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Abstract

Sustainability reporting received considerable attention worldwide since the beginning of this millennium. This attention and increasing trend towards sustainability reporting is clear since the issuance of the UN Agenda 2023 in 2015. Since then, countries and firms are placing more emphasis on their nonfinancial performance and activities and are encouraged to report theses activities, consistent with the stakeholders theory, to receive support from different stakeholders that influence the firms' success. Without any doubt, the increasing sustainability reporting and disclosures will create a demand on assurance services, which in turn may be provided by the firms' external auditors. This assurance will add value to the sustainability reports issued by firms through increasing users confidence in the credibility of the related sustainability information.

The objective of this paper is to shed the light on sustainability reporting, assurance on this nonfinancial reporting in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000), and the effect of this assurance on stakeholders' reliability on the information content of such reports. This paper adds to the extant sustainability reporting and assurance literature and will provide valuable insights to auditors, company managers, standards setters, policymakers, market participants and the business community in general.

Keywords: Sustainability reporting, assurance on sustainability reporting, external auditor, Egypt vision 2030.

1. Introduction

Firms provide investors and other stakeholders with financial and nonfinancial information to make rational decisions (Rezaee et al., 2023). Recently, there is an increasing trend towards sustainability reporting on environmental, social and governance performance of firms, especially after the issuance of the UN 2030 agenda which encourages firms to adopt 17 sustainable development goals to sustain. And now, there is more worldwide awareness of the importance of these SDGs in achieving firm profits and sustainability (Rezaee et al., 2023). A considerable number of companies are reporting annually on their sustainability strategies and activities (Jones, et al., 2016)

This paper is responding to the call of Zrnić et al. (2020) which encouraged future research on assurance providers and that of Chopra et al. (2024) which highlighted the future themes of sustainability reporting and one of which is the future roles and the need for accountants and auditors in this regard.

The objective of this paper is to shed the light on sustainability reporting, assurance on this nonfinancial reporting in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) "Assurance Engagements other than Audit or Reviews of Historical Financial Information", and the effect of this assurance on stakeholders' reliability on the information content of such reports. To fulfil the research objective, an overview of sustainability reporting will be provided. The assurance on sustainability reporting in accordance with the ISAE 3000 will be presented. Finally, the effect of this assurance on stakeholders' reliability on the information content of such reports will be highlighted to reach the research conclusions and avenues for future research.

The importance of this research stems from the topic covered which is the external auditors' assurance on sustainability reporting, since the assurance on such nonfinancial reports is gaining considerable attention and is proven to reduce the level of information asymmetry and have a positive effect on the report users' judgement, valuation, and confidence in the report content. In addition, we focused on the external auditors as assurance providers since prior studies provided evidence that accounting firms in general and the Big4 audit firms in particular contribution to this market is increasing over time (Fernandez-Feijoo et al., 2016).

To fulfil the research objective, the rest of the paper will be organized as follows: Section 2 will provide an overview on sustainability reporting and the factors that affect it. Section 3 will present the assurance on sustainability reporting, placing an emphasis on the ISAE 3000. Section 4 will focus on the value added of assurance on sustainability reporting from the stakeholders' point of view. Section 5 will conclude and present the conclusions and avenues for future research.

2. Sustainability Reporting: An Overview

Recently, there is an increasing trend towards sustainability reporting on environmental, social and governance performance of firms, especially after the issuance of the UN 2030 agenda which encourages firms to adopt 17 sustainable development goals to sustain. And now, there is more worldwide awareness of the importance of these SDGs in achieving firm profits and sustainability (Rezaee et al., 2023). Sustainability reporting, which results from social, environmental, and economic factors, involves responsible resource management, reducing climate change and preserving the environment (Dincer and Dincer, 2024). Sustainability reports are considered an information medium that communicates information to internal and external stakeholders regarding the assessment of management commitment and fulfillment of the firm responsibility (Hidayah and Raihan, 2024).

Several theories may be used to explain the motivation behind the firm's sustainability reporting. These theories include stakeholder theory, legitimacy theory, institutional theory, signaling theory and agency theory. *First*, according to the stakeholder theory, firms should behave ethically and in a responsible manner and provide balanced disclosures (Bhat and Abdullah, 2023). It is expected that firms' objective will be to create value to stakeholders and not to focus on profit maximization to shareholders only. As a result, and to satisfy this goal, firms will be more inclined to offer financial and nonfinancial information to satisfy the stakeholders' demand of information (Al-Shaer, et al., 2022). *Second*, consistent with the legitimacy theory, it is expected that firms will disclose their nonfinancial social and environmental performance to maintain their legitimacy (Bhat and Abdullah, 2023). *Third*, using the institutional theory, which integrates the stakeholder and legitimacy theories, it can be noted that firms are not working in isolation. However, they are operating with different institutions that have an impact on their behavior and future (Campbell, 2007). As a result, it is expected that firms may provide sustainability reporting to interact with these institutions and acquire the needed resources that will help them to operate and sustain. *Fourth*, according to the signaling theory, it is expected that firms may use their sustainability reporting to send a signal to the community regarding their commitment to sustainability (Rezaee et al., 2023). *Finally*, based on the agency theory, it is expected that the disclosure of firm's sustainable performance and practices will help in reducing agency costs and the level of information asymmetry between company managers and the firm's stakeholders (Hassanein and Hussainey, 2015)

Sustainability reporting has its benefits and challenges. Concerning its benefits, it may involve improved customer loyalty, employee morale, firm reputation, and investor attraction (Hidayah and Raihan, 2024). Meanwhile, sustainability reporting is facing several challenges that reduce its value. According to Zrnić et al. (2020) and Bhat and Abdullah (2023), the existence of several reporting frameworks, such as Global Reporting Initiative (GRI), which reduces consistency and makes the comparability among companies very difficult is one of these challenges. In addition, the voluntary disclosure of firms' sustainability, especially in developing countries, will not make firms prioritize sustainable development over economic development. Also, the lack of multidisciplinary human experience in preparing sustainability reports is complicating the adoption of sustainability reporting (Chopra et al., 2024). Finally, the complexity of disclosure requirements for smaller firms and the risk of greenwashing, where information reported may be misleading, are additional challenges (Dincer and Dincer, 2024)

Prior studies discussed the increasing trend of corporate sustainability reporting and the factors that may have a positive effect on firms' sustainability reporting. For instance, Kend (2015) examined these factors using the Top 200 companies in Australia and UK and based on a sample of 220 listed companies, the authors found evidence that firm size and strong corporate governance are main determinants of firms' sustainability reporting. Bhat and Abdullah (2023) investigated the factors that affect the sustainability reporting in Oman. Based on a sample of 133 firm-year observations from Muscat Stock Market covering a period from 2015 to 2021, the authors found that firm size is positively associated with sustainability reporting, while firm leverage and females on boards are negatively related to sustainability reporting. Also, Rezaee, et al. (2023) found evidence that firms that are socially responsible and those that are located in stakeholder-oriented code law countries are more likely to issue sustainability reports. On the other hand, based on a sample of 55 companies listed on Indonesia Stock Exchange selected during the period from 2017 to 2021, Hidayah and Raihan (2024) found that firm size has a positive and significant effect on firms' sustainability reporting, however, firm profitability and liquidity are not affecting sustainability reporting significantly.

Based on the discussion above, we can note that sustainability reporting received an increasing attention worldwide. Sustainability reporting involves different information categories, such as climate change and resource management. Sustainability reporting has its benefits, such as customer and employee loyalty and attracting investors. However, there are several challenges facing sustainability reporting and its added value, such as the presence of multiple reporting frameworks and the nonmandatory adoption in different countries. Several theories may be used to explain the motivation behind sustainability reporting, such as agency theory, stakeholder theory, institutional and legitimacy theories. Prior research focusing on the factors that affect the firms' sustainability reporting focused on different factors such as firm profitability, size and liquidity and corporate governance factors in addition to the country's orientation (that is stakeholder versus shareholder oriented).

3. Assurance on Sustainability Reporting

The increasing trend of firms' sustainability reporting will result in higher demand of assurance on the offered sustainability reports and disclosures. This assurance might be provided by accountants and nonaccountants. Assurance helps in enhancing users' confidence in the accuracy and validity of information included in the sustainability reports (Kend, 2015). According to the signaling theory, it is expected that firms will use the assurance reports on sustainability reporting to convey a signal to the society concerning the credibility and reliability of the information provided in these reports (Rezaee et al., 2023).

The independent assurance on sustainability reporting may be provided by different parties, such as audit firms, certification bodies, specialized consultants academic organizations, or individuals (Marx and Dyk, 2011). Wong et al. (2016) categorized the assurance participants into three groups, which are accounting firms, non-accounting firms that offer specialized consulting services in sustainability and non-accounting consulting firms that offer general consulting services.

Prior literature focused on the factors that may affect the firm's decision to hire sustainability assurance service. For instance, based on a sample of 61 sustainability reports from UK and 19 sustainability reports from USA in 2010 and 2011, Wong et al. (2016) found that large, profitable, and liquid companies from UK tend to demand the assurance services on their sustainability reports from accounting firms. In the same context, using a sample of 398 companies listed on TSE (Nikkei 500 Index), Haider and Nishitani (2022) found that ownership structure is positively correlated to assurance on sustainability reporting. In addition, board independence has a significant positive effect on the firm's decision to offer an assured sustainability reporting. Consistently, García-Sánchez et al. (2022) investigated the role of institutional investors in this regard and based on a sample of 1564 multinational companies in Spain covering a period from

2002 to 2017, the authors found that institutional investors have a positive effect on the firm's decision to hire sustainability assurance providers. Recently, Alwadani et al. (2024) examined whether firms that have a sustainability committee on boards offer sustainability reports that are externally assured. Based on a sample of firms listed on Saudi Stock Exchange, the authors found that the presence of a sustainability committee is positively associated with sustainability reporting and external assurance on these reports.

Additionally, prior literature investigated the factors that may affect the choice of assurance provider. According to Kend (2015), the public may assume that the external auditor is the best assurance provider in this regard and based on a sample of 220 listed companies in 2010 from Australia and UK, the author found that the presence of an active and diligent sustainability committee will be a main determinant in choosing the assurance service provider, which will be from the auditing profession. The author justifies this referring to the knowledge spillover hypothesis, where the firm's external auditor is having good knowledge of the firm.

There are two international assurance standards that are issued to guide assurance service providers in their assurance engagements. The first one is the AA1000AS which is issued by the Institute of Social and Ethical Accountability (AccountAbility) in 2003 and is used by assurance providers of consulting firms (Boiral, Heras-Saizarbitoria, Brotherton and Bernard, 2019). The second one is the ISAE 3000 which is issued by the International Auditing and Assurance Standards Board (IAASB) and is directed to the accountant assurance providers (Marx and Dyk, 2011). Both of them are offering two levels of assurance, which are high reasonable assurance that requires higher level of investigation and evidence and moderate limited assurance that relies on lower level of investigation and evidence (Alsahali and Malagueño, 2022).

For the purpose of this research, we are going to focus on the ISAE 3000, which is the main reference assurance standard (Badawy, 2021; Mohamed, et al. 2024) and is directed to external auditors who act as sustainability reporting assurance providers. This standard guide auditors in their assurance engagements. It covers the ethical requirements, documentation, acceptance and continuance, quality control, professional skepticism, professional judgment, and assurance skills and techniques, planning and performing the engagement, obtaining evidence forming the assurance conclusion and preparing the assurance report. An example of these assurance engagements is sustainability, which "involves obtaining assurance on a report prepared by management or management's expert (the measurer or evaluator) on the sustainability performance of the entity" (IAASB, 2013, par. A8).

According to the ISAE 3000, auditors follow the following steps in their sustainability reporting assurance:

- Acceptance and continuance: The auditor accepts or continues on assurance engagement when he has no reason to believe that ethical requirements, including independence will not be satisfied and that the engagement team is having the appropriate competence and capabilities.

- Planning and performing the engagement: The auditor plans and performs the sustainability reporting assurance engagement with professional skepticism and exercise professional judgement in planning and performing the assurance engagement. The auditor understands the subject matter, which is the sustainability report and other engagement circumstances to identify the areas where a material misstatement of the subject matter information is likely to arise, obtain the sufficient and appropriate evidence, identify and assess the risks of material misstatements in the sustainability reporting information, design and perform procedures to respond to the assessed risks, evaluate whether the sustainability reporting information refers to or describes the applicable criteria.
- Forming the assurance conclusion: The auditor evaluates the sufficiency and appropriateness of the evidence obtained and considers all relevant evidence, whether it corroborates or contradicts the evaluation of the sustainability reporting against the applicable criteria
- Preparing the assurance report: The report includes a title, addressee, description of the assurance level obtained and the sustainability reporting information, the applicable criteria, inherent limitations (if any), the responsible party, summary of the work performed, conclusion, auditor's signature, and the date of the assurance report and the location where the auditor practices (IAASB, 2013).

As mentioned earlier, the existence of more than one sustainability reporting framework represents a challenge that reduces consistency and makes comparability difficult for stakeholders. An attempt to face this challenge is made when the International Sustainability Standards Board (ISSB), which is an independent standard body within the IFRS foundation formed in 2021 to develop and approve the IFRS sustainability disclosure standards (www.iasplus.com), issued two related sustainability standards in 2023. The first one is *General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1)* which requires companies to report on the different risks and opportunities associated with their sustainability and might affect their expectations concerning their access to finance, future cash flows, cost of capital in the short, medium, and long run (EY, 2023). The second one is *Climate-related Disclosures (IFRS S2)* which focuses on climate related risks, whether physical or transition risks, and opportunities and provide specific requirements for disclosures related to the climate (www.ifrs.org, PwC, 2023).

The Big4 audit firms evaluated the attempt of the ISSB to issue the first two sustainability standards. EY mentioned that the standards IFRS S1 and IFRS S2 improves the coherence between the sustainability disclosures and financial reporting (EY, 2023). In addition, this attempt represents a good initiative to unify the sustainability related standards, and this will improve the level of comparability and consistency which will in turn facilitate the investors' and other stakeholders' evaluation of sustainability activities of different companies (Tekchandani and Quang, 2023). These standards present a comprehensive global baseline of sustainability disclosures that are expected to fulfil the investors' demand of information (Carroll, 2023).

Based on *General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1)*, it is required that the financial disclosures related to sustainability be prepared and reported for the same reporting entity and cover the same reporting period as the general-purpose financial statements (EY, 2023). To help the different stakeholders in making sound decisions, it is expected from the entity to draw connections between the different sustainability related risks and opportunities, tie the disclosures related to such risks and opportunities within the sustainability related financial disclosures and finally, connect these disclosures across the sustainability related disclosures and other general purpose financial disclosures (EY, 2023)

These standards require entities to disclose four types of information, which are (EY, 2023):

- Governance, which involves the governance procedures and controls that are designed and operated to monitor the related risks and opportunities.
- Risk management, which focuses on how risks and opportunities are being identified, assessed, and managed.
- Strategy, which involves the firm's strategy to manage the related risks and opportunities.
- Metrics and targets, which focus on how the firm measures and manages the related risks and opportunities.

As an attempt to unify the reference sustainability assurance standard, consistent with that related to the issuance of IFRS S1 and IFRS S2, the IAASB is currently working on a proposed assurance standard titled *"International Standard on Sustainability Assurance" (ISSA 5000)* that is expected to be finalized before the end of 2024. This assurance standard is a comprehensive one, covering both limited and reasonable assurance engagements, applicable to sustainability information related to any sustainability topic and prepared under any reporting framework, including the IFRS S1 and IFRS S2, and can be used by professional accountant and non-accountant assurance practitioners (www.iaasb.org).

Concerning the effect of the issuance of such assurance standard on the Egyptian professional market, it can be noticed that such issuance will contribute towards increasing the gap between the Egyptian assurance standard, which was not updated since its issuance in 2008 and the international assurance standard. This standard gap will have its effect on sustainability in Egypt.

Based on the discussion above, it can be noted that the increasing trend of sustainability reporting has created the demand of assurance on these reports. it is expected that the assurance on sustainability reporting will add value and enhance the credibility, relevance, and reliability on the information content of such reports. Such assurance services may be provided by different types of assurance providers, such as consulting firms, academic institutions, accounting firms and so on. There are several factors that affect the firm's decision to demand this value-added assurance services, such as ownership structure and the presence of a sustainability committee on boards, and the type of assurance provider, such as firm size, profitability, and liquidity. Assurance providers need to follow the assurance standards, such as the ISAE 3000 to provide their assurance services. Moreover, it should be noted that the ISSB has recently issued its first two sustainability reporting standards in an attempt to unify the sustainability related standards. Big4 accounting firms showed their positive feedback concerning this attempt.

4. Value Added of Assurance on Sustainability Reporting from Stakeholders' Viewpoint

It is expected that the assurance on the information content of the sustainability reports and disclosures will enhance the quality of such information (Dewi and Widyawati, 2023), in terms of its reliability, relevance, and comparability (Miralles-Quirós et al., 2021). Prior studies examined the effect of assurance provided on sustainability reporting on the different stakeholders. Stakeholders may include shareholders, employees, customers, suppliers, and the local community that have a stake in the firm and might be affected by its performance (Heath and Norman, 2004). To analyze the effect of assurance provided on sustainability related disclosures on stakeholders, we are going to analyze related prior literature to reach our conclusions and identify the research gap that needs future research.

Regarding the value added of assurance on sustainability reporting on managers' decisions, Steinmeier and Stich (2017) examined the effect of assurance on sustainability reporting on management investment decision. Based on a sample of 892 firms from 31 countries over a period from 2006 to 2015, the authors found that assurance on sustainability reporting will provide managers with an improved set of information available to managers and this is reflected in higher sustainability investment efficiency. In addition, this assurance will reduce the information asymmetry between managers and investors which will make investors more capable to monitor the company's management and will in turn lead to higher investment efficiency.

Concerning the effect of assurance on sustainability reporting on shareholders and investors, extensive previous studies examined the value relevance of sustainability reporting and the assurance on such reports. For instance, Hodge et al. (2009) conducted an experimental survey on 145 MBS students in two large universities in Australia and found that the report users' confidence in and perception of credibility are higher when an assurance statement is provided on sustainability reports than the case when it is not provided. Additionally, users highly valuate the high assurance level and that provided by accountants. Cheng et al. (2015) conducted a 2X2 between subjects experiments to investigate the relevance of Environmental, Social and Governance (ESG) reported information and its assurance on nonprofessional investors' decisions. The authors found that nonprofessional investors value the information content in the sustainability reports and are more willing to invest when assurance on such information is provided. Consistently, and using the same methodology, Reimsbach et al. (2018) found experimental evidence that assurance on nonfinancial sustainability reporting has a positive effect on professional investors' assessment of a firm's sustainability performance, leading to a higher assessment of related information which result in higher investment-related judgments.

In Spain, Reverte (2020) investigated the value added of assurance on sustainability reports, by focusing on the effect of assurance level, assurance scope, assurance quality and type of assurance provider on firm valuation. Based on a sample of 148 firm-year observations during a period from 2014 to 2017, the author found evidence that investors value assurance in their decisions as it contributes towards reducing the level of information asymmetry between the firm and its stakeholders and this will reduce the cost of capital required by investors. In addition, the author found that full scope and high or reasonable assurance level are offering higher value to investors in comparison to partial and low or limited assurance level respectively. In the same context, Hassan et al. (2020) examined the relationship between sustainability disclosure, assurance, industry membership and reporting format in Bangladesh. Based on a sample of 100 of the largest companies, the authors found evidence that the assurance on sustainability reporting has a positive effect on the level of sustainability reporting. That is firms that offer assured sustainability reporting tend to report on more sustainability activities in comparison to firms that don't provide assured reporting.

In addition, Thompson et al. (2022) analyzed the effect of sustainability reporting and related assurance in South Africa. Based on a sample of 460 firm-year observations over a period from 2015 to 2019 from Johannesburg Stock Exchange, the authors found a positive association between sustainability reporting and assurance provided on these reports and firm value, as measured by Tobin's Q. Using a sample of 1832 firm-year observations from 660 European listed companies covering a period from 2017 to 2020, Bauwhede and Cauwenberge (2022) found that assurance on sustainability reporting has a positive impact on stock market value. Also, in Indonesia, Dewi and Widyawati (2023) concluded that sustainability performance disclosures have a significant positive effect on the firm's financial performance when assurance on such disclosures is available and thus provide a reliable signal to investors. In the same context, Friske et al. (2023) investigated 1,232 firm year observations in the USA and concluded that sustainability reporting is negatively associated with firm value, as measured by Tobin's Q, in its early stage of adoption, due to its higher costs. However, as firms become more familiar with sustainability reporting, this relationship is reversed. Also, positive relationship is found when external assurance is present. Finally, Harindahyani and Agustia (2023) added evidence that assurance provided by accounting assurance providers contribute towards enhancing the level of assurance statement quality of Asian sustainability reports, in comparison with non-accountants assurance providers.

Based on the discussion above, it is clear that there is extensive prior research focusing on the added value of assurance on sustainability reporting and how this added value might differ depending on the level of assurance (high or reasonable versus low or limited), scope (full versus partial), type of assurance provider (accountants versus non-accountants). Although these studies differ in their methodologies (experimental and empirical) and application environment (developing and developed countries), however they agree on the value added of assurance on sustainability reporting. They provided evidence that assurance on sustainability reporting tends to reduce the level of information asymmetry between the company and its stakeholders and increases the level of users' confidence and perception of credibility of the report information content. This in turn will be reflected on lower cost of capital and better investment decisions.

5. Conclusions and Avenues for Future Research

The objective of this paper is to shed the light on sustainability reporting, assurance of this nonfinancial reporting in accordance with the ISAE 3000, and the effect of this assurance on stakeholders' reliability on the information content of such reports.

To fulfil the research objective, we provided an overview of the sustainability reporting, its benefits and challenges, theories explaining the motivation behind sustainability reporting and the factors that affect the firm's sustainability reporting. Then, we presented the assurance on sustainability reporting, related assurance standards and the factors that affect the firm's decision to have their sustainability reports and disclosures assured and the choice of assurance provider. Finally, we analyzed prior literature that focused on the value added of assurance on sustainability reporting and the effect of such assurance on stakeholders in general and investors in particular.

Although there is extensive research that focused on the importance of assurance on sustainability reporting, however it should be noted that this research is focusing on the investor as the main beneficiary or user of such reports. According to the stakeholder theory, the firm's goal is to add value to its stakeholders and not just its investors. Accordingly, more research is needed to investigate the value added of assurance on sustainability reporting from the other stakeholders' point of view, such as employees, customers, suppliers, creditors and so on.

Future research may include the added value of assurance on sustainability reporting in emerging countries, such as Egypt. The recent issuance of the first two sustainability standards IFRS S1 and IFRS S2 may encourage future researchers to investigate their effect on unifying the information disclosures provided, enhancing the information quality, relevance, reliability, and comparability. Additionally, future researchers may examine the effect of the sustainability standards on the investors' judgement, willingness to invest, perceived confidence and reliability on the assurance report and their investment decisions.

Finally, once the IAASB issued the final version of the International Standard on Sustainability Assurance 5000 (ISSA 5000), future researchers are expected to examine the effect of this comprehensive assurance standard on the quality, reliability, and credibility of the related assured sustainability information provided. In addition, it would be interesting if future researchers analyze the effect of this assurance standard on the qualifications and skills of the practitioners in general and external auditors as assurance providers in particular, in developed and developing countries, especially that auditors are expected to be entrepreneurs (Aly and Badawy, 2021) in this regard and assurance engagements on sustainability reporting are expected to required complicated and multifaceted competences (Boiral, Heras-Saizarbitoria and Brotherton, 2019). Also, future researchers may investigate the effect of the sustainability assurance standard on the different stakeholders' judgements and decisions, which might be clear in the cost of capital and debt, investment efficiency, investors' judgements, and decisions.

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