

The Role of Auditor in Sustainability Reporting

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Abstract

The publication of sustainability reporting has become a trend in Indonesia even though the regulations for publishing sustainability reporting have not been mandated. Some companies have published their sustainability reports voluntarily as a demand for the company's transparency for its operations to stakeholders. To ensure that the sustainability report submitted by the company follows the guideline, the role of an auditor is needed to carry out the assurance. Therefore, the approach used in this study is qualitative. The qualitative method is research that uses descriptive data from the observation of secondary data. Secondary Data is information that already exists from before and is a collection of data by researchers to complement the data needed for research. In this study, the audit of sustainability reports can increase the credibility and accuracy of the information, primarily to support decision-making for stakeholders; this study tries to explain the role of auditors in sustainability reports.

Keywords Auditor, Assurance, Sustainability Reporting

INTRODUCTION

The company's Sustainability Report is now a new form of accountability for company management. The company's management no longer reports only accounting figures to the company's stakeholders, but the information conveyed to the company's stakeholders must be more comprehensive (de Villiers & Sharma, 2020). Sustainability report as corporate responsibility in the form of reports to disclose or communicate to all stakeholders about environmental, social, and governance performance in an accountable manner. Dewi, Fitriana & Setiawan (2018) revealed that the publication of sustainability reports in Indonesia has begun to become a trend, such as the annual award held by the National Center for Sustainability Reporting (NCAR) and the increasing demands of stakeholders for transparent and accountable information.

The Global Reporting Initiative (GRI) is an organization that provides sustainability reporting guidelines. In 2016, GRI released GRI Standards, which became effective in 2018. This is due to the desire to have a sustainability report that contains information about the good news and the negative impact of the company's activities. Nevertheless, the reliability of corporate disclosures in this area has been much debated. Although the development of sustainability reports is generally considered a positive trend, a growing body of literature criticized the transparency and usefulness of this practice. Typically, the reporting process does not appear to sufficiently increase stakeholder confidence.

The role of the guarantor to verify sustainability reports by an independent expert is increasingly becoming a fundamental requirement. The goal is to reduce information asymmetry and strengthen stakeholder confidence in the reliability and credibility of corporate disclosures. Therefore, the assurance statement is designed to reassure stakeholders that the data disclosed in the sustainability report may be deemed credible, significant, and complete, following a thorough verification procedure carried out by



certified auditors. Other stakeholders, such as governments, NGOs, and the general public, can have more faith in a company's sustainability if there are third-party guarantees in place.

Auditing the company's sustainability report is essential to ensure that the financial and non-financial data is accurate. The practice of reviewing sustainability reports is familiar. Additionally, it must be shown that management claims are included in the sustainability report, and the auditor must carry out a method to verify that the information in the sustainability report can be accounted for. Auditors are essential to measuring the social and environmental information of the organization. An auditor must now focus on the company's social and environmental information and financial data.

This study aims to investigate the role of auditors in continuous reporting. This study focuses on a systematic review highlighting auditors' role in various research methods. The results of this study are shown to enrich the quality of sustainability reports and contribute to proposing potential research opportunities in future research and can be used as an alternative in decision-makers regarding sustainability reports as part of corporate reporting accountability.

LITERATURE REVIEW

Sustainability Reporting

Sustainability reporting is measuring and disclosing the company's activities as a responsibility to all stakeholders regarding the organization's performance in realizing the Sustainable Development Goals. Sustainability report as evidence that the company has committed to its social environment, which can be evaluated by those who require the information. In addition, the sustainability report is one of the tools that both government and businesses can use to engage in communication with citizens or stakeholders as part of their efforts to adopt sustainable development education. Consequently, the preparation of sustainability reports is currently on par with the disclosure of information in the financial reports.

According to Elkington (1997), sustainability reports can be a platform to convey the organization's economic, environmental, social, and governance performance, which shows positive and negative impacts. Aspects considered very important to the organization, related to the expectations and interests of stakeholders, support sustainability reporting. Stakeholders can include those who invest in the organization and those who have other relationships with the organization. Sustainability reports help organizations to set goals, measure performance and manage the company.

Sustainability Reporting Assurance Process

According to the International Audit Assurance Standards Board (IAASB), assurance is an engagement within a practitioner to obtain evidence appropriate enough to state a conclusion designed to increase confidence about a measurement or evaluation (IAASB, 2013). Although the assurance process for sustainability reporting is based on principles and institutional arrangements similar to auditing financial statements, specific guidelines and

standards have been developed in this area, most notably the AA1000 and ISAE 3000 standards.

The AA1000 standard was launched in 2003 by a UK non-profit organization, providing principles, definitions and requirements to ensure the reliability of sustainability assurance processes (*AccountAbility*, n.d.). The ISAE 3000 standard was issued in 2005 by the IAASB and also provides general guidelines and procedures for collateral engagement in non-financial contexts. Despite their differences, these standards complement each other and serve the same purpose, aiming to improve credibility, professionalism, and reliability in assurance processes.

GRI has established an industry standard for sustainability reporting (Martinez-Ferrero et al., 2013). This standard provides a guideline on sustainability reports' principles, content, and specific indicators (Global Reporting Initiative, 2020). Reviewing the substance of the guideline assurance statement reveals that the debate focuses primarily on three issues: the professionalism of the assurance practitioner, the verification procedure, and the outcome of the statement. The GRI framework encourages standardization by requiring members to disclose economic indicators, environmental compliance, labor practices, human rights, societal duty, and product accountability. Within these categories and subcategories, the GRI framework allows each organization to write about the most critical themes to it and its stakeholders.

First, professionalism can be described as the set of abilities, values, and attitudes that are required of a professional when performing tasks requiring specialized knowledge. In the area of sustainability reporting assurance, such professionalism is predicated on the auditor's expertise and independence. Second, the assurance provider must describe the verification process, particularly regarding the scope, methods, and verification criteria. Specific standards, such as AA1000, also determine the guarantee level. Thirdly, the findings and outcomes of the assurance process must be clarified based on an evaluation of reporting criteria, including dependability, materiality, completeness, and information balance.

Although such changes are contested in the literature, applying these concepts to assurance statements should improve reporting firms' accountability to stakeholders and increase confidence in sustainability reports.

IMPLEMENTATION METHOD

The research method used in preparing this article is using qualitative descriptive method. To assist in the analysis preparation, the research method is also used in literary studies or literature studies to collect data and information from various libraries and develop arguments related to research topics. The data were from journals, books, previous research, scientific articles, literature, and news from official websites.

RESULTS AND DISCUSSION

Sustainability reporting that has been published to the public has been widely criticized. In order to address these objections and establish confidence in corporate reporting, an increasing variety of reports are being checked by assurance providers, who



can be accounting or consulting firms. In addition, assurance statements usually comment on the limits of the information and suggest ways for the company to improve its reporting practices. Manetti and Toccolfondi (2012) demonstrated the significance of the inspection process to the credibility of sustainability reporting. This literature has contributed to a clearer understanding of the usually overlooked function of assurance providers in relation to the quality, limitations, and improvement of sustainability reports.

Assurance is a business that can increase the value and performance of the company's operations independently. Professional auditors have appropriate knowledge and competence and apply professional judgment and professional skepticism in ensuring the credibility of financial statements and maintaining public trust for investors, regulators, and stakeholders through audits of financial statements. With the current trend of sustainability reporting, auditors also need to take a role in maintaining the credibility and public trust of sustainability reports with all the competence and knowledge, and application of professional considerations and professional skepticism that are already owned when auditing a financial statement.

Sustainability reports disclosed by the company must be adjusted to standardized reporting guidelines. GRI is the sustainability guideline that has become a reference in most Indonesian companies (Ramadani, 2019). Sustainability reports disclosed by companies must follow a standard framework to be in order and can be considered and evaluated. Although the material topics presented by the companies are different, when the company offers the sustainability report in a coherent manner, it will be easier to compare with the information given by other companies.

Based on a survey conducted by the Indonesian Institute of Public Accountants (IAPI) to review the condition of sustainability reports and sustainability reporting assurance services in Indonesia, it shows that of the 50 issuers sampled, 33 of them have submitted sustainability reports using various types of frameworks. Frameworks such as GRI, SUSBA, SASB, UNGC, and SDGs are used by these issuers in presenting their sustainability reports. Based on these 33 issuers, 13 have obtained assurance on sustainability reporting by AA1000AS, ISAE 3000, and SPA 3000 (IAPI, 2022).

The Asia Sustainability Reporting Award (ASRR), which has been held since 2017, gives awards as a form of appreciation to companies dedicated to conveying three aspects of company performance: economic, social, and environmental. This award can indirectly help the company increase the positive perception of investors, shareholders, and other stakeholders in its sustainability report (Tarigan & Samuel, 2015). Therefore, every company will try to adjust to applicable standards. Such as, the nomination process in ASRR 2018 is based on criteria set by NCSR, one of which is that there is an assurance by independent parties. This encourages the need for independent auditors to verify corporate sustainability reports. This will undoubtedly support the independent assurance statement to provide confidence for all company stakeholders (Kurniawan, 2018).

By increasing the demand of investors, regulators, entities, and other stakeholders for companies to submit sustainability reports, the provision of assurance on sustainability

reports is predicted to increase (IAPI, 2022). Assurance

conducted by independent auditors can provide various benefits to the company, such as:

1. Ensuring the credibility, reliability, and accuracy of non-financial disclosures in annual and integrated reports.
2. Increasing company awareness of material sustainability risks and opportunities.
3. Encouraging companies to establish systems, processes, and internal controls around ESG data collection and reporting.
4. Help companies to be more vigilant if assurance reports on sustainability reporting become mandatory.
5. Provide opportunities for companies to measure sustainability disclosures and improve the overall quality of sustainability disclosures.

The assurance procedure improves the reliability and validity of sustainability reporting (Global Reporting Initiative, 2013). The function of an auditor from an accounting firm, especially one of the Big Four, tends to increase the accuracy and dependability of revealed information (Martinez-Ferrero et al., 2013). The assurance process for sustainability reports is a signal that lessens the information imbalance between stakeholders and reporting firms and helps the reporting process, which is voluntary to self-regulate. Additionally, it has been discovered that this procedure enhances stakeholder accountability and business image.

CONCLUSION

The auditor's primary responsibility is not only limited to the internal control of a company but also related to the reliability of sustainability reporting and evaluating and assessing the presentation of sustainability reports. The Auditor also considers the company's activities' effectiveness, efficiency, and compliance with applicable regulations and guidelines. In addition to referring to the procedures for issuing sustainability reports, the audit is also critical for implementing applicable regulations. An audit on sustainability report can provide a comprehensive view of the company's management that focuses on the management, performance, and reporting of the company in the context of sustainability.

Information about sustainability that has been verified increases its trustworthiness. A lower finance cost and better analyst prediction would result from increased credibility. Additionally, assurance services might lessen investors' concerns about corporations being absorbed by social desirability practices and analysts' prediction errors, and investor concerns about such.

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