



Department of Accounting
Faculty of Management Studies and Commerce
University of Sri Jayewardenepura, Sri Lanka

SUSTAINABILITY ASSURANCE PRACTICES AMONG PUBLIC LISTED COMPANIES IN SRI LANKA



Nirubiga K, Wanigabadu CM, Harshani WAI, Madhushani WSC, Kariyawasam WHIG, Vishaka Srivanthi DD, Kalawitigoda KVGK, Uggallage DK, Thushanthini P, Gunarathne ADN

Abstract

In response to increasing stakeholder expectations, an increasing number of companies are reporting on their corporate social and environmental performance in addition to their normal financial measures. This trend will continue as will the need for providing assurance of this additional information and the systems and processes used to generate it. The purpose of this study is to provide an overview of sustainability assurance practices in Sri Lanka among the listed public companies. Data collection and analysis was carried out in two stages. First, the published annual reports of the companies listed in Colombo Stock Exchange as of March, 2015 were analyzed. Then unstructured interviews were carried out with assurance providers. Even though sustainability assurance is little practiced, there is an increasing trend for companies to obtain assurance from external assurance providers to ensure the credibility of the published reports. Furthermore most of the companies have obtained sustainability assurance from audit firms rather than from specialized consultants. Assurance providers mostly use SLSAE 3000 as the basis to provide these assurances. None of the companies were qualified enough to obtain reasonable assurance on sustainability reporting and only limited assurances were obtained. This study contributes to the advancement of knowledge of sustainability assurance practices in developing countries, taking Sri Lanka as the case.

Key words:

Reporting guidelines, Sri Lanka, sustainability, sustainability assurance, sustainability assurance standards

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✉ niru_51@live.com

1. INTRODUCTION

There is an increasing need for assurance of non-financial information as part of understanding an organization's performance against sustainable development commitments, policies and strategies. This is [relevant] to secure quality internally and to provide credible information to interested stakeholders externally. Also, this information is important for those stakeholders concerned with specific social, environmental and economic aspects of performance, and for those more interested in the impact of non- financial aspects on financial performance and valuations. Since the importance of sustainability reports was identified, we conducted this study on how sustainability assurance is practiced in Sri Lanka. At present there are no statutory or regulatory requirements for assurance in sustainability reporting in Sri Lanka. Most of the companies which prepare sustainability reports follow Global Reporting Initiative's reporting guidelines.

Research Gap

With increasing awareness of environmental issues, there has been rising demand for environmental friendly business practices.

Since sustainability reporting is not yet a mature business practice, misconceptions exist about the value that assurance offers.

- Acknowledging that certain parts of the business or particular indicators and responding to sustainable development challenges and opportunities are less developed than others to demonstrate transparency. This will actually build stakeholders' confidence and trust, rather than damage it.
- While auditing data is both valid and useful, it only covers part of the assurance spectrum. Report assurance looks to confirm not only the validity of data but also an organization's priorities. The process helps a company recognize whether or not it is placing appropriate emphasis on what matters most to stakeholders -what is material.
- Broad report assurance is expensive. Companies often spend large sums auditing their financial disclosures. As these companies are increasingly judged by more than just financial metrics, they will need to adopt similar practices and levels of assurance to ensure that non-financial disclosures are just as accurate and reliable.
- There is a paucity of research literature on sustainable assurance practices in Sri Lanka.

For these reasons we don't know enough about the sustainability assurance services practiced in Sri Lanka.

Background and Statement of the Problem

Sustainability is an emerging field in developing countries like Sri Lanka. Even though it's not a legal requirement and just a voluntary practice still companies are focusing on sustainability because businesses need sustainability and to improve the company image and public relations. Sustainability assurance is a voluntary practice followed by companies to ensure the credibility of the information provided to the public. Companies are criticized for not obtaining assurances for their sustainability reports and sometimes do not release sustainability reports except mentioning some information on websites.

In this study we try to analyze how listed public companies see the importance of sustainability assurance and how many companies are obtaining assurance at present in Sri Lanka.

Objectives of the Study

The objective of this research is to provide an overview of sustainability assurance certification in Sri Lanka and how the practice is maintained.

The following are the main objectives of this study:

- I. To provide a brief overview of development of sustainability reporting assurance practices in Sri Lanka.
- II. To provide evidence on current assurance practices adopted by assurance providers in Sri Lanka.
- III. To provide guidelines for develop policies which are relevant to sustainability assurance practice in Sri Lanka.
- IV. To identify the challenges faced in development procedure for sustainability assurance practice in Sri Lanka.

Significance of the Study

The term “sustainability” includes environmental, social and economic aspects but there is no clarity as to what it actually means and how it should be carried out in practice. While sustainability assurance is a growing market that the audit profession is interested in continuing to dominate, the actual practice is not as clear as a financial audit. This can lead to uncertainty among practitioners about what is expected of them and what the assurance process should looklike. With increasing awareness of environmental issues, there is a rising demand for environmental friendly business practices.

Furthermore, it is problematic for auditors to interpret the meaning of terms such as ‘competence’ even if it is addressed and defined in existing assurance standards. While much research has been conducted on the standards and on the content of sustainability reports, little research has focused on how sustainability assurance practices operate in Sri Lankan public listed companies.

The relevance of this study is that it assesses how sustainability assurance practices work in Sri Lanka, which according to the generally accepted standard requires the assurance of sustainability reports. In summary, the intent of this paper is to investigate how Sustainability Assurance Practices operate in Sri Lankan public listed companies.

Scope and Limitations of the Study

This study has two specific limitations: first, the assessment is limited to the companies listed in the Colombo Stock Exchange, and the findings may not necessarily reflect the sustainability reporting practices of non-listed companies; and second, the content analysis techniques of annual and sustainability reports may have specific limitations. Holsti (1969, p. 14) offers a broad definition of content analysis as ‘any technique for making inferences by objectively and systematically identifying specified characteristics of messages’. Content analysis has its own limitations such as the risk of capturing an incomplete picture of the company’s business, but it is also widely recognized and accepted as a research instrument. Limiting the study to the assessment of sustainability reporting in the annual reports,

sustainability reports and company web sites is justified because such reports are considered important corporate governance and stakeholder documents produced by companies. Indeed, these reports afford companies the opportunity to communicate with their investors and their stakeholders at large.

2. LITERATURE REVIEW

Sustainability

The concept of sustainability originally started in Forestry, where it means never harvesting more than what the forest yields in new growth. The word “*Nachhaltigkeit*” (the German term for Sustainability) was first used with this meaning in 1713 (Farrington & Kuhlman 2010).

Since then two major developments in sustainability have taken place: the first is development of triple bottom line approach which focuses on the concern for people, planet and profit in harmony, and the second is the distinction between strong and weak sustainability. Very strong sustainability focuses on a very strong eccentric world view which rejects almost all use of natural resources. Society contains many parts which are not involved with any of the economic activities thereby contributing to the protection of the environment. On the other hand, very weak sustainability is more techno centric. Here, social, environmental and economic interests compete and priority is given to economic interest (Byrch et al. 2007).

The importance of sustainability was realized by the world in the 1970s, particularly, after the rise of environmental and social issues. Hurricane Katrina, Love [cannel /canal?] disaster, the China floods and the Bhola Cyclone are some of the major natural disasters which made the world realise the power of the environment. (Day & Klein 1987, p. 244, cited in Power 1997, p. 127) In addition, the social issues created by multinationals by their activities such as the BP oil leak, the Bopal gas leak, etc., roused sharp criticism, and attracted public attention and media coverage in this regard. This made corporations understand their responsibility towards the environment and society where they operate for survival.

The inspiration for sustainability started with the Brundtland Report released in 1987. The World Commission on Environment and Development headed by Gro defines sustainability as ‘meeting the needs of the present without compromising the ability of future generations to meet their own needs’ (WCED 1987, pp. 627-645). However, we can find historical evidence where sustainability was an ancient practice evolving throughout history.

Studies indicate that sustainability reporting is not widely practiced in developing countries, mostly Asia (Fifka 2012). Further, it is generally confined to certain industries such as oil, chemicals and steel (Fifka 2012)

Sustainability Reporting

The capacity of a firm to continue to operate over a long period of time depends on the sustainability of its stakeholder relationships. This new stakeholder view of the firm goes beyond the triple bottom line and balanced scorecard.

Companies need appropriate systems to measure and control their own behaviour in order to assess whether they are responding to stakeholder concerns in an effective way and to

communicate the results achieved by aiming at monitoring and tracking from a qualitative and quantitative viewpoint overall corporate performance according to a stakeholder framework.

The corporates that adopt sustainability practices on a voluntary basis use Global Reporting Initiative (GRI) G4 and G 3.1 as guidelines for preparing sustainability reports. G4 is the latest version of GRI guidelines which consist of more comprehensive guidelines for General Standard and Specific Standard Disclosures. Companies also follow their own practices other than GRI. The nonfinancial information contained in these sustainability reports are categorized into six categories as per the GRI 2007 categorization scheme. These categories are as follows: economic, environment, labour, human rights, product responsibility, and society. GRI supports measuring the impact of a company's operations on society and the environment through physical and monetary ratios (GRI 2002).

Sustainability Assurance

Assurance can be described as the provision of confidence or certainty by an independent assurance provider to a party or group of persons in relation to certain subject matter (Park & Brorson 2005).

The level of assurance expressed varies with the nature of the service provided. The scope and depth of an assurance service depends on the need for confidence of the interested parties on the one hand and on the availability of proper evidence on the other hand. The interested parties should be informed adequately about the level of assurance envisaged, thus avoiding an expectation gap.

Assurance of sustainability reports is argued to fulfil the same function and provide the same values for the stakeholders as audit does for financial reports. That is, they provide credibility to the report by being examined by an independent, competent third party (Park & Brorson 2005).

Sustainability reports become increasingly important as organizations are expected to be accountable, to perform responsibly and to report on their performance. Publishing a sustainability report helps an organization to be more transparent and credible in its relations with stakeholders. This can lead to better performance on the markets, including the financial and labour markets, thus increasing shareholder value. Organizations voluntarily commission assurance engagements on reports they have prepared because of the perceived benefits, both external and internal. The independent assurance provider issues a report that enables users to place more credibility to the information reported by the organization. Each user of the assurance report can now take decisions based on the information in the sustainability report with less uncertainty about that information (Mellqvist & Stierna 2013).

Adams & Evans (2004) state that 'there is an issue regarding assurer's expertise regarding the assurance procedure'. Therefore it is said that ISAE 3000 explicitly foresees the possibility that auditors make use of experts from other disciplines to complete their investigations and there is an obligation to evaluate audit risk even when the document examined for verification does not resemble a traditional accounting record.

The survey report of KPMG (1999, 2002, 2005 & 2011) examined whether the Top Fortune 500 companies in a number of different countries produced publicly available

sustainability reports, and whether they were assured. The outcome reflected there is an increasing trend towards publishing sustainability reports and obtaining assurance on sustainability reports published. The results of the surveys conducted were as follows: (Refer Table 1).

Table 1: Assurance on Sustainability Reports among Fortune 500 Companies

Year	Published Sustainability Reports	Obtained Assurance on Sustainability Reports
1999	35%	19%
2002	45%	29%
2005	70%	30%
2008	58%	40%

Source: (O'Dwyer & Owen L 2005 & 2011)

In Sri Lanka, there is no statutory requirement that sustainability assurance reports should be assured. The exception is when the sustainability report is located in the management report, within the annual report and thereby is encompassed by the statutory audit. In addition, Sri Lankan companies are producing sustainability reports in accordance with the GRI guidelines and assure these reports by an independent attestation. The GRI guidelines leave a lot of freedom to the reporting company in terms of the scope and depth of assurance. The requirement of sustainability assurance differs from the requirement of external review of financial reports, in which government has refrained from commenting on the preferred type or nature of provider.

According to the International Auditing and Assurance Standards Board principles, the essential elements of assurance services - ISAE 3000 - describe the external verification of nonfinancial reports that determine the level of reliability of the procedures carried out, with the level of assurance, in order to reduce the expectation gap between a reader's perception of the reliability of the verifications and their actual effectiveness.

The possibility of making use of an inter disciplinary team of experts, types of verifications and tests to implement, the evaluation of audit risk are suitable reporting criteria for the form of the final assurance statement. These principles allow the auditor to indicate two different levels of assurance based on the intrinsic characteristics of the subject matter and of the investigations implemented as a) reasonable assurance or b) limited assurance (Meern 2002)

Reasonable assurance means the practitioner gathers sufficient appropriate evidence to conclude that the subject matter conforms in all material respects with identified suitable criteria, and gives a report in the form of a positive assurance. But in the case of limited assurance the practitioner gathers sufficient appropriate evidence to conclude that the subject matter is plausible in the circumstances, and gives a report in negative form (Meern 2002).

The great weakness of ISAE 3000 is that it is not specifically designed for assurance services on sustainability reports. This explains several problems that strike both assurance providers and stakeholders addressed by CSR reporting. Among these elements, the three main problems are:

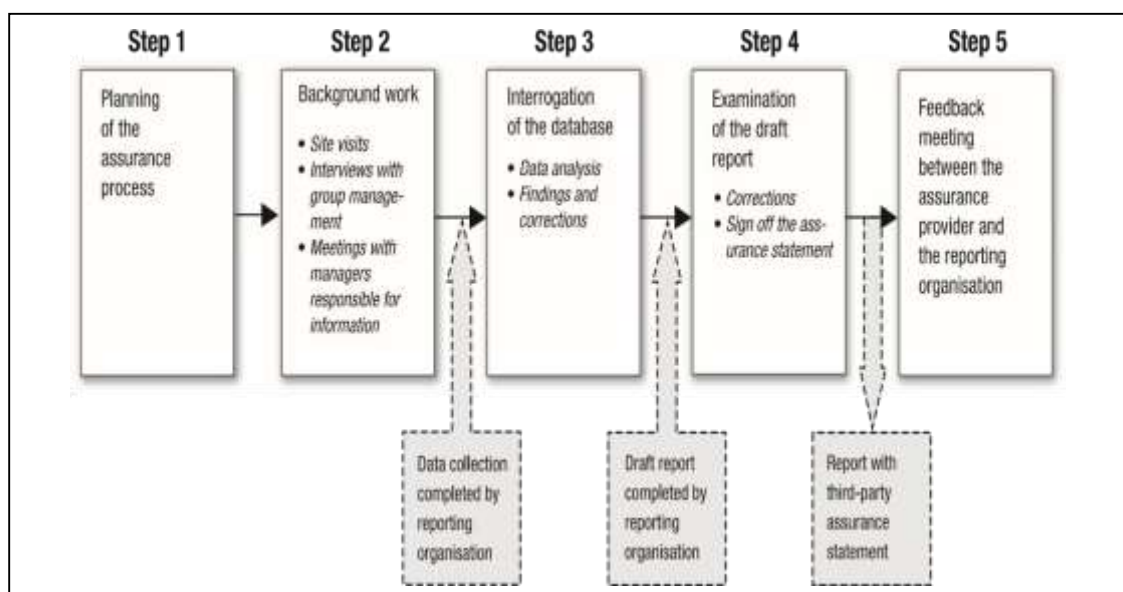
- Absence of relation with financial auditing, with particular reference to fraud.
- Deficiency of verification on compliance with national law and regulations.
- Lack of involvement of the stakeholders' representatives in the verification process of materiality and relevance of the information given.

There are a few other criticisms against the present assurance standard in addition to the three limitations mentioned above. The main criticisms of present assurance standards can be stated as: the determination of the level of assurance, roles and responsibilities of external experts, the relations with financial audit, compliance with national laws and regulations, the relevance and the materiality of the information given and the involvement of external stakeholders in the verification process.

There is an issue regarding the assurer's expertise regarding the assurance procedure. Therefore it is said that ISAE 3000 explicitly foresees the possibility that auditors make use of experts from other disciplines to complete their investigations and there is an obligation to evaluate audit risk even when the document examined for verification does not resemble a traditional accounting record. This highlighted section should come under Sustainability Assurance Standards while avoiding any duplication.

Roger, Ann & Wai (2009) have argued that enhancing the credibility of reports of companies and of corporate reputation is measured by the sustainability reports they assured and also demonstrated 'a strong link between companies with a higher need to enhance credibility and those having their sustainability reports assured'. According to Park & Brorson (2005), the assurance processes are organized through five steps (refer Figure 1).

Figure 1: Typical Steps of Third-Party Assurance Process



Source: (Park & Brorson 2005)

Sustainability Assurance Providers and Standards Used

There are mainly two international standards used by assurance practitioners to provide sustainability assurance, which are designed for different objectives and play a dominant role. They are

- AA 1000 Assurance Standard
- ISAE 3000 standard

The AA1000 Assurance Standard (known as AA 1000 AS) was developed by the London-based Institute of Social and Ethical Account- Ability (more commonly known as Account Ability). AA1000 is a free, open-source set of principles that focuses on the learning aspects of addressing sustainability/CSR.

The ISAE3000 standard ("Assurance Engagements Other Than Audits or Reviews of Historical Financial Information") is a standard which provides guidance in the form of basic principles and essential procedures for professional accountants on how to conduct non-financial assurance engagements.

According to ISAE 3000 the main elements of ISAE 3000 regarding external verification of non-financial reports are the following:

- The determination of the level of reliability of the procedures carried out (level of assurance),
- The possibility of making use of an interdisciplinary team of experts,
- Types of verifications and tests to implement,
- The evaluation of audit risk,
- Suitable reporting criteria, and
- The form of the final assurance statement.

The GRI Guidelines, AA 1000 AS and ISAE3000 standards do not directly compete amongst themselves, as some assurance providers seem to reference them in different combinations in view of the overlap in the minimum content of assurance (Manetti & Becatti 2009).

Sustainability assurance providers:

There is an argument about from whom (audit practitioner or another external assurer) the companies obtain sustainability assurance reports in order to enhance the credibility of their reports. There are some factors affecting the choice of assurance provider. They are company top management decisions and traditions, industry and country-related factors. Therefore Roger, Ann & Wai (2009) state that, 'the stakeholder orientation of a company's country of domicile with companies from stakeholder- orientated countries makes it more likely that a member of the auditing profession is chosen as their assurance provider' (Simnett et al. 2009).

Table 2: Certification Standards on Sustainability and Their Purposes

Name of the standard	Purpose
ISO 26000	Social Sustainability Certification Standard
ISO 9001	Quality Management Standard to Ensure Businesses Operates Efficiently
ISO 14001	Environmental Management Standards (Waste Management& Other Environmental Concerns)
OHSAS 18001	Occupational Health & Safety Management Standard Focuses onReducing the Risk of Costly Accidents and Comply with Legislation
ISO 50001	Effective Energy Management Systems Standards
ISO 22000	Food Safety Management Focuses on Management Food Safetyfrom Farm to Fork
ISO 31000	Risk Management Standards
ISO 20121	Sustainable Events Management Standards with the Goal of "Ensure an Environmentally Responsible Approach to Your Next Event"
ISO 22301	Business Continuity Management Standards with the Aim of Minimize the Impact of Disruptive Incidents.
ISO 9002	Model for Quality Assurance in Production, Installation and Servicing Standard
HACCP	Hazard Analysis and Critical Control Point -Food SafetyManagement Standard
GMP	Good Manufacturing Practice

3. METHODOLOGY

Study Design

We used annual reports of companies, unstructured interviews and findings from other countries to collect data. We designed checklists to compare data collected from annual reports and [usedAppendix-1?] to conduct unstructured interviews with practitioners.

Initially we carried out the study as a replication of a study done by Marx & Dyk (2011) done in South Africa in the year 2011. Later we carried out unstructured interviews to overcome the limitations mentioned by them in their study. The criteria and evaluation methods selected were based on the above mentioned study. Moreover, we used various other criteria based on their applicability to the Sri Lankan scenario. Also, unstructured interviews with key assurance practitioners were carried out to ensure the internal validity of the study.

Population and Sample

For the purpose of data collection we used both primary and secondary data sources. Primary data was collected through interviews and secondary data from the annual reports of the listed companies which include sustainability reports.

We have conducted unstructured interviews with sustainability assurance providers (such as audit firms) and sustainability reporting practitioners (such as management personnel of

companies). This helps to provide an overview of the sustainability assurance certification in Sri Lanka and how the practice is maintained.

The population consisted of 295 public listed companies in the Colombo Stock Exchange in the financial year 2014/2015. From this population we selected 78 sample companies which prepare sustainability reports. In obtaining the sample we ensured that companies from various industrial sectors were selected.

We conducted interviews of one to two hours duration in the later period with DNV, Ernst and Young and KPMG who are the big three sustainability assurance providers in Sri Lanka. We interviewed persons such as Audit Senior Managers, Managers and Country Head who are responsible for providing sustainability assurances. These interviews were unstructured and the questionnaire attached in Appendix 1 was used as a guideline for discussion. We recorded the discussions and took down notes to transcribe the discussion into the study. Refer Table 3 for more details of the interviews.

Table 3: Interview Summary

Name of Organization	Date & Time period	Designation
DNV GL – Sri Lanka	20 Oct 2016 (11.00am – 1.00pm)	Country Head
Ernst & Young	17 Oct 2016 (10.00am -11.00am)	Audit Manager
KPMG	12 Sep 2016 (3.00pm – 4.00a-pm)	Project Manager

Data Analysis

After the data was collected from interviews and annual reports, we developed the relevant criteria for data analysis. The criteria were developed mainly based on the objectives. The data collected was critically evaluated and analyzed based on the criteria. Primary data was mainly analyzed to get an overview of sustainability reporting and challenges in sustainability assurance development.

To analyze the secondary data, we planned to evaluate disclosures by the companies in the annual report, standards and guidelines adopted to provide those disclosures. A check list was developed based on the criteria and the data collected was recorded against the check list to facilitate data analysis.

Mechanisms to Assure the Quality of the Study

- **Dependability**
Dependability measures the consistency of measures used over time. If measures fluctuate over time, it will affect the reliability and validity of the research. Since the measures are replicated from the previous study and re-evaluated before applying them, we can ensure that the measure does not fluctuate over time. The content of sustainability reports was analyzed and amendments to the checklist were made to ensure timeliness and dependability of measures.
- **Credibility**
In order to ensure the truthfulness of the data included in this study, guidelines were obtained

for the field interviewing of the people in accounting practice before the interviews and more than one person took part in the interviews. Recordings were done throughout the interviews and all the participants took down notes and summarized them immediately after the interviews. When collecting data from annual reports, they were double checked against the information found in those reports. Further credibility was ensured since we collected data from annual reports prepared by the management who are accountable legally. Those sources helped to improve the credibility of the study.

- **Conformability**

Conformability tests the objectivity of the research. Since factual data is obtained from published reports it is free of the researcher's bias. Further, since the data is publicly available it cannot be manipulated by the researcher to suit his personal interests.

Interviews were done with three different practitioners employed in both audit firms and certified consultancies. Thereby conformability of research was ensured throughout the study. Triangulation was used to collect data from various sources such as published annual reports, unstructured interviews and the existing literature from various countries.

- **Replicability**

To ensure the feature of replicability of the study, the research was done based on the publicly available secondary data (published annual reports) and explicit the measurement criteria. Thus the study can be easily replicated by other researchers.

- **Transferability**

The findings can be generalized to the population since a purposive sample method was used to select the samples. Industry-wise conclusions can be generalized for the companies operating in the same industry. Since this leans more towards qualitative aspects of research, there is a limitation in that the results cannot be generalized beyond the sample population.

4. ANALYSIS AND DISCUSSION

Evolution of the Sustainability Assurance Practices in Sri Lanka

The hotel sector was the pioneers in the development of the sustainability concept in Sri Lanka. As in global developments, environment factor was the main impetus for the development of sustainability in Sri Lanka. In 1997 the Kandalama Hotel, which is one of Aitken Spence PLC's hotels, received the "Green Globe" award from the Environmental Community Service, UK, after a stringent environmental audit (Hulangamuwa & Ariyabandu, 2002)

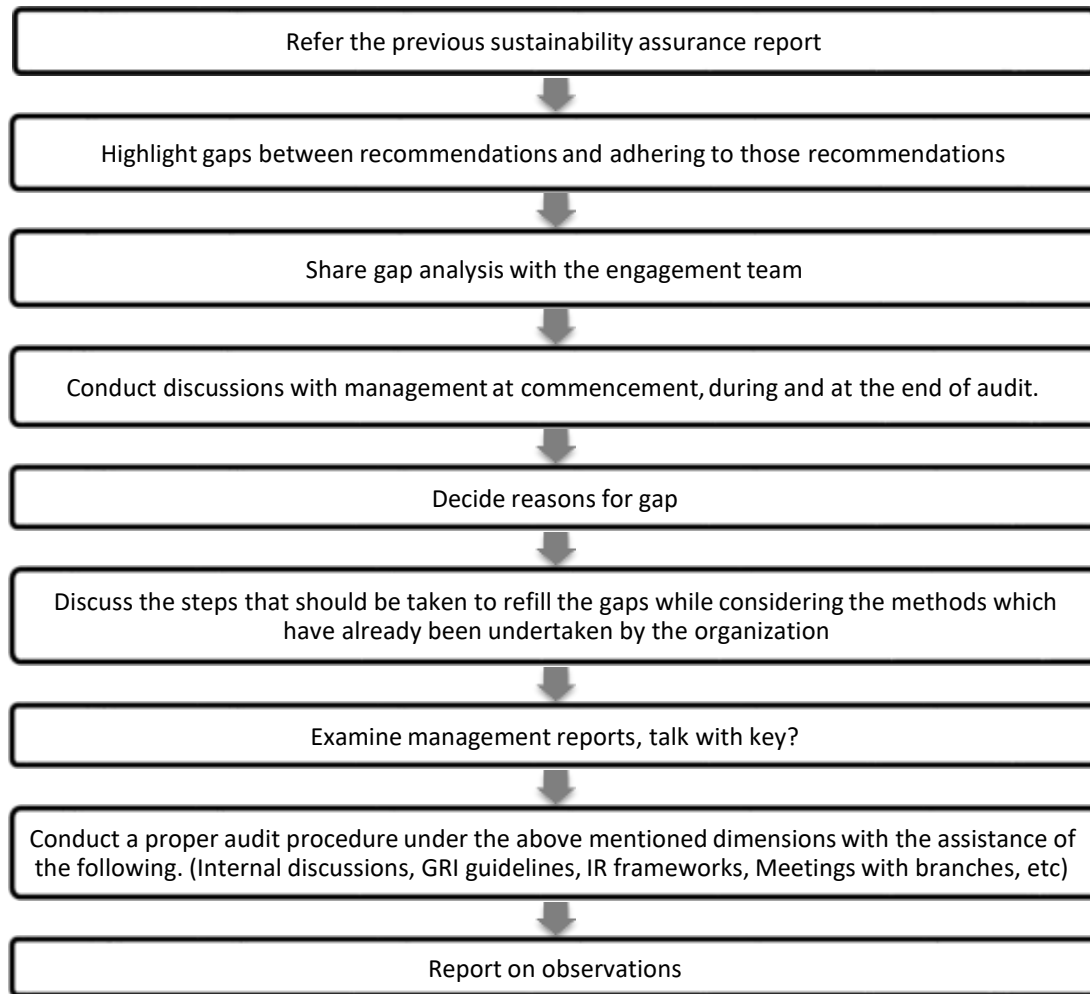
In Sri Lanka, the first sustainability report was published as a Social Report by Ceylon Tobacco Company in 2004 for the financial period 2002/2003. This report was independently reviewed by Bureau Veritas using the AA1000 standard (The Island.lk 2004). Although tobacco causes harm to people, they try to show how they reduce the damage through sustainability reports through which they provided information about the company to society.

Sustainability Assurance Procedures

Sustainability Assurance procedures adopted by various practitioners vary based on their internal models developed by the parent company. Given below is an example of

procedures used by Sri Lankan practitioners (DNV GL) (refer Figure 2):

Figure 2: Practices Adopted by DNV GL Sri Lanka



Sustainability Assurance Practice

We carried out this analysis to identify the background of sustainability assurance reporting in Sri Lanka, i.e., to understand about how many companies in Sri Lanka are following the accepted principles to report on sustainability and which reporting standard plays the dominant role in reporting (refer Table 4).

Table 4: Sustainability Reporting Guidelines Used

	No. of Companies	Percentage
GRI -G 4	50	64%
GRI- G 3.1	1	1%
Not following GRI	27	35%
	78	100%

Based on the findings we identified that above 50% of the companies that prepare sustainability reports are GRI followers. Among the GRI following companies except one company all the others follow the G4 guidelines, which is the latest version of GRI. Because of inadequate understanding and expertise available for companies to report on sustainability, GRI is helpful for them to report on sustainability at the initial stages.

Studies carried out in Malaysia in 2010 found that varieties of standards were used for assuring the sustainability reports. Standards such as the GRI, ACCA Sustainability reporting guideline, BURSA Malaysia CSR reporting guidelines as well as the Malaysian Silver book were used. Only one company of twelve applied GRI reporting guidelines whilst the others used it only as a reference. Most companies adopt the BURSA Malaysia guidelines (Sawani Mustafa & Zain 2010).

This situation is totally different from that in Sri Lanka, where 50% of the companies are adopting GRI. The study further found that most of the Malaysian companies are using BURSA guidelines since BURSA made CSR compulsory among public listed companies. But in Sri Lanka CSR reporting is not compulsory and there is no regulating body. Therefore Sri Lankan companies are using GRI and disclose information voluntarily.

Table 5 – Companies Obtaining Sustainability Assurance

Description	No. of Companies	Percentage
Independent assurance obtained	25	32.05%
No assurance obtained	53	67.95%
	78	100%

Based on the findings shown in the above table (Refer Table 5) the vast majority of companies, above 50%, have not obtained assurance reports from external assurance providers. Even though only 25 companies have obtained assurance, all of them have obtained independent assurance from external assurance providers rather than from internal parties. This improves the credibility of the information disclosed.

A study carried out in South Africa by Marx & Dyk (2011) found that only 35% of companies listed in the Johannesburg Securities Exchange which are measured in the Socially Responsible Investment (SRI) Index have obtained assurance in sustainability reporting. With 32%, in 2015 Sri Lanka reflects a situation similar to that in South Africa in 2012. Hence it is clear that compared to South Africa, Sri Lanka is still behind developments in sustainability assurance. This situation can be attributable to the early developments of Integrated Reporting in South Africa (Marx & Vanessavan 2011), which also provided a boost to sustainability assurance practices.

In Australia a study was carried out among 295 companies listed in the ASX 300 list of the sustainability assurance practices. It was found that 56% (167) of the firms had reported on sustainability assurance in year 2015. Out of the 167 companies only 40 companies (24%) had obtained independent assurance in sustainability reports. This is 13% of the total samples

selected for study (Bepari & Mollik 2016). The situation in Sri Lanka is better than in Australia where 32% of the companies obtain sustainability assurance. Sri Lanka is dominated by a Buddhist culture which teaches principles of protecting nature. This inherited behaviour of management might have led to better results in Sri Lanka compared to Australia.

In discussing these findings with one of the key persons working for sustainability assurance providers in Sri Lanka he explained the reason as follows:

Some companies are obtaining sustainability assurance only for the holding company which would cover the subsidiaries also. Therefore if the samples we have selected include the parent company and subsidiaries then the results might indicate that most of the companies don't have sustainability assurance. But in the real scenario the parent company's sustainability assurance can be applied to subsidiaries also. Therefore the result might be biased. For example, John Keels Holdings obtains sustainability assurance only for the holding company.

Further a practitioner expressed his experience as follows:

Sustainability assurance practice was adopted in Sri Lanka 10 years ago only and is still in the development stage. Therefore management is not aware of the importance of obtaining assurance and the contribution of top management to sustainability development. They consider sustainability to be a responsibility of the CSR division. Therefore the sustainability assurance reports obtained by companies are few in Sri Lanka.

Moreover the local companies do not consider sustainability reporting as an investment. They always think it will involve a cost to the company. But if they try to reduce resource consumption (e.g. water, energy, oil), in the process of manufacturing or providing services, it will automatically reduce the material cost of the process. In explaining this attitudinal issue, a practitioner stated that;

The main reason behind that is the bad attitude of local companies. Local companies do not think of sustainability reporting as an investment. They always think it will involve a cost to the company. But if they try to reduce resource consumption (e.g. water, energy, oil), in the process of manufacturing or providing services, it will automatically reduce the material cost of the process.

Industry Analysis

Next we analyzed which industries were keener to obtain assurance on sustainability reports than others. We selected companies covering certain specific industries for the research purpose. The findings are shown in the following table (refer Table 6):

Table 6: Industry Wise Analysis

Selected Industries	Total No of Companies in the Industry	No. of Companies Preparing Sustainability Reports	No of Companies with Assurance	Assured Companies as a % of Sample
Diversified Holdings	21	9	3	33%
Foot wear& Textile	6	2	1	50%
Hotels & Travels	42	12	1	8%
Beverage, Food& Tobacco	23	8	0	0%
Chemicals & Pharmaceuticals	12	5	0	0%
Health care	7	4	1	25%
Finance & Insurance	43	22	14	64%
Telecommunication	4	2	1	50%
Power and Energy	9	3	1	33%
Plantations	20	4	0	0%
Motors	6	1	1	100%
Manufacturing	40	3	1	33%
Services	8	0	0	0%
Trading	9	1	1	100%
Construction & Engineering	4	2	0	0%
Information Technology	2	-	0	0%
Investment Trusts	14	-	0	0%
Land & Property	20	-	0	0%
Oil Palms	5	-	0	0%
Total	295	78	25	

Finance Insurance Sector has a larger number of companies that have obtained sustainability assurance reports than other industries. Our sample covered only 64% in the industry. But there are 14 companies, which is around 51% percentage of the companies that obtained assurance (25).

Further, the number of companies that obtained assurance from the industry is above 60% of the number of companies preparing sustainability reports. The finance and insurance sector includes companies which are mainly in the banking and insurance sector. Therefore their negative impact on the environment and society is low. But they are keener to obtain assurance on sustainability information.

A study carried out in Portugal found that of 60 companies selected for study nine companies were selected from the financial sector (the third highest after the industrial sector and consumer

service sector). Of nine company's six companies had obtained assurance on sustainability reports in the year of 2011, which is 67%. Therefore findings from the study that finance and insurance sector companies are keener to obtain sustainability assurance can be justified based on the similar findings from Portugal (Gomes et al. 2015).

A possible reason could be that it is more convenient for the finance companies to submit sustainability reports than manufacturing companies or companies in other sectors. Because establishing initial infrastructure facilities and measuring the performance is easy for them. Thusmost of the financial institutions publish sustainability reports and obtain sustainability assurance.

One practitioner stated that

It's easy for financial institutions to prepare sustainability reports since their impact is low. Theirconsumption levels can be easily measured through branch-wise meters. And usage of energy source is only electricity for lights, air conditioners and computers.

He further stated:

This is not going to be easy hereafter. There is an evolving trend that financial institutions measure an indicator to show how green their money is. This trend is evolving after the frauds and money laundering activities which have created issues in society. Thus financial institutionsare taking action to ensure the cash deposited with them and handed to customers are used in asustainable way. This will make sustainability reporting in the finance sector difficult in future.

Table 7: Assurance Providers

Independent External Assurance Obtained Consisting of	No. of Companies	Percentage
Audit firms	23	92%
Other independent assurance providers/Specialist Consultant	2	8%
Assurance provided by certified firms	0	0%
	25	100%

As per Table 7, independent external assurance has been obtained mainly through audit firms, which is 92%, and only 8% assurance is obtained from other independent specialist consultants. This is similar to the situation prevailing in South Africa, where 83% of companies also have chosen audit firms to obtain assurance rather than specialist consultancies (Marx & Dyk 2011).

One possible reason for preferring audit firms is that it is easy for them to obtain both financialand sustainability assurances from audit firms since they are already familiar with them. But thispractice could question the quality of the assurance reports provided by audit firms in the sustainability information since they do not have expertise to provide sustainability assurance.

A specialist consultant from one of the leading sustainability assurance practitioners in Sri Lanka mentioned:

We are really costly. Our cost is more than double that of audit firms. It's because of the quality, time and effort we spend on it. If you see the depth of assurance opinion we provided you can easily understand the quality. We are worth that cost.

Furthermore, the specialist consultants are more costly (even more than two-fold) than audit firms and therefore for cost constraints some companies choose to go for audit firms. Further, since specialist consultants use international standards and procedures it is difficult for some companies to establish the required infrastructure to support sustainability audits.

Assurance Standards Used by Assurance Providers

The purpose of the analysis is to identify the assurance standard mostly used by assurance practitioners in Sri Lanka and the factors that influence the decision by users when choosing assurance standards. The findings of our study are given in the following table (Refer Table 8):

Table 8: Assurance Standards Used

Description	No. of Companies	Percentage
SLSAE3000 only	22	88%
AA1000AS only	3	12%

When companies obtained sustainability assurance, most of the assurance providers used SLSAE 3000 as the base to provide assurance. Of 25 companies which have obtained external assurance 23 opinions were based on SLSAE 3000. This is 88% of the total opinions provided. Only two assurance opinions, which are 12%, were based on the AA 1000 standards. Thus it is crystal clear that most of the assurance providers in Sri Lanka are using SLSAE 3000 to provide opinion.

When we discussed the reason with assurance practitioners we could not obtain a clear answer for this since they are familiar with the standards their firms are using but not with other standards since they are not relevant for them.

When we discussed with a practitioner about SLSAE 3000, who is using AA1000 he mentioned:

I don't know much about it. It's not relevant for us. I don't even look into it. Even our clients told us that they didn't want it and we provided the opinion based on AA 1000.

When we discussed with a practitioner from an audit firm he mentioned:

We are not familiar with AA 1000 since it's not relevant for us. We are relying on standards which are issued by the Chartered Institute of Sri Lanka. That's enough for us to provide assurance since most of the companies are receiving limited assurance. Not reasonable assurance.

Further, we noticed audits firms had used SLSAE 3000 to provide opinions and specialized

consultants are using AA 1000 to provide opinion. None of the practitioners have used both SLSAE 3000 and AA 1000 as the basis for opinion. This might be due to the reason that audit firms are familiar with accounting standards published by the Chartered Accountants of Sri Lanka for statutory audit purposes. Thus they prefer to use SLSAE 3000. Most of the specialist consultants operating in Sri Lanka are global firms and they prefer to use global standards such as AA 1000.

Another reason could be the influence of the clients since they are obtaining finance from foreign countries also. Therefore foreign investors are keen on sustainability information. Since foreigners are not familiar with SLSAE 3000 clients request the assurance practitioner to provide assurance based on AA1000 standards.

Studies carried out in South Africa give evidence that ISAE 3000 is the dominant standard used by practitioners (47.6%) for assurance on sustainability information with fewer practitioners (9.52%) adopting AA1000AS. However, it is encouraging that 19.05 percent of reports are issued on the basis of both AA1000AS and ISAE3000 (Marx & Dyk 2011).

The same situation prevails in Sri Lanka where 88% of the assurances are provided based on SLSAE 3000 which is the amended local version of ISAE 3000 standards. Since most of the assurance providers are audit firms (Refer Table 4) it is easier for audit firms to adopt another part of accounting standards rather than learning a new global standard.

Information Assured

The objective of this analysis is to study, out of the 78 sample companies we have selected for study, how many companies have obtained assurance on sustainability reports disclosed and information disclosed on the websites. The purpose of this analysis is to learn about which communication ways companies use to communicate the sustainability information and which is more convenient to the company and stakeholders. The findings are described in the following table (Refer Table 9)

Table 9: Sustainability Reporting Disclosure

Sustainability Report Disclosed	No. of Companies	Percentage
With annual reports	17	68%
As a separate report	5	20%
On the website	3	12%
	25	100%

We have noticed that most of the companies issue sustainability assurance reports along with their annual reports. Of 25 companies that obtained sustainability assurance 17 (68%) companies (68%) have issued them with their annual reports. Five companies have issued them as separate report. Only 3 companies have published them on the website. This is only 20% of the total assurance reports published. Thus it is clear that the more convenient mode is issuance with the annual report and publishing on the website is least

popular.

A study carried out in Malaysia found that 58% have incorporated their sustainability reports within the annual report and only 16% of the companies have published stand-alone reports. Other companies have used various other ways such as websites (Sawani, Zain & Darus 2010). A similar situation can be found in Sri Lanka where 68% of the companies publish sustainability reports along with their annual reports and only 20% of the companies publish stand-alone reports.

This is because when companies disclose information along with financial reports which are mandatory by law, sustainable reports also attract the attention of readers. Furthermore, it is a convenient and a clear mode for readers to understand non-financial aspects also (Sawani, Zain & Darus 2010)

Table 10: Assurance Obtained

Assurance Obtained on	No. of Companies	Percentage
Both Annual report and Sustainability report	25	32%
Only on Financial Information	53	68%
On information disclosed on website	0	0%
Total	78	100%

According to our findings (refer Table 10) none of the companies have obtained assurance on additional information disclosed on the website. All 25 assurances obtained were only for the sustainability assurance reports published with the annual reports. All other companies have obtained external assurance for the financial information only since it is mandated by law in Sri Lanka.

Even though websites play an important role in the information technology era for companies to communicate with stakeholders, companies do not understand the importance of ensuring credibility of information disclosed on the website. Since sustainability assurance is an emerging field in Sri Lanka we can expect improvements in the future.

Level of Assurance Obtained

The purpose of this analysis is to understand the credibility of the sustainability information disclosed. The level of assurance is provided by the external practitioners who use SLSAE-3000 as the base to provide opinion. Providing the level of opinion is not practised under AA-1000 assurance standards.

Under SLSAE 3000 two levels of assurance are provided. They are reasonable assurance and limited assurance (Chartered Institute of Sri Lanka 2010). Reasonable assurance is provided when the sustainability information can be validated to a reasonable level and there are no material misstatements. Limited assurance is provided when the practitioner is unable to validate the information to an acceptable level and there are possibilities of misstatements (Chartered Institute of Sri Lanka 2010). Under AA-1000 standards the practitioner indicates the opinion on six bases starting from neutrality and the areas of improvement needed. Five main areas measured under AA 1000 are as follows (Accountability.org 2015).

- **Inclusivity:** Inclusivity means the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability, i.e., engagement with key stakeholders to identify the sustainability challenges and material issues was collected, prioritized and fairly reflected in the report.
- **Materiality:** Materiality determines the most relevant and significant issues for the shareholders and the company, i.e. to check whether the issues and aspects which are important/what matters to internal and external stakeholders are included in the report.
- **Responsiveness:** Responsiveness means to respond to the issues and impacts in an accountable way, i.e., whether the report expresses proper governance practices, policies and management systems exist to respond properly to key stakeholder concerns are considered here.
- **Reliability:** Whether the data and information stated in the reports are accurate and reliable.
- **Completeness:** Whether the report made a fair attempt to disclose general and specific standard disclosures and whether the company gave a reasonable reason for not disclosing any information.
- **Neutrality:** Disclosures related to sustainability issues are reported in an unbiased way (both positive and negative impact are disclosed.) (Accountability.org 2015).

Table 11: Level of assurance obtained

Level of assurance obtained	No. of Companies	Percentage
Reasonable assurance	0	0%
Limited assurance	23	92%
Assurance based on AA-1000	2	8%
Total	25	100

As indicated in Table 11, none of the sustainability reports were of adequate quality to obtain reasonable assurance. All 23 companies which had obtained sustainability assurance reports under SLSAE 3000 had got only limited assurance. This is 92% of all the sustainability assurance reports provided. This might be because sustainability information is mostly subjective unlike financial information. Further, information on this area is discussed in the latter part of the study.

Two companies, which form 8% of the companies that obtained assurance had got assurance under AA-1000 standard. A company in the motor engineering sector had obtained a “Good” opinion on all five bases (neutrality, inclusivity, materiality, reliability, and responsiveness) except completeness, which was stated as “Acceptable”. A leading diversified holding company in Sri Lanka obtained a “Good” opinion on all 5 bases (neutrality, inclusivity, completeness, reliability, responsiveness) except materiality, for which “Acceptable” was stated. Since the standards vary the comparability of the reports was affected.

Main Obstacles in the Development of Sustainability in Sri Lanka

- **High cost**
Sustainability reporting and obtaining assurance have become costlier which some startups cannot afford to adopt. Further, it is costlier for companies to support non-financial assurance audits and get the sustainability reports assured compared to financial information.
- **Lack of awareness**
Top management doesn't have enough awareness and considers it as a cost making process rather than an investment. Further top management considers it a responsibility of the CSR department instead of the company as a whole.
- **Sluggishness**
Slowness of companies in adapting to global changes and improvements.
- **Lack of systems and procedures**
Companies don't have proper systems in place to obtain data for non-financial information and prepare sustainability reports.

The Future of Sustainability Reporting: Mandating Sustainability Assurance in Sri Lanka

We obtained the opinions of practitioners on whether it was possible to mandate sustainability assurance in developing countries like Sri Lanka. Some of their suggestions are discussed below:

One practitioner from a specialist consultancy firm told us that:

It's not required to mandate sustainability assurance for all companies. Instead companies listed in the stock exchange should obtain sustainability assurance certifications because they are funded by public money. Companies' performance will be decided not only by financial information but also by non-financial information. Therefore those companies should prove that they are concerned about corporate responsibility towards society. Through that, the long-run sustainability of those companies will be ensured. Otherwise, investment advisers cannot guarantee the opinion given to the investors.

Moreover, he mentioned:

There are some large-scale companies which are not listed in the stock market, which also should be asked to prepare sustainability reports since they make a huge impact on the economy. For example, we can consider key players in the following industries -Tea industry, Apparel industry...etc. Further the Securities and Exchange Commission (SEC) has responsibility towards investors about the companies listed under them. Therefore CSE can take action to mandate sustainability assurance in the above mentioned areas in Sri Lanka.

If sustainability reporting/assurance is to be mandated, the following suggestions should be considered:

- 1) A reasonable time frame should be given (average of three years). Sustainability assurance practice is a long-run investment. Companies should be given enough time to develop the required infrastructure facilities to practise sustainability reporting and obtain sustainability assurance.
- 2) Government should arrange financing facilities for SMEs which are listed in the stock exchange since this is a high cost investment, which some SMEs might not be able to afford.
- 3) Regulate sustainability assurance standards (adopt global standards) and develop basic requirements (adequate qualification and knowledge on GRI) for sustainability assurance practitioners to ensure the quality of sustainability assurance reports.
- 4) Require the top management to take the responsibility and certify that the sustainability reports are reliable and accurate, which might lead top management to get involved in reporting.

One practitioner from an audit firm suggested:

Corporate Social Responsibility is a voluntary initiative. It begins where the law ends and is entirely motivated by the desire to maintain competitiveness and maximize the effectiveness of management and company resources. It is not dictated by laws, but rather by the requirements of society and consumers. Sustainability reporting is an initiative which comes from the business; it comes from the inside, not from outside like from governments. Therefore that cannot be expected from the government in a developing country like Sri Lanka.

Challenges in Non-Financial Information Audits

The following challenges were mentioned by audit practitioners while conducting audits and providing assurance on non-financial information.

There is guidance such as ISAE 3000 for practitioners to follow when performing assurance engagements on non-financial information but there are a number of challenges and issues considered by Ernst and Young. (Ernst & Young, 2013)

- **Independence**
Stakeholders want credible information they can trust. An expert providing an independent opinion on the reliability of information helps to reinforce trust. Independence is therefore an essential characteristic of assurance engagements. Ernst and Young as practitioners have clear standards to follow in terms of independence. However, meeting independence requirements can be challenging.
- **Skills, experience and training and the need for specialist knowledge**
ISAE 3000 addresses certain quality aspects of external assurance such as the need for appropriate specialist knowledge and skills to be available in the assurance team. As information demands change, EY might be asked to carry out different types of assurance engagements that might be outside their normal skill sets. For example, they have expertise in performing quantitative assessments of information but are less likely to have experience in performing assurance engagements on qualitative information like sustainability assurance.

- **Quantitative versus qualitative information**
Ernst and Young might have lots of experience in auditing Financial Statements but providing external assurance reports on non-financial information like sustainability assurance brings different challenges. For instance, there is no system of double entry as in the case of financial information, which can provide an overall control mechanism. Analysis and measurement tools can be immature compared to accounting software.
- **Suitability of criteria and obtaining sufficient appropriate evidence**
It might be difficult to find suitable criteria by which to measure the information provided in the report. According to ISAE 3000, without suitable criteria, Ernst and Young are unable to perform the engagement. Quantitative data tends to have clear criteria to measure against. However, non-financial information might be qualitative in nature, and suitable criteria might therefore be difficult to identify.
- **Identifying and understanding the intended users**
ISAE 3000 emphasizes the importance of understanding who the intended users are and their needs but defining and managing users might be difficult, particularly in circumstances where the reporting information is going to be freely accessible on an entity's website.
- **The control environment**
While in financial reporting the management assessment of internal controls and its external examination as part of an audit has become part of standard practice, the procedures over the preparation of non-financial information are comparatively less formalized.

5. CONCLUSION, LIMITATIONS AND FUTURE DIRECTIONS

The report mainly focuses on providing an overview of sustainability assurance practice in Sri Lanka among the public listed companies. We collected data for the study through various sources such as unstructured interviews, published annual reports, and websites.

Through the study, we analyzed how sustainability assurance is practised in Sri Lanka. In response to increasing stakeholder expectations and to discharge their fiduciary duty managements report on their corporate, social and environmental performance in addition to general financial reporting. The research discusses sustainability assurance obtained by the companies in order to increase the credibility of CSR reports published.

The study found that a lesser number of Sri Lankan companies (only 32%) had obtained independent assurance on sustainability reporting, that is, only 25 companies of the 78 companies we selected from the population of sustainability reports publishers. Of the sustainability assurance providers 23 (92%) companies obtain assurance reports from audit firms and only two companies (8%) obtain sustainability assurance from certified consultants.

Further, we found that the majority of assurance providers prefer to use the accountancy-focused assurance standard ISAE/SLSAE 3000 rather than the accountability based AA1000AS in

conducting the assurance assignments. Especially audit firms use SLSAE while certified consultants use AA 1000 global standards. Further, most of the Sri Lankan companies use GRI reporting guidelines since there is no specific standard in Sri Lanka to provide guidance.

Moreover, the study found that companies in the financial sector are keener to publish sustainability reports and obtain sustainability assurance, since it is easier for them to collect data and the majority of the assurance statements are prepared under a limited assurance engagement with the focus on data accuracy rather than on broader social accountability. This might be because sustainability information is mostly subjective rather than financial.

Additionally, the study compared the findings with researches carried out in other countries and carried out unstructured interviews to obtain explanations of the findings. These assisted in ensuring the validity and credibility of the studies. We also obtained suggestions from assurance providers to develop guidelines on regulating sustainability reporting. Future studies can be carried out in the following areas: evaluate the quality of sustainability assurance opinions provided by the assurance providers, and evaluate the sustainability of audit procedures carried out by different practitioners.

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APPENDICES

Interview Questions

- 1) Can you please brief us on the evolution of the sustainability assurance practices in Sri Lanka? (specifically about Ernst & Young in Sri Lanka and its history)
- 2) Brief us on how e sustainability auditing and assurance practices are carried out.
- 3) In your opinion why are companies in developing countries less interested in sustainability assurance compared to developed countries?
- 4) What are the challenges faced when auditing [assuring?] non-financial information?
- 5) Based on the information processed so far by us, most of the companies in Sri Lanka obtained limited assurance. What are the factors mainly contributing to this?
- 6) What are the practices expected from the corporates to provide reasonable assurance?
- 7) If the Sri Lankan government decides to mandate sustainability assurance (similar to South Africa) what challenges would companies, government, and the Chartered Accountants Sri Lanka face?
- 8) What are the main factors which hinder the development of sustainability assurance in Sri Lanka?
- 9) Suggestion to overcome those challenges?
- 10) Most of the companies go for audit firms to obtain assurance rather than other assurance providers. Are there any specific reasons for this?

- 11) Even though SLSAE 3000 is not specific and comprehensive enough to conduct assurance practices, most of the assurance providers in Sri Lanka are using that. What are the reasons?
- 12) Even though finance and assurance companies have less impact on the environment, the finance industry is the one consisting of more companies who had obtained assurance. What factors contribute to this tendency?