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An investigation of the corporate responsibility report assurance statements of the Big Four banks in Australia

By Choon-Yin SAM ^{a†} & Nyit-Chiong TIONG ^b

Abstract. The corporate responsibility report demonstrates an organisation's commitment to sustainability. Currently, not much is known about the quality of the assurance statements of the corporate responsibility reports of banks in Australia. This research study fills the gap in the literature by investigating the corporate responsibility report assurance statements of the Big Four banks in Australia. The assurance statements are evaluated against the criteria provided by O'Dwyer and Owen (2005) and Perego and Kolk (2012). The results reveal that although the assurance statements, on average, meet the criteria highly, there are areas that need improvement.

Keywords. Assurance, Bank, AA1000AS, ASAE 3000, ISAE 3000

JEL. G21, M14, M41

1. Introduction

Corporate responsibility (sustainability) reporting, that is, the reporting of an organisation's economic, environmental, and social performance (Global Reporting Initiative, 2006), is becoming widespread. According to the KPMG (2011) international survey of corporate responsibility reporting, 95 per cent of the top 250 companies listed on the Fortune Global 500 (G250) prepared corporate responsibility reports compared with around 80 per cent in the 2008 survey. Similarly, for the 100 largest companies by revenue from 34 countries (N100), the number of reporting companies increased from 53 per cent to 64 per cent. The top drivers for corporate responsibility reporting were reputation or brand, ethical considerations, employee motivation, and innovation and learning.

In Australia, the KPMG (2011) international survey of corporate responsibility reporting found that the percentage of the largest 100 companies listed on the Australian Stock Exchange (ASX) that reported on their corporate responsibility initiatives increased from 45 per cent in 2008 to 57 per cent in 2011. The key drivers for reporting were the National Greenhouse and Energy Reporting Act 2007, the development of the Department of Climate Change's Carbon Pollution Reduction Scheme (CPRS), and the ASX's revised Principle 7, which considers sustainability issues as a material business risk. Higgins et al (forthcoming) identified 126 Australian companies that have produced stand-alone corporate responsibility reports, out of which 70% were classified as high impact companies (e.g. mining, pulp/paper, utilities, gas and oil) and 65% of the reporting companies were classified as high social public visibility (e.g. banks, financial services, communications, media and computing).

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There is also an increasing trend of corporate responsibility assurance, which is voluntary to companies through external and independent assurance providers to establish credibility and reliability of corporate responsibility reporting (Ball, Owen & Gray, 2000; Edgley, Jones & Solomon, 2010). In Australia, 51 per cent of the largest 100 ASX-listed companies conducted assurance activities on their corporate responsibility reports in the KPMG (2011) survey, compared to 42 per cent in the last survey. The main drivers for companies to seek assurance of their corporate responsibility reports are: enhancement of the credibility of their reports and improvement in the quality of reported information. Although the trend is rising, there are many companies that still do not have their corporate responsibility reports assured. As KPMG (2011: 28) state:

“It is surprising, therefore, that only 46 per cent of the G250 and 38 per cent of N100 companies currently use assurance as a strategy to verify and assess their CR data. And while this is slightly higher than the 2008 figures, it is also a troubling finding; companies without an external assurance program not only run the risk of restatements in the future, but also send the message that CR information is not held in as high regard as financial information, which is frequently assured in most businesses.”

In relation to the assurance providers, the major accounting firms performed 71 per cent of the G250 assurance engagements and 64 per cent of the N100. With respect to the assurance standards used, there are two standards that are commonly used: International Federation of Accountants’ International Standard on Assurance Engagements (ISAE) 3000 (ASAE3000 in Australia) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and AccountAbility’s (a non-profit organisation) AA1000 Assurance Standard 2008. The two assurance standards are compatible. According to AccountAbility’s website (2013):

“AA1000AS (2008) is compatible with the methodology of ISAE3000...(it) is unique as it requires the assurance provider to evaluate the extent of adherence to a set of principles rather than simply assessing the reliability of the data. The AA1000AS (2008) requires the assurance provider to look at underlying management approaches, systems and processes and how stakeholders have participated. Using the AA1000AS, the assurance provider evaluates the nature and extent to which an organisation adheres to the AccountAbility Principles in the AA1000 APS (2008).”

In the KPMG (2008) survey, 62 per cent of the G250 companies and 54 per cent of the N100 companies used the ISAE3000 assurance standard. For accounting firms, it is obligatory to use the ISAE3000 assurance standard if there is no national alternative.

Currently, not much is known about the quality of the assurance statements of the corporate responsibility reports of banks in Australia. This research study fills the gap in the literature by investigating the corporate responsibility report assurance statements of the Big Four banks in Australia. The assurance statements are evaluated against the criteria provided by O’Dwyer & Owen (2005) and Perego and Kolk (2012). The results reveal that although the assurance statements, on average, meet the criteria highly, there are areas that need improvement.

2. Literature review

Corporate responsibility reporting has significantly increased in the past twenty years resulted from growing public and national concerns over social and

environmental issues (Gray, 2000; O'Dwyer & Owen, 2005). In 2001, France became the first country in the world that required corporate social responsibility reports from listed companies. Countries such as Denmark, Sweden and Norway followed with mandatory requirements. Some of the corporations are attracted to the idea of corporate responsibility reporting as a means to attract capital from socially responsible investors (Tschopp & Nastanski, 2014).

While there is an increase in the uptake of assurance of corporate responsibility reports (Reynolds & Yuthas, 2008; Junior, Best & Cotter, 2014), it is not certain whether there is a corresponding increase in the quality of the assurance statements that accompany the corporate responsibility reports [see, for example, Milne et al (2009), Milne & Gray (2013) and Morhardt (2010)]. For one, it is not uncommon for organisations to disclose information on social and environmental issues that are less extensive and of lower quality as compared to financial information (Gray & Milne, 2002). In their study of the Canadian experience in sustainability reporting, Nitkin & Brooks (1998) noted that the quality of the reports varied significantly among the Canadian firms. There was little standardisation of the reports' format, and the main catalyst to engage in sustainability reporting and auditing came largely from ISO and European developments. Criado-Jimenez et al (2008) investigated the reporting patterns of 78 large Spanish companies between 2001 and 2003. The study found that companies engaged in concealment strategies thereby misleading the investors and stakeholders. The concealment was supported by the fact that companies had engaged in biased disclosure by revealing more news and information that would put the companies in a more positive light.

Deegan et. al. (2006) investigated the assurance statements that accompanied the corporate responsibility reports of 170 companies in the United Kingdom and Europe. The study shows that there are several areas of concern that need improvement. These include the following: (1) It is uncommon for assurance statements to indicate the party that is responsible for the preparation of the corporate responsibility reports and the party that is responsible for the preparation of the assurance statements; (2) There are issues related to the perceived independence of assurance providers; (3) There is a wide variation in the titles of assurance statements; (4) There is also a wide variation in the addressees of the assurance statements; (5) Assurance providers provide limited information on the objectives and scope of their assurance engagement and the work performed; (6) The majority of the assurance statements do not indicate whether the corporate responsibility report is assessed against a reporting criteria; (7) Most of the assurance statements also do not indicate the standards used to govern the work performed; and (8) There is a wide variation in the wording used in the conclusion and many of the terms used have no clear meaning.

It is well known that the goal of an organisation is to maximise the shareholders' value. To meet the goal, the Board of Directors have to understand the impact of the company's actions on the social environment. There is an expectation from the society that the company must use the resources in the manner that the benefits to the society derived from the usage would exceed the cost. In this regard, companies with a good standard of corporate governance should demonstrate greater responsibility toward the society and the environment as compared with a company with poorer corporate governance. To test the hypothesis, Chan et al (2014) assessed the relationship between corporate governance quality (based on the companies' performance in corporate governance areas such as Board of Directors, auditor independence and board committees) and the amount of CSR information disclosed by the top 300 companies traded on the Australian stock exchange. The authors concluded that corporate governance quality is positively associated with CSR activities and disclosure. In another

study, [Mohammad Issam Jizi et al \(2014\)](#) used a sample of large US commercial banks for the period 2009-2011, and concluded that the a higher standard of corporate governance (such as larger boards and more independent directors) is positively associated with corporate social responsibility disclosure.

Research on corporate responsibility reporting in Australia is limited despite of its considerable long history of reporting especially in the high impact industries in oil and mineral excavation. One recent paper that has discussed corporate responsibility reporting in Australia attempts to find out why Australian firms have produced stand-alone reporting and the benefits that the firms would expect to receive from undertaking sustainability reporting ([Higgins et al, forthcoming](#)). Based on a sample size of 64 companies that cut across the various industries, the authors, via telephone survey, found that responding to pressure from the stakeholders appeared to be a major motivating factor for sustainability reporting for high impact (e.g. oil and gas) and high visibility (e.g. banks and communications) industries. The intention to signal organisational commitment to social responsibility or sustainability to improve or manage companies' reputation is another major catalyst for sustainability reporting, prompting the authors to conclude that the Australian companies are 'motivated by strategic competitiveness and differentiation', and that 'strategic importance of sustainability reporting', at least in the Australian context, 'is now widely explained as a rationale' for corporate responsibility reporting.

With regards to corporate responsibility reporting of banks in Australia, [Tiong & Anantharaman \(2011\)](#) examined the corporate responsibility disclosures of three big Australian banks (The Australia and New Zealand Banking Group Limited, National Australia Bank, and Westpac Banking Corporation) which prepared their corporate responsibility reports according to the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines and Financial Services Sector Supplement. The results show that although the banks provided a high level of disclosure, there were several areas that needed improvement. First, banks need to provide the reason for the omission of a performance indicator. Second, banks should clearly indicate which part(s) of a discussion relate specifically to the performance indicator. Third, banks should also indicate whether a performance indicator has been fully reported, partially or not reported.

This research study builds on extant literature by investigating the corporate responsibility report assurance statements of the Big Four banks in Australia; namely, The Australia and New Zealand Banking Group Limited (ANZ), The Commonwealth Bank of Australia (CBA), National Australia Bank (NAB), and Westpac Banking Corporation (WBC). The findings of this study will contribute to our understanding of the quality of assurance statements that accompany the banks' responsibility reports and to identify areas for improvement.

3. Research methodology

The investigation of the assurance statements of the Big Four banks in Australia - ANZ, CBA, NAB, and WBC - commenced by downloading the latest statements (financial year 2013) from the banks' websites. The quality of the assurance statements is evaluated against the framework provided by [O'Dwyer & Owen \(2005\)](#), who developed the minimum requirements of a high quality assurance statement that enhances the credibility, stakeholder responsiveness, and comparability of corporate responsibility reports with particular reference to the assurance standards requirements of AccountAbility (2003a, b), *Fédération des Experts Comptables Européens (FEE)* (2002), and GRI (2002). The evaluative framework comprises 19 ranking criteria (see Appendix 1). A score of 0, 1, or 2 is

awarded according to the definition of each ranking criterion provided by Perego & Kolk (2012) who used the evaluative framework developed by O'Dwyer & Owen (2005) to study the evolution of assurance statements that accompany the corporate responsibility reports of multinational companies. The banks' assurance statements were evaluated and the scores awarded by the researchers together. The range of scores is from zero (lowest quality) to 27 (highest quality).

4. Results and discussion

Table 1 shows 2014 full year financial results of the Big Four banks. Overall, the banks generated healthy financial results with CBA leading the pack with a net profit of A\$8.6 billion. WBC earned a net profit of A\$7.6 billion whereas ANZ and NAB earned A\$7.3 billion and A\$5.3 billion in net profit in 2014, respectively. The annual dividends pay-out differs quite substantially with CBA paying a dividend of A\$2.18 cents per share. This was followed closely by NAB at A\$1.98 per share. WBC and ANZ's annual dividends pay-out were A\$1.82 per share and A\$0.95 per share, respectively.

Table 1: *Financial performance 2014*

	Net profit (A\$ bil)	Return on equity (%)	Dividends per share (A\$)	Common equity tier 1 ratio
ANZ	7.3 (15%)	15.4	0.95	8.79
CBA	8.6 (13%)	18.7	2.18	9.30
NAB	5.3 (-1.1%)	11.8	1.98	8.63
WBC	7.6 (12%)	16.4	1.82	9.00

Figures in parentheses represent the percentage change over the previous year (i.e. 2013)

Source: Extracted from

http://www.shareholder.anz.com/sites/default/files/event_files/ANZ%20FY14%20Results%20Media%20Release%20301014-FINAL.pdf (ANZ) <https://www.commbank.com.au/about-us/shareholders/financial-information/results.html> (CBA); <http://www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/financial-results> (NAB); <http://www.westpac.com.au/about-westpac/investor-centre/presentations-webcasts/2014/2014-full-year-results/> (WBC) (accessed: 26 November 2014)

Table 2 shows the average change in the share price of the four banks and the Dow Jones Suitability Index (DJSI) using monthly data from February 2009 to February 2014. Established in 1999 to track the stock performance of leading sustainability companies, DJSI serves as a benchmark in sustainability investing and to assess the performance of companies that have been touted as sustainable. The data shows that the four Australian banks have outperformed the DJSI during the period of study with the average change in the share price ranging from 1.3 per cent to 1.7 per cent as compared to 0.9 per cent for DJSI. The correlation coefficients between the banks share price movement and that of DJSI confirm the strong association between the variables, suggesting that the share price movement of the four banks has not deviated significantly from the group of sustainable companies as defined by Dow Jones. It is worth noting, however, that the correlation coefficients do not merely consider whether corporate responsibility reporting has led to close association between the average change in the companies' share price and that of DJSI Australia. The correlation could have been realized because of some variables other than corporate responsibility reporting.

Table 2: *Average changes in the share price and correlation coefficients (February 2009 – February 2014)*

Period	ANZ	CBA	NAB	WBC	DJSI Aus*
Average change in the share price (02/2009-02/2014)	1.7% (0.8092)	1.7% (0.9231)	1.3% (0.4409)	1.4% (0.4840)	0.9%
Variance	6.69%	5.38%	6.48%	6.83%	4.04%
Sample size	61	61	61	61	61
Correlation coefficients					
ANZ-DJSI			0.8441**		
CBA-DJSI			0.7346**		
NAB-DJSI			0.8106**		
WBC-DJSI			0.8291**		

*Dow Jones Sustainability Index Australia

**Significant at 1% level

Figures in parentheses represent the t value to test for difference between two means. The mean differences are statistically insignificant at 1% level.

Three of the banks' corporate responsibility reports were assured by big four accounting firms: CBA by KPMG, Sydney; NAB by Ernst & Young, Melbourne; WBC also by KPMG, Sydney. ANZ's report was assured by a non-accounting firm: Corporate Citizenship, London.

The quality of the banks' corporate responsibility reports was assessed using the O'Dwyer and Owen (2005) framework. The four banks achieved an average score of 22 out of a maximum of 27; that is, 81%. ANZ obtained a score of 24 (89%), CBA 18 (67%), NAB 21 (78%), and WBC 24 (89%). It is interesting to observe that CBA and WBC – which were both assured by KPMG, Sydney – had different scores. The difference in the scores could be due to the assurance exercise being conducted at the two banks by different teams and there was not a standard assurance statement that was used by the auditors.

All the assurance statements scored fully for the following ranking criteria: title, name of assessor, location of assessor, report date, responsibilities of reporter, responsibilities of assessor, independence of assessor from reporting organization, scope of the assurance engagement, criteria used to assess evidence and reach conclusion, assurance standard used, summary of work performed, and completeness. This is commendable.

The results show that there are several areas that need improvement:

- Addressee: The assessor of ANZ, CBA, and WBC need to mention the stakeholder to whom the assurance statement is formally addressed, either in the title, separate addressee line, or within the text.
- Impartiality of assessor towards stakeholders: All the assessors need to provide an assessor's declaration of impartiality with respect to stakeholder interests.
- Objective of the assurance engagement: The level of assurance could be increased to reasonable assurance for all four banks.
- Competencies of assessor: The assessor of CBA did not describe the professional skills that enable them to conduct the assurance exercise. Although the assessor of NAB made a statement claiming competency, there was no explanatory note of their competencies based on prior experience/engagements.
- Materiality (from a stakeholder perspective): The assessor of CBA only provided a broad statement on the materiality level using the words "...in all

material respects...”The assurator of NAB, however, explained the materiality setting; but, the stakeholder perspective was not introduced.

- Responsiveness to stakeholders: The assurator of CBA and NAB need to provide a statement referring to the bank’s procedures (or lack of them) for identifying stakeholder interests and concerns.
- General conclusion/opinion: The assurator of CBA and NAB need to provide a more detailed explanatory statement to express the result and conclusion of the assurance exercise.

5. Conclusion

This research study investigates the corporate responsibility report assurance statements of the Big Four banks in Australia. The results show that the average score of the assurance statements is 22 out of a maximum of 27 or 81%. To achieve the maximum score, the following areas of the assurance statements need to be improved: addressee, impartiality of assurator towards stakeholder, objective of the assurance engagement, competencies of assurator, materiality (from a stakeholder perspective), responsiveness to stakeholders, and general conclusion/opinion.

Future research studies could investigate the corporate responsibility report assurance statements in other financial services sub-sectors such as securities and finance sub-sectors to gain insights of the quality of assurance statements in these sub-sectors and to identify areas that need improvement.

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APPENDIX 1: Coding rules for the content analysis

Ranking criteria	Definition	Scale	ANZ	CBA	NAB	WB C
Assuror	-	-	Corporate Citizen ship, London	KP MG, Sydn ey	Ernst & Young, Melbo rne	KP MG, Sydn ey
Date of assurance report	-	-	30 Apr 2013	4 Oct 2013	1 Nov 2012	6 Nov 2012
1. Title	Title of the assurance statement	0 No reference 1 Reference	1	1	1	1
2. Addressee	Party to whom the assurance statement is formally addressed (either in title separate addressee line or within text)	0 No reference 1 Address is internal or “the readers” 2 Stakeholder mentioned in the addressee	1	1	2	1
3. Name of assuror	Name of the firm that conducts the assurance engagement	0 No reference 1 Reference	1	1	1	1
4. Location of assuror	Location of the office of the assurance provider	0 No reference 1 Reference	1	1	1	1
5. Report date	Reference to the date at which the assurance exercise was finished	0 No reference 1 Reference	1	1	1	1
6. Responsibilities of reporter	Explicit statement that reporter is responsible for preparation of report (keywords: responsible, responsibility)	0 No reference 1 Reference	1	1	1	1
7. Responsibilities of assuror	Explicit statement that the reporter is responsible to express an (independent) opinion on the subject matter (the sustainability/environmental/social report)	0 No reference 1 Reference	1	1	1	1
8. Independence of assuror from reporting organization	Statement expressing the independence of the two parties involved (a 1 is assigned as soon as the word(s) independent or independence appear anywhere in the assurance statement or its title. Thus, remarks such as “this is an independent opinion...” already qualifies for a 1)	0 No reference 1 Reference or mere statement expressing that independence can be looked up on the internet	1	1	1	1
9. Impartiality of assuror towards stakeholders	Assuror’s declaration of impartiality with respect to stakeholder interests	0 No reference 1 Reference (a remark that such a declaration can be made available on	0	0	0	0

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		request or reference to an internet site already qualifies for a 1)				
10. Scope of the assurance engagement	Assurance statement coverage (a 1 is assigned if anywhere in the assurance statement the coverage of the assurance exercise is stated)	0 No reference 1 Reference	1	1	1	1
11. Objective of the assurance engagement	Objective to be achieved through the engagement (indicating the level of assurance intended)	0 No reference 1 Review, limited assurance, independent opinion, independent assurance, external verification, external assurance or validation 2 Reasonable assurance, or reasonable and limited assurance (e.g., two different levels of assurance for different parts of the report)	1	1	1	1
12. Competencies of assessor	Description of the professional skills that enable the engagement team to conduct the assurance exercise	0 No reference 1 Statement claiming competency (but no explanatory note) or mere reference to an internet site 2 Explanatory statement of competencies based on prior experience/engagements	2	0	1	2
13. Criteria used to assess evidence and reach conclusion	A statement that makes reference to particular criteria against which the sustainability report has been prepared (e.g. GRI and often internally developed standards)	0 No reference 1 Reference to publicly unavailable criteria 2 Reference to publicly available criteria (e.g., internally developed criteria that are published anywhere in the	2	2	2	2

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		report or GRI)				
14. Assurance standard used	Standards used which govern the work of the assurance provider (e.g. AA1000AS or ISAE3000)	0 No reference 1 Reference to publicly unavailable criteria 2 Reference to publicly available criteria	2	2	2	2
15. Summary of work performed	Statement explaining the actions taken to arrive at a conclusion	0 No reference 1 Reference	1	1	1	1
16. Materiality (from a stakeholder perspective)	Degree of information provision on materiality level. If the conclusion states that the report is in conformance with the AA1000 principles (Materiality, completeness, and responsiveness) this qualifies for a reference and thus a 1 is assigned	0 No reference 1 Reference limited to a broad statement (e.g. "covers all material aspects" or "...in all material respects...") but also negative statements claiming that assessor has not undertaken any work to confirm that all relevant/material issues are included 2 Reference and explanation of materiality setting or reference limited to a broad statement and stakeholder perspective introduced (e.g. "issues material to stakeholders have been considered") 3 Reference, explanation of materiality setting and stakeholder perspective introduced	3	1	2	3
17. Completeness	Statement expressing that all material aspects are covered by the report. If the conclusion states that the report is in conformance with the AA1000 principles (Materiality, completeness, and	0 No reference 1 Reference	1	1	1	1

	responsiveness) this qualifies for a reference and thus a 1 is assigned					
18. Responsiveness to stakeholders	Statement referring to the organization's procedures (or lack of them) for identifying stakeholder interests and concerns. If the conclusion states that the report is in conformance with the AA1000 principles (Materiality, completeness, and responsiveness) this qualifies for a reference and thus a 1 is assigned	0 No reference 1 Reference	1	0	0	1
19. General conclusion/opinion	Statement expressing the result of the assurance exercise. If there is no general conclusion but the conclusion solely refers to the 3 principles of AA1000 (Materiality, completeness, and responsiveness) a 0 is assigned	0 No reference 1 Mere statement expressing the opinion of the assessor (e.g., "XY's report is a fair presentation of XY's CSR performance"). A 1 is assigned only if the conclusion consists only of one sentence 2 Explanatory statement (more than one sentence, but recommendations for improvement are not considered part of the conclusion)	2	1	1	2
Total	Maximum score = 27 (100%)	-	24 (89%)	18 (67%)	21 (78%)	24 (89%)
Mean	-	-	22 (81%)			

Source: Adapted from Perego and Kolk (2012)



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