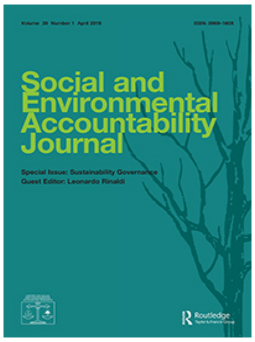

Social and Environmental Accountability Journal

ISSN: 0969-160X (Print) 2156-2245 (Online) Journal homepage: www.tandfonline.com/journals/reaj20

Two Versions for the Same Story: Restatements and Assurance of Sustainability Reporting

Nicolas Garcia-Torea

Mercedes Luque-Vílchez
Universidad de Burgos

https://doi.org/10.1080/0969160X.2019.1567034

Two Versions for the Same Story: Restatements and Assurance of Sustainability Reporting

"Corporate Social Responsibility Assurance and Reporting Quality: Evidence from Restatements." B. Ballou, P.-C. Chen, J. H. Grenier, and D. L. Heitger, *Journal of Accounting and Public Policy*, 2018, 37(2), pp. 167–188

"Creating Legitimacy for Sustainability Assurance Practices: Evidence from Sustainability Restatements." G. Michelon, D. M. Patten, and A. M. Romi, *European Accounting Review*, 2018, pp. 1–28. DOI:10.1080/09638180.2018.1469424

Hiring assurance services is becoming a common practice among firms that publish sustainability reports nowadays, with 67% of G250 companies doing so (KPMG 2017), compared to 46% of G250 firms that did it at the beginning of the 2010s (KPMG 2011). As a consequence, the assurance of sustainability reporting has been subject to growing academic attention to understand this practice, as well as the development of the market for this service (O'Dwyer and Owen 2005; Simnett, Vanstraelen, and Chua 2009; O'Dwyer, Owen, and Unerman 2011; Vaz Ogando, Ruiz Blanco, and Fernandez-Feijoo Souto 2018). Both Ballou et al. (2018) and Michelon, Patten, and Romi (forthcoming) contribute to this line of research by studying the relationship between sustainability reporting assurance and sustainability reporting restatements. Restatements consist of a disclosure in a report that indicates that either the previous report had an error or omission, or that there have been methodological changes that required to recalculate the data that was previously reported (KPMG 2011, 2013).

The two papers use a quantitative methodology to analyse the relationship in a sample of companies covered by the KPMG sustainability reporting surveys of 2011 and 2013 (Ballou et al. 2018) and in a sample of US S&P500 between 2010 and 2014 (Michelon, Patten, and Romi 2018). Both studies depart from the premise that, in contrast to financial reporting, restatements are a positive sign in the field of sustainability reporting due to the less-developed stage characterising this field. They found that assured reports are more likely to contain restatements. However, each paper provides a different explanation for this link. On the one hand, Ballou et al. (2018) study this issue to disentangle the consequences of assurance and consider restatements as a sign of sustainability reporting quality that is enhanced through assuring reports. On the other hand, Michelon, Patten, and Romi (2018) focus on the factors that promote the assurance market from a more critical and theoretically informed perspective. Based on the theory of professionalisation (Abbott 1988), they argue that assurance providers use restatements as a way to legitimise their work in order to maintain and expand their share in the emergent assurance market. In line with this argument, they also found that the strength of the association is higher for error than for non-error restatements because this first type of restatements represents a more effective legitimating tactic since it reduces the risk of disclosing inaccurate information.

Additionally, both papers study the role of the different type of assurance providers, distinguishing between accounting firms and consultants. They argue that the different skills and backgrounds of each provider type shape whether and why their assurance services lead to restatements. Ballou et al. (2018) found that the likelihood of a report providing error or methodological restatements is higher when it is assured by an accountant provider. The authors suggest that this result is driven by the fact that accountants are more concerned with accuracy as a consequence of their experience in financial accounting; thereby making them more capable of identifying error restatements and suggesting non-error restatements. By contrast, Michelon, Patten, and Romi (2018) showed that the report is more likely to contain methodological and non-material restatements when consultants assure it than when accounting firms do that. The latter are subject to stronger standards about materiality when dealing with financial information and this background seems to be translated to the field of sustainability report assurance. The authors argue that the difference in the type of restatements between accountants and consultants indicates that each of them highlights their different expertise to obtain legitimacy and to compete in the market of assurance services.

To extend their analysis, Ballou et al. (2018) also studied the timeliness to issue restatements. Their results show that assurance providers are more likely to detect error in recurring engagements rather than in the first one. Nonetheless, they are related to non-error restatement in all periods, suggesting that they have a constant association. When analysing the results for each type of assurance provider, accounting firms, as compared to consultants, identify error restatements sooner and prevent subsequent report errors. Therefore, Ballou et al. (2018) concluded that accountants are more competent than consultants in performing assurance services.

Finally, Michelon, Patten, and Romi (2018) offer an additional and interesting analysis that addresses one of the limitations pointed out in Ballou et al. (2018)'s study: the consideration of the materiality of restatements. The authors categorised restatements with a difference under 5% between the restated figure and the previously reported one as non-material. Their results indicate that assurance is related to the non-material restatement, which cast doubt on the need of these restatements; hence suggesting that they are used as legitimating strategy of assurance providers to magnify the value of their work.

All in all, both papers make relevant contributions to previous literature on sustainability reporting assurance. They provide empirical evidence and compelling theoretical arguments that could explain the association between assurance and restatement. Their different explanations for the positive relationship between those two elements might be due to the perspective of each study. Ballou et al. (2018) follow a mainstream approach and claim that restatements demonstrate higher sustainability reporting quality that is improved through assurance, particularly, when this service is provided by accounting firms. In contrast to this, Michelon, Patten, and Romi (2018) take a more critical approach, as well as a more theoretically based framing. They argue that assurance providers use restatements as a tool of legitimation and competition in the assurance market and question the usefulness of restatements in certain situations. Apart from their relevant contribution, the review of both papers was quite insightful. This shows how different authors can make sense of their findings using distinct arguments and thereby provide different versions for the same story.

References

Abbott, A. 1988. *The System of Professions: An Essay on the Division of Expert Labor*. Chicago, IL: University of Chicago Press.

Ballou, B., P.-C. Chen, J. H. Grenier, and D. L. Heitger. 2018. "Corporate Social Responsibility Assurance and Reporting Quality: Evidence from Restatements." *Journal of Accounting and Public Policy* 37: 167–188.

KPMG. 2011. *KPMG International Survey of Corporate Responsibility Reporting 2011*.

KPMG. 2013. *The KPMG Survey of Corporate Responsibility Reporting 2013*.

KPMG. 2017. *The KPMG Survey of Corporate Responsibility Reporting 2017*.

Michelon, G., D. M. Patten, and A. M. Romi. 2018. "Creating Legitimacy for Sustainability Assurance Practices: Evidence from Sustainability Restatements." *European Accounting Review*. doi:10.1080/09638180.2018.1469424.

O'Dwyer, B., and D. L. Owen. 2005. "Assurance Statement Practice in Environmental, Social and Sustainability Reporting: A Critical Evaluation." *The British Accounting Review* 37: 205–229.

O'Dwyer, B., D. Owen, and J. Unerman. 2011. "Seeking Legitimacy for New Assurance Forms: The Case of Assurance on Sustainability Reporting." *Accounting, Organizations and Society* 36 (1): 31–52.

Simnett, R., A. Vanstraelen, and W. F. Chua. 2009. "Assurance on Sustainability Reports: An International Comparison." *The Accounting Review* 84 (3): 937–967.

Vaz Ogando, N., S. Ruiz Blanco, and B. Fernandez-Feijoo Souto. 2018. "The Assurance Market of Sustainability Reports in Spain: An Analysis from the Demand Perspective." *Revista de Contabilidad-Spanish Accounting Review* 21: 48–62.

Nicolas Garcia-Torea
Department of Economy and Business Administration, University of Burgos, Burgos, Spain
ngtorea@ubu.es

https://doi.org/10.1080/0969160X.2019.1567036