

AFAANZ PROJECT REPORT

(1) Name, Position, Contact Details for each applicant

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(2) Project Title:

The demand and consequences of assurance of mandatory extended external reporting

(3) Updated Project Summary (500 words) including any variations between the project undertaken and the original application

In the original application, we aimed to collect data on the assurance of extended external reporting (EER) from European countries and expected to spend \$7,500 AUD on data collection and research assistance. We ended up being awarded \$7,031 AUD from the AFAANZ Grant. The grant awarded allowed us to pursue a topic area that is consistent with our original application, and at the same time, made us to reconsider how to make the best use of this funding.

Therefore, consistent with our application, we decided to examine the impact of the mandatory EER requirements on subsequent assurance choices, as well as the consequences of assurance, both mandatory and voluntary, for the quality of reporting. This is in light of the Non-Financial Reporting Directive 2014/95/EU. While the disclosure of EER is mandatory across all member states, the requirements of EER assurance vary in different countries. We aim to enhance our understanding about the social benefits of EER assurance.

Our goal is to construct a sample of large listed entities of all European member states. There are about 8,000 listed European companies (World Bank, 2021). In the original application, we plan to randomly select ten percent of the relevant listed companies covering the financial years 2015 to 2019 (i.e., 2 years prior and 3 years after the effective date of the Directive). Considering the grant funding is slightly lower than requested, in order to make the best use of the AFAANZ funding, we applied an alternative approach when selecting our sample. Instead of a random selection approach on the entire population, we first categorized the EU countries into the following three groups based on the EER assurance requirements: 1) countries with the minimum requirement (the statutory auditor must check whether the non-financial statement has been provided in the management report or in a separate report, but there is no mandatory independent assurance); 2) countries with additional requirement (the statutory auditor must check if the provided information is consistent with the financial statements in addition to the minimum requirement, but there is no mandatory independent assurance); 3) countries with mandatory independent assurance. We then selected one country from the compulsory assurance group, and another country from the non-mandatory

assurance group as a control group. Consequently, we collected data on all listed firms from 2015 to 2019 in Spain (mandatory independent assurance group) and the Netherlands (non-mandatory independent assurance group). The original sample is extracted from the Compustat Global dataset.

For each observation, we manually collected information on the assurance including the assurance status, i.e., whether the EER is assured or not, the assurance provider, assurance level, the assurance standards used, signature date and jurisdiction etc. In addition to the original application, we extended the coding to ESG information so as to construct a reporting quality metric. Also, additional work includes investigating the national reporting/assurance standards in Spain and the Netherlands, respectively, and translating non-English websites/reports to English. We ended up having a total of 1,367 observations.

(4) Funds Granted

\$7,031 AUD

(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained

We spent \$7,031 AUD (approximately \$50 AUD per hour * 20 hours per week * 7 weeks) on data collection by recruiting a research assistant from UNSW Sydney. The research assistant's responsibilities included searching and keeping a record of the specific EER reporting standards and EER assurance standards in Spain and the Netherlands, respectively, identifying and downloading all relevant EER reports for the sampled listed firms in Spain and the Netherlands covering the financial years from 2015 to 2019, reading through the annual reports and EER reports to identify disclosures relating to EER information and EER assurance, and coding the relevant information in a spreadsheet (covering 18 individual items for each observation).

(6) Outcomes, for example, working papers, presentations and publications (give full details, including abstracts)

We are working on the first draft of working paper, which we aim to send to future conferences such as AFAANZ and ISAR.

Abstract:

Extended external reporting (EER) on non-financial and sustainability information and the assurance of that information has seen an increased demand over the past two decades (KPMG, 2020). Assurance provides credibility to EER and is therefore an important tool to enhance the value of EER (Simnett, Vanstraelen & Chua, 2009). It has been difficult to separate the demand for EER assurance from reporting since both EER disclosure and assurance were voluntary in most countries. A recent regulatory requirement in the EU (Directive 2014/95/EU) provides an appropriate setting to investigate the demand for assurance in countries where EER assurance is voluntary but reporting is mandated. Further, this paper investigates the economic consequences of EER assurance for countries where EER assurance is mandatory. This can help to disentangle whether assurance per se has economic

consequences, or whether there is information in the voluntary choice of assurance (Lennox & Pittman, 2011). Using a sample of 1,369 listed-firm observations in Spain and the Netherlands covering the financial years from 2015 to 2019, we provide empirical evidence of the demand for assurance when the signalling effect from EER is diminishing once EER is mandated (Lys, Naughton & Wang 2015). We document a significant increase in the level of EER assurance for large public-interest-entities post the effective year of the EU Directive in Spain, and a significant increase in having the entire EER report assured rather than partially assured.

(7) Future Intentions for this Project (give full details)

a. Conference submissions: AFAANZ 2023, ISAR 2023

b. Journal submissions: ABDC A*/A journals

c. Grant applications: We applied for the Accounting Foundation Engaged Research Grant awarded by the University of Sydney in 2021. We aim to collect more observations across European countries with the number of firm-years greater than 300 over the period 2015-2020 so as to enhance the scope and the contribution of the study.

d. Projects: N/A

(8) Summary of Outcomes and Benefits

To practice: In practice, user demand for independent, external assurance on EER such as integrated reporting is growing. There has been a steady increase (from 45% to 51% for N100 companies in 2017–2020) in the percentage of companies investing in independent assurance of EER (KPMG, 2020). Findings of this paper inform companies and audit practitioners about the demand for assurance on EER (when the reporting is mandated) and the economic consequences of voluntary versus mandatory assurance on EER thereby, providing insights into whether assurance is valuable due to the signal it provides about the credibility of EER, or whether it is valuable for improving the quality of EER.

To standard setters and regulators: The International Auditing and Assurance Standards Board (IAASB) (2019) has established an EER Task Force to ensure consistent and appropriate application of the International Standard on Assurance Engagements 3000 (Revised) to EER assurance engagements. With both EER and assurance on EER being voluntary in most countries, the EU countries' policies on EER and assurance provides an experimental field to study the effect of EER assurance. A number of recent proposals highlight the interest of regulators to make assurance on EER mandatory (e.g., the proposal of Corporate Sustainability Reporting Directive of the EU, or the U.S. SEC's proposal on climate disclosure). Hence, our has the potential to contribute significantly to policy makers in Australia and globally who are formulating policies on EER in view of the surging demand.