

THE RATIONAL PURPOSE REQUIREMENT

IMPACT ON SOUTH AFRICA



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02 ABBREVIATIONS

AP	Assurance Provider
BC	Business Case
CRIT	Critical Perspective
EER	Extended forms of External Reporting
GRI	Global Reporting Initiative
IAASB	International Audit and Assurance Standards Board
IRBA	Independent Regulatory Board of Auditors
ISAE 3000	International Standard of Assurance Engagements 3000
ISAE 3000 (REVISED)	International Standard of Assurance Engagements 3000 (Revised)
KPI	Key Performance Indicator
RFP	Request for Proposal
RP	Rational Purpose
RRF	Relevant Reporting Framework
SAAEPS I	South African Assurance Engagement Practice Statement 1
SACC	Stakeholder Accountability
SAICA	South African Institute of Chartered Accountants
SCG	Systems, Controls and Governance
SCR	Suitable (or Suitability of) Criteria
SD	Sustainable Development
SM	Subject Matter
SMI	Subject Matter Information
SR	Sustainability Report (ing)
USM	Underlying Subject Matter



03

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Rational Purpose (RP) requirement was first introduced in December 2015 as part of International Standard of Assurance Engagements 3000 (Revised) (ISAE 3000 (Revised)). The most important implication of this requirement is that an Assurance Provider (AP) cannot accept an assurance engagement in which the information needs of the intended users will not be met.

The practical reality of the RP requirement is that it impacts both APs and report preparers. The reason for this is that an incomplete reporting scope will always result in an incomplete assurance scope. It follows that a meaningful assurance scope depends on a complete and meaningful reporting scope.

As the South African audit and assurance standard setter, the Independent Regulatory Board of Auditors (IRBA) concluded that South African APs needed additional guidance to implement the RP requirement. To this effect it developed the South African Assurance Engagement Practice Statement 1 (SAAEPS 1) that was published in August 2018 and will become effective on 15 December 2020. To help South African practitioners prepare for the impact of SAAEPS 1, the IRBA requested that the South African Institute of Chartered Accountants (SAICA) develop a number of interventions to action this request. The primary focus of SAAEPS 1 is the RP requirement, but SAAEPS 1 also includes guidance on the Suitability of Criteria (SCR) and the appropriateness of Underlying Subject Matter (USM), as these issues are also not well understood and have important links to the RP requirement.

Between June and October 2019, SAICA presented four separate interventions to support South African practitioners. These interventions had two major objectives: The first was to support APs (and other stakeholders) in making sense of the RP requirement, and the second was to seek input from all relevant stakeholders on the way the RP requirement would impact assurance (and reporting) practices in South

Africa. These interventions were also part of a research project and were recorded and analysed.

The research process revealed challenges and opportunities on three levels: the systemic level, the ideological level and the technical / practical level. The major issue on the systemic level is that Sustainability Reporting (SR) and assurance practices are voluntary practices, and the ability of the AP to implement the RP requirement is severely constrained without regulatory support. The voluntary nature of SR clashes with the ideological nature of SR because the contention in a free market is that regulatory intervention constrains innovation and that the market mechanism will cost the relevant societal costs into products and reach equilibrium in this way. Essentially, it means that SR has the best chance of succeeding in a voluntary environment.

The technical / practical implications of the RP requirement raises a number of concerns. The first is the disproportionate work effort that is required in the pre-engagement phase of an engagement in order to meet the requirement. The second issue relates to the professional judgment that is required from an AP to decide whether an engagement exhibits a RP. A number of issues can be considered here, most notably the reporters' "journey" and the way they commit to broadening the scope over time.

However, the most important concern with advancing the RP on a practical level is that it appears there is very little consensus as to what the USM of a SR is. In a sense this concern is intimately linked to the fact that there is no consensus regarding the reporting framework for a SR, but it is also linked to the complex multi-stakeholder nature of the SR environment. The research here suggests that report preparers cannot make meaningful progress towards satisfying the RP requirement if they do not succeed in conveying a meaningful, detailed understanding of the USM that forms the basis of their report.



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INTRODUCTION

INTRODUCTION: THINKING ABOUT THE IMPACT OF THE RP REQUIREMENT

The practice of SR (and assurance) has long been criticised for not making a meaningful contribution towards the aims of Sustainable Development (SD)¹. There are numerous theories and explanations as to why this might be the case, and it is beyond the scope of this publication to investigate all of these. It is, however, recognised that the voluntary nature of reporting and assurance has resulted in a situation where the management of organisations have the power to select the scope of information to be reported and assured, and this has severely limited the relevance and reliability of SR information in the public domain².

What further complicates this situation is that there is no consensus as to which reporting framework should be used. This has resulted in additional variables, such as levels of consistency and degrees of relevance of reported (and assured) information³. The Global Reporting Initiative (GRI) standards can be viewed as the de facto SR framework used by most reporting organisations⁴, but in most cases reporting organisations have to supplement the GRI with internally developed guidance to scope and measure certain Key Performance

Indicators (KPIs) that are relevant for their specific circumstances.

An important question to be raised here is what the role of assurance practitioners should be in making sure that information reported in SR meets the needs of the intended users. Before December 2015, the vast majority of APs assuring SRs used International Standard of Assurance Engagements 3000 (ISAE 3000) as guidance to assure SR information. This standard allowed APs to accept assurance engagements with very limited scopes, and as long as the APs specifically stated the given assurance scopes in the assurance reports, the APs were acting within the bounds of regulation in accepting the limited scope engagements⁵.

Subsequent to December 2015, APs in both South Africa and the rest of the world had to implement ISAE 3000 (Revised). The revised standard includes a new requirement, namely the RP requirement⁶. Amongst other things, the RP requirement precludes the AP from accepting an assurance engagement if any relevant subject matter information (SMI) is excluded from

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- 1 Spence, C., Husillos, J. and Correa-Ruiz, C., 2010. Cargo cult science and the death of politics: A critical review of social and environmental accounting research. *Critical Perspectives on Accounting*, 21(1), pp.76-89.
 - 2 Channuntapipat, C., 2016. "Sustainability Assurance in Practice: Evidence from Assurance Providers in the United Kingdom" (Doctoral dissertation, The University of Manchester (United Kingdom)).
 - 3 Farooq, M.B., 2016. "Examining the institutional work of sustainability reporting managers and sustainability assurance providers: An institutional work perspective" (Doctoral dissertation, University of Waikato).
 - 4 Levy, D.L., Szejnwald Brown, H. and De Jong, M., 2010. The contested politics of corporate governance: The case of the global reporting initiative. *Business & Society*, 49(1), pp.88-115.
 - 5 ISAE 3000
 - 6 ISAE 3000 (Revised) (Par. 24)

the assurance scope⁷. In other words, the AP cannot accept the assurance engagement if the information needs of the intended users will not be met through the assurance engagement. This argument can be extended to the reported information, because if the reported information does not meet the information needs of the intended users, then the assured information will not do so either.

The RP requirement is therefore a major difference between ISAE 3000 and ISAE 3000 (Revised) as it essentially means that APs cannot accept a restricted scope assurance engagement if the information needs of intended users will not be met. (For a discussion on “intended users”, refer to SAAEPS 1: Focus Areas) It is, however, interesting to note that very little, if anything, has been written about the potential impact of the RP requirement on assurance practices in South Africa (or internationally)⁸. As the official auditing standard setter in South Africa, the IRBA became increasingly aware of the fact that the RP requirement was not being applied effectively in South Africa, and proceeded to develop SAAEPS 1 to assist APs in South Africa to implement the RP requirement.

SAAEPS 1 was officially published by the IRBA in August 2018, and the effective date was set for assurance engagements “beginning on or after 15 December 2020”⁹. The standard also includes guidance on the SCR and the appropriateness of USM. Even though the requirements related to SCR and USM were part of ISAE 3000 (Revised), the IRBA deemed that these requirements were not well understood, and that APs in SA could benefit from further guidance, hence its inclusion in SAAEPS 1.

The IRBA recognised the potential fundamental impact of SAAEPS 1 on assurance practice in South Africa and hence allowed an extended implementation period (over two years) to allow APs to prepare for its impact. The IRBA approached the SAICA to develop a number of interventions to assist APs firstly to familiarise themselves with the technical aspects of SAAEPS 1, and secondly to involve all the relevant stakeholders, so that they can collaborate in deciding how SAAEPS 1 will be operationalised in South Africa. This publication is the result of this process.

SAICA collaborated with a number of experts in the field to give effect to the IRBA request, and the rest of this document aims to assist in giving effect to this process. The investigation will start by considering a number of important pieces of background information, amongst others the current state of assurance practices in South Africa, and also international developments in non-financial assurance. It will then consider the technical aspects of the RP requirement and the SCR and SM requirements.

The method section will then follow. This section will explain the process that was followed to firstly make sense of the RP requirement and secondly contemplate the ways in which it could impact existing practices in South Africa. At this point it is important to note that the research discussed here forms part of a greater overarching research project ¹⁰.

This publication will then consider the most important findings that emerged from the data, and conclude by discussing the way the RP requirement could be implemented to achieve its aims.

7 ISAE 3000 (Revised) (Par. 24)

8 Refer to the “IAASB developments” section of this publication.

9 SAAEPS 1 (Par. 15)

10 Refer to the forthcoming PhD thesis of P.D.G. Conradie: “The emancipatory potential of the Rational Purpose Requirement.”



05

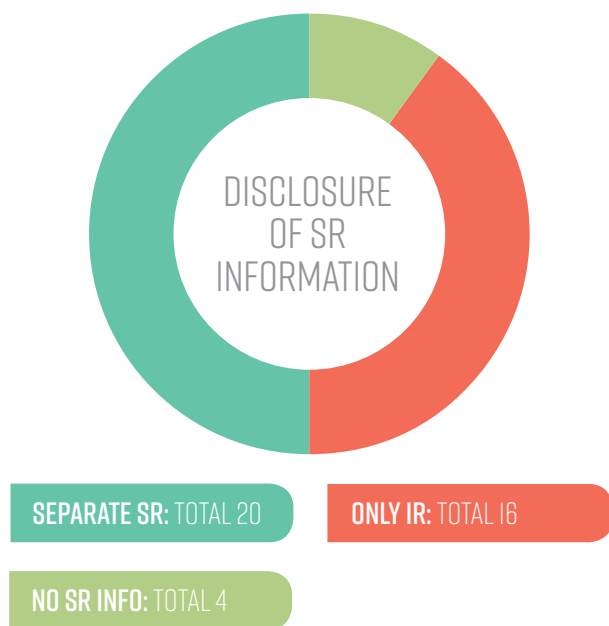
BACKGROUND

AN ANALYSIS OF THE ASSURANCE PRACTICES OF THE JSE TOP 40 COMPANIES

An analysis was performed on the corporate reports of the JSE Top 40 companies for the 2018 financial year to determine the status of assurance of SR information in South Africa.

The 40 companies represent six of the 11 industries as classified by the JSE. The analysis revealed that 50% (20) of the companies disclose their SR information in a separate SR, that 40% (16) disclose this information within their integrated report, and that 10% (four) disclose no SR information (refer to Annexure 1 and Graphic 1: Disclosure of SR information).

GRAPHIC 1: DISCLOSURE OF SR INFORMATION

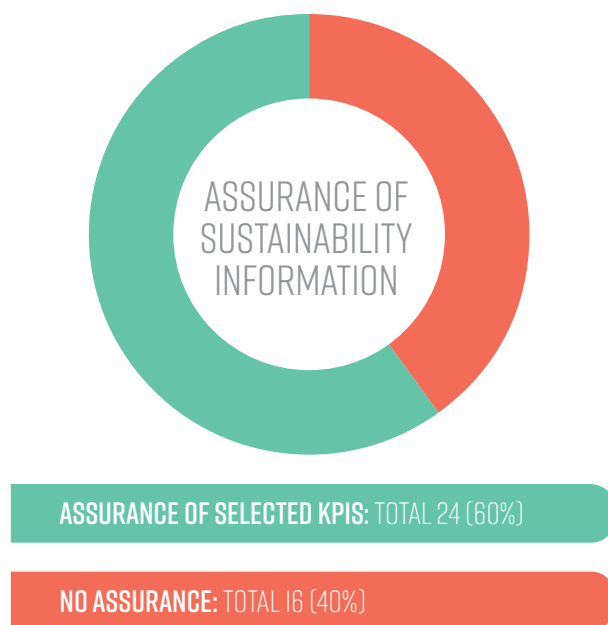


In terms of assurance of SR information, 60% (24) of the companies obtained assurance over selected KPIs in either their SR or integrated report, while 40% (16) of companies decided not to have their SR information externally assured. The reports of these companies did, however, indicate the review process followed as part of the combined assurance approach to ensure the integrity of the SR information disclosed (refer to Graphic 2: Assurance sought?).

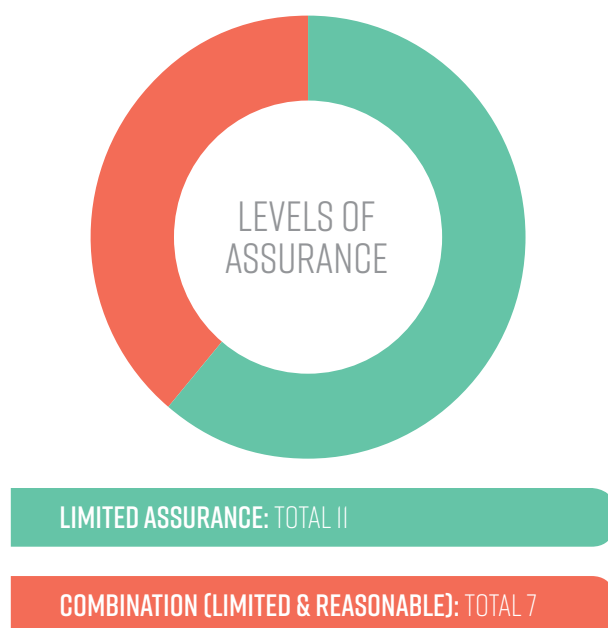
Of the companies which obtained external assurance on their SR information, 61% (11) opted for a limited assurance engagement, while the remaining 39% (7) provided a mix of limited and reasonable assurance (refer to Graphic 3: Level of assurance). Within the combined assurance engagements, reasonable

assurance was mostly obtained on greenhouse gas emissions and work-related injuries. Audit reports issued for all assurance engagements were unqualified.

GRAPHIC 2: ASSURANCE SOUGHT?

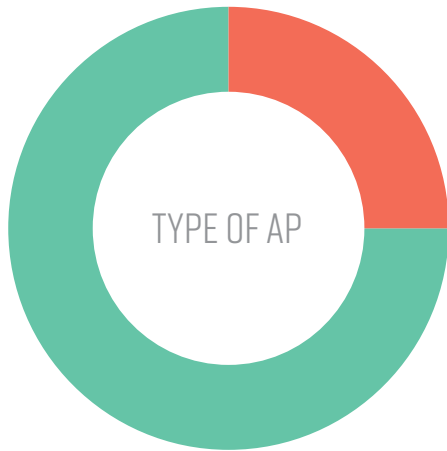


GRAPHIC 3: LEVEL OF ASSURANCE



75% (18) of the assurance engagements were performed by registered auditors while the remaining 25% (6) were performed by other APs (refer to Graphic 4: Type of AP).

GRAPHIC 4: TYPE OF AP



REGISTERED AUDITOR: TOTAL 75%

OTHER ASSURANCE PROVIDER: TOTAL 25%

Frameworks used included ISAE 3000 (Revised), ISAE 3410, AA 1000, ISO Standards and WBCSB-GHG Protocol, but the majority of engagements, 75%, were performed using ISAE 3000 (Revised), and ISAE 3410 (refer to Graphic 5: Assurance Framework).

The scopes of the assurance engagements of the 40 companies selected were surprisingly similar despite the fact that these companies fall into six different industries. The most common KPIs included:

ENVIRONMENTAL DISCLOSURES

- | GHG emissions
- | Carbon footprint
- | Water used and recycled
- | Waste generated and recycled

HEALTH AND SAFETY

- | Number of fatalities
- | Number of recordable injuries
- | Number of lost workdays

HUMAN RESOURCES

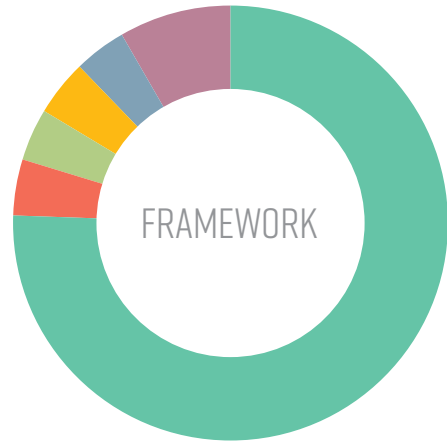
- | Employment equity figures
- | Training spends

GENERAL

- | Total CSR spends

Please note that this is not an exhaustive list, and that some companies also included other KPIs.

GRAPHIC 5: ASSURANCE FRAMEWORK



ISAE 3000R AND/OR ISAE 3410: TOTAL 75%

AA 1000: TOTAL 4,17%

GHG PROTOCOL & ISO 14064-3:2006: TOTAL 4,17%

ISAE 3000R AND GHG PROTOCOL: TOTAL 4,17%

GHG PROTOCOL: TOTAL 4,17%

NOT STIPULATED: TOTAL 8,33%

CONCLUSION

Based on the results of the analysis performed, it can be concluded that assurance of SR information is still in its infancy in South Africa, with only 60% of the largest companies obtaining external assurance on a limited number of KPIs. From the assurance reports considered, there was also no evidence of RP having been considered, as the KPIs assured remained similar irrespective of the industry or sector of the company obtaining the assurance. For those companies who do obtain external assurance, APs using ISAE 3000 (Revised) and ISAE 3410 are still the practitioners of choice.

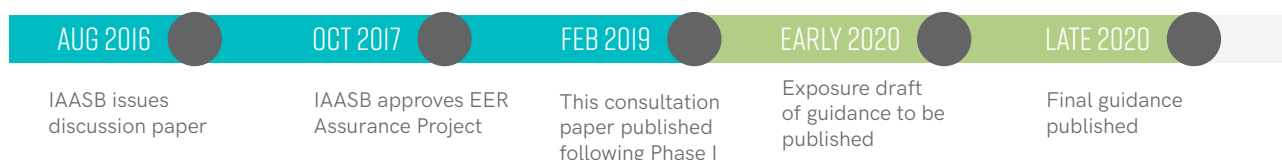
IAASB DEVELOPMENTS ON ASSURANCE OF NON-FINANCIAL INFORMATION

INTRODUCTION

This section of the report provides a brief overview of the international developments in guidance on providing assurance over non-financial information. In 2016 the International Audit and Assurance Standards Board (IAASB) released a discussion paper, titled "Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements", in which IAASB identified the ten key

challenges in providing assurance on Extended forms of External Reporting (EER). EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, SR and non-financial reporting about environmental, social and governance matters. In response to the comments received, a task force was established to develop guidance in two phases. Phase 1 was completed during 2018 and released for consultation in February 2019. The final guidance is expected to be released early in 2020 (refer to Graphic 6: IAASB Timeline).

GRAPHIC 6: IAASB TIMELINE



IAASB GUIDANCE

The purpose of this guidance document is to provide practical assistance to a practitioner carrying out assurance engagements over EER in terms of ISAE 3000 (Revised). It is designed to assist with engagements over EER reports of entities of all sizes and a broad range

of EER matters being reported on. It is structured as a series of chapters, with each chapter addressing one of the key challenges identified.

Table 1 below provides an overview of the guidance and indicates the progress made on each of the ten key challenges identified.

TABLE 1: SUMMARY OF IAASB GUIDANCE AND PROGRESS

CHAPTER	STATUS OF DEVELOPMENT
1. Introduction	Drafted in phase 1
2. Overview of an EER Assurance Engagement	Drafted in phase 1
3. Determining Preconditions and Agreeing the Scope	Preconditions - drafted in phase 1 Agreeing the Scope - allocated to phase 2
4. Applying Appropriate Skills	Not developed - allocated to phase 2
5. Exercising Professional Scepticism and Professional Judgement	Not developed - allocated to phase 2
6. Considering the System of Internal Control	Drafted in phase 1
7. Determining the Suitability of Criteria	Drafted in phase 1
8. Considering the Entity's 'Materiality Process'	Drafted in phase 1
9. Performing Procedures using Assertions	Assertions - drafted in phase 1 Materiality - allocated to phase 2
10. Assuring Narrative Information	Partiality developed

CHAPTER	STATUS OF DEVELOPMENT
11. Assuring Future-Orientated Information	Partiality developed
12. Considering the Materiality of Misstatements	Drafted in phase 1
13. Preparing the Assurance report	Not developed – allocated to phase 2

52 comment letters from eight different constituencies across six regions were received, the bulk of which were from member bodies and other professional organisations (28), national standard setters (8) and accounting firms (8). Below is a high-level summary of comments and the responses from the task force:

COMMENTS RECEIVED:

- | The guidance is long and complex and could be seen to lack practical usefulness.
- | The focus should be on providing more practical guidance and examples, e.g. clarity on how to determine the scope of the engagement, the extent of preliminary knowledge or work effort required and examples of entity-specific measurement and evaluation criteria.
- | Chapters in the guidance should follow the audit process.
- | Differing requirements for limited versus reasonable assurance engagements.
- | All terminology should be made consistent with ISAE 3000 (Revised).

TASK FORCE RESPONSE

- | The task force acknowledged that the guidance is becoming lengthy and suggested that the main guidance will only include background and contextual information. Additional examples and practical guidance requested will be included as a supplementary document.
- | Consideration will be given to re-ordering the chapters to follow the audit process.
- | Consideration will be given to aligning all terminology used in the guidance to ISAE 3000 (Revised).

COMPARISON TO SAAEPS 1

A comparison between the IAASB Guidance and SAAEPS 1 revealed high levels of consistency, e.g: SAAEPS 1 introduced the different levels at which SMI can be evaluated, and the IAASB introduced the concepts “Elements and Qualities”, and both documents make a distinction between the criteria to be used when determining the nature and scope of topics to be included in the assurance engagement and the criteria used to measure or evaluate the SMI.

Differences between the documents include the fact that SAAEPS 1 is authoritative and is aimed at SR information, whereas the IAASB Guidance is non-authoritative and aimed at all EER reports. The biggest distinction is that SAAEPS 1 is focussed on certain aspects of the preconditions, including the evaluation of the RP, determining the appropriateness of the USM, and determining the SCR. It provides detailed guidance on these aspects, including a list of questions for practitioners to consider to be able to conclude on the preconditions. The IAASB document provides limited guidance on SCR in Chapter 7, and aspects of RP and USM are discussed throughout the document.

CONCLUSION

Based on the comments received in the consultation paper, the IAASB Task Force is in the process of updating Phase 1 of the guidance while drafting Phase 2. The final completed guidance is expected to be released early in 2020. The guidance provided in the IAASB document and SAAEPS 1 is consistent with SAAEPS 1, providing more detailed practical guidance on certain aspects of the preconditions.

SAAEPS 1: FOCUS AREAS

INTRODUCTION

During the scoping phase of SAAEPS 1 it was decided to only focus on two of the six preconditions per ISAE 3000 (Revised). The first requirement (within the scope) is the SCR and the appropriateness of the USM, and the second requirement is the RP requirement¹.

The RP requirement itself has six of its own requirements, of which only two were included in the scope. These are:

- The AP should consider whether any SMI are expected to be excluded from the assurance engagement;

- The AP should consider whether the intended users were involved in the selection of the criteria.

The reasons behind the exclusion of four of the preconditions, as well as four of the RP requirements from SAAEPS 1, are twofold.

Firstly, it was deemed that the issues that formed part of the SAAEPS 1 scope include the areas that will be the most challenging to APs, and secondly, the current length of the SAAEPS 1 document attests to the fact that it would not have been practical to cover any of the other preconditions or RP requirements in the same guidance.

THE SAAEPS 1 DOCUMENT IS STRUCTURED AS FOLLOWS:

SECTION OF THE REPORT	DESCRIPTION
Par 1 - 46	Introduction and clarification of concepts (what is not covered)
Par. 47 - 78	Rational Purpose
Par. 79 - 105	Appropriate USM and SCR
Appendix A	Questions
Appendix B	Flowchart
Appendix C	Examples

The purpose of this publication is not to rehash all the details contained in SAAEPS 1, but rather to focus on the areas that are most important, and to direct the reader's attention toward the most crucial aspects contained in SAAEPS 1². However, one or two salient features of SAAEPS 1 should be pointed out. (Find the full text here (<https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/south-african-standards-and-practice-statements>))

The guidance related to the RP requirement (25 questions) and the SCR and USM (16 questions)³ issues is accompanied by a series of questions that assist the AP to consider a broad range of potentially relevant issues.

It is important to note that this set of questions was designed to support the AP, and is not intended to be a checklist. If APs can achieve the objectives that underlie the questions in a quicker or a simpler way, they are encouraged to do so in terms of SAAEPS 1⁴. The questions are contained in the body of SAAEPS 1, but also summarised in Appendix A.

Appendix B contains a flowchart that is designed to

assist the AP in deciding whether the preconditions for an assurance engagement are met. It is presented in the form of a decision tree, and also contains reference to the preconditions that are not specifically covered in the SAAEPS 1 text.

Appendix C contains two additional examples that refer to the relevant paragraphs in SAAEPS 1. It attempts to provide different perspectives to support the AP in applying SAAEPS 1 in a practical environment.

The SAAEPS 1 recommends that the AP first find evidence of the presence of the RP before attempting to confirm whether the criteria are suitable and whether the USM is appropriate. The reason for this is that the assurance engagement should be declined if no RP is present; to then do any additional work to find evidence for SCR would not serve any purpose.

This part of the introduction will firstly introduce the concept USM as it pertains to both the RP requirement and SCR and USM. It will then cover the salient features of the RP requirement before moving on to the SCR and USM issues.

¹ SAAEPS 1 (Par. 16)

² It is also important to note that SAAEPS 1 (Par. 4) does not impose any additional requirements not contained in ISAE 3000 (Revised).

³ SAAEPS 1 (Appendix A)

⁴ SAAEPS 1 (Appendix A)

INTRODUCTION TO USM

The concept of subject matter (SM), or the USM of a SR, is fundamental to the understanding of both the RP requirement and the appropriateness of the USM. ISAE 3000 (Revised) defines USM as:

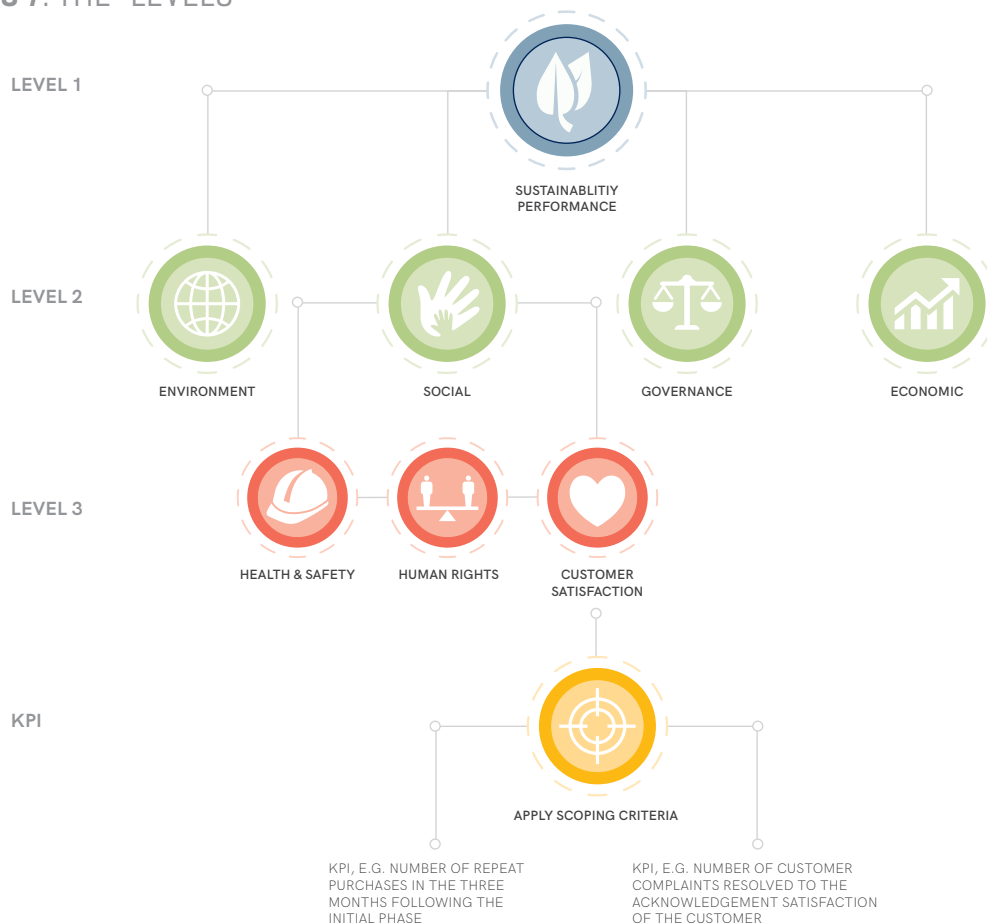
“The phenomenon that is measured or evaluated by applying criteria”

The information that results from applying the criteria to the underlying phenomenon is called the SMI.

An example to help simplify the concept of USM is to think of the field of medical science as criteria. The question then becomes what the underlying phenomenon (or SM) is, that medical science (the criteria) measures or evaluates. In the case of medical science, the human body is the phenomenon that is being measured or evaluated, and the resultant SMI in this case can be a diagnosis. The human body can, however, be disaggregated into smaller parts, like the brain or the heart, that are studied by other, more specialised fields within medical science.

In the case of a SR, the question is what the USM of a SR is, what the criteria are, and what SMI is⁵. The thinking in SAAEPS 1 is that the USM of a SR is sustainability performance (refer to Graphic 7: The “levels”).

GRAPHIC 7: THE “LEVELS”



As in the case of the human body, the USM can be disaggregated to a second level, in this case social, environmental and economic information. We can then further disaggregate social performance to a third level, namely customer satisfaction. (The same goes for economic and environmental information.) In this case social performance becomes the SM and customer satisfaction becomes the SMI. On the next level down,

customer satisfaction becomes the SM and the actual measurement (e.g. repeat purchases) becomes the SMI⁶.

To determine the type of measurement that should be used to most effectively tell the story of customer satisfaction, the report preparer will apply scoping criteria. To determine the way in which the exact measurement should be defined and what the sources

5 SAAEPS 1 (Par. 38)
6 SAAEPS 1 (Par. 38)

of data should be, the report preparer will apply measurement criteria⁷. The use of scoping criteria is particularly relevant when the RP requirement is considered, as this will assist the AP to determine

whether the report preparer used sound criteria to scope the reporting content⁸. Measurement criteria, in turn, are relevant when the AP considers the SCR as this pertains to the detailed issues related to measurement protocols⁹.

THE RP REQUIREMENT

INTRODUCTION

The RP requirement as described in SAAEPS 1 pertains specifically to the field of SR and the assurance of these reports. The fact that reporting and assurance are voluntary and that there is no formal consensus on a reporting framework has created an environment where we observe a lot of variability in the type of reported information¹⁰. The RP requirement, as it is discussed here, in a sense recommends that the AP go back to the fundamental building blocks of reporting.

This means that matters that we take for granted in a financial reporting context (where criteria are established by law) have to be considered by the AP, for the AP to come to a conclusion about the RP.

The set of points that will be discussed here as part of the RP requirement will be very intuitive to the AP, hence the application thereof should not be outside of the technical skill set of the AP. There are, however, other non-technical issues that complicate the implementation of the RP requirement, but these will be discussed later in this report

CLARIFICATION OF CONCEPTS

The RP requirements that form part of the SAAEPS 1 scope are:

- | Whether any SMI are expected to be excluded from the assurance engagement;
- | Whether the intended users were involved in the selection of the criteria.

These two requirements are interlinked, as the involvement of users in development of reporting criteria (scoping criteria) will have a higher likelihood of yielding relevant and reliable reported information, as opposed to when the intended users were not involved. This in turn will assist the AP to establish which information is relevant to the assurance scope. In the simplest terms, the intention of the RP requirement is to ensure that the assured information (and by implication the reported

information) meets the information needs of the intended users¹¹.

The SAAEPS 1 guidance suggests that the AP should consider the following three areas when considering whether a RP exists:

- | The USM
- | The entity context
- | Reporting infrastructure¹²

The discussion of the RP requirement will firstly consider the USM and the entity context. Secondly, it will discuss relevant issues related to reporting infrastructure, and it will finally consider issues related to the process that APs could follow to give effect to the RP consideration.

THE USM AND ENTITY CONTEXT

The concept of USM becomes relevant in the RP requirement as it assists the AP to consider whether the scoping criteria used by the report preparer has the potential to yield relevant and reliable information. In the example used in SAAEPS 1¹³, customer satisfaction can be considered to be the USM (in level 3), and the scoping criteria is then applied to determine the relevant SMI, in this case the number of repeat purchases. If the scoping criteria are ineffective, it could identify a measurement that is not relevant in a specific organisation's context, and this in turn could yield information that is not relevant and reliable in the reporter's context.

It follows that the AP should have a thorough understanding of the USM, the scoping criteria¹⁴ and the entity's context before concluding on the relevance and reliability of reported information. It is therefore logical that legal, regulatory and other contextual factors in the entity's environment should be considered by the AP to be able to determine whether the SMI makes sense given the nature of the USM and the entity's specific context.

The SAAEPS 1, in Par. 56, makes a crucially important

7 Par. 42 of SAAEPS 1 defines measurement and scoping criteria. These terms do not appear in ISAE 3000 (Revised) and were developed specifically for this guidance to assist APs to distinguish between these two types of criteria.

8 SAAEPS 1 (Par. 49)

9 SAAEPS 1 (Par. 86)

10 Belal, A. R., & Owen, D. L. 2007. The views of corporate managers on the current state of, and future prospects for, social reporting in Bangladesh: An engagement-based study. *Accounting, Auditing & Accountability Journal*, 20, 472-494.

11 ISAE 3000 (Revised) (Par. 12(m)) defines intended users as those that the practitioner "expects" will use the assurance report. It means that the range of users can be broader than that to which the assurance report is addressed.

12 SAAEPS 1 (Par. 4)

13 SAAEPS 1 (Par. 38)

14 In many cases the GRI will be the scoping criteria, but to select the measures that are most relevant in an organisation's specific context, the reporting organisation will most likely have specifically bespoke scoping criteria (in their reporting policy) to supplement the GRI.

point related to USM. In an environment where little consensus exists regarding the USM and the reporting framework, the way that the reporting entity defines the USM will dictate the way in which it is interpreted. In a sense SAAEPS 1 encourages reporters to explicitly define what they perceive the USM to be, as this will assist the AP in gauging the relevance and reliability of reported information that relates to this USM.

REPORTING INFRASTRUCTURE

A major concern in the process of assuring SR information is the lack of a formal reporting framework. In this context it becomes very important that the AP should consider the reporting infrastructure of the reporting entity.

An entity that has well-defined and well-developed reporting infrastructure will be highly likely to produce SR information that meets the information needs of the intended users. Reporting infrastructure consists of three elements, and they will be discussed in turn, followed by some considerations related to reaching a conclusion.

ELEMENT 1: RELEVANT REPORTING FRAMEWORK (RRF)¹⁵

Informality in a RRF will not, in and of itself, prevent a reporting entity from producing relevant and reliable information. However, the general rule of thumb when it comes to RRF is that, as the level of informality of the RRF increases, the potential for management bias also increases. Higher management bias in turn decreases the potential of the RRF to produce information that will meet the information needs of the intended users. In Par. 63 of the SAAEPS 1 a number of issues are described that could potentially mitigate the risk of management bias, regardless of the level of formality in a RRF.

One of the four ways in which the risk of management bias could potentially be mitigated, is for the reporter to follow a well-designed process to engage with stakeholders to determine their information needs. It is also suggested here that some level of involvement of the board could also strengthen the reporter's ability to produce relevant and reliable information.

Many reporters will use the GRI as the basis of their RRF, but will then supplement the GRI with internally developed guidance. As discussed above, this internally developed guidance can be formal or informal, but as the formality increases, its ability to mitigate management bias will also increase. Should the reporter follow a well-designed internal due process to develop this guidance, the AP will have greater confidence in the ability of the reporter to produce relevant and reliable information¹⁶.

ELEMENT 2 – POLICIES AND PROCEDURES

In a sense the matter of policies and procedures was already discussed in Element 1 – RRF. What Element 2 refers to is the guidance that reporters develop internally to support the RRF. What is crucial in this context is to involve the intended users in the process of developing this guidance, and it should also be made available to users¹⁷.

ELEMENT 3 – SYSTEMS, CONTROLS AND GOVERNANCE (SCG)

The AP will consider the SCG that support the reporting process because well-designed and well-developed (and implemented) SCG will have a good likelihood of producing information that meets the needs of the intended users. Important to note here is that the AP should be cognisant of the work effort involved in considering the quality of SCG.

The AP should obtain only a basic understanding to gauge the ability of SCG to produce relevant and reliable information, and should not perform a full control audit.

REACHING A CONCLUSION

The SAAEPS 1 guidance allows the AP a level of professional judgment in establishing whether or not an engagement exhibited a RP. Par. 76 of the guidance specifically describes this as follows:

If the practitioner, in applying professional judgment, concludes that the reasons for excluding certain aspects of the subject matter information are reasonable in the circumstances and that the sustainability report is not misleading to the intended users with regard to the sustainability activities relevant to the reporting entity, this consideration in relation to establishing whether the sustainability assurance engagement exhibits a rational purpose could be satisfied.

In a situation where the AP does not have sufficient experience in applying the RP requirement, professional prudence would most likely suggest that the AP should err on the side of caution. However, there might be merit in considering the level of transparency that the reporter exhibits, specifically when it comes to being transparent about the reasons for certain limitations in scope, as well as committing to a specific trajectory in bringing these issues into a more reasonable assurance scope.

At this stage the AP should also judge whether there was sufficient involvement by the intended users in the selection of reporting criteria. The process that the AP follows in considering the entity's reporting infrastructure would be very useful in this situation, but Par. 77 of SAAEPS 1 also provides further points that the AP could consider when reaching a conclusion.

15 SAAEPS 1 (Par. 59 – 63)

16 SAAEPS 1 (Par. 66)

17 SAAEPS 1 (Par. 67)

SCR AND APPROPRIATE USM

INTRODUCTION

The issue of SCR and appropriate USM should be one that APs should be familiar with, as it was also part of ISAE 3000. The SAAEPS 1 does, however, include a number of examples that could assist APs in gaining clarity on the meaning of some of the concepts, and an example from SAAEPS 1 is included in Annexure 3.

Apart from the worked examples, the SAAEPS 1 guidance does make a number of new observations that are relevant for this publication, and these will be discussed at a high level.

OBSERVATION 1 – PRE-ENGAGEMENT ACTIVITY

A major concern that has been raised by commentators in the process of the development of SAAEPS 1 is the fact that it is a pre-engagement activity and that the work effort involved does not make sense in this phase of an assurance engagement. This issue is further complicated by the fact that the AP may not have sufficient information in the proposal phase of the engagement to effectively conclude on SCR and appropriate USM¹⁸.

OBSERVATION 2 – PROFESSIONAL JUDGMENT

In many assurance engagements the AP may come across a situation where the criteria may not be well

defined, and the process to develop criteria might be very informal and not well documented.

In this situation the AP will have to exercise professional judgment to conclude on SCR and appropriate USM. In Par. 97, SAAEPS 1 discusses a number of points that the AP could consider when coming to a conclusion on these issues. A consideration of these points could be helpful to APs as they provide meaningful perspectives on issues that could affect the ability of resultant SMI to meet the needs of intended users.

REACHING AN OVERALL CONCLUSION

The SAAEPS 1 guidance provides a flowchart in Appendix B to support the AP in reaching a meaningful conclusion on all of the six preconditions. There is, however, a possibility that an assurance engagement might not meet all of the preconditions, and the question then becomes what steps the APs should take in this scenario.

The SAAEPS 1 guidance suggests that, if a meaningful assurance scope cannot be negotiated (or is not possible) with the reporting entity, the AP could consider an agreed-upon procedure engagement or, alternatively, an assurance readiness exercise¹⁹.

¹⁸ Refer to the research findings, as this issue was raised there as well.

¹⁹ SAAEPS 1 (Par. 105)



06

METHOD

1 The method section is derived from the forthcoming PhD thesis of P.D.G. Conradie: "The emancipatory potential of the Rational Purpose Requirement"



UNDERSTANDING THE RESEARCH METHOD AND OBJECTIVES

INTRODUCTION

In order to better understand the potentially significant impact that the RP requirement could have on assurance practices in South Africa, a research process was conducted with two major overarching objectives.

The first objective was to obtain an in-depth understanding of the meaning of the RP requirement (sense-making). The second objective used the in-depth understanding that was gained to project the impact

of the RP requirement on assurance practices in South Africa (operationalisation).

The research process consisted of four major data gathering events (refer to Graphic 8: The research process), and all four of these events played a role in gaining a better understanding of the RP requirement. It is, however, evident that the last two events had the secondary purpose of estimating the potential impact of the RP requirement. The process followed to gather data (for each of the four events) will be discussed in the rest of this section.

EVENT 1: Q METHODOLOGY

LOGIC BEHIND THE SELECTION OF Q METHOD

The RP requirement compels the AP to gain an understanding of the information needs of the intended users during the pre-engagement phase of an assurance engagement. Due to the fact that there is no consensus around the reporting framework to be used in the preparation of a SR, it follows that there is also uncertainty as to what the USM of a SR is. The uncertainty related to the reporting framework as well as the USM creates a situation where it is very difficult to gauge the information needs of the intended users.

It is thus evident that a sound understanding of the information needs of the intended users is most likely dependent on the relationship of two very important variables, these being the USM and the reporting framework. The practice of SR is also influenced by various role players that could impact the practice of assurance of SR, namely report preparers, APs, investors and social and environmental users. It is possible to

include an even more diverse group of stakeholders in this conversation, but for the purpose of simplifying the discussion, it was decided to focus on these four.

This study also focussed on a third variable, namely the issue of assurance. It was thus decided to gain an understanding of the underlying views of the four stakeholder groups regarding:

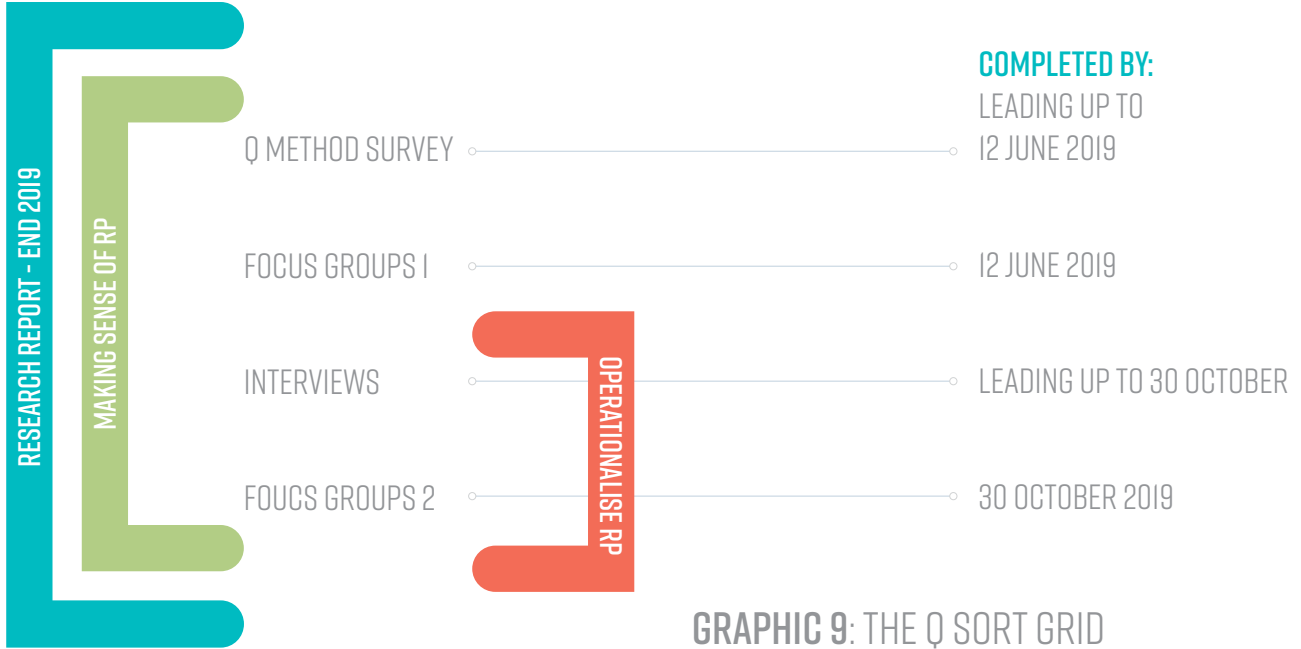
- | The USM of a SR,
- | The purpose of SR,
- | The purpose of assurance of SR.

The contention behind this decision is that an understanding of these three variables from the perspective of the four stakeholder groups will be a worthwhile point of departure to learn what the information needs of the intended users could be, and also how the other stakeholders think about the information that could be relevant in this context. To bring these understandings to the surface, Q methodology was selected as the appropriate data-gathering instrument.

Q methodology is a well-respected research instrument with the primary strength of making people's subjective understandings about a phenomenon explicit. The second strength of the Q method is the

fact that it allows different factors to be analysed through statistical analysis. These factors are simply groups of people that think similarly about a phenomenon.

GRAPHIC 8: THE RESEARCH PROCESS



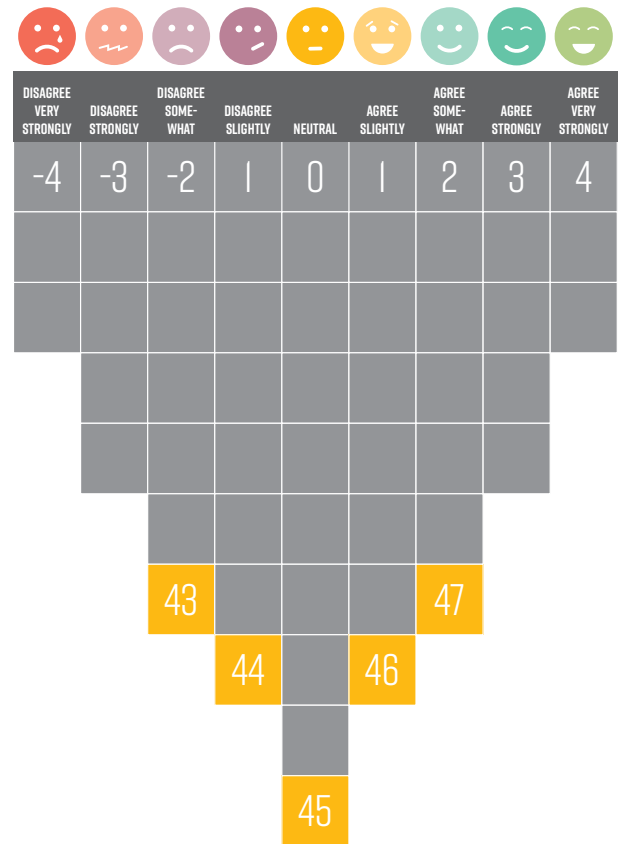
HOW DOES Q METHODOLOGY WORK?

The first step of Q methodology is the development of a Q set¹. A Q set is a set of statements that represent a phenomenon. In the case of this project, the 42 statements can be viewed in Annexure 2. The statements for this study were derived from a previous study², and in this current study it divides thinking around SR, the USM and assurance into three schools of thought. For each of the three schools of thought there are eight statements that represent the purpose of reporting, three that consider the purpose of assurance and three that consider the way that the specific school of thought thinks about the underlying phenomenon.

The first school of thought is the business case (BC). According to BC thinking, the main focus is on the way that SR and assurance support efficiency, growth and profitability. The thinking here is that an organisation will only engage in SR and assurance if there is some sort of financial payoff to do so⁴.

The second school of thought is the stakeholder accountability (SACC) school of thought. According

GRAPHIC 9: THE Q SORT GRID



1 Watts, S. and Stenner, P., 2012. *Doing Q methodological research: Theory, method & interpretation*. Sage.
 2 Watts, S. and Stenner, P., 2012. *Doing Q methodological research: Theory, method & interpretation*. Sage.
 3 Sorola, M., 2017. "Assessing the Potential for Agonistic Engagement Among Accountants: A quasi-experimental repeated Q study of social and environmental reporting" (Doctoral dissertation, Victoria University of Wellington).
 4 Brown, J. and Fraser, M., 2006. Approaches and perspectives in social and environmental accounting: an overview of the conceptual landscape. *Business Strategy and the Environment*, 15(2), pp.103-117.

to SACC, an organisation owes accountability to its stakeholders because they have implicit value and worth. This school of thought (orientation) can overlap with BC, but the primary concern is moral behaviour, not a pure profit motive⁵.

The third school of thought is the critical perspective (CRIT). According to this perspective, SR should point out the fundamental contradictions in capitalism, and should be a force for change towards SD. This school of thought has overlaps with SACC, but is anathema to the BC orientation.

For this research, software (<https://www.qsortouch.com>) was used to administer the Q method survey.

The software presents the 46 statements (or Q set, 42 statements plus four parity figures) to the participant in a random order. The participant then sorts the 46 statements (called a Q sort) in an inverted normal distribution (refer to Graphic 9: The Q sort grid). This “forced choice” method of sorting the statements allows a statistical factor analysis to be performed.

Once all the participants completed the Q sort, the software generates the results, which in turn are processed through a statistical analysis programme⁶. The statistical analysis allows the factor analysis to be performed (refer to findings and discussion section).

EVENT 2: FOCUS GROUPS – THE 12TH OF JUNE 2019

The event on the 12th of June was advertised as an opportunity for all stakeholders to “create a shared understanding of the potential impact of the rational purpose requirement⁷”. In the weeks approaching the event all participants were asked to complete an informed consent form and a survey (Q sort) to help the event “achieve [its] maximum potential⁸”. The majority of the people who indicated that they would attend the event also completed the Q sort.

The initial results of the Q sorts were also shared with participants prior to the event on the 12th of June, hence the majority of the participants came to the event with a basic idea of the results of their Q sort (which factor they belonged to), but not necessarily of what these results meant. The event of the 12th of June was thus designed to provide all the participants with detailed feedback of the overall results of the Q sorts, and to then solicit feedback from focus groups as to their views on what the results meant to them.

The event kicked off with a panel discussion by five experts. Each of these experts represented one of the four main stakeholder groups, and was asked to speak on the USM of SR, the purpose of reporting and the purpose of assurance. After the individuals spoke on the topic, a short Q&A was held where the audience could get clarity on the speakers’ views on the issue at hand. The panel session was followed by a presentation on the uptake of external assurance by the top 40 companies on the JSE (see the findings section for more details). These initial discussions were designed to set the scene for the Q sort results discussion.

The facilitator of the day then presented the results of the Q sort process and discussed the meaning of the five factors that emerged through the Q method statistical analysis. After this presentation, the facilitator requested that the focus groups should discuss the following:

- | The relationship between SD and SR,
- | The purpose of SR,
- | The purpose of assurance on SR.

The facilitators of the five focus groups were briefed to elicit the maximum variation of responses from the audience and not to attempt to reach consensus between the different stakeholder groups. The groups were pre-allocated to different tables to include a diverse group of stakeholders at each table.

At the conclusion of the group discussion, each group was afforded an opportunity to share their most important findings, and all the participants were then allowed the opportunity to comment on the other groups’ findings or any matters of concern. Each group had a facilitator as well as a scribe, and all the group and inter-group conversations were recorded and transcribed⁸.

5 Brown, J. and Fraser, M., 2006. Approaches and perspectives in social and environmental accounting: an overview of the conceptual landscape. *Business Strategy and the Environment*, 15(2), pp.103-117.

6 Schmolck, P., 2002. PQMethod. Available as freeware at: <http://www.rz.unibwmuennen.de/~p41bsmk/qmethod>.

7 http://saica.ensighthq.com/live/click.php?u=https%3A%2F%2Fstatic.wixstatic.com%2Fugd%2F536e89_40acc794a71d464cbb5b7a96272d2e37.pdf&o=Mail%2B7665&r=60904953&v=2b9260

8 Refer to the forthcoming PhD thesis of P.D.G. Conradie: “The emancipatory potential of the Rational Purpose Requirement.”

EVENT 3: INDIVIDUAL INTERVIEWS – BETWEEN JUNE AND OCTOBER

The statistical analysis of the Q sort results yielded a total of 27 participants that had a significant statistical loading to an individual factor. This means that a total of 27 people belonged to one of the five factors without also sharing the views of one of the other four factors. This meant that 19 participants who completed the Q sort were disqualified from the interviews.

The interviews were designed to delve even deeper into individuals' understanding of the meaning of the RP requirement, as well as to focus specifically on the views around the way the RP requirement would be operationalised. The part of the interview which focussed on sense making was essentially based on the results of the Q sorts and the focus groups from the

event on the 12th of June. Participants were asked to reflect on these two events and provide their in-depth views on the results.

The part of the interview that focussed on the operationalisation of the RP requirement was essentially based on a thought experiment. Participants were asked to consider the way that the different stakeholder groups would try to influence the way the RP requirement is operationalised, given the vested interests and levels of power that each stakeholder group possessed.

The proposed outcome of the interview process was firstly to capture the understanding of the RP requirement, and secondly to identify the enablers and barriers in the operationalisation of the RP requirement.

EVENT 4: FOCUS GROUPS - THE 30TH OF OCTOBER 2019

The event of the 30th of October 2019 was primarily for APs, but other stakeholder groups were explicitly also invited to the event because it was deemed that their views could be invaluable in the conversation. The ultimate decision on whether a RP is present in an assurance engagement lies with APs, hence their understanding and views in this conversation is paramount.

To set the scene at the event, the latest developments of the IAASB on developing guidance on EER were shared with the audience. The focus of this conversation was on areas of mutuality between SAAEPS 1 and the international guidance. The discussion on international developments was followed by a technical explanation of the RP requirement and SC and USM as discussed in SAAEPS 1. These discussions were interactive and the audience was encouraged to ask questions as the conversation moved along.

This conversation was followed by summarised results

of the Q sort, of the focus groups from the 12th of June, and of the interviews. All of these results were shared with the audience to stimulate their thinking on the following topics that were to be discussed in the focus groups:

- | How the RP requirement should be operationalised,
- | How the SCR and appropriate USM should be operationalised,
- | Potential challenges related to understanding the information needs of the intended users.

As was the case for the focus groups on the 12th of June, each conversation was facilitated with the intention to get the maximum variety of responses and not to attempt to gain consensus. The group conversations were once again followed by an opportunity for each group to give their feedback, and a final conversation where the floor was opened. All the group conversations and the final inter-group conversations were recorded and transcribed.



07

RESULTS & DISCUSSION

¹ These results are derived from the forthcoming PhD thesis of P.D.G. Conradie: "The emancipatory potential of the Rational Purpose Requirement."

INTRODUCTION TO THE Q METHOD RESULTS

The Q method process was the first step in the data gathering process. It was designed to bring to the surface the subjective understandings that the different stakeholder groups held about various issues related to SR. The results of the Q method process serve as the foundation of this study, because these results helped to solidify the important aspects that influence the information needs of the intended users of a SR (and related assurance information).

The Q method results will firstly consider the respondents that loaded significantly onto one of the five factors. It will then consider the overall results of the respondents, and the discussion will then focus on the two factors that made up the two extreme ends of the spectrum. It is important to note that in this Q method section only the results will be reported. Both the focus groups and the personal interviews used the Q method

results as a starting point, hence these discussions will provide explanations of the interesting trends that were observed here.

THE RESPONDENTS

A total of 47 respondents completed the Q sort process. After the results were processed on the stats software, the results of 19 participants were excluded because they loaded onto more than one factor.

The remaining 27 respondents were distributed relatively evenly between the four groups, with the exception of the APs that were left with only five respondents (refer to Graphic 10: Total respondents and Graphic 11: Respondents with meaningful associations).

GRAPHIC 10: TOTAL RESPONDENTS



GRAPHIC II: RESPONDENTS WITH MEANINGFUL ASSOCIATIONS



It is interesting to note that the results of six out of the 14 (43% of) report preparers were excluded, and that the results of ten out of the 15 (67% of) APs were excluded. In contrast, only 13% of results of investors and 22% of results of social and environmental groups were excluded. It is not clear from the results why such a high percentage of the first two groups held so many contradictory views. It might be because the Q sort statements are of such a nature that it is not always easy to disentangle personal views from professional views.

It is argued here that the personal and professional views of individuals within the investor- and social and environmental user groups might be more closely aligned (as opposed to those in the AP and report preparer groups). A possible reason why the investors tended to hold the same opinions (as social and environmental user groups) is that the type of investors that attended the event tended to prefer responsible investment and also tended to be individuals that saw themselves as investors in pension funds. It could be argued that these roles might be more closely aligned with personal convictions. The same goes for the social and environmental user groups. This group generally considers the impact of SR information purely from the perspective of how it could influence themselves, their families or communities, hence a much more personal (as opposed to professional) perspective.

THE OVERALL RESULTS

The overall results are derived from the aggregate of the five factors (all 27 respondents). It is clear from

Graphic 12, "Overall Results", that the BC orientation is the dominant view when it comes to viewing the USM of an SR. However, it is interesting to see that, when it comes to the purpose of reporting, respondents had a very different view of the BC, seeing it as anathema to the purpose of reporting. This negative view of the BC intensified when it came to the purpose of assurance.

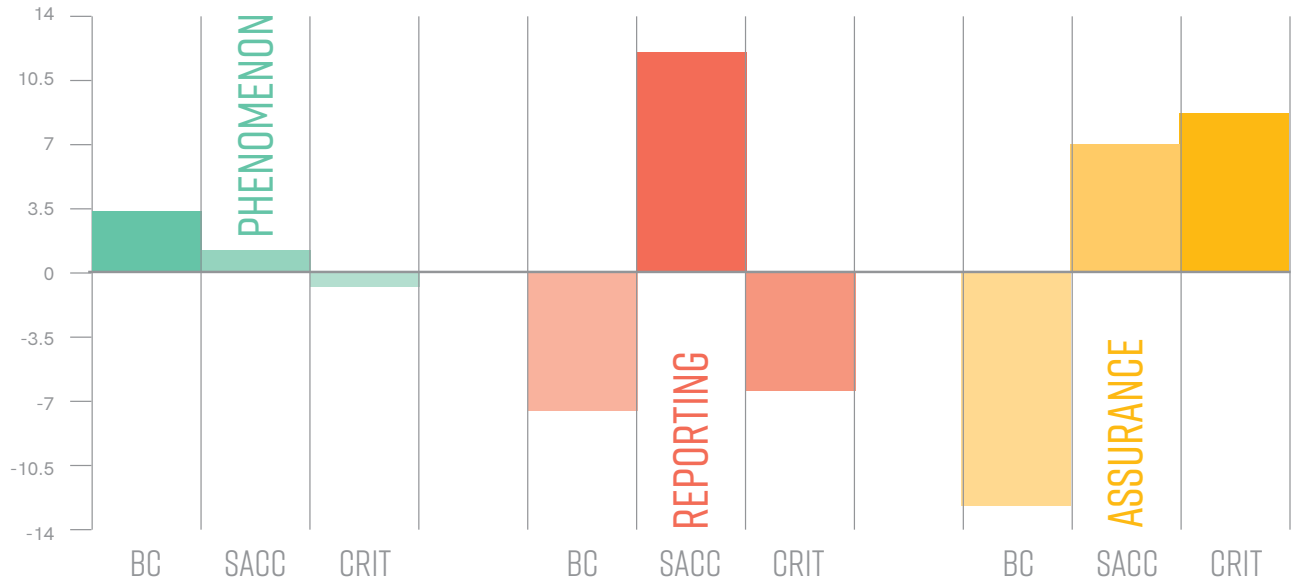
Graphic 12: "Overall Results" tells a very different story as far as the SACC orientation is concerned. This orientation is viewed positively for the phenomenon, reporting and assurance. The highest area of agreement is observed for the purpose of reporting, followed by assurance and then the phenomenon.

The results of the CRIT were marginally negative for the phenomenon area, but very strongly negative as far as the purpose of reporting is concerned. It is, however, surprising to note that the CRIT was more positive than both SACC and the BC, as far as the purpose of assurance is concerned (refer to Graphic 12: Overall Results).

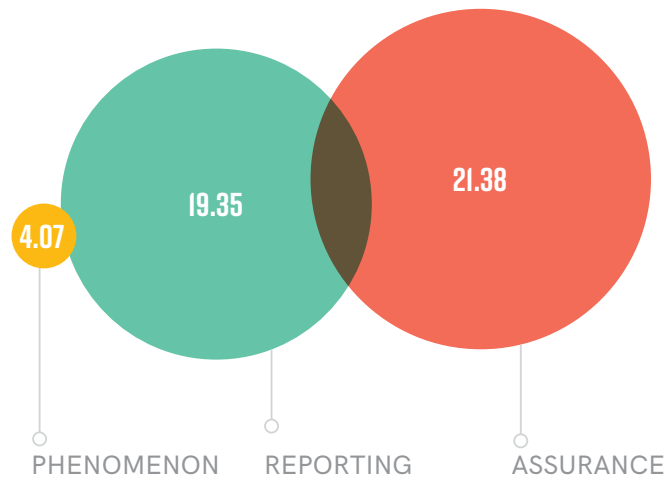
The final area that warrants consideration is the polarity of the three areas. Polarity is expressed as the difference between the highest and lowest scores between the BC, SACC and the CRIT views. This is expressed for each of the three areas investigated (refer to Graphic 13: Polarity across factors). It is evident that there is a very low polarity for the phenomenon, but a very high polarity for both the reporting and assurance areas.

This simply means that respondents had stronger and better-defined views of assurance and reporting as opposed to their views of the phenomenon.

GRAPHIC 12: OVERALL RESULTS



GRAPHIC 13: POLARITY ACROSS FACTORS



Factor 5 participants are very much opposed to the CRIT view, and are very much for the BC (while they are slightly ambivalent with regards to SACC) (refer to Graphic 16: Factor 2 vs. Factor 5).

It is important to also note the type of participants that loaded onto Factors 2 and 5 (refer to Graphic 11: Respondents with meaningful associations). It is interesting to note that Factor 2 is dominated by investors and social and environmental groups, whereas Factor 5 is dominated by report preparers and APs.

Expressed in a different way, it means that the users of information (Factor 2) want information from the CRIT and SACC orientations, whereas the producers of the information want to provide BC type information. These two factors make up the extreme ends of the distribution.

Going back to the individual factor results, it is evident that both Factors 1 and 4 are also opposed to the BC, and then in varying degrees feel positive about either the SACC or the CRIT views. Factor 3 is viewed as a confounding factor, because it loads negatively to both the BC and CRIT views.

The most salient questions from the Q method results that were used for the discussion of the focus groups and the interviews, were as follows:

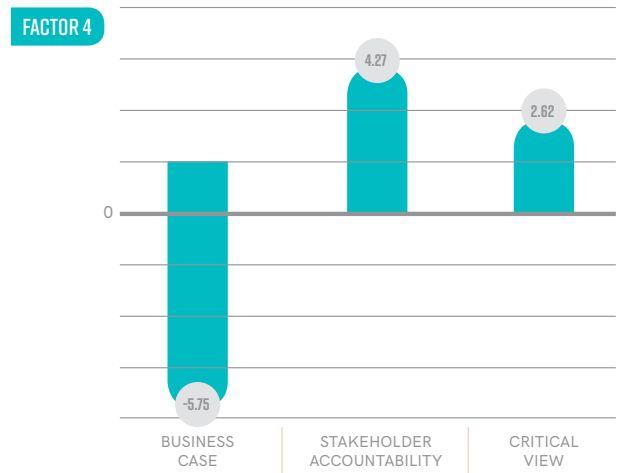
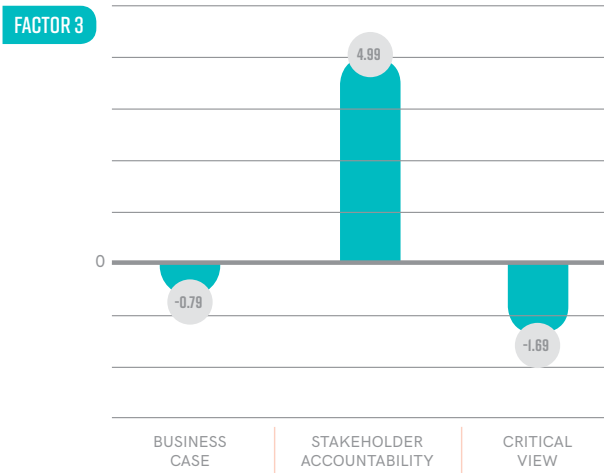
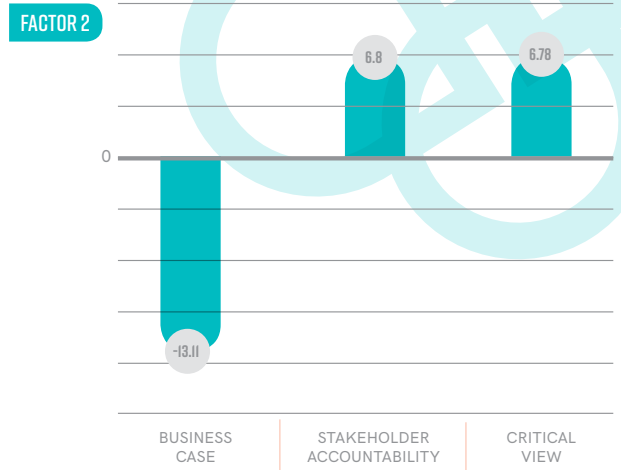
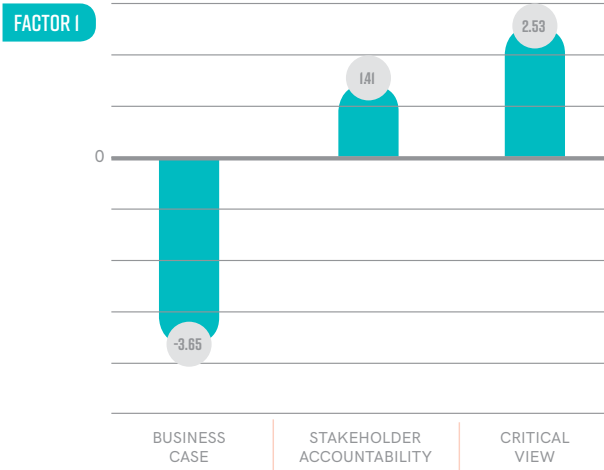
- Does it make sense that the strongest orientation related to the phenomenon is BC, but then it moves to SACC when it comes to reporting and then jumps to CRIT when it comes to assurance?
- How can a RP be reached when the producers of the information (Factor 5) have views about the information needs of the intended users that are diametrically opposed to the views of the users themselves (Factor 2)?
- What does the low polarity score for the phenomenon mean?

THE RESULTS OF THE FIVE FACTORS

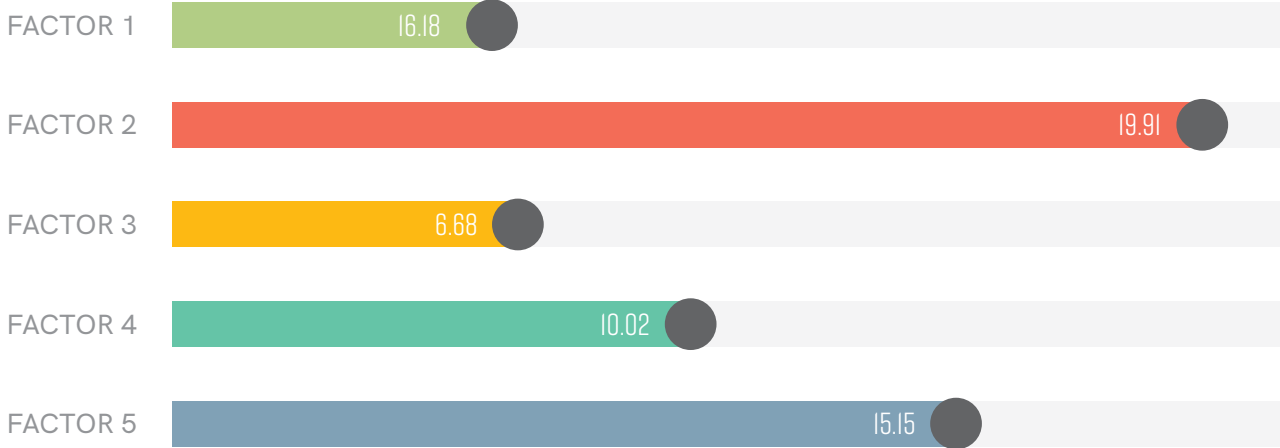
The results of each of the five factors, according to orientation, can be viewed in Graphic 14: "Individual factor results", and the results that express the polarity of each of the five factors can be viewed in Graphic 15: "Polarity across orientations". From these results it is clear that Factor 2 and Factor 5 have the highest polarity of the five factors. This means that the participants that loaded onto Factors 2 and 5 held stronger and better-defined views than the participants that loaded onto the other three factors.

Looking at the individual results of Factors 2 and 5, it is clear that these two factors hold diametrically opposed views. Factor 2 participants are very much opposed to the BC and are for the SACC and CRIT views, whereas

GRAPHIC 14: INDIVIDUAL FACTOR RESULTS



GRAPHIC 15: POLARITY ACROSS ORIENTATIONS



GRAPHIC 16: FACTOR 2 VS FACTOR 5

PHENOMENON



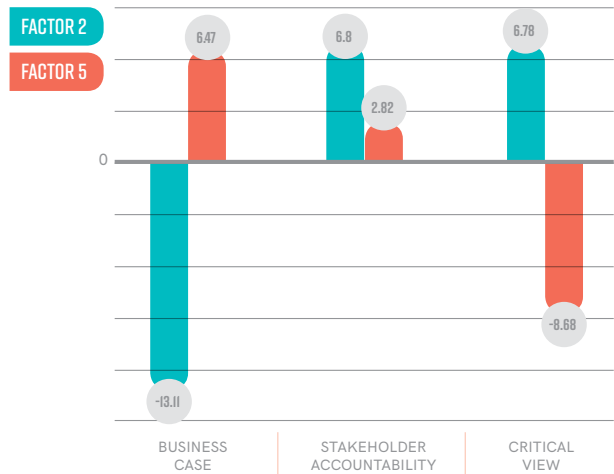
PURPOSE OF REPORTING



PURPOSE OF ASSURANCE



OVERALL



FOCUS GROUPS - THE 12TH OF JUNE 2019

INTRODUCTION

The main objective of the event on the 12th of June was to:

“create a shared understanding of the potential impact of the rational purpose requirement”

To achieve the objective, the five focus groups were asked to discuss the following, and then to provide feedback on the discussion:

- | The relationship between SD and SR
- | The purpose of SR
- | The purpose of assurance on SR.

The rest of this section summarises the results of the individual focus group discussions, as well as the overall feedback and conclusion discussion.

RESULTS OF THE FOCUS GROUPS HELD ON THE 12TH OF JUNE

THE RELATIONSHIP BETWEEN SD AND SR

The audience expressed a variety of views that problematised the relationship between SD and SR. The first is that it is not necessarily clear how a SR that discusses sustainability impact on an organisational level relates to SD which is a developmental concept, and which is normally discussed at a planetary, or possibly a national level. A further concern that was raised related to the underlying motives of reporters. The contention was that reporters are generally more concerned with protecting their reputation as opposed to really getting stuck into challenging issues like social and environmental justice or stewardship.

An issue that received a lot of attention was the question of whose job it was to enforce sustainable behaviour. It appears as though there is very little consensus around whether:

- | Companies should keep themselves accountable,
- | Companies should be held accountable by government, or
- | Stakeholders should hold companies accountable.

The audience were quite sceptical about the first option, as their contention was that there is very little financial incentive for companies to display transparent behaviour in a voluntary environment. The developmental challenges that face South Africa create an environment where it is difficult to conceive a scenario where government will take up this responsibility. Finally, the audience believed that there is potential in stakeholders keeping companies accountable, but a lot of education on their agency would have to happen before this could become a reality.

MOTIVATIONS TO ENGAGE IN SR

There was strong support for the idea that SR could be a very effective tool to communicate an organisation's sustainability performance and strategy. Effective reporting can lead to business improvement and be a driving force for sustainability. A crucial part of good reporting is effective engagement with stakeholders to ensure that their needs, interests and expectations are taken into account.

It is, however, a reality that the motives that drive most organisations to report are not moral imperatives, but a BC. SR has illustrated the ability to advance organisational reputation and legitimacy, and is also an effective risk management tool. It is also a reality that many organisations produce reports that are nothing more than greenwash and driven by a need to comply with King IV. It is, however, acknowledged that reporting is on most corporate agendas and is increasingly being used as an activity that adds value to many organisations.

ASSURANCE ISSUES

As a general point of departure, the assurance is used as a mechanism to add value to SR information. The assurance process adds trust, credibility and legitimacy to the reported information. The audience also commented on the fact that the assurance function could improve the underlying reporting process if reporters implemented recommendations from their APs.

There was, however, a general concern that users of assurance reports do not understand the work that an AP really does. Due to the risk-averse nature of APs, users might expect that a broader range of work happens than is the reality. This creates an audit expectations gap.

A large portion of the conversation centred on whether it was realistic to expect APs to refuse an assurance engagement if the scope does not adequately meet the RP requirement. The contention is that the current voluntary environment and various commercial

considerations make it difficult to conceive a scenario where an AP would refuse an engagement where the scope is limited. The question was then raised as to who should select the assurance scope if not management. The question was whether it would be more appropriate to leave this responsibility to a stakeholder group rather than an AP or management.

The final conversation on the assurance issue focussed on the way that the public interest is or is not met with assurance practices. It was explained that reporting and assurance were initially designed to be voluntary practices to stimulate uptake of the practice. Many reporters and APs use the concept of a journey to justify the limited scope of assurance practice, and justify the current practices on this ostensible lack of maturity. It was questioned whether this argument can still be used to justify limited scopes (and by implication limited satisfaction of the public interest).

Two potential solutions were proposed to this challenge. The first was that assurance should be mandated to provide support to APs when suggesting broader scopes of engagement. The second proposed solution suggested taking a careful look at the reporters' reporting journey and considering the level of commitment as having to include a greater scope over time, and considering the validity of the reasons for providing a limited scope.

INFORMATION NEEDS OF INTENDED USERS

The conversation on the information needs of the intended users was primarily derived from the result of

the Q methodology process. The audience was asked whether they believed that a RP could be achieved if the phenomenon, the purpose of reporting and the purpose of assurance were all dominated by different orientations. Currently the phenomenon is dominated by the BC, the purpose of reporting by SACC and assurance by the CRIT view.

There were strong views around the fact that such a binary view of the RP requirement may not be a productive avenue of investigation. The point was made that the practice of SR involves a multitude of stakeholders with as many motivations in engaging in the process, ranging from the BC, SACC and CRIT. The process of materiality determination is a case in point, where the report preparer needs to consider many differing needs, interests and expectations with varying underlying motives when concluding on what to report on. The RP requirement is therefore a concept that speaks to deep underlying complexity that should be considered differently depending on each different set of stakeholders and reporting contexts.

A further matter that adds to the complexity of this conversation is the fact that the BC is the language of business. The audience expressed the view that reporting is a business imperative, and not a moral one. A major challenge for business is that in many cases the language of sustainability is not translatable into the language of business. Expressed differently, this means that business finds it difficult to consider issues such as cost to society and actual sustainability impacts if it is not quantified in financial terms.

INTERVIEWS

INTRODUCTION

A total of 27 semi-structured interviews were conducted between June and October 2019. The purpose of the interviews was to firstly delve deeper into individuals' understanding of the RP requirement, and secondly to gather views on how individuals saw the operationalisation of the RP requirement playing out in practice. Upon analysis of the interview data it became apparent that the sensemaking and operationalisation issues were deeply interrelated, and the findings thereof will therefore be presented together.

A total of three major themes arose from an analysis of the data, and each of the three will be discussed in turn. They are:

- | Challenges with implementing the RP requirement,
- | Level of power and vested interests of different stakeholders in the way the RP requirement is operationalised,
- | Proposed approaches to implement the RP requirement.

CHALLENGES WITH IMPLEMENTING THE RP REQUIREMENT

The issue that most likely received the most time during the interviews was the conversation about voluntary as opposed to regulatory SR. At the moment SR and the assurance of these reports are voluntary activities, but the moment when a client does choose to assure, the AP is compelled to apply both ISAE 3000 (Revised) and SAAEPS 1 (from 2020 onwards). These two publications can be seen as "regulation" that the AP must comply with.

The obvious contradiction here is that the report preparer can withdraw from the voluntary assurance engagement should they not like the demands placed upon them by the AP. The AP hence needs to apply the RP requirement in a non-supportive regulatory environment. If assurance was mandated, the report preparers would not be able to withdraw from the engagement simply because they felt like it. This state of affairs places the AP in a very challenging position.

SAAEPS 1 could potentially place the APs in a position where they might have to withdraw from assurance engagements where a RP might not be present. The commercial imperative in this scenario is fundamentally opposed to the public interest. The APs are once again placed in a challenging position where they have to choose between meeting the public interest (not accepting in limited scope) and their need to retain clients and earn fees.

The interviewees equated the low polarity score on the phenomenon (refer to Graphic 13: Polarity across factors) to the fact that there might not be consensus on what the USM of an assurance engagement is. The impact of not having consensus about the USM is fundamental and pervasive. In essence this means that the practice of SR and the assurance of this information is taking place without any of the participants really agreeing on what it is all about. This finding strongly corroborates the academic literature that posits that the relationship between SR and SD is tenuous at best¹.

An issue that was very prominent in the development of SAAEPS 1, that was raised by many interviewees, is the issue of the work effort that SAAEPS 1 demands. Both the RP requirement and SCR and appropriate USM issues are activities that are supposed to take place during the pre-engagement phase and, given that these are pre-engagement activities, the fact that the AP potentially needs to answer 41 questions seems excessive.

Another major challenge to establish whether a RP is present is the fact that the AP might not have access to company records that are not in the public domain. The AP would therefore not be in the position to meet all the RP requirements, because they simply would not have access to the information that is needed to reach a reasonable conclusion on these issues.

The final challenging area is that of professional judgment. In many cases the AP would have to exercise their professional judgment to determine whether a RP is present and whether an engagement should be accepted or not. In a lot of these cases, the AP would have very limited experience in this practice and would have to make a decision based on incomplete information.

LEVEL OF POWER AND VESTED INTERESTS

The report preparer is the stakeholder that has the most power in the way that the RP requirement is operationalised. This is because both the practices of assurance and of reporting are voluntary and the reporter is not obligated to seek assurance on SR information. According to the interviewees, the most important interests of report preparers are the maintenance of a fair reputation and reasonable returns. In cases where an AP wishes to appeal to a report preparer to broaden the scope of an engagement, they would have to appeal to one of these two issues.

It was interesting to note that report preparers are sceptical of the ability of APs to effectively determine the scope of an assurance engagement. Due to the complexity and size of many reporters, new APs would not know enough about the intricacies of the complex organisations involved to recommend a prudent assurance scope. Interestingly, these arguments can also be misused by reporters to discourage APs from recommending broader scopes of assurance.

Due to the voluntary nature of assurance practice, APs have very limited power in recommending broader assurance scopes to their clients. The APs also have a vested interest in earning fees, but at the same time they have to represent the public interest. As discussed earlier, APs are in a precarious position. The most important argument that an AP can make in order to recommend a broader assurance scope is to emphasise the value that assurance could add to reputation / returns, but this is very difficult to prove.

Investors are a very powerful stakeholder, and the majority of investors are concerned with returns. There is a growing segment of responsible investors that demand a broader set of information, but in many cases this will not spill over into a demand for assurance as well. There is a concern that the investor voice is silent in many cases where they could drive more change. This might be due to the dominance of mainstream investors who would prefer an investment in growth rather than reporting.

Social and environmental groups are also very powerful if they manage to either speak the right language or collectivise well. The challenge with many social collectives is that they represent their own interest rather than the interest of the larger society. The example here is union actions at mines. These types of actions do not address environmental issues that impact the larger society, but rather focus on issues surrounding the wages or employment of their members.

PROPOSED APPROACHES TO IMPLEMENT THE RP REQUIREMENT

Unsurprisingly, the first approach that emerged related to some form of regulation of the SR and assurance. The recommendation here is that government should regulate assurance of SR and that government needs to appoint APs to assurance engagements, and that it should effectively not be a market regulated practice. This idea is one that has been discussed in academic literature (for financial audit) for many decades², but has never gotten any real traction. More important here is the intention of the recommendation. What this tries to do is to remove the age-old dichotomy of an AP, that being the public interest vs. their own commercial interest.

The second recommendation is that there should be some form of a phased-in approach. It is not clear

1 Spence, C., Husillos, J. and Correa-Ruiz, C., 2010. Cargo cult science and the death of politics: A critical review of social and environmental accounting research. *Critical Perspectives on Accounting*, 21(1), pp.76-89.

2 This suggestion is not necessarily viable over the short / medium term, but is included here because it resulted in interesting debates during the interviews / focus groups.

exactly how this approach would work in practice, but it would most likely depend on reporters being transparent about their reporting journey, and taking responsibility for the trajectory towards achieving a meaningful assurance scope over time.

The issue of a reporting journey is one that has received much discussion in the academic literature³. In many cases the metaphor of a reporting journey has been misused by reporters to justify their lack of investment in either reporting or assurance practices.

The interviews once again touched on this issue and it raises an important question on whether SR and

its assurance has become more mature over time or whether it is simply suffering from a lack of investment.

The final recommendation lies in a slight change in emphasis in the reporting process. Given that the uncertainty that was identified related to the USM, it was suggested that the first step of the reporting process should be a clear definition of the USM, and a description of the criteria and other supporting processes that were used to measure and interpret the USM. It is foreseen that greater transparency about the exact nature of the USM has the potential to more effectively meet the information needs of the intended users.

FOCUS GROUPS – THE 30TH OF OCTOBER 2019

INTRODUCTION

The focus group discussion covered similar ground to what was covered in the individual interviews. The main difference was that the results of the individual interviews were shared with focus group participants, so they had much more information to base their discussions on. It follows that the discussion here will exclude information that was already covered in the individual interviews and will focus on areas of new insight. The focus groups were asked to discuss the following areas:

- | How the RP requirement should be operationalised,
- | How the SCR and appropriate USM should be operationalised,
- | Potential challenges related to understanding the information needs of the intended users.

The three themes that emerged from the focus groups were:

1. Voluntary vs. mandatory reporting,
2. Major challenges in adopting the RP requirement,
3. Other relevant issues with adopting the RP requirement.

These three areas will be discussed below.

VOLUNTARY VS. MANDATORY REPORTING

There was a high level of consensus from all the groups that the voluntary reporting environment was unlikely to

be conducive to a successful implementation of the RP requirement. The first possible solution to this problem was that the AP alone could not accept the responsibility to enforce the RP requirement. There was a suggestion that the stakeholders should also play a role in the enforcement of the RP requirement. The main obstacle to the stakeholders playing a role in this process is the fact that stakeholders are firstly not aware of the agency that they have in this context, and secondly do not have the right vocabulary to effectively participate in the process.

The second proposed solution to this problem is to impose regulation. After some debate the only body that could reasonably be conceived to take on the role of regulator in this context was the JSE. The fact that investors are a major stakeholder in the SR and assurance arena, and the fact that the JSE regulates the flow of corporate capital in South Africa, were proffered as the main reasons behind nominating the JSE for this role.

An issue that is related to the JSE potentially regulating the SR and assurance industry is the question of whether APs should have a monopoly in the assurance market. There are numerous arguments that support and discourage the idea behind APs enjoying a monopoly in this market. There was, however, consensus that, if the JSE would regulate the market, they would also have to regulate who the relevant APs should be to perform the assurance.

A final argument to support regulation is that the assurance practices of SR will not reach maturity if they are not regulated. This argument might hold some merit, but it is difficult to see how regulation in and of itself would solve the problem of lack of investment in SR reporting and assurance practices.

³ Mitne, M.J., Kearins, K.N. and Walton, S. (2006), "Creating adventures in wonderland? The journey metaphor and environmental sustainability", *Organization*, Vol. 13 No. 6, pp. 801-39.

CHALLENGES WITH MEETING THE RP REQUIREMENT

THE WORK EFFORT ISSUE

The work effort issue was once again raised as a major concern that complicates meeting the RP requirement. This issue is potentially a major stumbling block to the RP requirement being successfully operationalised, and will be considered in some detail here.

ISSUE 1: THE NUMBER OF QUESTIONS

The fact that an AP is expected to answer a total of 41 questions to determine whether the preconditions are present appears to be unpractical and excessive. It was also suggested that the questions are too complex and that it would be challenging to answer these questions in a new assurance engagement. The question was asked whether questions could be distilled to four or five principle-based questions that obviate having to answer 41 questions. This issue received a lot of attention during the SAAEPS 1 development, and the contention is that the questions are a guideline, and that APs are welcome to reduce the number of questions if they are still able to meet the objectives.

ISSUE 2: NEW CLIENTS IN THE RFP PHASE

A senior member of one of the Big 4 firms in South Africa explained that they applied SAAEPS 1 to a number of their clients as a dummy run. What they found was that the guidance is effective when it comes to existing clients where access is unlimited, but that it becomes extremely challenging in the RFP phase where access is limited.

The discussion of meeting the RP requirement in the RFP phase received a lot of attention. It was argued that in many cases the only information that a firm had to go on was the list of KPIs that the client wished to have assured. To complicate this matter, in many of these cases the list of KPIs is not complemented by a briefing session, and in many cases where there is a briefing session the information shared is of a very limited nature. This is further complicated by the fact that most clients do not feel comfortable sharing information with potential APs via email or any other communication channels. In these cases, where information is severely limited, APs usually resort to other sources of information like previous financial statements, integrated reports, information on the company's website or other information in the public domain.

ISSUE 3: PROFESSIONAL JUDGMENT

Another challenging area that was identified was that of professional judgment. APs expressed concern that it will be challenging to exercise professional judgment where the assurance scope might not meet the information needs of the intended users, but where a number of mitigating factors do exist.

The first mitigating factor is that of limited budgets. The AP might find that the client simply did not have enough resources available for a broad scope assurance, and might then have to exercise judgment whether a smaller scope engagement would still meet the information needs of the intended users, or whether this scope might mislead users. The AP would also have to assess the reasonableness of the budget argument in forming a conclusion.

Another mitigating factor is that the assurance scope might not be approved by the governance structure. If they have approved it, the question becomes whether they are aware of the RP requirement, and that a limited scope might not meet the RP test. The AP may have to engage the governance structure to obtain explanations of the limited scope and assess whether the given scope would meet the information needs of the intended users.

OTHER RELEVANT ISSUES

It was suggested that the RP requirement should not only be applied during the pre-engagement phase of the audit but that it should be ongoing throughout the assurance engagement. This means that the AP may accept an assurance engagement, but as the engagement progresses they might become aware of issues that contradict the initial assumption that the engagement did have a RP. The AP should then consider whether to continue with the engagement, or to withdraw. If the client is willing to adjust the assurance scope to meet the RP requirement it could be grounds to continue. It might, however, be ethically questionable if an AP accepts an assurance scope with the intention of renegotiating during the actual engagement.

The audience was particularly worried about the issue of meeting the information needs of the intended users, specifically in the case where users might not be educated and might be unaware of their agency in the reporting process. The contention here is that this places more emphasis on designing a stakeholder engagement process that is cognisant of the level of education of the intended users.

There was a general concern that report preparers needed to be educated about the impact of the RP requirement. This education needs to focus on the technical aspects of the RP requirement as well as illustrate the potential benefit of the RP requirement to report preparers. The audience was of the opinion that the RP requirement had a higher likelihood of gaining traction if there was some level of pull from report preparers and not just a push from APs.

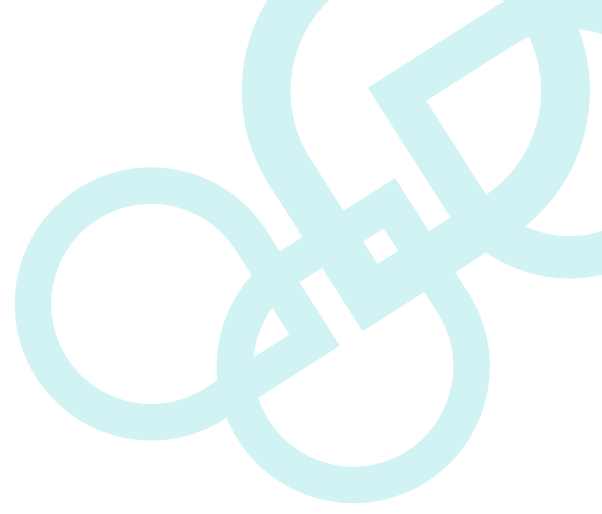
The final thought from the audience was that the implementation of the RP requirement would require a level of courage from APs. If the RP requirement is viewed as having the potential to rebuild trust with society, APs may have more incentive to embrace the spirit of the RP requirement.



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CONCLUSION

1 This conclusion is derived from the forthcoming PhD thesis of P.D.G. Conradie: "The emancipatory potential of the Rational Purpose Requirement"



CONCLUDING ON THE POTENTIAL IMPACT OF THE RP REQUIREMENT

INTRODUCTORY REMARKS

The RP requirement addresses a fundamentally contentious point in the SR academic literature¹. This point centres on the question of how to compel an organisation to disclose relevant and complete information (that meets the information needs of intended users) in a voluntary SR and assurance environment. The reality of the voluntary environment is that organisations are highly unlikely to disclose information that could potentially harm their market value, even if intended users demand this type of information². The assurance regime is not designed to protect the public interest in this voluntary environment.

Given the complexity and potentially contentious nature of the implementation of the RP requirement, it was decided to perform a comprehensive data gathering process from South African SR and assurance role players.

The purpose of this data gathering process was to firstly gain an in depth understanding on the way that they understood the RP requirement, and then, secondly, to get their views on the way that the RP requirement will be operationalised. The process revealed numerous problems but also a number of proposed courses of action to move the RP requirement forward.

The final discussion in this publication will weave the most salient findings, challenges and proposed solutions into a single narrative. This narrative will start at the systemic level, then move to the ideological and conclude on the technical / practical level. Of specific relevance in this narrative will be the touch points between the different levels, as these are of pivotal importance in moving towards a solution to the RP issue.

THE SYSTEMIC LEVEL

In most of the interactions where data was gathered, participants alluded to implications of the fact that SR and assurance are voluntary practices in South Africa. Before delving into the detail of the findings themselves, it is important to consider the voluntary origins of SR and assurance practices.

In the early 2000s, when the GRI started to gain prominence, the general notion was that SR and assurance should be voluntary practices, to try to encourage adoption of the reporting guidelines. The intention behind the GRI guidelines is and was a good one, and the drive to widespread adoption was fuelled by a hope of more sustainable practices by organisations around the world. The voluntary nature of SR and assurance had the unintended consequence of many

1 Deegan, C., 2017. Twenty-five years of social and environmental accounting research within *Critical Perspectives of Accounting: Hits, misses and ways forward*. *Critical Perspectives on Accounting*, 43, pp.65-87.

2 Deegan, C., 2017. Twenty-five years of social and environmental accounting research within *Critical Perspectives of Accounting: Hits, misses and ways forward*. *Critical Perspectives on Accounting*, 43, pp.65-87.

organisations applying the reporting guidance in a way that would benefit them, as opposed to being more responsible and accountable towards society and the natural environment³.

The current voluntary reporting environment has attracted widespread criticism from the academic community that deplores the way that organisations use the SR guidelines as a way to legitimise unsustainable reporting practices and mislead the public. On a more philosophical note, the criticism focussed on the fact that the voluntary environment places all the power in the hands of the reporter, and that we are hoping that the reporters (the ones with the power) will somehow reform themselves⁴. The current state of SR in South Africa and worldwide would suggest that the voluntary reporting regime is not yielding the transformational impact that was initially hoped for at the inception of the GRI guidelines⁵.

The current voluntary environment does not support the APs in the process of rolling out the RP requirement, as report preparers can decide not to seek assurance if APs request broader assurance scopes, or they can shop around for an AP who is willing to take on the work. This places the AP in an extremely challenging position where they effectively have to choose between their own commercial interest on the one hand, and meeting the public interest on the other hand (by meeting the information needs of the intended users).

The proposed solution to this challenge is to seek regulation that mandates both SR and assurance practice in South Africa. A mandatory regime would allow the AP to meet the public interest by suggesting relevant and complete assurance scopes without having to compromise on their commercial interest. Throughout the data gathering process the only feasible body that was suggested to drive the regulation of SR and assurance was the JSE.

The JSE was suggested as the most feasible option, as they regulate the flow of capital in South Africa, and should therefore protect investors who rely on SR information in their investment decision making. There are many potential challenges that would have to be overcome before the JSE would regulate this industry, but this narrative will focus on only one issue, namely value relevance.

Before the JSE would mandate SR information, there would have to be sound evidence that there is a causal link between SR information and market / financial performance. This topic has attracted a lot of academic attention, and at the present moment the general consensus is that there might be a link between SR and financial / market performance, but only over the long term. Furthermore, the evidence is unclear as to whether good financial performance drives sustainability performance or the other way around⁶. The value

relevance argument is one of many potential arguments to compel the JSE to regulate the industry, but the potentially more important question is who will take up the responsibility to lobby the JSE for regulation.

The ideological level is the next level that will be discussed. Before the discussion moves there, it is important to understand the link between the systemic and the ideological levels. The dominant economic thought of our day is neo-liberal economic thought. A crucial tenet of neo-liberal economic thought is that the market mechanism ensures equilibrium and corrects itself, therefore intervention in the market should be kept to a minimum, and SR (and assurance) should not be regulated. The language of business (or the BC) would thus not advocate for making SR and assurance mandatory, as it would be in opposition to the concept of free markets.

THE IDEOLOGICAL LEVEL

The Q method survey revealed the three major orientations that stakeholders hold in relation to SR and assurance, namely the BC, SACC and the CRIT view. The results of the survey revealed that stakeholders view the BC view as dominant for the USM, the SACC as dominant for the purpose of reporting and the CRIT view as dominant for the purpose of assurance.

During both the focus group interventions as well as the interviews, the following question was posed to participants:

“Can an assurance engagement have a rational purpose if there is not consistency of orientation across the USM, reporting and assurance?”

It appears as though the dominant answer to this question is that a binary response to this question would not be a productive avenue of investigation, as an organisation deals with a multitude of stakeholders with as many diverging sets of interest, hence the answer to this question would have to be a nuanced one.

The academic literature and the respondents did, however, agree that they did not see SD as the underlying motive for engaging in SR, but the motive was more likely to originate in a desire to firstly maintain legitimacy, and secondly gain financially through improved risk

3 Adams, C.A. and Larrinaga, C., 2019. Progress: engaging with organisations in pursuit of improved sustainability accounting and performance. *Accounting, Auditing & Accountability Journal*, 32(8), pp. 2367-2394.
4 Spence, C., 2009. Social accounting's emancipatory potential: A Gramscian critique. *Critical Perspectives on Accounting*, 20(2), pp.205-227.
5 Deegan, C., 2017. Twenty-five years of social and environmental accounting research within Critical Perspectives of Accounting: Hits, misses and ways forward. *Critical Perspectives on Accounting*, 43, pp.65-87.
6 Levy, D.L., 1997. Environmental management as political sustainability. *Organization & Environment*, 10(2), pp.126-147.

management and efficiency. The underlying motive of the reporter thus appears to be strongly driven by an underlying BC motivation, and in this case it responds to quantified financial information that is understandable within this paradigm.

The way in which the ideological links to the technical / practical level is specifically relevant to the way that the reporter is likely to interpret the USM. Should the reporter view the USM from a strong BC orientation (and not a more nuanced view) the resultant information could potentially not meet the information needs of the intended users (who might demand more SACC of CRIT orientated information). It is also clear from this narrative that another factor that could mitigate the risk of not meeting the information needs of the intended users is a well-designed stakeholder engagement program.

THE TECHNICAL / PRACTICAL LEVEL

The technical / practical level in this narrative refers to the level where the AP would do work to establish whether a RP is present as a precondition for an assurance engagement. The discussion at this level will focus on four salient issues, namely:

- | Defining the USM,
- | The work effort and professional judgment issue,
- | Courses of action if uncertain about a RP.

The most crucial point to consider here is the way that the report preparer defines the USM. Throughout the process of gathering data there was a strong contention from participants (and academic literature) that there is not a clear consensus regarding the USM. The discussion in this publication also considered the absurdity of having lengthy debates about the purpose of reporting

and assurance if the report preparer, the AP and the intended users are not all in agreement as to the exact nature of the USM.

This matter of uncertainty in relation to the USM is a fundamental weakness of SR and assurance, and the main contributing factor to this weakness is that, in terms of SR, no consensus has been reached as to what the RRF for an assurance engagement should be. It is suggested here that a lot of development and education needs to happen around this issue (with regards to all stakeholders) as this influences the totality of SR and assurance practice.

The challenges that were identified in relation to the required work effort, as well as issues related to professional judgment, are also intimately related to the uncertainty related to the USM. If neither the report preparer nor the AP (nor the intended users) has a clear understanding of the exact nature of the USM it will be effectively impossible to reach a prudent conclusion regarding issues like the required work effort and professional judgment.

Apart from the fundamental concern that was just raised related to the USM, it is also clear that a lot of experimentation with the RP requirement needs to happen to streamline the work effort and professional judgment issue. If the required work effort and professional judgment concerns cannot be resolved, the potential of the RP requirement to drive meaningful change will be severely undermined.

CONCLUDING THOUGHT

The RP requirement stands to be implemented towards the end of 2020. The main findings of this research will be disseminated to the South African audit regulator, and, if deemed relevant, potential changes to the SAAEPS 1 guidance or the roll-out strategy can be made.



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ANNEXURES

ANNEXURE 1

SUMMARY

FULL NAME	YEAR END	INDUSTRY	TYPE OF REPORT	ASSURANCE ON SUSTAINABILITY INFORMATION	ASSURANCE LEVEL	ASSURANCE PROVIDER	FRAMEWORK USED
Absa Group Ltd.	31-Dec-18	Financials	IR	Yes	Limited Assurance	PWC, BBBEE-Empowered	ISAE 3000 R
Anglo American	31-Dec-18	Basic Minerals	IR & SR	Yes	Combined	PWC	ISAE 3000 & 3410
Anglo American plc	31-Dec-18	Basic Minerals	IR & SR	Yes	Combined	PWC	ISAE 3000 & 3410
Anheuser-Busch InBev SA/NV	31-Dec-18	Consumer Goods	IR	Yes	Limited Assurance	KMPG	ISAE 3000R
Aspen Pharmacare Holdings Ltd.	30-Jun-18	Health Care	IR	Yes	Other Verification	Environmental Resource Management	Accountability AA1000
BHP Billiton Plc	30-Jun-18	Basic Minerals	IR & SR	Yes	Combined	KPMG	ISAE 300R & 3410
Bid Corporation Ltd.	30-Jun-18	Consumer Goods	IR	No	N/A	N/A	N/A
British American Tobacco plc	31-Dec-18	Consumer Goods	IR & SR	Yes	Limited Assurance	EY	ISAE 3000
Capitec Bank Holdings Ltd.	28-Feb-18	Financials	IR	No	N/A	N/A	N/A
Compagnie Financiere Richemont SA	31-Mar-19	Consumer Goods	IR & SR	Yes	Other Verification	SGS United Kingdom	WBCSD-GHG Protocol
Discovery Ltd.	30-Jun-18	Financials	IR & SR	No	N/A	N/A	N/A
Exxaro Resources Ltd.	31-Dec-18	Basic Minerals	IR & SR	Yes	Combined	PWC	ISAE 3000 & 3410
FirstRand Ltd.	30-Jun-18	Financials	IR & SR	Yes	Combined	PWC	ISAE 3000 & 3410
Glencore plc	31-Dec-18	Basic Minerals	IR & SR	Yes	Limited Assurance	Deloitte	ISAE 3000
Growthpoint Properties Ltd.	30-Jun-18	Financials	IR	No	N/A	N/A	N/A
Hammerson Plc	31-Dec-18	Financials	AR	No	N/A	N/A	N/A
Investec plc	31-Mar-18	Financials	IR & SR	Yes	Limited Assurance	KPMG	ISAE3000 & 3410
Kumba Iron Ore Ltd.	31-Dec-18	Basic Minerals	IR & SR	Yes	Combined	PWC	ISAE3000 & 3410
Mediclinic International plc	31-Mar-19	Health Care	IR	Yes	Other Verification	Carbon Calculated	Not mentioned
Mondi plc	30-Apr-18	Basic Minerals	IR & SR	Yes	Limited Assurance	ERM Certification and Verification	ISAE3000 & ISO 14064-3:2006
Mr Price Group Ltd.	31-Mar-19	Consumer Goods	AR	No	N/A	N/A	N/A
MTN Group Ltd.	31-Dec-18	Telecommunications	IR & SR	Yes	Limited Assurance	PWC	ISAE 3000
Naspers Ltd.	31-Mar-18	Technology	IR	Yes	Other Verification	PWC BBBEE- Empower Logic	No mention
Nedbank Group Ltd.	31-Dec-18	Financials	IR	Yes	Limited Assurance	Deloitte & KPMG	ISAE3000 & 3410
NEPI Rockcastle plc	31-Dec-18	Financials	AR	No	N/A	N/A	N/A
Old Mutual Ltd.	31-Dec-18	Financials	IR	No	N/A	N/A	N/A
Pepkor Holdings Ltd.	30-Sep-18	Financials	IR & SR	No	N/A	N/A	N/A
Rand Merchant Investment Holdings Ltd.	30-Jun-18	Financials	IR	No	N/A	N/A	N/A
Redefine Properties Ltd.	31-Aug-18	Financials	IR	Yes	Other Verification	Not mentioned	GHG Protocol ISO 14064-3:2006
Reinet Investments SCA	31-Mar-18	Financials	AR	No	N/A	N/A	N/A
Rengro Ltd.	31-Dec-18	Financials	IR & SR	Yes	Other Verification	Carbon Footprint BBBEE-Empowerdex	Not mentioned
RMB Holdings Ltd.	30-Jun-18	Financials	IR	No	N/A	N/A	N/A
Sanlam Ltd.	31-Dec-18	Financials	IR & SR	Yes	Limited Assurance	EY	ISAE3000 & 3410
Sasol Ltd.	30-Jun-18	Basic Minerals	IR & SR	Yes	Combined	PWC and Nexia SAB&T	ISAE3000 & 3410
Shoprite Holdings Ltd.	30-Jun-18	Consumer Goods	IR & SR	No	N/A	N/A	N/A
South32 Ltd.	30-Jun-18	Basic Minerals	IR	No	N/A	N/A	N/A
Standard Bank Group Ltd.	31-Dec-18	Financials	IR	Yes	Limited Assurance	PWC	ISAE3000 & 3410
The Bidvest Group Ltd.	30-Jun-18	Financials	IR	No	N/A	N/A	N/A
Tiger Brands Ltd.	31-Aug-18	Consumer Goods	IR & SR	No	N/A	N/A	N/A
Vodacom Group Ltd.	31-Mar-19	Telecommunications	IR & SR	Yes	Limited Assurance	PWC	ISAE 3000 & 3410

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BUSINESS CASE ORIENTATION	STAKEHOLDER-ACCOUNTABILITY ORIENTATION	CRITICAL ORIENTATION
PURPOSE OF REPORTING	PURPOSE OF REPORTING	PURPOSE OF REPORTING
1. The process of SER benefits society by enhancing shareholder value through a more holistic approach to business decision-making and strategic planning.	15. SER should be aimed at increasing the accountability and transparency of businesses to stakeholders.	29. SER should focus on demonstrating why current social, economic and political institutions require radical change.
2. Even though it is useful to consult with stakeholders over SER and keep their interests in mind during decision-making processes, management should only incorporate these views if it is in the best interest of the business.	16. SER must recognise stakeholders' rights to information and effective participation if it is to become an impetus for meaningful change.	30. SER should draw attention to business-society conflicts, environmental degradation and social inequalities so as to enable critical reflection on how one can address such problems.
3. SER helps to enable stakeholder engagement with the community. These relationships have potential to add long-term value to the organisation.	17. SER cannot always address stakeholder and business interests simultaneously. There is a real risk that management will disregard stakeholders who are relatively powerless to defend themselves against corporate abuses.	31. SER, as it is currently practiced, does not ensure meaningful engagement with stakeholders. It may be more appropriately described as 'greenwash'.
4. The SER process can help management explore the linkages between corporate social, environmental and financial performance. This way they can identify profitable, 'win-win', situations for the business that are good for society, stakeholders and the environment.	18. SER is an inevitably political and contentious issue that involves a careful balancing act to ensure the interests of all stakeholders are fairly represented. It is not as easy as saying it's all 'win-win'. Society and business need to recognise that they have both common and separate interests.	32. SER is incapable of achieving high quality reporting or an adequate level of public accountability from organisations via voluntary forms of regulation.
5. SER makes good business sense by helping organisations to mitigate risk, protect the corporate brand and gain competitive advantage.	19. SER requires regulation to ensure balanced reporting for accountability, monitoring, and decision-making purposes. Otherwise, the risk of selective reporting is too high.	33. SER is prevented from generating as significant an impact on the environment and society as it could, given that it is highly susceptible to being captured by business interests.

BUSINESS CASE ORIENTATION	STAKEHOLDER-ACCOUNTABILITY ORIENTATION	CRITICAL ORIENTATION
PURPOSE OF REPORTING	PURPOSE OF REPORTING	PURPOSE OF REPORTING
6. The key focus of SER must be on business and investors. This approach will ultimately prove the most beneficial for society as a whole.	20. SER should be seen primarily as a moral rather than business imperative. Otherwise the public interest and accountability aspects of SER will be downplayed.	34. SER has the potential to covertly make it seem as if everyone's interests can be addressed within the current system, when in reality they cannot.
7. SER enables organisations to be perceived as legitimate members of society, which in turn helps decrease the amount of regulations imposed on business.	21. SER can increase compliance costs for organisations, but from a societal perspective, the benefits of implementation are likely to outweigh the costs.	35. SER has little chance of developing real corporate accountability unless there is radical change in the dominant capitalist structures.
8. The value of SER should be measured through its impact on the market value of an organisation.	22. The problem with business case approaches to SER is that business can choose to ignore forms of SER for which a business case cannot be made. These may well be the areas that address potential conflicts between business-society-environmental interests, and which stakeholders are most interested in.	36. SER needs to illustrate the domination of accounting by capitalist logics that prioritise capital markets and shareholder interests.
PURPOSE OF ASSURANCE	PURPOSE OF ASSURANCE	PURPOSE OF ASSURANCE
9. Information included in the external assurance scope should primarily support managerial decision-making	23. Assurance of SER should advance the public interest, and not purely corporate interests	37. Fair and effective assurance is a crucial component towards SER reaching its emancipatory potential.
10. External assurance should not be undertaken if it is unclear whether the benefits of assurance will be greater than the cost (i.e. That it supports value creation)	24. The assurance function should play a role to ensure that stakeholders concerns are represented in sustainability reports in a fair and balanced way.	38. The external assurance function cannot function effectively if management is responsible for selecting the scope of assurance.
11. Assurance should remain a voluntary activity where management retains the discretion of what is to be included in the assurance scope.	25. Assurance is about the discharge of accountability to stakeholders and will not always be able to illustrate direct financial benefits.	39. An assurance provider may not accept (or sign off on) an assurance engagement where evidence exist of unbalanced / biased / incomplete information in either the reported information or the assurance scope.
REPORTING VS SUSTAINABLE DEVELOPMENT	REPORTING VS SUSTAINABLE DEVELOPMENT	REPORTING VS SUSTAINABLE DEVELOPMENT
12. The market mechanism will ensure that the social and environmental costs are included in prices.	26. A lack of accountability towards society and the environment is the primary contributing factor to social and environmental problems today.	40. An organisation cannot be said to be progressing towards sustainability if it is not making a contribution towards social and environmental justice (i.e. repairing historical social and environmental injustices)
13. A sustainability mind-set will drive efficiencies in the business that will lead to greater profitability.	27. Sustainability is considered to be complex (or a wicked problem) due to the fact that decisions have to be made where either society or the environment (or other groups within society) will benefit, but not both.	41. Sustainability is in reality a concept that can only be effectively considered at a planetary level. This means that the requirements of sustainability cannot effectively be disaggregated to an organisational level.
14. The pursuit of environmental and social sustainability will drive long-term economic growth leading to sustainable value creation.	28. SER should be developed within the current economic system (e.g. partnership approaches with business) to create incremental change.	42. The social and environmental problems of today are a direct result of the way capitalism is practiced. To address social and environmental problems hence requires a fundamental reorientation of the way the economy is organised and individual behaviour is rewarded.
<p>FOOTNOTE ON PARITY FIGURES: 43. Put this option under some disagreement 44. Put this option under slight disagreement 45. Put this option under neutral 46. Put this option under slight agreement 47. Put this option under some agreement</p>		

