It is predicted that existing CSR reporting and assurance practices will harmonised over time. By comparison, despite having already been a mandatory requirement for several centuries, financial accounting and assurance practices still continue evolving.

6.17.2 Mandatory and voluntary CSR reporting and assurance

The lack of a mandatory CSR assurance standard that is universally applicable to all CSR assurers undermines the ability of CSR report and CSR assurance report users to compare CSR performance and does not provide adequate confidence that the underlying disclosures may be relied upon (Manetti & Toccafondi, 2012). Despite this study asserting that companies disclose their CSR performance to comply with the King III principles, and King III advocating voluntarism, the majority of survey respondents and assurers interviewed supported the imposition of government regulation and legislation for CSR reporting and assurance, as asserted by Ho and Wong (2001).

The risk however, exists that companies will support perfunctory and relatively weak codes of governance instead, adopting a ‘tick-box’ approach by only complying with the minimum requirements (Wells, 2007; Jenkins, 2001). Therefore, despite the arguments in favour of voluntarism (Ackers, 2009; Esser, 2008; Marx & Van Dyk, 2011; Orlitzky et al., 2003; Owen, et al., 2000; Rea, 2011; Wines, 2008), in order to improve CSR governance, it is submitted that government should legislate, regulate and stringently enforce CSR compliance (Spencer [sa]; van Gass, 2008), notwithstanding Becht et al.’s (2005) contention that regulators may be ill-equipped.

While it may be argued that mandatory legislation would facilitate the standardisation of CSR reporting and assurance practices, enhancing report usability and comparability, it is nevertheless acknowledged that mandatory requirements may also result in ‘tick-box’ compliance and even a desire to ‘beat the system’. Moreover, it is suggested that company management’s aversion to government regulation and intervention (as described in section 2.7.5) makes it is unlikely that companies would lobby for government intervention. Nevertheless, despite the existing impasse between mandatory and voluntary CSR reporting and assurance, this study examines what is ostensibly a de facto mandatory requirement for CSR reporting and assurance.

Within a CSR context, the inappropriateness of voluntarism, is confirmed by both reporting company survey respondents and assurers interviewed (as described on page 175), both
supporting the imposition of regulatory mandatory CSR reporting and assurance. Indicating that CSR reporting and assurance was already mandatory in certain countries, assurors suggested that it would become mandatory in South Africa as well.

6.17.3 Standardisation of CSR reporting and assurance

Transparency and accountability are the fundamental principles underlying CSR reporting (CorporateRegister, 2008; Okoye, 2009), aimed at providing stakeholders with pertinent and usable information (Archel et al., 2008; Gouws & Cronjé, 2008; Morimoto et al., 2005). Unlike externally oriented financial reporting, which is mandatory for all companies and usually covered by IFRS, CSR reporting guidelines are voluntarily adopted and not prescriptive (Ackers, 2009; Marx & van Dyk, 2011; Rea, 2011), with their application being subject to interpretation by the reporting company (Archel et al., 2008).

The disparate assurance practices utilised by the various assurance providers and the lack of universally accepted frameworks for CSR reporting and assurance, result in CSR assurance practices that do not adequately provide stakeholders with confidence that the underlying CSR disclosures are complete and may be relied upon (Morimoto et al., 2005). It is accordingly argued that unless CSR reporting practices are standardised, it will not be possible to provide stakeholders with confidence that the assurance reports confirm that the underlying CSR disclosures are either reliable or comparable. These proposed CSR reporting standards should be specified in sufficient detail, similar to that IFRS, in order to avoid their inconsistent interpretation and application.

Despite the existence of several frameworks for CSR reporting, the GRI provides the most widely used and may serve as a proxy for a CSR reporting framework (as described in section 2.7.7.3) (Black & Quach, 2009; KPMG, 2011). Since the application of the GRI is voluntary, its implementation remains subject to interpretation, resulting in extensive variation and impairing comparability. Moreover, since the GRI is a reporting and not an accounting standard, it does not provide sufficient detail to clarify ambiguity or to overcome its inconsistent application (as described in section 2.4.7). Given its widespread acceptance, it is nevertheless proposed that the GRI dimensions should inform the CSR components that companies must report on. Unlike the GRI however, to avoid selective reporting, companies should not have flexibility to decide on the indicators that they wish to report on. The GRI G4 version of the standard incorporates the principles for defining report content (including materiality, stakeholder inclusiveness, sustainability context and completeness); and the principles for ensuring report quality (namely balance, comparability, accuracy, timeliness, clarity and reliability) (GRI, 2013a). As described in section 2.7.8, the GRI identifies the dimensions of CSR reporting and classifies it according to its
economic, environmental and social impacts (GRI, 2013a). The economic dimension includes economic performance, market presence, indirect economic impacts and procurement practices. The environmental dimension covers aspects of materials, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transport, overall, supplier environmental assessment and environmental grievance mechanisms. The social dimension is broadly categorised into the sub-categories of labour practices and decent work; human rights; society; and product responsibility.

Until existing anomalies in CSR reporting are addressed, the development of a conceptual CSR assurance framework that can be consistently applied around the world, by different types of assurance providers, and that will provide stakeholders with confidence that the underlying CSR disclosures may be relied upon and are comparable, will remain an elusive goal. To overcome this deficiency, it is proposed that CSR reporting and assurance should be regulated. This should stimulate the development of frameworks/standards for CSR reporting and assurance that may be consistently applied by all CSR assurance providers.

This thesis proposes that a mandatory regulatory mechanism should be developed and implemented, which should prescribe a clearly defined CSR reporting standard to avoid selective disclosure. While this proposed reporting standard should be based on the GRI G4 and consistently applied, reporting companies should not have the discretion to ‘cherry pick’ and selectively disclose their CSR reporting dimensions. This proposed reporting standard should form the basis for developing a CSR assurance standard with which all assurance providers, irrespective of type, must comply. Given the global diversity of CSR assurance providers, as introduced on page 252, it is posited that a representative body of all assurance providers should collaborate to develop this proposed new assurance standard. All CSR assurors should be required to register with the proposed oversight body. Moreover, accepting that the various parties currently providing independent CSR assurance will continue doing so, the proposed assurance standard should prescribe the minimum qualifications and experience that CSR assurance providers should possess.

To ensure that CSR reporting and assurance provides stakeholders with confidence that the respective reports produced by the various reporting companies and assurance providers refer to the same issues and are comparable, a conceptual framework for CSR assurance engagements, based on the proposed CSR reporting standard must be developed. This proposed framework, which should be consistently applied by all CSR assurors, irrespective of assuror type, will improve the comparability of CSR assurance reports and reduce stakeholder confusion. Moreover, since reporting company CSR disclosures should reflect the manner in which companies account to their broader stakeholders for their non-financial performance, as envisaged by AA1000SES (as
described on page 73), assurers must engage with representative stakeholder bodies and address their CSR assurance reports to the stakeholders and not only to the company (as is currently the practice by auditor assurers). Despite the anomalies in CSR assurance practices identified in this thesis, one of the most contentious issues that must be overcome in order to improve consistency is the scope of the various assurance engagements. It is however, argued that defining the scope of CSR activities covered in an assurance engagement can only be standardised once appropriate CSR reporting frameworks have been developed and standardised.

6.17.4 CSR assurance framework

To ensure that CSR assurance provides stakeholders with confidence about the usefulness and veracity of company CSR disclosures, before a conceptual framework for CSR assurance can be developed, a suitable CSR accounting and reporting standard must first be developed, implemented and consistently applied. This CSR accounting and reporting standard should not only address the scope of activities that should be covered, but also prescribe the manner in which the various dimensions should be accounted for and disclosed. The CSR assurance framework should therefore ensure that the CSR assurance engagement considers all the CSR-related issues material to the reporting company, in order to provide stakeholders with confidence that the underlying CSR disclosures are complete, valid, accurate, reliable, relevant, comparable, and presented in a usable format.

6.17.5 Regulation

As implied by both reporting company respondents (as reflected in Figure 5.6) and assurer participants (as described on page 175), and contrary to the King III principle of voluntarism (as described in section 2.7.5.3), this thesis argues that regulations and legislation should be promulgated to prescribe mandatory and detailed CSR accounting, reporting and assurance standards to introduce an element of consistency, and enhance comparability. This should reduce the impact of anomalies such as the type of assurance provider, the assurance standard, the assurance engagement scope, the assurance provider’s qualifications and expertise, and the assurance procedures used.

Despite proposing the imposition of mandatory frameworks, these should remain sufficiently flexible to accommodate individual company heterogeneity based on regional differences, CSR reporting experience, the size and scale of company operations, and stakeholder expectations (CorporateRegister, 2008; De Beelde & Tuybens, 2013). In order to ensure consistency and comparability, a typical independent CSR assurance report should therefore refer concisely and unambiguously to the (AccountAbility, 2008a; Al-Hamadeen, 2007; ICAEW, 2004):
• assurance engagement objectives and scope
• the respective responsibilities of management and the assuror
• the assurance methodology deployed
• the stakeholder engagement process
• the systems, processes and underlying data
• the engagement limitations
• the engagement results
• the assurance opinion(s) relating to the veracity of the underlying CSR disclosures

6.18 Suitability of the SAICA-endorsed curriculum to prepare CSR auditor assurors

Since the audit profession is a significant provider of CSR assurance (as illustrated by Figure 6.13) (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & van Dyk, 2011; O'Dwyer et al., 2011; Perego & Kolk, 2012; Wiertz; 2009), auditor assuror interview participants were probed to establish whether the existing curricula for aspirant auditing practitioners at South African tertiary academic institutions adequately address and develop the competencies needed to provide CSR assurance. In this regard, Gouws and Cronjé (2008) acknowledge that the existing education, training and development regimen for auditing candidates, prescribed by SAICA, inadequately address CSR reporting and assurance. It is therefore appropriate to briefly consider the auditing profession’s ability to capitalise on this emerging opportunity to expand their range of assurance services (as reflected in the research objectives in section 4.2.3). Arguing that it was more important for tertiary education institutions to continue developing conventional auditing skills, one participant suggested that qualified auditors could easily be trained to provide CSR assurance, as indicated by the following statement:

“It is better to take a trained auditor and help him understand how to calculate a carbon footprint, than to take an engineer and turn him into an auditor. The most important thing for me is the discipline in documentation and a sceptical mind-set and those are things that I think people learn through universities and their (auditing) training contracts and that is not something you can instil in somebody who is five to six years into their careers in a different discipline. I think the curriculum of trainees is already quite full. For that reason I don’t think all our trainees should be experts in GRI or AA or anything like that. I do believe they need to understand the concept of integrated reporting well. And I think that they need to know that there are frameworks and that the indicators are defined.”
By contrast, predicting that the auditing curriculum will continue to evolve over time to include elementary CSR-related issues, a participant provided the analogy that: “many years ago, data processing was a very important subject in the curriculum, because it was a completely new thing and everybody had to know what it was about. But you know that it was an awareness course but nothing else. So you became aware, but you were not an expert at that point in time.”

Suggesting that the lack of involvement by tertiary institutions in the development of CSR competencies could be overcome by using appropriately skilled multidisciplinary teams, another assuror participant argued that the apparent lack of skills was a ‘non-issue’ since “we call in specialists when we do an IT audit, or when we do an insurance company we call in an actuary”.

Similarly, to compensate for a lack of the technical CSR skills that may be required to address particular aspects of an assurance engagement, auditor assurors may rely on the expertise of specialists to assist in their CSR assurance engagements when required, as envisaged by ISA 620. An assuror confirmed the depth of its extended multidisciplinary skills resource pool by commenting that: “I presently have two engineers who do the technical work and my auditors do the documentation. They are the brains that walk through the client and check for this and check for that. The actual auditing and documenting and the expressing of the opinion, I can see being done by the auditors”.

6.19 Conclusion

The assuror interviews revealed that CSR assurance was not a new phenomenon with most CSR assurors already been involved in CSR reporting, consulting and assurance services for some time (usually longer than the reporting companies studied). Moreover, the depth of knowledge and experience of assurors involved the provision of CSR reporting and assurance services, enhanced by insights from continuous interaction with various reporting companies, improve the ability of assurors to understand the contextual nature of the emerging characteristics of CSR reporting and assurance (albeit skewed in favour of their own organisations).

As illustrated in Figure 5.2 a broad range of stakeholders rely on the CSR disclosures provided by reporting companies. Despite acknowledging the relative importance of all stakeholders, interview participants confirmed the prevalence of instrumental shareholder primacy by identifying the primary users of both CSR reports and CSR assurance reports as being management and the reporting company’s shareholders. Auditor assurors interviewed accordingly confirmed that they addressed their CSR assurance reports to their principals at the reporting company. Furthermore, auditor assurors justified their practice of limiting their liability to their assurance engagement principals by arguing that since they were engaged by the company, they had a concomitant duty
to report to them. Moreover, these auditor assuror participants asserted that the CSR assurance report findings could only be fully understood and interpreted by parties who were in possession of the detailed management report. By contrast, the non-auditor assuror emphasised the importance of engaging stakeholders in order to identify and include the parties that were likely to rely on the reporting company's CSR disclosures. Assurors should therefore address their CSR assurance reports to the broader stakeholders that rely on the underlying CSR disclosures, and not only to company shareholders and management.

The study revealed a growing trend for the larger top 200 JSE-listed companies to provide independent CSR assurance, as asserted by slack resource theory described in section 2.4.6 (Cacioppe et al., 2008; Eccles et al., 2008; Jenkins, 2001; Maignan et al., 1999; Orlitzky et al., 2003; Saleh, 2009; Waddock & Graves, 1997). Despite the CSR assurance rate only representing 26% of reporting companies studied in 2011/2, this represented 70% of the total JSE market capitalisation in April 2012. This disproportionate growth in the provision of CSR assurance confirms the assertion that larger companies were more likely to provide independent CSR assurance. The study also revealed a greater propensity for companies in the heavily regulated resources, financial services and telecommunications industries to provide independent assurance on their CSR disclosures. Despite the relatively slow uptake, the data in the study reveal that the provision of independent CSR assurance has grown steadily, increasing significantly following the implementation of King III. It is accordingly predicted that this upward trend will continue accelerating (Davis, 2005; Salgado, 2008) as the CSR practices of reporting companies mature and as they develop their capacity to comply more fully with the King III principles.

Reasons advanced by survey respondents for providing independent CSR assurance included that it was a King III requirement; it demonstrated improved transparency, responsibility, accountability and good corporate citizenship; and it improved the extent of reliance that stakeholders could place on the underlying company CSR disclosures. Conversely, the primary reasons advanced for not providing CSR assurance were that it provided minimal value to stakeholders; stakeholders trusted their company CSR disclosures; stakeholders did not use the disclosed CSR information for decision-making; it was too expensive and too time consuming; it was sufficient that their CSR disclosures were reviewed by internal audit; or because it was not a legal requirement.

Despite the assertion that independent CSR assurance illustrates the company's commitment to broader stakeholder accountability, reasons provided by survey respondents for not doing so, appear to support the contention that some companies will only provide independent CSR assurance if it was a legal requirement. It also confirms that certain aspects of CSR were already mandatory, for example BBBEE. In this regard, as described in section 2.7.7.2, it is argued that
independent CSR assurance provision was already a mandatory requirement in terms of the JSE regulations, albeit on a ‘apply or explain’ basis. Even though several companies did not provide independent CSR assurance at the time of the survey, they were developing their capacity to do so in the future. Assurers interviewed suggested that some reporting companies do not provide CSR assurance due to deficiencies in the systems recording and monitoring their CSR performance; inappropriate evaluation criteria; it being considered to be an unnecessary expense that does not add value; or because reporting companies know that their CSR data were unreliable and would not withstand rigorous assurance scrutiny.

Similarly, assurers interviewed suggested that reporting companies provide independent assurance on their CSR disclosures in order to adhere to the King III requirements; to enhance the company’s own confidence in the information provided; to reduce the information asymmetry arising from the agency problem; to legitimise the company and its operations; and/or to respond to peer/industry pressure. The decision for reporting companies to select a particular CSR assurance provider was accordingly not based on any single factor, but on a combination of the expertise, track record, global reach and reputation of the CSR assurer, with the engagement cost also playing an important role. To ensure that the assurance engagement was undertaken by a competent assurance team, some assurers interviewed suggested that the diverse nature of the activities covered in specific CSR assurance engagements often require the use of multidisciplinary assurance teams. While this may suggest a strong preference for large established assurers, this deficiency may be overcome when smaller assurers contract in specialist skills when appropriate. Aligned to the decision to select a CSR assurer, the various assurer participants identified different aspects of the CSR assurance report as being the most important. These included the engagement scope, the information relevance, the materiality of the disclosures, the assurer’s credibility and brand, the assurance opinion provided and the recommendations for improvement.

Despite the observation that 59% of survey respondents revealed that their respective companies provided independent assurance on their CSR disclosures, with several already having being doing so since before the advent of King III, this was not corroborated by the content analysis, which found that only 26% of the companies studied published their independent CSR assurance reports. The majority of respondents at companies that did not provide independent CSR assurance indicated that they planned doing so by 2015. Since the sample for both the content analysis and the survey dealt with exactly the same research population, it is proposed that this divergence may be attributed to the purposive selection of respondents combined with possible respondent bias. Nevertheless, despite this possible respondent bias, the survey observations illustrate a growing awareness amongst respondents at reporting companies for CSR reporting and assurance.
The content analysis observation that auditor assurors were the most common CSR assurance providers was confirmed by survey respondents. These findings confirm the observations of other researchers (Ackers, 2009; CorporateRegister, 2008; Manetti & Becatti, 2009; Marx & Van Dyk, 2011) that auditor assurors (and the Big 4 in particular) collectively continue to provide the majority of CSR assurance reports. While internal auditors were perceived as the second most common CSR assuror, this was not validated by the content analysis of published independent CSR assurance reports, which only identified a single instance of reporting companies publishing a CSR assurance report issued by an internal audit activity in each of the periods covered by this study. It is suggested that this discrepancy may be attributed to CSR assurance provided to internal company stakeholders, by the internal audit activity using a risk-based audit approach as part of combined assurance described in section 2.7.7.2 (Coetzee & Lubbe, 2011; IoD, 2009b; PwC, 2009; Sarens et al., 2012), and is therefore not intended for external stakeholder consumption. As described on page 220, in several instances, this internal audit involvement was disclosed in the body of the annual report and not in a CSR assurance report.

Although the content analysis observed that collectively, auditor assurors were the primary providers of independent CSR assurance, survey respondents actually indicated that specialist CSR assurors were the most suitable providers of independent CSR assurance, followed by internal auditors and the Big 4 audit firms. This paradox may be attributed to the observation that apart from Michael Rea at IRAS (whose practice grew significantly during the five year period covered by the content analysis study), other specialist CSR assurors did not yet develop their capacity to meaningfully penetrate the South African independent CSR assurance market, which has historically been dominated by the Big 4 auditor assurors. Moreover, the global scale of operations of the Big 4 audit firms imply that they may have access to deep pools of specialist resources and skills, albeit contracted in. Respondents perceived non-Big 4 audit firms as being the least appropriate organisations for providing independent CSR assurance, probably due to their respective firm brands not being as recognisable as the Big 4 audit firms, as well as the perception that external auditors were not necessarily experts in all types of assurance. This may be as a result of the perception that the relative size of smaller audit firms may mean that they did not have the requisite skills to meaningfully undertake a CSR assurance engagement.

As CSR reporting and assurance become embedded in South African company practice, and as more independent CSR assurors start providing CSR assurance, this Big 4 audit firm dominance is expected to diminish over time. Although participation by specialist CSR assurors is expected to grow due to their specialisation in CSR-related matters and the provision of ‘value-added’ advice as described in section 6.4.2 and highlighted by Figure 6.15, the audit profession is expected to remain the collective primary provider of independent CSR assurance, primarily due to their
entrenched reputation in the South African commercial environment. Despite potentially compromising their independence and objectivity, the need for assurors to provide value-added advice also highlights the reporting company’s need for assistance to improve the consistently quality of its CSR practices and disclosures, confirming that CSR reporting and assurance practices are still in a developmental stage.

The content analysis observations suggest that non-auditor assurors provide greater levels of assurance, greater value-added by producing recommendations for improvement and are accordingly identified as being the preferred providers of independent CSR assurance by reporting company survey respondents. Nevertheless, assurance provided by auditor assurors may still be perceived as being better than assurance provided by non-auditor assurors (Owen & O’Dwyer, 2004; Wiertz, 2009), as illustrated by the content analysis finding that collectively, auditor assurors were the primary providers of independent CSR assurance.

The content analysis reveals that the most comprehensive and unambiguous CSR assurance reports appear to be those issued by specialist CSR assurors, especially CA-Governance and to a lesser extent IRAS. By contrast, the CSR assurance reports issued by auditor assurors tend to be more ambiguous and generic, without providing the necessary detailed information relating to each specific engagement that stakeholders may require for decision-making. In this regard, both the structure and format of CSR assurance reports issued by auditor assurors appear similar to those provided by the auditors of conventional AFS audits (refer to Table 7.1), which largely reflect compliant or non-compliant performance within predetermined parameters, but without providing the underlying detail necessary to meaningfully interpret and understand the nature and scope of the CSR assurance engagement and accordingly the CSR assurance report. Even though non-auditor assurors appear to disclose more relevant information relating to their CSR assurance practices than auditor assurors, it is asserted that these disclosures still do not consistently adequately cover all the material issues that the users of CSR reporting and assurance may consider important. Moreover, the inconsistent application and the technical nature of the CSR assurance engagement practices further undermine the extent of reliance that stakeholders may place on the CSR assurance report and the underlying CSR disclosures.

The data considered in the content analysis phase of the thesis were confined to information that was publicly available. Therefore, while this thesis acknowledges the established practice that CSR assurors usually provide a separate management report reflecting the detailed results of the assurance engagement as well as recommendations for improvement, this report is usually produced confidentially and is not publicly available.
While the content analysis found that AA1000AS and ISAE 3000 were the primary standards used on CSR assurance engagements, these standards mean different things (AccountAbility, 2008a). While the assurance standard most suitable for providing meaningful CSR assurance remains a contentious issue for assurance providers, the decision about which standard(s) to use is primarily driven by the type of CSR assurance provider. The lack of a universally accepted CSR assurance standard that consistently applies to all providers of independent CSR assurance increases stakeholder confusion, and undermines their ability to understand the nature, scope and results of the CSR assurance engagement. This particularly applies when trying to establish exactly which aspects of the CSR report were assured, which aspects were excluded and even the extent to which CSR assurance was provided. This ambiguity is further complicated by the emerging nature of the CSR assurance phenomenon and the CSR maturity of the reporting company, which may result in certain reporting companies changing their CSR assurers as they attempt to understand which assurer provides greater value, or even which assurer will give them the confirmation that they seek. Moreover, this impact is further exacerbated by the considerable variation in the poorly defined assurance engagement scope by the diverse assurance providers in their various CSR assurance reports. Collectively, these factors cloud perceptions about the confidence that the broader corporate stakeholders can gain from the independent CSR assurance provided, and accordingly, the veracity of the underlying CSR disclosures. The development of a new CSR assurance standard applicable to all assurers should address some of the identified shortcomings and reduce the confusion caused by the various assurers using different assurance standards that may suit their organisations, but do not adequately respond to the needs of reporting companies.

The observation that the majority of CSR assurance reports were addressed to ‘internal company users’, confirms the contention of auditor assurers interviewed that the intended beneficiaries of their CSR assurance were their engagement principals. Moreover, this assertion is confirmed by the practice of auditor assurers deliberately confining their assurance reports to their principals and excluding any ‘non-intended users’ from relying on their CSR assurance reports and, accordingly, the underlying CSR disclosures. Despite the objective of CSR reporting and assurance being to transparently account to the broader company stakeholders for the impact of corporate operations, this implies that CSR assurance reports are produced for the benefit of the company’s shareholders and not for their stakeholders, effectively undermining the fundamental objective of CSR reporting and assurance. Instrumental shareholder primacy is further confirmed by the preferred use of auditor assurers by reporting companies, despite a declared preference for specialist CSR assurers.

The increase in the demand for CSR assurance together with the expectation that it will continue growing, provide opportunities for new CSR assurance providers to begin providing independent assurance on company CSR disclosures, as well as for existing assurers to increase their
penetration of the CSR assurance market. Leveraging on the positive association with the South African audit profession, the anticipated increased demand for independent CSR assurance presents an opportunity for auditor assurors to expand their range of professional services. At the same time, CSR assurance addresses the audit expectation gap (as described in section 3.3.3.5). While it may be argued that the Big 4 audit firms have already entrenched their collective CSR assurance dominance, in order to capitalise on this emerging opportunity emerging CSR assurors need to develop their capacity and ensure that they have access to the necessary competencies (either in-house or in-sourced) to provide this service at an appropriate standard. Moreover, the current intransigence of the broader audit profession in CSR-related issues creates an opportunity for professional bodies (such as SAICA), tertiary education institutions and independent training providers to design and provide training and development programmes aimed at developing the competencies necessary to undertake CSR assurance engagements. On the other hand, failing to capitalise on the opportunities emerging from the anticipated increased demand for independent CSR assurance will result in non-auditor assurors increasingly assuming this role at the expense of the audit profession (as predicted in section 6.4).
## CHAPTER 7

### CONTRIBUTION AND CONCLUSION

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7.1 Introduction

This concluding chapter provides a brief synopsis of this thesis, highlighting significant conclusions representing its academic contribution. Chapters 2 and 3 provide the theoretical framework by introducing and describing the academic discourse relating to CSR reporting and CSR assurance respectively. Within the context of this theoretical framework, Chapter 4 identifies the research objectives and describes the methodological orientation of this study. Chapters 5 and 6 describe the collective results of the three empirical research phases in terms of the CSR reporting and CSR assurance theoretical frameworks. This final chapter concludes the thesis by reflecting on the extent to which the research problem and objectives have been addressed, and establishes the basis upon for defending the thesis statement advanced for this research.

The content analysis of CSR reports and CSR assurance reports provided the initial source of empirical data used in this study, while the survey responses assisted to understand the emerging characteristics of CSR assurance from a reporting company perspective. The survey observations identified additional characteristics that were not detected in the content analysis phase, while also validating the observations of the other research phases. The survey established that despite its recent topicality, independent CSR assurance provision was not a new phenomenon. Several reporting companies had already been having their CSR disclosures independently assured, before it was required by King III and JSE. Others only started doing so after the King III and JSE requirement, while the remaining non-compliant companies confirming that they planned doing so in the future. Similarly, most assurors interviewed revealed that they had already been providing CSR assurance services to their clients for some time.

The study identifies a variety of assurance providers that currently provide independent assurance on the CSR disclosures of reporting companies, usually covering a different assurance engagement scope and deploying various CSR assurance practices. These diverse CSR assurance practices undermine the true objective of independent assurance on CSR disclosures, and do not adequately provide stakeholders with sufficient confidence that the underlying CSR disclosures may be relied upon.

7.2 Comparison between CSR assurance and AFS audit engagements

Since the audit profession remains the primary provider of independent CSR assurance, and given the similarities between auditing and assurance, it is appropriate to briefly consider CSR assurance engagement practices and characteristics against the established and standardised practices relating to AFS audit engagements. Table 7.1 provides a synopsis of pertinent observations extracted from the content analysis in the first phase; the interviews in the third phase; and the
assurance frameworks used. In this regard, auditor assurors used ISA 700 for AFS audit engagements and ISAE 3000 for CSR assurance engagements. By contrast, non-auditor assurors primarily used AA1000AS. Unlike the highly regulated and mandatory AFS audits, and despite the implications of the King III principles and the JSE regulations, CSR assurance remains largely unregulated.

The lack of an enforceable regulatory CSR assurance regime has impaired the development of standardised CSR assurance practices. This has resulted in the inconsistent application of different CSR assurance practices by various CSR assurance providers. The information contained in Table 7.1 contextually differentiates between the practices of auditors involved in AFS audit engagements and the CSR assurance engagement practices of both auditor assurors and non-auditor assurors. Table 7.1 therefore differentiates between the primary characteristics of CSR assurance provided by each type of CSR assurance provider, juxtaposed against the characteristics of AFS audits.

Therefore, where appropriate, the table only provides an overview of the most common characteristics. However, unlike the CSR assurance characteristics that were empirically established in this study, the characteristics of AFS audits were determined from the auditing standards (ISAs)n, or are anecdotal and based on experience.

Table 7.1 - Synopsis of research results

<table>
<thead>
<tr>
<th></th>
<th>AFS auditors</th>
<th>CSR auditor assurors</th>
<th>CSR non-auditor assurors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory framework</td>
<td>Mandatory: • Companies Act • Public Audit Act</td>
<td>Ostensibly voluntary: • King III • JSE regulations</td>
<td>Ostensibly voluntary: • King III • JSE regulations</td>
</tr>
<tr>
<td>Engagement scope</td>
<td>All transactions influencing the company’s annual financial statements</td>
<td>Determined by the reporting company</td>
<td>Determined by the reporting company</td>
</tr>
<tr>
<td>Assurance providers</td>
<td>Only IRBA auditors registered in terms of above legislation</td>
<td>Not specified: • audit firms (primarily the Big 4) • internal audit</td>
<td>Not specified: • certification bodies; • specialist CSR assurors</td>
</tr>
<tr>
<td></td>
<td>AFS auditors</td>
<td>CSR auditor assurors</td>
<td>CSR non-auditor assurors</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>--------------</td>
<td>----------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Independence</td>
<td>The audit report title must disclose the independence of the auditor</td>
<td>The assurance report title must disclose the independence of the assuror</td>
<td>AA1000AS requires assurors not to accept engagements where their independence would be compromised</td>
</tr>
<tr>
<td>Report addressee</td>
<td>According to the terms of the engagement</td>
<td>The party or parties to whom the report is directed, which should include all possible users</td>
<td>AA1000AS requires the assurance report to clearly identify the intended users of the assurance report</td>
</tr>
<tr>
<td>Assuror’s liability</td>
<td>Not stated but implicitly confined to the members, as indicated in the report addressee</td>
<td>Limited to their engagement principals</td>
<td>No restriction</td>
</tr>
<tr>
<td>Standards</td>
<td>Comprehensive auditing standards (ISAs) relating to various aspects of the audit engagement</td>
<td>Primarily ISAE 3000, although AA1000AS is used when requested by reporting company</td>
<td>Primarily AA1000AS, with the occasional use of ISAE 3000, ISO19011 and ISO14064-3:2006</td>
</tr>
<tr>
<td>Competencies</td>
<td>Not stated since auditors have to be registered with the IRBA which has specific competency requirements</td>
<td>ISAE 3000 requires auditor assurors to only accept engagements for which they have the necessary competencies</td>
<td>AA1000AS requires assurors to only accept engagements for which they have the necessary competencies</td>
</tr>
<tr>
<td>Recommendations</td>
<td>Not required, although the established practice is to provide a separate management report</td>
<td>Not required, although established practice is to provide a separate management report</td>
<td>AA1000AS requires assurors to include recommendations for improvement in a published assurance report</td>
</tr>
<tr>
<td>Assurance levels and opinion</td>
<td>Usually reasonable, with opinions being qualified, qualified or disclaimed</td>
<td>Either reasonable and/or limited, but usually provided in a negative form limited opinion that may be qualified, qualified or disclaimed</td>
<td>Either moderate and/or high, but usually a reasonable opinion expressed in a positive form</td>
</tr>
</tbody>
</table>

Despite isolated exceptions, such as Enron, WorldCom etc., Table 7.1 appears to suggest that the highly regulated AFS auditing environment has produced robust, consistent and comparable auditing practices relating to AFS audit engagements. By comparison, the various CSR assurance
approaches deployed by the different CSR assurors in this study do not appear to be as robust, or have been inconsistently applied, impairing comparability. It is also acknowledged that CSR assurance's voluntary nature does not prevent any party (even one without any demonstrable competencies) from providing independent CSR assurance, further impairing the ability to adopt a consistent CSR assurance approach that utilises a standardised assurance framework and conforms to specific assurance standards and practices. By comparison, AFS-related audit regulations and frameworks prescribe the parties that may provide independent AFS audits and the competencies that the auditor must possess; define the scope of the AFS audit engagement, and determine the wording used in AFS audit reports.

7.3 Alignment of study objectives and empirical results

Collectively, the diversity of CSR assurance practices by various assurance providers undermine the confidence of stakeholders about the extent of confidence that should be placed on reported CSR performance, particularly in terms of what was disclosed, what was omitted and which dimensions were assured. This lack of confidence is exacerbated by inconsistencies in the nature and extent of assurance provided and/or the assurance procedures applied. For ease of comparison, the study findings described in chapters 5 and 6 are briefly summarised below and aligned to the research objectives identified in section 4.2.3.

- **CSR assurance characteristics**

  Although components that should be included in a CSR assurance framework have been identified, the study does not attempt to provide a definitive framework for CSR reporting and assurance. Instead, it proposes that the identified inconsistencies in CSR reporting and assurance practices can only be effectively addressed through legislation and regulation, which will provide a CSR reporting and assurance framework that could be consistently applied by all assurance providers.

  - **CSR assuror competencies**

    The assuror’s skills and competencies were confirmed as one of the most important reasons for choosing a CSR assuror.

  - **CSR assuror independence**

    The importance of independence was confirmed by all assurors disclosing their independence.

  - **CSR assurance providers**

    The providers of independent assurance were identified as being auditor assurors.
(primarily the Big 4), internal auditors, specialist CSR assurors and certification bodies.

- **Intended audience for CSR assurance reports**

  Whereas non-auditor assuror practices confirm that their efforts are directed at broader company stakeholders, auditor assuror practices suggest that their intended beneficiaries were shareholders.

- **CSR assurance report titles**

  Despite the use of a range of titles, “Independent assurance report on selected sustainability information” provides users with a more comprehensive overview of both the CSR assurance engagement objective and the report content.

- **CSR assurance engagement scope**

  The CSR assurance engagement scope is one of the most important components of the CSR assurance report, and reflects the extent to which stakeholders should rely on the CSR assurance report and the underlying CSR disclosures.

- **CSR assurance levels and opinions**

  The different assurance levels and opinions provided represent some of the most contentious aspects of assurance that contribute to undermining stakeholder confidence.

- **Recommendations for improvement**

  The ability of assurors to assist companies to build their CSR reporting capacity by providing value-added advice during a CSR assurance engagement is an important factor that reporting companies take into account when selecting a CSR assurance provider.

- **Extent to which JSE-listed companies provide independent CSR assurance**

  Despite the mandatory requirement for JSE-listed companies to have their CSR disclosures independently assured, only about a quarter of companies complied. These companies tend to be larger and operating in environmentally sensitive industries.

- **Reporting CSR performance**

  Pertinent aspects relating to the reporting of company CSR performance, upon which the CSR assurance engagement is based, include:

  - **Stakeholders relying on CSR reports**

    The variety of stakeholders interested in company CSR reports confirm the premise that companies have a responsibility that extends beyond shareholders.

  - **Reasons reporting companies disclose their CSR performance**
Companies report their CSR performance to stakeholders for both stakeholder and instrumental reasons.

- **Titles of CSR reports**

  CSR report title variation undermines stakeholder confidence relating to company CSR performance.

- **CSR accountability**

  The role of the board and audit committee in improving corporate governance was confirmed by CSR disclosures being approved by audit committees or another relevant company structure.

**Reasons reporting companies provide independent CSR assurance**

Some companies provided independent CSR assurance because it was a King III requirement, while others did not do so because it was not a mandatory requirement; confirming the prevalence of instrumentalism, and not necessarily responsible corporate citizenship.

**Reasons for selecting particular CSR assurance providers**

While a combination of factors are used to select a CSR assuror, the relative importance of each factor varies according to the reporting company’s specific circumstances, and what it expects to achieve.

**Internal audit’s CSR assurance role**

Despite active involvement by internal audit in CSR assurance, this is not usually directly intended for external stakeholders, but rather to complement and not substitute externally provided CSR assurance.

**Comparison of CSR assurance practices of auditor and non-auditor assurors**

The tendency of specialist CSR assurors providing more informative positively framed reasonable assurance opinions, provides stakeholders with greater value, particularly when considered together with recommendations for improvement that reveal deficiencies requiring attention. Moreover, the practice of auditor assurors deliberately excluding ‘non intended’ users from relying on their reports contributes to undermining the purpose of CSR assurance.

**Implications of existing CSR assurance practices**

The largely unregulated and voluntary nature of CSR reporting and assurance, have resulted in the emergence of diverse assurance practices by a variety of assurance providers.
• **Primary standards and/or frameworks used in CSR assurance engagements**

AA1000AS and ISAE 3000 are the primary standards used on CSR assurance engagements.

### 7.4 Thesis propositions

The empirical study results confirm the following propositions advanced for this thesis:

- **Stakeholders require companies to disclose their impacts on the economy, environment and society.** While assurors supported shareholder primacy and instrumentalism, reporting company survey respondents identified a diverse range of stakeholders that rely on a company’s CSR disclosures (as described in section 5.2), confirmed by the reasons provided for companies disclosing their CSR performance (as described in section 5.3).

- **CSR disclosures should be independently assured to provide users with confidence about the veracity of the underlying company CSR disclosures.** Both reporting company survey respondents and assurors interviewed confirmed that CSR assurance provides verified CSR disclosures (as described in section 6.3). The importance of the assuror’s independence was identified in all three empirical phases described in section 6.9.

- **The provision of independent CSR assurance will increase following the promulgation of the JSE regulations requiring JSE-listed companies to apply the King III provisions.** While the increase in the provision of independent CSR assurance may represent company responses to increased stakeholder demands for greater company accountability and transparency, the spike in 2010/1 is attributed to companies implementing the King III principles (as illustrated in Figure 6.2). Moreover, survey respondents confirmed that one of the reasons their respective companies provide independent CSR assurance was in order to comply with King III (as illustrated in Figure 6.10). This assertion is further supported by respondents confirming that companies that did not provide independent CSR assurance at the time of the study, intended doing so in future (as illustrated in Figure 6.9).

- **New entrants will begin providing independent CSR assurance to meet the increased demand.** Table 6.4 reveals that whereas only eight assurors provided CSR assurance in 2007/8, by 2011/2 there were fifteen independent CSR assurors.

- **Despite these new entrants, the audit profession will continue to be the primary collective providers of independent CSR assurance.** The collective dominance of auditor assurors is illustrated in Table 6.2. The prediction that this trend will continue is substantiated by the descriptions in sections 6.4 and 6.19.

- **Despite tending to provide lower levels of CSR assurance, the audit profession will continue...**
to be perceived as providing more credible assurance than non-auditor assurors. While this assertion is supported by several researchers, this was not supported by the empirical evidence. The practice of reporting companies to use auditor assurors for their CSR assurance engagements, rather than specialist CSR assurors despite being the confirmed as the preferred providers, confirms this assertion. It may therefore be concluded that ultimately, ‘actions speak louder than words’.

- Although auditor assurors are expected to remain the primary providers of independent CSR assurance, the extent of this dominance will diminish over time. This is illustrated by the growth of CSR assurance by IRAS from only one in 2007/8 to nine in 2011/2, to share the position as the most prolific CSR assuror with PwC (as illustrated in Table 6.3). Similarly, Figure 6.13 reveals that the proportion of independent CSR assurance by specialist CSR assurors has grown from 17% in 2007/8 to 30% by 2011/2.

7.5 Suitability of existing CSR assurance frameworks

Despite several companies reporting their CSR performance and having it independently assured, the study found that the principle of voluntarism, as advocated by King III, impaired the standardisation of CSR reporting and assurance practices, thereby improving reporting consistency, usability and comparability. It is accordingly proposed that these inconsistencies can only be overcome through the promulgation of CSR reporting and assurance regulations and legislation.

7.6 Research implications

Following the implementation of King III on 1 March 2010, this thesis represents one of the first studies to comprehensively examine emerging independent CSR assurance practices within a de facto mandatory environment. Within this context, the study established the characteristics of the CSR assurance and identified the following CSR-related implications affecting reporting companies, industry associations, CSR assurance providers, standards bodies and government.

- The study confirms that the provision of independent CSR assurance is increasing, and predicts that this growth trend will continue as JSE-listed companies develop their competencies to more comprehensively apply the King III principles.

- On the assumption that independent CSR assurance should provide stakeholders with confidence about the completeness, relevance, validity, accuracy and reliability of company CSR disclosures, this thesis asserts that existing CSR assurance practices do not presently provide stakeholders with the necessary levels of confidence about the veracity of company CSR reports.
• This thesis accordingly asserts that these inconsistencies can be overcome through the imposition of mandatory CSR reporting and assurance regulations and legislation.

• Given the diversity of CSR assurance providers utilising different CSR assurance practices, it is submitted that the current impasse can only be resolved through the establishment of a representative oversight body, to which all types of CSR assurance providers should contribute and subscribe.

• This oversight body should prescribe the competencies that CSR assurance practitioners should possess, and coordinate the development of appropriate frameworks that prescribe standardised CSR reporting and assurance practices, that applies to all types of assurance providers. In addition, this oversight body should monitor and enforce the consistent application of the proposed competency requirement and the proposed CSR reporting and assurance standards.

• Acknowledging deficiencies in existing assurance practices, the study concludes by identifying the obstacles that must first be overcome, proposing certain practices that should be applied and suggesting important characteristics that should be incorporated into a conceptual framework for the independent assurance of CSR reports.

• To reduce inconsistencies, the various professional bodies representing the interests of the diverse assurance providers should collaborate to develop a comprehensive and dedicated CSR assurance standard that may be used by all CSR assurors, irrespective of type. The proposed CSR assurance standard(s) should be presented in an easily understandable, unambiguous and comparable manner to facilitate its consistent application by the diverse assurors. It should address the shortcomings of the existing standards, possibly by combining elements of both AA1000AS and ISAE 3000, as well as through the introduction of additional elements to counter the respective weaknesses of each.

• Moreover, acknowledging the asymmetrical distribution of information caused by the agency problem, under certain circumstances the members of the board of directors may be held personally liable for breaches of their fiduciary duties. These may include being held accountable for their perceived governance responsibilities (including those relating to CSR). It is accordingly suggested that the imposition of mandatory CSR reporting and assurance could protect the board from potential liability claims resulting from the adverse consequences of the operations of their respective companies.

• Responding to the changes brought about by the Companies Act, 2008, and the anticipated reduced demand for auditing company AFS, it is suggested that independent CSR assurance presents an opportunity for the audit profession to expand its range of services.
Moreover, as organisations recognise that independent CSR assurance represents an underexploited, but lucrative opportunity that may be capitalised upon, several new CSR assurance providers are expected to start providing independent CSR assurance. It is however, predicted that the reasons attributed to the audit profession presently being the primary providers of independent CSR assurance will persist, resulting in its collective dominance continuing.

The predicted increased demand for independent CSR assurance implies an increased demand by all assurance providers for effective CSR reporting and assurance training and development.

Within the context of the prediction that the audit profession will remain the primary providers of independent CSR assurance, it is recommended that professional bodies such as SAICA, assisted by tertiary education institutions, should incorporate aspects of CSR reporting and assurance into the training curriculum for auditors. The objective of this training and education programme should however, not necessarily be to develop competent CSR assurance practitioners, but rather to expose them to material non-financial issues that could severely affect their client companies. Moreover, this proposed training and development should therefore only be the first rung on the ladder to becoming a competent CSR assurance practitioner. This proposal may be compared to the introduction of information systems auditing into the auditing curriculum towards the end of the 20th century, without eliminating the need for specialist computer auditors.

Recognising the questionable ability (or willingness) of companies to comprehensively disclose their material non-financial impacts and to safeguard against the risk of green-wash, institutional investors only tend to factor non-financial company information into their valuation models, when it has been independently assured. Since companies perceived as being ‘responsible corporate citizens’ find it easier to raise capital on the financial markets, they may therefore only disclose their CSR performance and/or provide independent assurance thereon, not because it is the ‘right thing to do’, but rather for instrumental reasons.

7.7 Research limitations

Despite recognising that CSR reporting and assurance practices should illustrate the company’s commitment to responsible corporate citizenship, this study did not empirically examine the perspectives of stakeholders, who should be the intended beneficiaries of these CSR practices. Instead, prior literature was used to confirm the need for CSR reporting and assurance. Similarly, the extent to which stakeholders meaningfully consider the information contained in the CSR
assurance report has not been explored.

Despite this thesis advancing the instrumentalist position for CSR reporting and assurance, it did not attempt to establish any correlation between CSR assurance and share value. Similarly, although the research identified the extent to which reporting companies provided independent CSR assurance, no attempt was made to establish the extent to which companies complied, or to quantify the number of companies that did not explain why they did not.

The research population was identified as being JSE-listed companies, with the purposively selected study sample being confined to the 200 largest JSE-listed companies. The study results and the inferences and conclusions drawn therefore only apply to the companies studied and cannot therefore be generalised to other companies.

While the content analysis observations in the first empirical phase were sourced from publicly available information, the study acknowledges that certain CSR-related documents and reports are confidentially distributed to company management and the board. Therefore, any information that was not publicly available has accordingly been excluded.

Even though the GRI G4 has been used as a proxy for CSR reporting, it has not been examined in detail. The components of the GRI reporting framework have accordingly not been empirically tested and have been excluded from the scope of this thesis.

Despite the study referring to integrated reporting and combined assurance, it was only included for contextual purposes. It has therefore not been empirically tested.

### 7.8 Areas for future research

To address the research limitations described above, it is suggested that a detailed content analysis should be undertaken on the scope of CSR assurance engagements in order to establish exactly which aspects of CSR-related performance have been included and excluded. Such a study will establish the extent to which CSR assurance practices address all the issues that are material to both the reporting company and its stakeholders, while also determining whether CSR assurance practices adequately address stakeholder concerns and ameliorate the effects of green-wash.

Where companies did not have their CSR disclosures independently assured, research should be undertaken to establish the adequacy of the reasons provided. Where reasons were provided, research should be undertaken to investigate the validity thereof.

Since integrated reporting which involves both financial and non-financial company disclosures, has
only been contextually introduced, it is proposed that a study into the independent assurance of integrated reports be done. Similarly, a study should be undertaken to establish the extent to which combined assurance has been implemented to address all the material risks facing the company, and to ensure that no significant assurance gaps and exist.

Research should be undertaken in order to develop a CSR reporting standard that overcomes the deficiencies identified in this thesis. This should inform further research aimed at developing a standardised CSR assurance framework.

Finally, while this thesis acknowledges a need for independent assurance of company CSR disclosures, this was based on assertions by other researchers and complemented by the primarily qualitative research techniques deployed in the mixed methods approach adopted for this research. Appropriate quantitative research should therefore be undertaken to establish a correlation between independent assurance provided on CSR disclosures and the expectations of stakeholders. Similarly, any correlation between share price and CSR assurance should be investigated.

7.9 Conclusion

The study confirmed steady growth in the frequency with which reporting companies have their CSR disclosures independently assured. While it is clear that King III and the JSE regulations have contributed to this growth in South Africa, at the same time this growth may also be attributed to a company desire to provide stakeholders with verified CSR disclosures that demonstrate their commitment to transparency and responsible corporate citizenship, and the manner in which they discharge their responsibility and accountability to stakeholders.

It is however, recognised that this may not necessarily reflect responsible corporate citizenship, but merely because of instrumental reasons. Irrespective of whether companies disclose their CSR performance and provide independent assurance thereon because of instrumental shareholder primacy, stakeholder theory or legitimacy theory, companies that fail to meaningfully account for their non-financial impacts may impair longer-term shareholder value. The study objective was to understand the impact of present CSR assurance practices on the extent of confidence that stakeholders may have about the underlying CSR disclosures, by examining emerging CSR assurance practices. Within the context of the primary objectives identified for this thesis the following pertinent observations warrant highlighting.

The frequency with which the companies studied provided independent assurance on their CSR disclosures has steadily increased from 9% in 2007/8, to 26% by 2011/2. Despite this CSR assurance growth, the rate at which CSR assurance is being provided remains low, especially since
all the JSE-listed companies studied, were required to have their CSR disclosures independently assured. In this regard, CSR assurance should not only be about complying with some regulatory or corporate governance control mechanism, but should ultimately be about providing all users of non-financial company reporting with some degree of confidence that the underlying CSR disclosures may be relied upon. Aligned to slack resource theory, the study found that larger companies appear to have a greater propensity to provide independent CSR assurance, with companies operating in highly regulated industries and with a greater impact on the social and environmental dimensions being more likely to do so. This thesis however, predicts that as companies develop their capacity to report their CSR performance, the provision of CSR assurance will continue to grow, in order to comply with the King III and JSE requirements, as confirmed by several non-compliant companies that indicated their intention to do so in future.

Despite their proportion of independent CSR assurance reducing over the study period, the results confirm that the audit profession (primarily represented by the Big 4 audit firms) collectively remained the dominant providers of independent CSR assurance. The factors that contribute to companies selecting Big 4 auditor assurers as the primary providers of CSR assurance also provide opportunities for smaller auditor assurers to expand their range of professional services, which may in turn continue to entrench the audit profession’s collective dominance as the primary provider of independent CSR assurance in South Africa.

Despite the audit profession’s collective dominance, the extent of independent CSR assurance provided by specialist CSR assurers is steadily increasing, reflecting particular growth in 2011/2. As new non-auditor assurers enter the lucrative CSR assurance market, this growth trend is expected to continue. Although the audit profession are expected to collectively remain the primary provider of independent assurance on in South African CSR disclosures, their present intransigence will result in the extent of this dominance continuing to be eroded by non-auditor assurers.

Despite ostensibly providing CSR report users with assurance that the underlying disclosures may be relied upon, the extent of confidence provided by independent CSR assurance is determined by the type of assurance provider, the assurance standard(s) used, the competencies of the assurance provider, the scope of the assurance engagement and the nature of the assurance opinion provided. Moreover, the characteristics of CSR assurance by specialist CSR assurers provide stakeholders with more comprehensive and pertinent information about the extent to which the underlying CSR disclosures have been verified and may be relied upon. The CSR assurance practices of auditor assurers aims to provide assurance to shareholders, which is contrary to the objective of independent CSR assurance, which should reassure all legitimate stakeholders about the veracity of the underlying CSR disclosures. Despite this assertion, stakeholders are
nevertheless expected to continue perceiving CSR assurance provided by auditor assurors as being more credible than assurance provided by non-auditors.

This study proposes that the existing deficiencies and inconsistencies in independent CSR assurance practices may be overcome through the mandatory imposition of appropriate legislation and regulations, which should facilitate the development of an appropriate mandatory CSR reporting and assurance standard applicable to all CSR assurance providers. Such regulation will improve the ability of stakeholders to understand the nature of CSR reporting and assurance, by ensuring that the proposed CSR reporting and assurance standards/frameworks are consistently applied by all reporting companies and CSR assurors.

Stakeholder theory posits that companies should disclose their CSR performance and have it independently assured, for the benefit of their broader stakeholders. However, the empirical evidence emerging from this study suggests that these practices are primarily driven by instrumental reasons, and not because it may be the ‘right thing to do’ as responsible corporate citizens.

Irrespective of the underlying theoretical base, it is proposed that a conceptual framework should be developed to standardise the disparate CSR assurance practices, and to provide for the monitoring of CSR assurance providers and CSR assurance practices by a representative oversight body. While it is argued that such a framework will improve the consistency and comparability of CSR assurance reports and the underlying CSR disclosures, enhancing stakeholder confidence, this thesis does not attempt to develop a definitive conceptual framework. Drawing on the empirical observations, it does however, attempt to identify the primary components that should be included therein, as well as the obstacles that should be overcome before existing CSR reporting and CSR assurance anomalies can be addressed and resolved.
ACCA – see Association of Certified and Chartered Accountants.


*Cambridge advanced learner’s dictionary* [sa]. Accessed online on various dates at http://dictionary.cambridge.org/define.


FEE – see Fédération des Experts Comptables Européens.


GRI – see Global Reporting Initiative.


Hofstee, E. 2006. *Constructing a good dissertation: A practical guide to finishing a masters, MBA or PhD on schedule*. Sandton, South Africa: EPE.


ICAEW – see Institute of Chartered Accountants in England and Wales.

IFAC – see International Federation of Accountants.

IIA – see Institute of Internal Auditors.

IIRC – see International Integrated Reporting Council.


IoD – see Institute of Directors.


JSE – see Johannesburg Stock Exchange.


McAusland, S. & Fogelberg, T. 2010 *Dealing With climate-change is up to companies, not just governments.* Forbes.com, accessed online on 13 April 2010

Accessed online on 14th November 2011


*Merriam-Webster online dictionary* [sa]. Accessed online on various dates at http://m-w.com/dictionary.


OECD – see Organisation for Economic Co-operation and Development.


PIC – see Public Investment Corporation.


PRI – see Principles for Responsible Investment.


PwC – see PricewaterhouseCoopers.


SAICA – see South African Institute of Chartered Accountants.


http://www.gov.za/documents/index.php?term=employment+equity+act&dfrom=&dto=&yr=0&tps%5B%5D=1&subjs%5B%5D=0.


UNCSD – see United Nations Commission on Sustainable Development.

UNCTAD – see United Nations Conference on Trade and Development.

UNRISD – see United Nations Research Institute for Social Development.


Annexure 1: Top 200 JSE-listed Companies (by Market Capitalisation) @ 30 April 2012

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Company</th>
<th>Code</th>
<th>Market Capitalisation</th>
<th>Market%</th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>British American Tobacco plc</td>
<td>BTI</td>
<td>R 805 816</td>
<td>11.70%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>2</td>
<td>SABMiller plc</td>
<td>SAB</td>
<td>R 540 984</td>
<td>7.85%</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>3</td>
<td>BHP Billiton Plc</td>
<td>BIL</td>
<td>R 529 774</td>
<td>7.69%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>4</td>
<td>Anglo American plc</td>
<td>AGL</td>
<td>R 402 881</td>
<td>5.85%</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>5</td>
<td>MTN Group Ltd</td>
<td>MTN</td>
<td>R 256 127</td>
<td>3.72%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>6</td>
<td>Compagnie Financière Richemont SA</td>
<td>CFR</td>
<td>R 251 082</td>
<td>3.64%</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>7</td>
<td>Sasol Ltd</td>
<td>SOL</td>
<td>R 237 928</td>
<td>3.45%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>8</td>
<td>Naspers Ltd</td>
<td>NPN</td>
<td>R 192 866</td>
<td>2.80%</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>9</td>
<td>Standard Bank Group Ltd</td>
<td>SBK</td>
<td>R 188 061</td>
<td>2.73%</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>10</td>
<td>Kumba Iron Ore Ltd</td>
<td>KIO</td>
<td>R 176 971</td>
<td>2.57%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>11</td>
<td>Vodacom Group Ltd</td>
<td>VOD</td>
<td>R 160 848</td>
<td>2.33%</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>12</td>
<td>FirstRand Ltd</td>
<td>FSR</td>
<td>R 147 032</td>
<td>2.13%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>13</td>
<td>Anglo American Platinum Ltd</td>
<td>AMS</td>
<td>R 135 920</td>
<td>1.97%</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>14</td>
<td>Absa Group Ltd</td>
<td>ANG</td>
<td>R 101 176</td>
<td>1.47%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>15</td>
<td>Old Mutual plc</td>
<td>OML</td>
<td>R 103 993</td>
<td>1.51%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>16</td>
<td>AngloGold Ashanti Ltd</td>
<td>ASR</td>
<td>R 95 578</td>
<td>1.39%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>17</td>
<td>Impala Platinum Holdings Ltd</td>
<td>IMP</td>
<td>R 85 999</td>
<td>1.25%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>18</td>
<td>Nedbank Group Ltd</td>
<td>NED</td>
<td>R 76 867</td>
<td>1.11%</td>
<td>31 June 2012</td>
</tr>
<tr>
<td>19</td>
<td>Shoprite Holdings Ltd</td>
<td>SHP</td>
<td>R 73 361</td>
<td>1.06%</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>20</td>
<td>Exxaro Resources Ltd</td>
<td>EXX</td>
<td>R 71 658</td>
<td>1.04%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>21</td>
<td>Gold Fields Ltd</td>
<td>GFI</td>
<td>R 70 224</td>
<td>1.02%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>22</td>
<td>Sanlam Ltd</td>
<td>SLM</td>
<td>R 63 342</td>
<td>0.92%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>23</td>
<td>Remgro Ltd</td>
<td>REM</td>
<td>R 59 243</td>
<td>0.87%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>24</td>
<td>The Bidvest Group Ltd</td>
<td>BVT</td>
<td>R 54 892</td>
<td>0.84%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>25</td>
<td>Aspen Pharmacare Holdings Ltd</td>
<td>APN</td>
<td>R 51 359</td>
<td>0.79%</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>26</td>
<td>Tiger Brands Ltd</td>
<td>TBS</td>
<td>R 54 337</td>
<td>0.79%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>27</td>
<td>Steinhoff International Holdings Ltd</td>
<td>SHF</td>
<td>R 51 146</td>
<td>0.75%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>28</td>
<td>RMB Holdings Ltd</td>
<td>RMH</td>
<td>R 47 433</td>
<td>0.69%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>29</td>
<td>Woolworths Holdings Ltd</td>
<td>WHL</td>
<td>R 40 608</td>
<td>0.59%</td>
<td>24 June 2012</td>
</tr>
<tr>
<td>30</td>
<td>African Rainbow Minerals Ltd</td>
<td>ARI</td>
<td>R 38 792</td>
<td>0.56%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>31</td>
<td>Truworths International Ltd</td>
<td>TRU</td>
<td>R 38 252</td>
<td>0.56%</td>
<td>01 July 2012</td>
</tr>
<tr>
<td>32</td>
<td>Assore Ltd</td>
<td>ASR</td>
<td>R 36 996</td>
<td>0.54%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
<td>Ticker</td>
<td>Price</td>
<td></td>
<td></td>
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<td>--------------------------------------------------</td>
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<tr>
<td>33</td>
<td>Growthpoint Properties Ltd</td>
<td>GRT</td>
<td>R 36 605</td>
<td></td>
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<tr>
<td>34</td>
<td>Massmart Holdings Ltd</td>
<td>MSM</td>
<td>R 36 095</td>
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<td>35</td>
<td>Imperial Holdings Ltd</td>
<td>IPL</td>
<td>R 35 857</td>
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<td>36</td>
<td>Capital Shopping Centres Group PLC</td>
<td>CSO</td>
<td>R 34 894</td>
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<td>37</td>
<td>Harmony Gold Mining Company Ltd</td>
<td>HAR</td>
<td>R 32 637</td>
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<tr>
<td>38</td>
<td>African Bank Investments Ltd</td>
<td>ABL</td>
<td>R 32 351</td>
<td></td>
<td></td>
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<tr>
<td>39</td>
<td>Discovery Holdings Ltd</td>
<td>DSY</td>
<td>R 31 345</td>
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<td>40</td>
<td>The Foschini Group Ltd</td>
<td>TFG</td>
<td>R 30 972</td>
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<td>41</td>
<td>Life Healthcare Group Holdings Ltd</td>
<td>LHC</td>
<td>R 28 015</td>
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<td>42</td>
<td>Reinet Investments SCA</td>
<td>REI</td>
<td>R 27 726</td>
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<td>Investec plc</td>
<td>INP</td>
<td>R 27 532</td>
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<td>44</td>
<td>Lonmin plc</td>
<td>LON</td>
<td>R 26 710</td>
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<td>Mondi plc</td>
<td>MNP</td>
<td>R 26 401</td>
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<td>46</td>
<td>MMI Holdings Ltd</td>
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<td>R 26 335</td>
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<td>47</td>
<td>ArcelorMittal South Africa Ltd</td>
<td>ACL</td>
<td>R 26 299</td>
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<td>48</td>
<td>Mr Price Group Ltd</td>
<td>MPC</td>
<td>R 26 274</td>
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<td>49</td>
<td>Rand Merchant Insurance Holdings Ltd</td>
<td>RMI</td>
<td>R 25 851</td>
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<td>Medicinicon International Ltd</td>
<td>MDC</td>
<td>R 25 629</td>
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<td>51</td>
<td>Liberty Holdings Ltd</td>
<td>LBH</td>
<td>R 25 260</td>
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<td>52</td>
<td>Barloworld Ltd</td>
<td>BAW</td>
<td>R 22 632</td>
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<td>53</td>
<td>Capitec Bank Holdings Ltd</td>
<td>CPI</td>
<td>R 22 302</td>
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<td>54</td>
<td>Redefine Properties Ltd</td>
<td>RDF</td>
<td>R 22 194</td>
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<tr>
<td>55</td>
<td>Pick n Pay Stores Ltd</td>
<td>PIK</td>
<td>R 21 632</td>
<td></td>
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<td>56</td>
<td>Uranium One Inc</td>
<td>UUU</td>
<td>R 21 327</td>
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<td>57</td>
<td>The SPAR Group Ltd</td>
<td>SPP</td>
<td>R 20 950</td>
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<tr>
<td>58</td>
<td>Netcare Ltd</td>
<td>NTC</td>
<td>R 20 948</td>
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<td>59</td>
<td>Santam Ltd</td>
<td>SNT</td>
<td>R 20 551</td>
<td></td>
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<tr>
<td>60</td>
<td>Tsogo Sun Holdings Ltd</td>
<td>TSH</td>
<td>R 20 494</td>
<td></td>
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</tr>
<tr>
<td>61</td>
<td>Pretoria Portland Cement Company Ltd</td>
<td>PPC</td>
<td>R 18 160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>Distell Group Ltd</td>
<td>DST</td>
<td>R 17 241</td>
<td></td>
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<tr>
<td>63</td>
<td>Capital &amp; Counties Properties PLC</td>
<td>CCO</td>
<td>R 17 098</td>
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<td>AVI Ltd</td>
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<td>R 16 491</td>
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<td>R 15 967</td>
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<td>R 15 632</td>
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<td>Investec Ltd</td>
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<td>R 14 947</td>
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<td>CPL</td>
<td>R 14 897</td>
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<td>R 14 375</td>
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<td>Hyprop Investments Ltd</td>
<td>HYP</td>
<td>R 13 979</td>
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<td>PSG Group Ltd</td>
<td>PSG</td>
<td>R 13 195</td>
<td>0.19%</td>
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<td>73</td>
<td>Pioneer Food Group Ltd</td>
<td>PFG</td>
<td>R 13 157</td>
<td>0.19%</td>
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<td>Clicks Group Ltd</td>
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<td>R 12 917</td>
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<td>Northam Platinum Ltd</td>
<td>NHM</td>
<td>R 12 759</td>
<td>0.19%</td>
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<td>Telkom SA Ltd</td>
<td>TKG</td>
<td>R 12 384</td>
<td>0.18%</td>
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<td>Brait SE</td>
<td>BAT</td>
<td>R 12 326</td>
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<td>78</td>
<td>Illovo Sugar Ltd</td>
<td>ILV</td>
<td>R 11 569</td>
<td>0.17%</td>
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<td>AECI Ltd</td>
<td>AFE</td>
<td>R 11 426</td>
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<td>Tongaat Hulett Ltd</td>
<td>TON</td>
<td>R 11 040</td>
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<td>R 11 025</td>
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<td>HCI</td>
<td>R 11 004</td>
<td>0.16%</td>
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<td>R 10 684</td>
<td>0.16%</td>
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<td>84</td>
<td>Adcock Ingram Holdings Ltd</td>
<td>AIP</td>
<td>R 10 649</td>
<td>0.15%</td>
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<td>Pick n Pay Holdings Ltd</td>
<td>PWK</td>
<td>R 10 308</td>
<td>0.15%</td>
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<td>Grindrod Ltd</td>
<td>GND</td>
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<td>Royal Bafokeng Platinum Ltd</td>
<td>RBP</td>
<td>R 9 990</td>
<td>0.15%</td>
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<td>Optimum Coal Holdings Ltd</td>
<td>OPT</td>
<td>R 9 568</td>
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<td>Murray &amp; Roberts Holdings Ltd</td>
<td>MUR</td>
<td>R 9 489</td>
<td>0.14%</td>
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<td>Coronation Fund Managers Ltd</td>
<td>CML</td>
<td>R 9 193</td>
<td>0.13%</td>
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<td>Sun International Ltd</td>
<td>SUJ</td>
<td>R 9 132</td>
<td>0.13%</td>
<td>30 J June 2012</td>
</tr>
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<td>92</td>
<td>Wilson Bayly Holmes - Ovcon Ltd</td>
<td>WBO</td>
<td>R 8 973</td>
<td>0.13%</td>
<td>30 September 2012</td>
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<td>93</td>
<td>Fountainhead Property Trust</td>
<td>FPT</td>
<td>R 8 662</td>
<td>0.13%</td>
<td>28 February 2012</td>
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<td>94</td>
<td>Allied Electronics Company Ltd</td>
<td>ATN</td>
<td>R 8 655</td>
<td>0.13%</td>
<td>28 February 2012</td>
</tr>
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<td>95</td>
<td>Datatec Ltd</td>
<td>DTC</td>
<td>R 8 511</td>
<td>0.12%</td>
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<td>Mondi Ltd</td>
<td>MND</td>
<td>R 8 483</td>
<td>0.12%</td>
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<td>KAP International Holdings Ltd</td>
<td>KAP</td>
<td>R 8 414</td>
<td>0.12%</td>
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<td>Tencor Ltd</td>
<td>TRE</td>
<td>R 7 968</td>
<td>0.12%</td>
<td>30 J June 2012</td>
</tr>
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<td>99</td>
<td>Aquarius Platinum Ltd</td>
<td>AQP</td>
<td>R 7 612</td>
<td>0.11%</td>
<td>31 December 2012</td>
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<td>100</td>
<td>Palabora Mining Company Ltd</td>
<td>PAM</td>
<td>R 7 492</td>
<td>0.11%</td>
<td>31 March 2012</td>
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<tr>
<td>101</td>
<td>Lewis Group Ltd</td>
<td>LEW</td>
<td>R 7 404</td>
<td>0.11%</td>
<td>31 March 2012</td>
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<td>102</td>
<td>Acucap Properties Ltd</td>
<td>ACP</td>
<td>R 7 152</td>
<td>0.10%</td>
<td>31 December 2011</td>
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<td>103</td>
<td>JSE Ltd</td>
<td>JSE</td>
<td>R 7 141</td>
<td>0.10%</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>104</td>
<td>SA Corporate Real Estate Fund</td>
<td>SAC</td>
<td>R 6 953</td>
<td>0.10%</td>
<td>31 December 2012</td>
</tr>
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<td>105</td>
<td>Caxton and CTP Publishers and Printers Ltd</td>
<td>CAT</td>
<td>R 6 840</td>
<td>0.10%</td>
<td>30 J June 2012</td>
</tr>
<tr>
<td>106</td>
<td>Omnia Holdings Ltd</td>
<td>OMN</td>
<td>R 6 590</td>
<td>0.10%</td>
<td>31 March 2012</td>
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<tr>
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<td>Company Name</td>
<td>Ticker</td>
<td>Price</td>
<td>Percentage</td>
<td>Date</td>
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<tr>
<td>107</td>
<td>African Oxygen Ltd</td>
<td>AFX</td>
<td>R 6 548</td>
<td>0.10%</td>
<td>31 December 2012</td>
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<tr>
<td>108</td>
<td>Emira Property Fund</td>
<td>EMI</td>
<td>R 6 329</td>
<td>0.09%</td>
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<tr>
<td>109</td>
<td>Sycom Property Fund</td>
<td>SYC</td>
<td>R 6 116</td>
<td>0.09%</td>
<td>31 March 2012</td>
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<td>Gold One International Ltd</td>
<td>GDO</td>
<td>R 5 803</td>
<td>0.08%</td>
<td>31 December 2012</td>
</tr>
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<td>111</td>
<td>Allied Technologies Ltd</td>
<td>ALT</td>
<td>R 5 803</td>
<td>0.08%</td>
<td>28 February 2012</td>
</tr>
<tr>
<td>112</td>
<td>Italtile Ltd</td>
<td>ITE</td>
<td>R 5 735</td>
<td>0.08%</td>
<td>30 June 2012</td>
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<tr>
<td>113</td>
<td>Fortress Income Fund Ltd</td>
<td>FFA</td>
<td>R 5 539</td>
<td>0.08%</td>
<td>30 June 2012</td>
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<tr>
<td>114</td>
<td>Vukile Property Fund Ltd</td>
<td>VKE</td>
<td>R 5 458</td>
<td>0.08%</td>
<td>31 March 2012</td>
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<tr>
<td>115</td>
<td>Oceana Group Ltd</td>
<td>OCE</td>
<td>R 5 370</td>
<td>0.08%</td>
<td>30 September 2011</td>
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<tr>
<td>116</td>
<td>Astral Foods Ltd</td>
<td>ARL</td>
<td>R 5 184</td>
<td>0.08%</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>117</td>
<td>Famous Brands Ltd</td>
<td>FBR</td>
<td>R 5 146</td>
<td>0.07%</td>
<td>28 February 2012</td>
</tr>
<tr>
<td>118</td>
<td>Rainbow Chicken Ltd</td>
<td>RBW</td>
<td>R 5 139</td>
<td>0.07%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>119</td>
<td>Invicta Holdings Ltd</td>
<td>IVT</td>
<td>R 4 985</td>
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<td>120</td>
<td>Super Group Ltd</td>
<td>SPG</td>
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<td>121</td>
<td>Blue Label Telecoms Ltd</td>
<td>BLU</td>
<td>R 4 587</td>
<td>0.07%</td>
<td>31 May 2012</td>
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<td>122</td>
<td>Coal of Africa Ltd</td>
<td>CZA</td>
<td>R 4 565</td>
<td>0.07%</td>
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<td>123</td>
<td>Absa Bank Ltd</td>
<td>ABSP</td>
<td>R 4 500</td>
<td>0.07%</td>
<td>31 December 2012</td>
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<td>124</td>
<td>Capevin Investments Ltd</td>
<td>CVI</td>
<td>R 4 274</td>
<td>0.06%</td>
<td>30 June 2011</td>
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<td>125</td>
<td>Net 1 UEPS Technologies Inc</td>
<td>NT1</td>
<td>R 4 146</td>
<td>0.06%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>126</td>
<td>Metair Investments Ltd</td>
<td>MTA</td>
<td>R 4 117</td>
<td>0.06%</td>
<td>31 December 2012</td>
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<td>127</td>
<td>Nedbank Ltd</td>
<td>NBKP</td>
<td>R 4 014</td>
<td>0.06%</td>
<td>31 December 2012</td>
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<td>128</td>
<td>New Europe Property Investments plc</td>
<td>NEP</td>
<td>R 3 883</td>
<td>0.06%</td>
<td>31 December 2012</td>
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<td>129</td>
<td>Hudaco Industries Ltd</td>
<td>HDC</td>
<td>R 3 668</td>
<td>0.05%</td>
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<td>130</td>
<td>City Lodge Hotels Ltd</td>
<td>CLH</td>
<td>R 3 651</td>
<td>0.05%</td>
<td>30 June 2012</td>
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<tr>
<td>131</td>
<td>Clientèle Ltd</td>
<td>CLI</td>
<td>R 3 622</td>
<td>0.05%</td>
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<td>132</td>
<td>Group Five Ltd</td>
<td>GRF</td>
<td>R 3 605</td>
<td>0.05%</td>
<td>30 June 2012</td>
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<tr>
<td>133</td>
<td>Cashbuild Ltd</td>
<td>CSB</td>
<td>R 3 299</td>
<td>0.05%</td>
<td>30 June 2012</td>
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<tr>
<td>134</td>
<td>Cipla Medpro South Africa Ltd</td>
<td>CMP</td>
<td>R 3 268</td>
<td>0.05%</td>
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<td>135</td>
<td>EOH Holdings Ltd</td>
<td>EOH</td>
<td>R 3 166</td>
<td>0.05%</td>
<td>31 July 2011</td>
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<td>136</td>
<td>Evraz Highveld Steel and Vanadium Ltd</td>
<td>EHS</td>
<td>R 3 097</td>
<td>0.04%</td>
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<td>137</td>
<td>Eqstra Holdings Ltd</td>
<td>EQS</td>
<td>R 3 082</td>
<td>0.04%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>138</td>
<td>Clover Industries Ltd</td>
<td>CLR</td>
<td>R 2 978</td>
<td>0.04%</td>
<td>30 June 2012</td>
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<td>139</td>
<td>Eastern Platinum Ltd</td>
<td>EPS</td>
<td>R 2 924</td>
<td>0.04%</td>
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<td>140</td>
<td>Pan African Resources PLC</td>
<td>PAN</td>
<td>R 2 854</td>
<td>0.04%</td>
<td>30 September 2012</td>
</tr>
<tr>
<td>141</td>
<td>Mpact Ltd</td>
<td>MPT</td>
<td>R 2 792</td>
<td>0.04%</td>
<td>31 December 2012</td>
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<td>142</td>
<td>Brimstone Investment Company Ltd</td>
<td>BRT</td>
<td>R 2 752</td>
<td>0.04%</td>
<td>31 December 2012</td>
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<td>143</td>
<td>Zeder Investments Ltd</td>
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<td>R 2 729</td>
<td>0.04%</td>
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<td>Price</td>
<td>Change</td>
<td>Date</td>
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<td>2,701</td>
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<td>ADVTECH Ltd</td>
<td>ADH</td>
<td>2,652</td>
<td>0.04%</td>
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<tr>
<td>146</td>
<td>Raubex Group Ltd</td>
<td>RBX</td>
<td>2,650</td>
<td>0.04%</td>
<td>28 February 2012</td>
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<td>147</td>
<td>Oando Plc</td>
<td>OAO</td>
<td>2,615</td>
<td>0.04%</td>
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<td>Blue Financial Services Ltd</td>
<td>BFS</td>
<td>2,606</td>
<td>0.04%</td>
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<td>149</td>
<td>Kagiso Media Ltd</td>
<td>KGM</td>
<td>2,596</td>
<td>0.04%</td>
<td>30 June 2012</td>
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<td>Zurich Insurance Company S.A. Ltd</td>
<td>ZSA</td>
<td>2,594</td>
<td>0.04%</td>
<td>31 December 2011</td>
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<td>151</td>
<td>Hulamin Ltd</td>
<td>HLM</td>
<td>2,587</td>
<td>0.04%</td>
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<td>Peregrine Holdings Ltd</td>
<td>PGR</td>
<td>2,532</td>
<td>0.04%</td>
<td>31 March 2012</td>
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<td>153</td>
<td>Avusa Ltd</td>
<td>AVU</td>
<td>2,525</td>
<td>0.04%</td>
<td>31 March 2012</td>
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<td>154</td>
<td>Great Basin Gold Ltd</td>
<td>GBG</td>
<td>2,521</td>
<td>0.04%</td>
<td>31 December 2011</td>
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<td>155</td>
<td>Rebosis Property Fund Ltd</td>
<td>REB</td>
<td>2,373</td>
<td>0.03%</td>
<td>31 August 2011</td>
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<tr>
<td>156</td>
<td>Premium Properties Ltd</td>
<td>PMM</td>
<td>2,352</td>
<td>0.03%</td>
<td>28 February 2012</td>
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<td>157</td>
<td>AFGRI Ltd</td>
<td>AFR</td>
<td>2,253</td>
<td>0.03%</td>
<td>30 June 2012</td>
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<td>158</td>
<td>Alexander Forbes Pref. Share Inv. Ltd</td>
<td>AFP</td>
<td>2,237</td>
<td>0.03%</td>
<td>31 March 2012</td>
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<td>159</td>
<td>Redefine Properties International Ltd</td>
<td>RIN</td>
<td>2,210</td>
<td>0.03%</td>
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<td>160</td>
<td>Merafe Resources Ltd</td>
<td>MRF</td>
<td>2,194</td>
<td>0.03%</td>
<td>31 December 2012</td>
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<td>161</td>
<td>Ceramic Industries Ltd</td>
<td>CRM</td>
<td>2,173</td>
<td>0.03%</td>
<td>31 July 2012</td>
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<tr>
<td>162</td>
<td>Bell Equipment Ltd</td>
<td>BEL</td>
<td>2,160</td>
<td>0.03%</td>
<td>31 December 2012</td>
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<td>163</td>
<td>Adcorp Holdings Ltd</td>
<td>ADR</td>
<td>2,089</td>
<td>0.03%</td>
<td>28 February 2012</td>
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<td>164</td>
<td>Stefanutti Stocks Holdings Ltd</td>
<td>SSK</td>
<td>2,059</td>
<td>0.03%</td>
<td>28 February 2012</td>
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<tr>
<td>165</td>
<td>Mercantile Bank Holdings Ltd</td>
<td>MTL</td>
<td>2,048</td>
<td>0.03%</td>
<td>31 December 2012</td>
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<tr>
<td>166</td>
<td>DRDGOLD Ltd</td>
<td>DRD</td>
<td>2,043</td>
<td>0.03%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>167</td>
<td>Investec Property Fund Ltd</td>
<td>IPF</td>
<td>1,989</td>
<td>0.03%</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>168</td>
<td>Business Connexion Group Ltd</td>
<td>BCX</td>
<td>1,968</td>
<td>0.03%</td>
<td>31 August 2011</td>
</tr>
<tr>
<td>169</td>
<td>Mvelaphanda Group Ltd</td>
<td>MVG</td>
<td>1,951</td>
<td>0.03%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>170</td>
<td>Holdsport Ltd</td>
<td>HSP</td>
<td>1,912</td>
<td>0.03%</td>
<td>29 February 2012</td>
</tr>
<tr>
<td>171</td>
<td>Basil Read Holdings Ltd</td>
<td>BSR</td>
<td>1,882</td>
<td>0.03%</td>
<td>31 December 2011</td>
</tr>
<tr>
<td>172</td>
<td>Curro Holdings Ltd</td>
<td>COH</td>
<td>1,838</td>
<td>0.03%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>173</td>
<td>Petmin Ltd</td>
<td>PET</td>
<td>1,811</td>
<td>0.03%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>174</td>
<td>Wesizwe Platinum Ltd</td>
<td>WEZ</td>
<td>1,774</td>
<td>0.03%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>175</td>
<td>Lonrho Plc</td>
<td>LAF</td>
<td>1,712</td>
<td>0.03%</td>
<td>31 December 2012</td>
</tr>
<tr>
<td>176</td>
<td>Mvelaserve Ltd</td>
<td>MVS</td>
<td>1,628</td>
<td>0.02%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>177</td>
<td>Spur Company Ltd</td>
<td>SUR</td>
<td>1,611</td>
<td>0.02%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>178</td>
<td>Dipula Income Fund Ltd</td>
<td>DIA</td>
<td>1,526</td>
<td>0.02%</td>
<td>31 August 2012</td>
</tr>
<tr>
<td>179</td>
<td>Village Main Reef Ltd</td>
<td>VIL</td>
<td>1,524</td>
<td>0.02%</td>
<td>30 June 2012</td>
</tr>
<tr>
<td>180</td>
<td>Investec Bank Ltd</td>
<td>INLP</td>
<td>1,514</td>
<td>0.02%</td>
<td>31 March 2012</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
<td>Ticker</td>
<td>Market Cap (R)</td>
<td>% of Total</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------</td>
<td>--------</td>
<td>----------------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td>181</td>
<td>Consolidated Infrastructure Group Ltd</td>
<td>CIL</td>
<td>1 509</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>182</td>
<td>Hospitality Property Fund Ltd</td>
<td>HPA</td>
<td>1 500</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>Distribution and Warehousing Network Ltd</td>
<td>DAW</td>
<td>1 475</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>184</td>
<td>Octodec Investments Ltd</td>
<td>OCT</td>
<td>1 464</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>185</td>
<td>Pallinghurst Resources Ltd</td>
<td>PGL</td>
<td>1 451</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>186</td>
<td>Witwatersrand Consolidated Gold Resources</td>
<td>WGR</td>
<td>1 380</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>187</td>
<td>York Timber Holdings Ltd</td>
<td>YRK</td>
<td>1 375</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>188</td>
<td>Metrofile Holdings Ltd</td>
<td>MFL</td>
<td>1 365</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>189</td>
<td>Sentula Mining Ltd</td>
<td>SNU</td>
<td>1 331</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>190</td>
<td>Howden Africa Holdings Ltd</td>
<td>HWN</td>
<td>1 315</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>191</td>
<td>Litha Healthcare Group Ltd</td>
<td>LHG</td>
<td>1 289</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>192</td>
<td>MiX Telematics Ltd</td>
<td>MIX</td>
<td>1 209</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>193</td>
<td>Combined Motor Holdings Ltd</td>
<td>CMH</td>
<td>1 206</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>194</td>
<td>Grand Parade Investments Ltd</td>
<td>GPL</td>
<td>1 200</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>195</td>
<td>Ellies Holdings Ltd</td>
<td>ELI</td>
<td>1 199</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>196</td>
<td>Sasfin Holdings Ltd</td>
<td>SFN</td>
<td>1 197</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>197</td>
<td>Value Group Ltd</td>
<td>VLE</td>
<td>1 043</td>
<td>0.02%</td>
<td></td>
</tr>
<tr>
<td>198</td>
<td>BK One Ltd</td>
<td>BK1P</td>
<td>1 015</td>
<td>0.01%</td>
<td></td>
</tr>
<tr>
<td>199</td>
<td>Datacentrix Holdings Ltd</td>
<td>DCT</td>
<td>1 010</td>
<td>0.01%</td>
<td></td>
</tr>
<tr>
<td>200</td>
<td>Astrapak Ltd</td>
<td>APK</td>
<td>1 010</td>
<td>0.01%</td>
<td></td>
</tr>
</tbody>
</table>

**Total Market Capitalisation**: R 6 838 647 (99.27%)

**Total population**: 200

- less – incorporated into holding company/group: 7
- less – delisted: 1

**Net population**: 192
Annexure 2: Covering letter to potential survey respondents at reporting companies

Dear Sir/Madam

As you may appreciate, the subject of corporate social responsibility is receiving high levels of interest by corporations around the world. South Africa is no exception; in fact in certain respects South Africa is in the forefront of developments in this area, especially with the release of the King Code of Governance for South Africa in 2009 (King III). In terms of principle 9.3 of King III, sustainability reporting and disclosures should be independently assured and section 8.63 (a) of the JSE listing requirements requires listed companies to disclose the extent of their compliance with King III and the reasons for non-compliance with any of the principles.

Given the recent strong focus on “responsible corporate citizenship” and the desire by most organisations to comply with the King III principles, I see the results of this thesis project adding significantly to our understanding of how companies can improve their stakeholder accountability and of the role of the audit profession.

In order to complete this important research, I have prepared an electronic research questionnaire, which is available on the following link http://surveys.mynetresearch.com/Survey.aspx?view=ViewUserPage&ID=273. If at all possible, I would accordingly appreciate you forwarding this email (with the link to the survey) to the following officials within, or associated with your organisation:

- The Company Secretary
- Chairperson of the Board of Directors
- All independent non-executive directors
- Chairperson of the Audit Committee
- All independent Audit Committee Members
- All Members of the CSR/Sustainability Committee
- Chief Executive Officer
- Chief Financial Officer
- Chief Risk Officer
- Executive Manager responsible for CSR/Sustainability
- Chief Audit Executive/Internal Audit Manager
- External Audit Manager/Partner
- Managing partner/member/manager of external CSR assurance provider

Thanking you for your cooperation and kind assistance in distributing this survey on my behalf, the results of which will provide meaningful insights into this important area.

Kind regards

Barry Ackers
Research Survey on Corporate Social Responsibility (CSR) Assurance within South African companies publicly listed on the JSE

PURPOSE

This thesis is being conducted by Barry Ackers, a Senior Lecturer, in the Department of Auditing, School of Accounting Sciences, at the University of South Africa, as part of his fulfilling the requirements of a Doctor of Commerce in Auditing. As you may appreciate, the corporate accountability landscape is evolving at an unprecedented pace. The principles incorporated within King III, goes beyond requiring all organisations to embrace the principal stakeholders in respect of Corporate Social Responsibility (CSR). The purpose of this particular research project is to determine the need for CSR assurance and to assess Audit Profession’s involvement therein.

INTRODUCTION

There is increasing evidence that society is demanding that organisations should be sensitive to the environmental and social impact of their operations. No longer is the business of business, simply about short term profit maximisation, but increasingly there are calls around what value it adds, (or destroys), in respect of its interaction with the environment; and society as a whole.

RESEARCH OBJECTIVE

The research should assist in determining which organisational levels are responsible and accordingly accountable, for breaches of the principles of non-financial governance. The primary objective of this thesis is to determine whether CSR assurance is desirable. Where CSR assurance is considered to be desirable, to ascertain how this assurance is obtained and for which stakeholder group it is provided.

GENERAL

As you may appreciate, the auditing horizon has been evolving over the past 4 500 years and will continue to evolve in response to meeting stakeholder requirements. Your invaluable input will therefore assist in defining the role of the Audit Profession in respect of evaluating, monitoring and reporting on accountability for corporate social responsibility into the future.

I would appreciate you taking around 15 minutes of your precious time, to complete the online survey (available at http://surveys.mynetresearch.com/Survey.aspx?view=ViewUserPage&ID=273. You are naturally more than welcome to provide additional information on a separate page. Moreover, should you believe that there are other parties within (or associated with) your organisation, which could provide meaningful input into this important research, I would appreciate you forwarding this email to them as well.

Could you please complete the online survey by 30th September 2011? Please note that your responses will be regarded as being confidential and that the names of your organisations and of the respondents will not be disclosed. The data analysis methodology will not in any way reflect the organisation or industry that you represent.

While I would truly appreciate your invaluable input, participation is entirely voluntary with your disclosures being regarded as being confidential. Appropriate precautions have accordingly been taken to safeguard your privacy and to protect anonymity. There are no questions in this survey that are of a sensitive or personal nature.

Should you have any questions, or require additional information, please do not hesitate to contact me directly.

Once again I appreciate your time for participating in this important research project, and urge you to please answer all the questions completely and honestly.

Finally, should you require a copy of the finalised Research Report, please contact me directly. Once completed, a copy of the research report will accordingly be forwarded to you.

Yours faithfully

Barry Ackers

Department of Auditing
School of Accounting Sciences
University of South Africa (UNISA)
Annexure 3: Copy of Survey on Corporate Social Responsibility Assurance

Please TICK (✓) the applicable block(s)

A. DEMOGRAPHIC INFORMATION

1 Which of the following do you represent? Please tick one block only.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Certification body (optional – please specify which below)</td>
<td></td>
</tr>
<tr>
<td>1.2 External audit firm (optional – please specify which below)</td>
<td></td>
</tr>
<tr>
<td>1.3 Independent CSR assurance provider (optional – please specify which below)</td>
<td></td>
</tr>
<tr>
<td>1.4 JSE-listed public company (optional – please specify which below)</td>
<td></td>
</tr>
<tr>
<td>1.5 Other (please specify below)</td>
<td></td>
</tr>
</tbody>
</table>

2 What best describes your position within the company? Please tick one block only.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Chairperson of the Audit Committee</td>
<td></td>
</tr>
<tr>
<td>2.2 Chairperson of the Board of Directors</td>
<td></td>
</tr>
<tr>
<td>2.3 Chief Executive Officer/Managing Director</td>
<td></td>
</tr>
<tr>
<td>2.4 Executive Manager responsible for CSR/Sustainability</td>
<td></td>
</tr>
<tr>
<td>2.5 External Audit Manager/Partner</td>
<td></td>
</tr>
<tr>
<td>2.6 Independent Board Member/Director</td>
<td></td>
</tr>
<tr>
<td>2.7 Independent Audit Committee Member</td>
<td></td>
</tr>
<tr>
<td>2.8 Internal Audit Manager/Chief Audit Executive</td>
<td></td>
</tr>
<tr>
<td>2.9 Managing partner/member/manager of external CSR assurance provider</td>
<td></td>
</tr>
<tr>
<td>2.10 Member of the CSR/Sustainability Committee</td>
<td></td>
</tr>
<tr>
<td>2.11 Other (Please specify below)</td>
<td></td>
</tr>
</tbody>
</table>

B. CORPORATE SOCIAL RESPONSIBILITY (CSR)

3 Has your company developed and implemented a programme that considers its social, environmental and economic impacts? Please tick one block only.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 NOT APPLICABLE</td>
<td></td>
</tr>
<tr>
<td>3.2 Yes</td>
<td></td>
</tr>
<tr>
<td>3.3 No</td>
<td></td>
</tr>
<tr>
<td>3.4 Other (please specify below)</td>
<td></td>
</tr>
</tbody>
</table>

4 If yes (to 3 above), what is it called? Please tick one block only.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 NOT APPLICABLE</td>
<td></td>
</tr>
<tr>
<td>4.2 Corporate Social Investment (CSI)</td>
<td></td>
</tr>
<tr>
<td>4.3 Corporate Social Responsibility (CSR)</td>
<td></td>
</tr>
<tr>
<td>4.4 Sustainable Development</td>
<td></td>
</tr>
<tr>
<td>4.5 Corporate Citizenship</td>
<td></td>
</tr>
<tr>
<td>4.6 Other (Please specify below)</td>
<td></td>
</tr>
</tbody>
</table>
5. In your opinion, which stakeholders place reliance on the information contained in your CSR disclosures?  
You may tick more than one block:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>5.2</td>
<td>Activists</td>
</tr>
<tr>
<td>5.3</td>
<td>Employees</td>
</tr>
<tr>
<td>5.4</td>
<td>Existing customers</td>
</tr>
<tr>
<td>5.5</td>
<td>Government</td>
</tr>
<tr>
<td>5.6</td>
<td>Institutional investors</td>
</tr>
<tr>
<td>5.7</td>
<td>Media</td>
</tr>
<tr>
<td>5.8</td>
<td>NGOs</td>
</tr>
<tr>
<td>5.9</td>
<td>Potential (new) customers</td>
</tr>
<tr>
<td>5.10</td>
<td>Rating agencies</td>
</tr>
<tr>
<td>5.11</td>
<td>Trade unions</td>
</tr>
<tr>
<td>5.12</td>
<td>Shareholders</td>
</tr>
<tr>
<td>5.13</td>
<td>Suppliers</td>
</tr>
<tr>
<td>5.14</td>
<td>Other (please specify below)</td>
</tr>
</tbody>
</table>

6. Does your company disclose its impact on the economy, society and the environment?  
Please tick one block only:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
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</tr>
<tr>
<td>6.2</td>
<td>Yes</td>
</tr>
<tr>
<td>6.3</td>
<td>No</td>
</tr>
<tr>
<td>6.4</td>
<td>Uncertain</td>
</tr>
</tbody>
</table>

7. If yes (to 6 above), where is this information available?  
You may tick more than one block:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>7.2</td>
<td>Annual Report</td>
</tr>
<tr>
<td>7.3</td>
<td>Corporate website</td>
</tr>
<tr>
<td>7.4</td>
<td>CSR/Sustainability Report (stand-alone)</td>
</tr>
<tr>
<td>7.5</td>
<td>Other (please specify below)</td>
</tr>
</tbody>
</table>

8. If yes (to 6 above), what is the report (section) called?  
Please tick one block only:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>8.2</td>
<td>Corporate Social Responsibility (CSR) Report</td>
</tr>
<tr>
<td>8.3</td>
<td>Sustainability Report</td>
</tr>
<tr>
<td>8.4</td>
<td>Corporate Social Investment (CSI) Report</td>
</tr>
<tr>
<td>8.5</td>
<td>Other (please specify below)</td>
</tr>
</tbody>
</table>
Consider the following statement and provide your opinion thereon (not necessarily from your company’s perspective).

**The reasons that companies disclose their CSR-related initiatives are because...**
*There are no right or wrong answers. Please indicate your response to each dimension, by ticking the appropriate boxes below.*

<table>
<thead>
<tr>
<th></th>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.1</td>
<td>it is required by King III</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.2</td>
<td>it demonstrates the company’s commitment to being a “good corporate citizen”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.3</td>
<td>it demonstrates improved transparency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.4</td>
<td>it demonstrates improved stakeholder responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.5</td>
<td>it demonstrates improved stakeholder accountability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.6</td>
<td>it assists the company to project a positive corporate image (reputation management)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.7</td>
<td>it provides information on how the company is mitigating its CSR-related risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.8</td>
<td>investors want to know the company’s CSR track record and risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.9</td>
<td>customers want to know the company’s CSR track record</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.10</td>
<td>suppliers want to know the company’s CSR track record</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.11</td>
<td>it is a useful marketing and public relations tool</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.12</td>
<td>it positions the company favourably to compete in global markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C. **GOVERNANCE AND RISK MANAGEMENT**

**10 Does your Audit Committee approve your company’s CSR disclosures prior to publication?**
*Please tick one block only.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>10.2</td>
<td>Yes</td>
</tr>
<tr>
<td>10.3</td>
<td>No</td>
</tr>
<tr>
<td>10.4</td>
<td>Uncertain</td>
</tr>
<tr>
<td>10.5</td>
<td>Other (please specify below)</td>
</tr>
</tbody>
</table>
11 What is your opinion of the following statement?
“Government should enact legislation (or amend the Companies Act) to require all companies to provide CSR disclosures.”
There are no right or wrong answers.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1</td>
<td>Very strongly agree</td>
</tr>
<tr>
<td>11.2</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>11.3</td>
<td>Agree</td>
</tr>
<tr>
<td>11.4</td>
<td>Neither agree nor disagree</td>
</tr>
<tr>
<td>11.5</td>
<td>Disagree</td>
</tr>
<tr>
<td>11.6</td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>11.7</td>
<td>Very strongly disagree</td>
</tr>
</tbody>
</table>

12 Which organisations currently provide assurance or inspection services at your company? You may tick more than one block.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>12.2</td>
<td>Auditor General</td>
</tr>
<tr>
<td>12.3</td>
<td>Certification Bodies (please specify which e.g. SABS, SGS, Dekra, TÜV, LRQA, UL, etc.)</td>
</tr>
<tr>
<td>12.4</td>
<td>Environmental Inspectors</td>
</tr>
<tr>
<td>12.5</td>
<td>External Auditors (please specify which below)</td>
</tr>
<tr>
<td>12.6</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>12.7</td>
<td>Labour Inspectors</td>
</tr>
<tr>
<td>12.8</td>
<td>Occupational Health &amp; Safety Inspectors</td>
</tr>
<tr>
<td>12.9</td>
<td>Specialist CSR Assuror (please specify which, e.g. Trialogue, Corporate Citizenship, Sustainability, etc.)</td>
</tr>
<tr>
<td>12.10</td>
<td>Other (please specify below)</td>
</tr>
</tbody>
</table>

13 In your opinion, is there a duplication (or overlap) of the audit or assurance roles referred to in 12 above? Please tick one block only.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>13.2</td>
<td>Yes</td>
</tr>
<tr>
<td>13.3</td>
<td>No</td>
</tr>
<tr>
<td>13.4</td>
<td>Other (please specify)</td>
</tr>
</tbody>
</table>

D. CSR ASSURANCE

14 Are your company’s CSR disclosures externally assured? Please tick one block only.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14.1</td>
<td>Yes</td>
</tr>
<tr>
<td>14.2</td>
<td>No</td>
</tr>
<tr>
<td>14.3</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>14.4</td>
<td>Other (please specify)</td>
</tr>
</tbody>
</table>
15 If you answered **yes** to question 14 above, since when has external CSR assurance been provided?  
*Please tick one block only.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>15.2</td>
<td>Since 2010</td>
</tr>
<tr>
<td>15.3</td>
<td>Since 2009</td>
</tr>
<tr>
<td>15.4</td>
<td>Since 2008</td>
</tr>
<tr>
<td>15.5</td>
<td>Since 2007</td>
</tr>
<tr>
<td>15.6</td>
<td>Since 2006</td>
</tr>
<tr>
<td>15.7</td>
<td>Since before 2006 (please state in which year CSR assurance was first provided below)</td>
</tr>
</tbody>
</table>

16 If you answered **yes** to question 14 above, which organisation(s) provides assurance on the CSR disclosures?  
*You may tick more than one block.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>16.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>16.2</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>16.3</td>
<td>External Audit (please specify which firm in the space provided below)</td>
</tr>
<tr>
<td>16.4</td>
<td>Certification Bodies (please specify which firm in the space provided below)</td>
</tr>
<tr>
<td>16.5</td>
<td>Specialist Sustainability Assuror (please specify which firm in the space provided below)</td>
</tr>
<tr>
<td>16.6</td>
<td>Other (please specify by whom in the space provided below)</td>
</tr>
</tbody>
</table>

17 If you answered **yes** to question 14 above, is your CSR assurance report published?  
*Please tick one block only.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>17.2</td>
<td>Yes</td>
</tr>
<tr>
<td>17.3</td>
<td>No</td>
</tr>
</tbody>
</table>

18 If your company **does not** presently provide CSR assurance (refer question 14 above), what are the main reasons for not doing so?  
*You may tick more than one block.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>18.1</td>
<td>NOT APPLICABLE</td>
</tr>
<tr>
<td>18.2</td>
<td>Building capacity to do so in future</td>
</tr>
<tr>
<td>18.3</td>
<td>CSR assurance is a passing “FAD”</td>
</tr>
<tr>
<td>18.4</td>
<td>CSR disclosures are provided for information purposes only</td>
</tr>
<tr>
<td>18.5</td>
<td>Internal audit reviews CSR</td>
</tr>
<tr>
<td>18.6</td>
<td>Little value will be added</td>
</tr>
<tr>
<td>18.7</td>
<td>No legal/regulatory requirement to do so</td>
</tr>
<tr>
<td>18.8</td>
<td>Not considered important at this stage</td>
</tr>
<tr>
<td>18.9</td>
<td>Stakeholders do not place reliance on CSR disclosures when making decisions</td>
</tr>
<tr>
<td>18.10</td>
<td>Stakeholders trust our disclosures</td>
</tr>
<tr>
<td>18.11</td>
<td>Too expensive</td>
</tr>
<tr>
<td>18.12</td>
<td>Too time consuming</td>
</tr>
<tr>
<td>18.13</td>
<td>Other (please specify below)</td>
</tr>
</tbody>
</table>
19  If your company does not provide CSR assurance at present, but intends doing so in the future (refer question 14 above), by when will this be done?

*Please tick one block only.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>19.1</td>
<td>2010 year end</td>
</tr>
<tr>
<td>19.2</td>
<td>2011 year end</td>
</tr>
<tr>
<td>19.3</td>
<td>2012 year end</td>
</tr>
<tr>
<td>19.4</td>
<td>2013 year end</td>
</tr>
<tr>
<td>19.5</td>
<td>2014 year end</td>
</tr>
<tr>
<td>19.6</td>
<td>2015 year end</td>
</tr>
<tr>
<td>19.7</td>
<td>After 2015</td>
</tr>
</tbody>
</table>

20  Assuming that external assurance of CSR disclosures is important, what is your opinion on the following statement?

*The primary reasons that companies provide assurance on its CSR disclosures are as reflected below.*

*There are no right or wrong answers. Please indicate your response to each dimension, by ticking the appropriate boxes below.*

<table>
<thead>
<tr>
<th></th>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.1</td>
<td>King III requires it</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.2</td>
<td>Demonstrates the company’s commitment to being a “good corporate citizen”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.3</td>
<td>Demonstrates improved transparency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.4</td>
<td>Demonstrates improved stakeholder responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.5</td>
<td>Demonstrates improved stakeholder accountability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.6</td>
<td>Provides verified CSR disclosures which may be relied upon by stakeholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
21. What is your opinion on the following statement?  
*There are no right or wrong answers. Please indicate by ticking one box below.*

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.1 Assurance on CSR disclosures adds little value to stakeholders.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21.2 CSR assurance is too expensive to provide stakeholders with any meaningful benefit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21.3 CSR assurance is too expensive to provide a meaningful benefit to the company.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21.4 CSR assurance reports provide stakeholders with confidence that the company’s CSR disclosures are complete, accurate, reliable and valid (in other words, provides a fair reflection of the CSR “state of affairs” within the company).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21.5 CSR assurance reports are unnecessary, since our company has an impeccable reputation as a responsible corporate citizen.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. What is your opinion on the following statement?  
*The most suitable organisation(s) to provide CSR assurance is (are) …*  
*There are no right or wrong answers. Please indicate by ticking one box below.*

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.1 Big 4 audit firms (i.e. KPMG, Ernst &amp; Young, Deloitte and PricewaterhouseCoopers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.2 Other audit firms (not listed above)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.3 Specialist assurance consultancies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.4 Certification bodies (e.g. SABS, SGS, UL, TÜV, Dekra, etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.5 Internal audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What is your opinion on the following statement?

**The most important reason(s) for selecting an assuror to provide CSR assurance is (are)...**

*There are no right or wrong answers. Please indicate by ticking the appropriate boxes below.*

<table>
<thead>
<tr>
<th></th>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>23.1</td>
<td>Ability of the assuror to complete the engagement within the required timeframe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.2</td>
<td>Aligned to the provision of certification services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.3</td>
<td>Can provide the necessary capacity building within our company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.4</td>
<td>Cost of the assurance engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.5</td>
<td>Provides value added CSR-related advice during the assurance engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.6</td>
<td>The assurance standard referenced by the assuror</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.7</td>
<td>The assuror has access to the necessary skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.8</td>
<td>The assuror specialises in CSR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.9</td>
<td>The external audit profession are experts at all types of audits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.10</td>
<td>The global reach of the assuror</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.11</td>
<td>The reputation of the assuror</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.12</td>
<td>We prefer to use the same auditors as for our annual financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.13</td>
<td>Whether the assuror provides a &quot;limited&quot; or &quot;reasonable&quot; level of assurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
24. What is your opinion on the following statement?

The most important elements of CSR assurance reports include...

There are no right or wrong answers. Please indicate by ticking the appropriate boxes below.

<table>
<thead>
<tr>
<th>24</th>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.1</td>
<td>Depth of work undertaken</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.2</td>
<td>Limitations on scope of assurance engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.3</td>
<td>Transparency of activities undertaken</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.4</td>
<td>Clarity of the assurance report</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.5</td>
<td>Reliability (reputation) of the assurance provider</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.6</td>
<td>Assurance standard (framework) utilised</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.7</td>
<td>Audit opinion provided (i.e. qualified, unqualified or disclaimer)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

D. INTERNAL AUDIT (this section is intended to be answered by the Chief Audit Executive/Head of Internal Audit and does not need to be answered by any other respondent)

25. Does the Internal Audit Activity play a role within the CSR governance structure of your company?

25.1 Yes

25.2 No

If yes to 25 above, please describe the internal audit role?

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

26. Has internal audit recently completed an audit on CSR within your company?

27.1 Yes

27.2 No

27.3 NOT APPLICABLE

27.4 Other (please specify)

If yes to 26 above, when was this done and what was the primary audit objective?
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

27. Has internal audit provided consulting services in respect of CSR governance within your company?

29.1 Yes

29.2 No

If yes to 27 above, when was this provided and to what extent?
28. If your company conforms to a certification standard (e.g. ISO 9000, ISO 18000, OHSAS 18000, etc.), does your Internal Audit Activity assist in the attestation thereof?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>31.1</td>
<td>Yes (please provide details of which certification standards below)</td>
</tr>
<tr>
<td>31.2</td>
<td>No</td>
</tr>
</tbody>
</table>

29. If your company provides external assurance on its CSR disclosures, does your Internal Audit Activity assist in the attestation thereof?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>32.1</td>
<td>Yes</td>
</tr>
<tr>
<td>32.2</td>
<td>No</td>
</tr>
</tbody>
</table>

30. Does your Internal Audit Activity comply with the IIA Standard 2130 on Governance?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>33.1</td>
<td>Yes</td>
</tr>
<tr>
<td>33.2</td>
<td>No</td>
</tr>
</tbody>
</table>

31. Do you believe that Internal Audit could play a more active role in CSR and Governance within your company?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>34.1</td>
<td>Yes</td>
</tr>
<tr>
<td>34.2</td>
<td>Uncertain</td>
</tr>
<tr>
<td>34.3</td>
<td>No</td>
</tr>
</tbody>
</table>

If yes to 31 above, how could Internal Audit be more actively involved in CSR and Governance?

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

32. Do you believe that Internal Audit has the existing capacity to play a more active role in CSR Governance within your company?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>36.1</td>
<td>Yes</td>
</tr>
<tr>
<td>36.2</td>
<td>No</td>
</tr>
<tr>
<td>36.3</td>
<td>Uncertain</td>
</tr>
</tbody>
</table>

Any other comments on other issues not adequately covered in the preceding questionnaire that you would like to make?

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

Name of Organisation (OPTIONAL)

___________________________________________________________________________________
Annexure 4: Summary of Survey Responses

Corporate Social Responsibility (CSR) Assurance (Doctoral Thesis)

1. Which of the following do you represent?
   
<table>
<thead>
<tr>
<th>Representation</th>
<th>No who Answered</th>
<th>No who Skipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder (optional - please specify which below)</td>
<td>35 (99.4%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>External audit firm (optional - please specify which below)</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Independent CSR assurance provider (optional - please specify which below)</td>
<td>6 (2.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Certification body (optional - please specify which below)</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Other (optional - please specify which below)</td>
<td>4 (1.0%)</td>
<td>0 (0.0%)</td>
</tr>
</tbody>
</table>

2. What best describes your position within the company?
   
<table>
<thead>
<tr>
<th>Position within the company</th>
<th>No who Answered</th>
<th>No who Skipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer/Managing Director</td>
<td>6 (18.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Chairperson of the Board of Directors</td>
<td>6 (18.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>External Board Member/Chair</td>
<td>6 (18.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Independent Audit Committee Member</td>
<td>6 (18.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Chairperson of the Audit Committee</td>
<td>4 (12.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Member of the CSR/Ethics/Corporate Governance Committee</td>
<td>2 (6.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>External Audit Management Partner</td>
<td>2 (6.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>19 (57.0%)</td>
<td>0 (0.0%)</td>
</tr>
</tbody>
</table>

3. Has your company developed and implemented a programme that considers its social, environmental and economic impacts?
   
<table>
<thead>
<tr>
<th>Programme Development</th>
<th>No who Answered</th>
<th>No who Skipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOT APPLICABLE</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Yes</td>
<td>14 (42.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>No</td>
<td>2 (6.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>7 (20.0%)</td>
<td>0 (0.0%)</td>
</tr>
</tbody>
</table>

4. If yes (to 3 above), what is it called?
   
<table>
<thead>
<tr>
<th>Programme Name</th>
<th>No who Answered</th>
<th>No who Skipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Social Responsibility (CSR)</td>
<td>5 (15.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Corporate Social Investment (CSI)</td>
<td>3 (9.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Social Value Development</td>
<td>13 (39.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>19 (57.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Corporate Citizenship</td>
<td>1 (3.0%)</td>
<td>0 (0.0%)</td>
</tr>
</tbody>
</table>

5. In your opinion, which stakeholders place reliance on the information contained in your CSR disclosures?
   
<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>No who Answered</th>
<th>No who Skipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not applicable</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Employees</td>
<td>31 (94.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Existing Customers</td>
<td>22 (66.0%)</td>
<td>2 (6.0%)</td>
</tr>
<tr>
<td>Institutional Investors</td>
<td>27 (80.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Potential investors</td>
<td>31 (94.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Trade Union representatives</td>
<td>26 (78.0%)</td>
<td>2 (6.0%)</td>
</tr>
<tr>
<td>Rating agencies</td>
<td>30 (88.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Media/Shareholders/Suppliers</td>
<td>29 (86.0%)</td>
<td>0 (0.0%)</td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>6 (18.0%)</td>
<td>0 (0.0%)</td>
</tr>
</tbody>
</table>


2013/06/06
Optional - refer question 10 above.

Does your Audit Committee approve your company’s CSR disclosures prior to publication?
Option “Other”.

For this question: summary report is unavailable

11. What is your opinion of the following statement?
“Government should enact legislation (or amend the Companies Act) to require all companies to provide CSR disclosures.”

There are no right or wrong answers.

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very strongly agree</td>
<td>5 (12.8%)</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>9 (23.0%)</td>
</tr>
<tr>
<td>Agree</td>
<td>15 (37.9%)</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>9 (23.0%)</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>8 (19.5%)</td>
</tr>
<tr>
<td>Very strongly disagree</td>
<td>1 (3.5%)</td>
</tr>
</tbody>
</table>

Percentage distribution: 12.8%, 23.0%, 37.9%, 23.0%, 19.5%, 3.5%

No who Answered: 39 (100.0%)
No who Skipped: 0 (0.0%)

Optional - refer question 12 above.

Which organisations currently provide assurance or inspection services at your company?

You may tick more than one block.

<table>
<thead>
<tr>
<th>Certification Bodies</th>
<th>External Auditors (please specify which e.g. SAS70, TUV, ISO9000, etc.)</th>
<th>Internal Audit</th>
<th>Labour Inspections</th>
<th>Occupational Health &amp; Safety Inspections</th>
<th>Specialised Sustainability Assessor (please specify which e.g. TUV, Corporate Citizenship, Sustainability, etc.)</th>
<th>Other (please specify below)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOT APPLICABLE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>18 (48.7%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>15 (38.4%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>2 (5.1%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

No who Answered: 39 (100.0%)
No who Skipped: 0 (0.0%)

Optional - refer question 13 above.

13. In your opinion, is there a duplication (or overlap) of the audit or assurance roles referred to in 12 above?

for this question: summary report is unavailable

<table>
<thead>
<tr>
<th>Answer</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18 (48.7%)</td>
</tr>
<tr>
<td>No</td>
<td>15 (38.4%)</td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>2 (5.1%)</td>
</tr>
</tbody>
</table>

No who Answered: 39 (100.0%)
No who Skipped: 0 (0.0%)

Optional - refer question 14 above.

Are your company’s CSR disclosures externally assured?

for this question: summary report is unavailable

<table>
<thead>
<tr>
<th>Answer</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18 (48.7%)</td>
</tr>
<tr>
<td>No</td>
<td>15 (38.4%)</td>
</tr>
<tr>
<td>Other (please specify below)</td>
<td>2 (5.1%)</td>
</tr>
</tbody>
</table>

No who Answered: 39 (100.0%)
No who Skipped: 0 (0.0%)

Optional - refer question 15 above.

15. If you answered yes to question 14 above, since when has external CSR assurance been provided?

for this question: summary report is unavailable

| Since 2010                   | 5 (12.8%)            |
| Since 2009                   | 2 (5.1%)             |
| Since 2008                   | 3 (7.7%)             |
| Since 2007                   | 4 (10.2%)            |
| Since 2005                   | 2 (5.1%)             |
| Since before 2005 (please state in which year CSR assurance was first provided) | 5 (12.8%) |

No who Answered: 39 (100.0%)
No who Skipped: 0 (0.0%)

Optional - refer question 16 above.

... when was external CSR assurance first provided?

for this question: summary report is unavailable


2013/06/06
16. If you answered yes to question 14 above, which organisation(s) provides assurance on the CSR disclosures?

<table>
<thead>
<tr>
<th>NOT</th>
<th>External Audit (please specify which ones below)</th>
<th>External Audit (please specify which ones below)</th>
<th>Certification Bodies (please specify which ones below)</th>
<th>Socially Sustainable Accounting (please specify which ones below)</th>
<th>Other (please specify by whom below)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No who Answered?</td>
<td>39 (10.80%)</td>
<td>No who Skipped?</td>
<td>0 (0.00%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Optional - refer question 15 above.

... which organisation(s) provides assurance on CSR disclosures?

Option 'Other'.

17. If you answered yes to question 14 above, is your CSR assurance statement published?

<table>
<thead>
<tr>
<th>NOT APPLICABLE</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 (46.49%)</td>
<td>21 (63.51%)</td>
<td>3 (7.60%)</td>
</tr>
</tbody>
</table>

No who Answered? | 39 (10.00%) | No who Skipped? | 0 (0.00%) |

Optional - refer question 15 above.

... reasons for not providing CSR assurance.

Option 'Other'.

19. If your company does not provide CSR assurance at present, what are the main reasons for not doing so?

... reasons for not providing CSR assurance.

Option 'Other'.

20. Assuming that external assurance of CSR disclosures is important, what is your opinion on the following statement?
The primary reasons that companies provide assurance on its CSR disclosures are as reflected below.

<table>
<thead>
<tr>
<th>Very strongly agree</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither strongly agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>King II requires it</td>
<td>6 (15.38%)</td>
<td>31 (85.42%)</td>
<td>15 (41.18%)</td>
<td>9 (24.32%)</td>
<td>7 (19.15%)</td>
<td>0 (0.00%)</td>
</tr>
<tr>
<td>Demonstrates the company's commitment to a &quot;good corporate citizen&quot;</td>
<td>15 (41.18%)</td>
<td>31 (85.42%)</td>
<td>15 (41.18%)</td>
<td>9 (24.32%)</td>
<td>7 (19.15%)</td>
<td>0 (0.00%)</td>
</tr>
<tr>
<td>Demonstrates improved transparency</td>
<td>15 (41.18%)</td>
<td>31 (85.42%)</td>
<td>15 (41.18%)</td>
<td>9 (24.32%)</td>
<td>7 (19.15%)</td>
<td>0 (0.00%)</td>
</tr>
<tr>
<td>Demonstrates improved stakeholder responsibility</td>
<td>15 (41.18%)</td>
<td>31 (85.42%)</td>
<td>15 (41.18%)</td>
<td>9 (24.32%)</td>
<td>7 (19.15%)</td>
<td>0 (0.00%)</td>
</tr>
<tr>
<td>Demonstrates improved stakeholder accountability</td>
<td>15 (41.18%)</td>
<td>31 (85.42%)</td>
<td>15 (41.18%)</td>
<td>9 (24.32%)</td>
<td>7 (19.15%)</td>
<td>0 (0.00%)</td>
</tr>
<tr>
<td>Provides verified CSR disclosures which may be relied upon by stakeholders</td>
<td>15 (41.18%)</td>
<td>31 (85.42%)</td>
<td>15 (41.18%)</td>
<td>9 (24.32%)</td>
<td>7 (19.15%)</td>
<td>0 (0.00%)</td>
</tr>
</tbody>
</table>

No who Answered? | 39 (10.00%) | No who Skipped? | 0 (0.00%) |

Optional - refer question 20 above.

Where there are other reasons that companies provide assurance on their CSR disclosures, not reflected in 20 above, please list them below.

For this question summary report a unavailable.

21. What is your opinion on the following statements?

There are no right or wrong answers.
22. What is your opinion on the following statement?

The most suitable organisation(s) to provide CSR assurance is (are) ...

<table>
<thead>
<tr>
<th>Organization(s)</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bodies, NGOs, and private companies (TRE)</td>
<td>8 (19.5%)</td>
<td>10 (23.1%)</td>
<td>11 (25.2%)</td>
<td>12 (27.5%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other audit firms (not listed above)</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
<td>0 (0.0%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>8 (19.5%)</td>
<td>10 (23.1%)</td>
<td>11 (25.2%)</td>
<td>12 (27.5%)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

No who Answered: 39 (99.0%)
No who Skipped: 0 (0.0%)

23. What is your opinion on the following statement?

The most important reason(s) for selecting an assurer to provide CSR assurance is (are) ...

<table>
<thead>
<tr>
<th>Reason(s)</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability of the assurer to complete the engagement within the required timeline and within the scope of the engagement</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cost of the assurance engagement</td>
<td>1 (2.4%)</td>
<td>6 (13.9%)</td>
<td>16 (37.5%)</td>
<td>12 (27.5%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Providing additional services during the assurance engagement</td>
<td>12 (29.2%)</td>
<td>1 (2.4%)</td>
<td>14 (32.6%)</td>
<td>11 (25.2%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>The assurance standard referenced by the assurer</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>The assurance scope in CSR</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>The ethical audit profession's expertise at all types of audits</td>
<td>1 (2.4%)</td>
<td>10 (23.1%)</td>
<td>16 (37.5%)</td>
<td>12 (27.5%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>The global reach of the assurer</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>The reputation of the assurer</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>We prefer to use the same auditor as our audit firm's internal audit</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Whether the assurer was a limited company or a non-profit organisation</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

No who Answered: 39 (99.0%)
No who Skipped: 0 (0.0%)

24. What is your opinion on the following statement?

The most important elements of CSR assurance statements include ...

<table>
<thead>
<tr>
<th>Element</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Very strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depth of work undertaken</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Limitation on scope of assurance engagement</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transparency of activities undertaken</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Clarity of the assurance statement</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reliability of the assurance provider</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Assurance standard (framework) utilised</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adequate independence, e.g., qualified, unbiased, independence</td>
<td>12 (29.2%)</td>
<td>13 (30.6%)</td>
<td>10 (23.1%)</td>
<td>13 (30.6%)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

No who Answered: 39 (99.0%)
No who Skipped: 0 (0.0%)

25. Does the Internal Audit Activity play a role within the CSR governance structure of your company?

<table>
<thead>
<tr>
<th>Role</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>10 (25.6%)</td>
<td>0</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

If yes to 25 above, please describe the internal audit role:


2013/06/06
26. Has internal audit recently completed an audit on CSR within your company?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>6 (19.66%)</td>
<td>3 (7.89%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>9 (25.68%)</td>
<td>5 (13.39%)</td>
</tr>
</tbody>
</table>

If yes to 26 above, when was this done and what was the primary audit objective?

27. Has internal audit provided consulting services in respect of CSR governance within your company?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>4 (16.67%)</td>
<td>5 (12.20%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>9 (25.68%)</td>
<td>20 (74.32%)</td>
</tr>
</tbody>
</table>

If yes to 27 above, when was this provided and to what extent?

28. If your company conforms to a certification standard (e.g. ISO 9000, ISO 18000, OHSAS 18000, etc.), does your Internal Audit Activity assist in the attestation thereof?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>8 (28.57%)</td>
<td>21 (71.43%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>3 (10.34%)</td>
<td>26 (89.66%)</td>
</tr>
</tbody>
</table>

If you answered yes to 28 above, please provide details of which standards below

29. If your company provides external assurance on its CSR disclosures, does your Internal Audit Activity assist in the attestation thereof?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>3 (7.92%)</td>
<td>5 (12.20%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>9 (25.68%)</td>
<td>27 (74.32%)</td>
</tr>
</tbody>
</table>

30. Does your Internal Audit Activity comply with the IIA Standard 2130 on Governance?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>8 (28.57%)</td>
<td>1 (3.68%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>9 (30.95%)</td>
<td>20 (70.05%)</td>
</tr>
</tbody>
</table>

31. Do you believe that Internal Audit could play a more active role in CSR and Governance within your company?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>Uncertain</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>7 (19.35%)</td>
<td>1 (2.94%)</td>
<td>1 (2.94%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>9 (30.95%)</td>
<td>30 (75.95%)</td>
<td></td>
</tr>
</tbody>
</table>

If yes to 31 above, how could Internal Audit be more actively involved in CSR and Governance?

32. Do you believe that Internal Audit has the existing capacity to play a more active role in CSR Governance within your company?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>Uncertain</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answered?</td>
<td>6 (18.78%)</td>
<td>0 (0.00%)</td>
<td>3 (7.89%)</td>
</tr>
<tr>
<td>Skipped</td>
<td>9 (30.95%)</td>
<td>30 (75.95%)</td>
<td></td>
</tr>
</tbody>
</table>

Any other comments on issues not adequately covered in the preceding questionnaires that you would like to make? Please record it below

Your company name (OPTIONAL)

For this question summary report is unavailable


2013/06/06
### Annexure 5: CSR assurance analysis of top 200 JSE-listed Companies @ 30 April 2012

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. British American Tobacco plc</td>
<td>R 805 816</td>
<td>EY</td>
<td>EY</td>
<td>EY</td>
</tr>
<tr>
<td>2. SABMiller plc</td>
<td>R 540 984</td>
<td>Citizenship</td>
<td>Citizenship</td>
<td>Citizenship</td>
</tr>
<tr>
<td>3. BHP Billiton Plc</td>
<td>R 529 774</td>
<td>KPMG</td>
<td>KPMG</td>
<td>EY</td>
</tr>
<tr>
<td>4. Anglo American plc</td>
<td>R 402 881</td>
<td>PwC</td>
<td>PwC</td>
<td>PwC</td>
</tr>
<tr>
<td>5. MTN Group Ltd.</td>
<td>R 256 127</td>
<td>PwC</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>6. Sasol Ltd.</td>
<td>R 237 928</td>
<td>ERM</td>
<td>PwC</td>
<td>KPMG</td>
</tr>
<tr>
<td>7. Standard Bank Group Ltd.</td>
<td>R 188 061</td>
<td>KPMG</td>
<td>KPMG</td>
<td>EY</td>
</tr>
<tr>
<td>8. Kumba Iron Ore Ltd.</td>
<td>R 176 971</td>
<td>PwC</td>
<td>PwC</td>
<td>PwC</td>
</tr>
<tr>
<td>9. Vodacom Group Ltd.</td>
<td>R 160 848</td>
<td>EY</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>10. FirstRand Ltd.</td>
<td>R 147 032</td>
<td>Audit</td>
<td>Audit</td>
<td>No</td>
</tr>
<tr>
<td>11. Anglo American Platinum Ltd.</td>
<td>R 135 920</td>
<td>PwC</td>
<td>PwC</td>
<td>PwC</td>
</tr>
<tr>
<td>12. Absa Group Ltd.</td>
<td>R 114 914</td>
<td>PwC &amp; EY</td>
<td>PwC &amp; EY</td>
<td>No</td>
</tr>
<tr>
<td>13. AngloGold Ashanti Ltd.</td>
<td>R 101 176</td>
<td>EY</td>
<td>EY</td>
<td>PwC</td>
</tr>
<tr>
<td>14. Impala Platinum Holdings Ltd.</td>
<td>R 95 578</td>
<td>KPMG</td>
<td>KPMG</td>
<td>Trialogue</td>
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<tr>
<td>15. Nedbank Group Ltd.</td>
<td>R 85 999</td>
<td>Deloitte</td>
<td>Deloitte</td>
<td>EY</td>
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<tr>
<td>16. Exxaro Resources Ltd.</td>
<td>R 73 361</td>
<td>PwC</td>
<td>PwC</td>
<td>KPMG</td>
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<tr>
<td>17. Gold Fields Ltd.</td>
<td>R 71 658</td>
<td>&amp; KPMG</td>
<td>KPMG</td>
<td>No</td>
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<tr>
<td>18. Sanlam Ltd.</td>
<td>R 70 224</td>
<td>EY</td>
<td>EY</td>
<td>No</td>
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<td>19. The Bidvest Group Ltd.</td>
<td>R 60 254</td>
<td>Deloitte</td>
<td>No</td>
<td>Deloitte</td>
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<td>20. Woolworths Holdings Ltd.</td>
<td>R 40 608</td>
<td>EY</td>
<td>EY</td>
<td>No</td>
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<tr>
<td>21. African Rainbow Minerals Ltd.</td>
<td>R 38 792</td>
<td>IRAS services</td>
<td>No</td>
<td></td>
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<td>22. Massmart Holdings Ltd.</td>
<td>R 36 095</td>
<td>No</td>
<td>No</td>
<td>Audit</td>
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<tr>
<td>23. Capital Shopping Centres Group PLC</td>
<td>R 34 894</td>
<td>Veritas</td>
<td>No</td>
<td>No</td>
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<td>24. Harmony Gold Mining Company Ltd.</td>
<td>R 32 637</td>
<td>PwC</td>
<td>PwC</td>
<td>PwC</td>
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<td>25. African Bank Investments Ltd.</td>
<td>R 32 351</td>
<td>IRAS services</td>
<td>No</td>
<td></td>
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<tr>
<td>26. Discovery Holdings Ltd.</td>
<td>R 31 345</td>
<td>Indyebo</td>
<td>No</td>
<td>No</td>
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<tr>
<td>27. Lonmin plc</td>
<td>R 26 710</td>
<td>KPMG</td>
<td>KPMG</td>
<td>KPMG</td>
</tr>
<tr>
<td>Rank</td>
<td>Company Name</td>
<td>Market Cap. (R)</td>
<td>CSR Firm</td>
<td>CSR Auditor</td>
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<tr>
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<td>--------------------------------------------------</td>
<td>-----------------</td>
<td>----------</td>
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<tr>
<td>28.</td>
<td>Mondi plc</td>
<td>26 401</td>
<td>ERM</td>
<td>ERM</td>
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<td>29.</td>
<td>ArcelorMittal South Africa Ltd.</td>
<td>26 299</td>
<td>Deloitte</td>
<td>Veritas</td>
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<td>30.</td>
<td>Liberty Holdings Ltd.</td>
<td>25 260</td>
<td>PwC</td>
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<tr>
<td>31.</td>
<td>Barloworld Ltd.</td>
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<td>Deloitte</td>
<td>Deloitte</td>
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<tr>
<td>32.</td>
<td>Pretoria Portland Cement Company Ltd.</td>
<td>18 160</td>
<td>Deloitte</td>
<td>Deloitte</td>
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<tr>
<td>33.</td>
<td>Aveng Ltd.</td>
<td>15 967</td>
<td>EY</td>
<td>EY</td>
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<tr>
<td>34.</td>
<td>Northam Platinum Ltd.</td>
<td>12 759</td>
<td>ERM</td>
<td>ERM</td>
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<tr>
<td>35.</td>
<td>Telkom SA Ltd.</td>
<td>12 384</td>
<td>Governance</td>
<td>No</td>
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<td>36.</td>
<td>Illovo Sugar Ltd.</td>
<td>11 569</td>
<td>IRAS</td>
<td>No</td>
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<tr>
<td>37.</td>
<td>AECI Ltd.</td>
<td>11 426</td>
<td>KPMG</td>
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<td>38.</td>
<td>Tongaat Hulett Ltd.</td>
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<td>39.</td>
<td>Grindrod Ltd.</td>
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<td>Royal Bafokeng Platinum Ltd.</td>
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<td>Optimum Coal Holdings Ltd.</td>
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<td>Murray &amp; Roberts Holdings Ltd.</td>
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<td>43.</td>
<td>Sun International Ltd.</td>
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<td>44.</td>
<td>Allied Electronics Company Ltd.</td>
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<td>Allied Technologies Ltd.</td>
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<td>Met air Investments Ltd.</td>
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<td>Group Five Ltd.</td>
<td>3 605</td>
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<td>PwC</td>
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<td>Hulamin Ltd.</td>
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<td>KPMG</td>
<td>KPMG</td>
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<td>Merafe Resources Ltd.</td>
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<td>KPMG</td>
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<td>51.</td>
<td>Wesizwe Platinum Ltd.</td>
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<tr>
<td>52.</td>
<td>Consolidated Infrastructure Group Ltd.</td>
<td>1 509</td>
<td>IRAS</td>
<td>PKF</td>
</tr>
</tbody>
</table>

| Total Market Capitalisation | 6 888 834 | 100%    |

**CSR as % of Market Capitalisation**
- 69.2%
- 61.5%
- 42.6%

**CSR as % of Top 200**
- 69.7%
- 61.9%
- 42.9%