

Sustainability assurance: factors to consider

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Background

In its recent paper 'Sustainability: the necessary conditions for the reporting of high-quality information'¹ ICAS explored:

- (i) Why the current model is not serving the public interest.
- (ii) What conditions are necessary to ensure high-quality reported information?

That exploration included the increasing demand from stakeholders, including investors, for greater transparency and accountability from corporates as to how they are embedding sustainability into their operations and the way in which this is reported. The IFAC 'State of Play'² publication demonstrated that there is considerable demand for external assurance on sustainability-related disclosures. This is only likely to increase as requirements for mandated disclosures on aspects of sustainability, such as climate change, continue to grow apace in various jurisdictions.

This paper explores the following areas as part of the need for reliable and credible sustainability-related information:

- i. What is assurance?
- ii. What are the requirements for providing assurance?
- iii. Sustainability assurance: the key issues.

1. ICAS Sustainability: the necessary conditions for the reporting of high-quality information'

2. IFAC The State of Play

Executive Summary

The demand for external assurance on sustainability-related disclosures already exists and is set to increase significantly as requirements for mandated disclosures on aspects of sustainability, such as climate change, continue to grow apace. Furthermore, some jurisdictions are mandating the provision of assurance on certain disclosure requirements.

The likelihood for assurance to be provided over sustainability-related information will depend, at least in part, on the organisation's attitude to sustainability and the extent to which it is embedded in an organisation's culture. This behaviour and attitude should be led by the board and senior management and pervade all levels of the organisation.

Given recent developments in sustainability reporting standards, there is an urgent need for a globally recognised assurance standard on sustainability-related information.

The International Auditing and Assurance Standards Board (IAASB) is well placed to meet that need. Some stakeholders use the term ESG (Environmental, Social and Governance), when referring to sustainability-related information. The ICAS preference is for the IAASB to align with the use of the term "Sustainability" by the International Sustainability Standards Board (ISSB) and by the European Commission in its proposed Corporate Sustainability Reporting Directive (CSRD).

In the absence of any mandatory requirements for external assurance, boards need to determine where the benefit to stakeholders, including shareholders, of having such assurance would outweigh the related costs. Stakeholders need to have confidence in the reliability of information that is reported by the company, and this needs to be taken into account by the board, in addition to its own needs, in determining which information should be subject to assurance by an external party.

As the market in sustainability-related assurance continues to grow, there will be a need for a consistent regulatory framework to ensure that all sustainability-related assurance providers are subject to appropriate regulations and standards. This includes the need for all such providers to be subject to high-quality ethical (including independence) and quality management standards. Each jurisdiction will of course have its own approach to achieving this, but a level regulatory playing field is essential in the public interest.

Whilst there appears to be greater clarity amongst stakeholders as to what is meant by "reasonable assurance" this does not appear to be the case with regards to "limited assurance." This is not a new issue but is one that has become more significant given the current prevalence of "limited assurance" engagements on sustainability-related information. The IAASB may need to revisit the definition of "limited assurance" as its current spectrum, ranging from "not inconsequential to less than reasonable", is perceived by some as diluting the benefits of obtaining limited assurance. It is appreciated that this may need to be a longer-term project for the IAASB that could be informed by academic research. ICAS explored this area in its 2013 'Balanced and Reasonable'³ discussion paper on the provision of positive assurance on management commentary.

There is increasing demand for sustainability-related information to be subject to a "double materiality" assessment that considers both the impact of, and the impact on, the organisation. Traditional financial reporting frameworks focus on the latter, whereas the Global Reporting Initiative (GRI) standards require consideration of both an entity's impact on economies, society and the

environment as well as matters that would substantively influence the assessments and decisions of stakeholders (including, but not limited to, investors). The subject of materiality, therefore, needs to be considered when producing a globally accepted assurance standard on sustainability-related information, that will meet the needs of a broad group of stakeholders.

The suitability of criteria for an assurance engagement is independent of which type of assurance engagement is to be performed. If criteria are deemed unsuitable for a reasonable assurance engagement, then they are also not suitable for a limited assurance engagement. This is an important point that sometimes appears overlooked in the debate on assurance on sustainability-related information.

Whether the auditor should be permitted to provide the assurance service on sustainability-related information is causing considerable debate in certain jurisdictions. Given the auditor's knowledge of the business and its operations, it would appear appropriate to allow an option permitting the auditor to provide this assurance service.

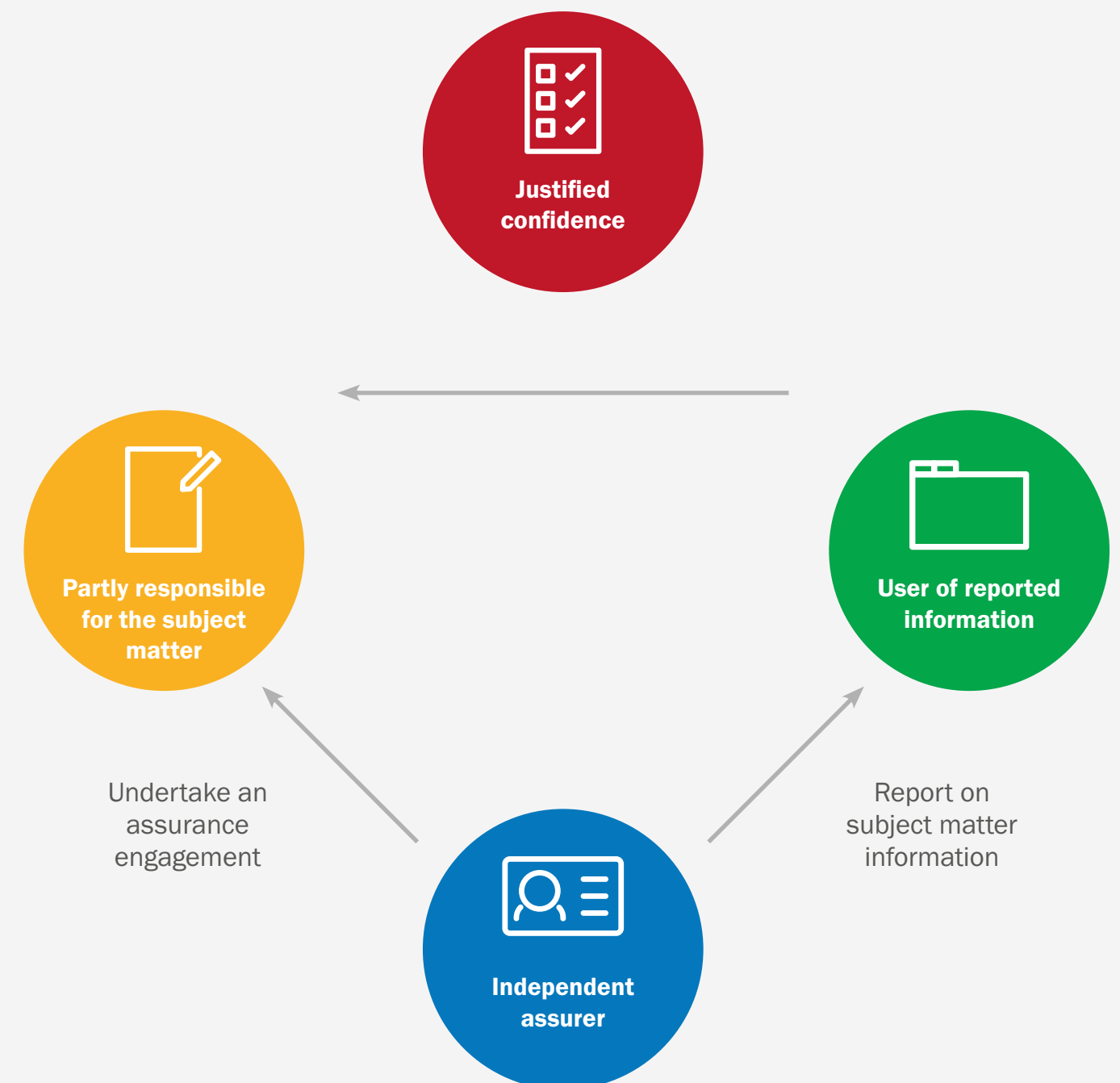
What is assurance?

In summary, the purpose of an assurance engagement is to enhance the confidence of users in reported information. This is illustrated in the diagram on page 9. The International Auditing and Assurance Standard Board (IAASB)'s definition of an assurance engagement can be found in the IAASB's Glossary of Terms⁴.

To enable users to have this enhanced confidence an independent assurer normally has to obtain sufficient appropriate evidence to allow them to express an opinion on whether the information reported conforms to an accepted reporting framework or set of criteria. An assurer would normally be an individual or firm with expertise in undertaking assurance engagements, with appropriate knowledge of the subject matter being reported on. They should also be independent of the entity on which they are reporting to the extent that the objectivity of their report would not be questioned.

To obtain sufficient and appropriate evidence will involve the assurer undertaking procedures to support their opinion. In summary, the assurer will need to assess the risks of material misstatement (risk assessment procedures) and then perform additional procedures to respond to those risks to reduce the risk of issuing an inappropriate opinion.

Finally, the assurer will issue a report to the intended audience, containing the opinion and a description of the nature of the engagement.



What are the requirements for providing assurance?

Governance and the culture of the organisation

The demand for external assurance on sustainability-related disclosures already exists and this is set to increase significantly as requirements for mandated disclosures on aspects of sustainability, such as climate change, continue to grow apace. As yet, in the UK there is no mandatory requirement for such disclosures to be subject to assurance. High-quality assurance can, nonetheless, play a valuable role in creating and maintaining trust. It adds value to information as it provides confidence to users that they can rely on the information provided. However, as discussed in the previous paper: ‘Sustainability: the necessary conditions for the reporting of high-quality information’⁵, the provision of high-quality assurance does not exist in a vacuum, there are various other factors that ultimately impact the ability to provide high quality-assurance.

The ability for assurance to be provided over sustainability-related information will depend, at least in part, on the organisation’s attitude to sustainability and the extent to which it is embedded in an organisation’s culture. This behaviour and attitude should be led by the board and senior management and pervade all levels of the organisation. ICAS recognises in its ‘The Power of One’ initiative⁶ the important role that organisational culture plays.

In the absence of any mandatory requirements for external assurance, boards need to determine where the benefit to stakeholders, including shareholders, of having such assurance would outweigh the related costs. Stakeholders need to have confidence in the reliability of information that is reported by the company, and this needs to be taken into account by the board, in addition to its own needs, in determining which information should be subject to assurance by an external party. Internal audit may provide considerable assurance on

various aspects of a business’ operations, its internal controls and governance and the effectiveness of its risk mitigation strategies as well as highlighting areas for further improvement. Whilst this may be adequate for certain matters, for others, the directors may believe that external assurance is required. The decision then is whether the report should be intended for use by the board only or made publicly available to shareholders and to other stakeholders. That published reports are often currently addressed to the board is unlikely to be sustainable going forward and such reports are likely to be addressed, at the very least, to shareholders.

Where do the directors get their assurance from?

Boards get assurance from many sources. In its 2015 paper ‘Towards Transparency’⁷ ICAS proposed the use of an assurance matrix when considering the nature of assurance that a board would require over reported key performance indicators (KPIs). That approach could equally apply to consideration of the nature of the assurance that would be required over sustainability-related information. As shown in the table below, the paper suggested five illustrative sources of assurance that might be obtained over each KPI which audit committees/ boards may wish to tailor, along with their descriptions, to the individual company.

Sources of assurance

High-level review	Management Verification	Independent internal assessment	Independent external assessment (private report)	Independent external assessment (public report)
Internal scrutiny with some enquiry but no reliance on internal controls or formal reporting process other than to the audit committee/ board	Management established controls and verification but no formal reporting process other than to the audit committee/ board	Internal independent scrutiny and review but may be the subject of an internal report	External scrutiny and challenge resulting in issue of private report	External scrutiny and challenge resulting in the issue of a public report

5. ICAS Sustainability: the necessary conditions for the reporting of high-quality information
6. ICAS The Power of One initiative
7. ICAS Towards Transparency

Where external assurance is sought it is essential that the party seeking the assurance is aware of what it should expect, and that the assurance provider is transparent as to what is in fact possible in the given circumstances. Whether assurance can be provided on the information will depend on a number of different factors. Additionally, there has to be clarity as to whom the assurance report is to be addressed.

The directors will determine the extent of verification to be sought and this may involve the adoption of a risk-based approach. Nonetheless, the benefits derived by stakeholders from the provision of assurance over sustainability information must be perceived to outweigh the associated costs.

This may mean that external assurance may not always be considered necessary over certain types of information and will depend on factors such as:

- how well developed the control framework over the sustainability data collection process is and the effectiveness of the internal control system, including the internal audit function; and
- whether the additional assurance provided by external assurance to the shareholders/stakeholders is perceived to exceed the cost of that assurance. This may be the case even if the board is fully confident in the quality of the information.

It is important to acknowledge that in many organisations internal controls over sustainability information are much less mature than those over other, particularly financial, information.

It will also be important, in the interests of transparency, for the company to explain how it gets confidence over the reliability and accuracy of the information reported. In addition, there is an opportunity for companies and boards to highlight and articulate to their key stakeholders the organisation's positive and negative impacts on sustainable development issues.

Interaction/connection between the sustainability report and the financial statements

Currently, sustainability-related information is primarily located in the narrative section of the annual report or within a separate sustainability report. There is, however, a growing demand for transparency around how sustainability issues might impact the numbers and disclosures in the financial statements and indeed the boundaries between the different types of information. Many large companies, for example, have publicly announced their net zero commitments and timescales but there are limited, if any, explanations or references in the financial statements, as to how this will be achieved and the consequential impact on the company's balance sheet, for example, the impairment of certain assets.

There is a need to ensure that the messaging and information is consistent between the narrative section of the annual report, and where applicable a separable sustainability report, and the financial statements.

There is also a need to consider how to go beyond the traditional financial capital model when reporting on an organisation's performance and to bring in some of the other capitals, such as natural capital, human capital, and social capital.

What reporting framework should be used?

The GRI Standards, set by the Global Sustainability Standards Board, cover sustainability reporting from a multi-stakeholder perspective including investors and are used by over 10,000 organisations around the world⁸. Additional reporting frameworks focus on specific aspects of Sustainability e.g. the Task Force on Climate-Related Financial Disclosures (TCFD).

The newly established International Sustainability Standards Board (ISSB) will be responsible for the development of an additional set of global sustainability disclosure standards to meet investors' needs. Indeed, in March 2022, the ISSB published its first two proposed standards which focus on general requirements and climate change. Its intention is to expand to include all aspects of sustainability over time.

The focus of the ISSB's standards is on enterprise value and cash flow implications. Therefore, there is still a need for GRI Standards for those entities that wish to report on the wider aspects of sustainability and to a wider range of stakeholders, e.g. biodiversity and social issues. Indeed, for certain entities there may be pressure from certain stakeholder groups to report under specific standards to meet their information demands. The announcement on 24 March 2022 that the IFRS Foundation and the GRI have agreed a collaboration agreement will hopefully ensure that the respective standards are compatible.

The placement of sustainability-related information is an area that will need to be explored. Taking the example of climate change, in the UK, reporting under the recommendations of the TCFD became mandatory for certain large UK entities from April 2022⁹. This information will be included as part of the Strategic Report which is not subject to any form of assurance. The responsibility of the auditor in relation to such information is to effectively check the consistency of the information reported with that in the financial statements.

⁸. KPMG Survey of Sustainability Reporting 2020

⁹. The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

The ISSB has not explicitly stated where the information required under its proposed sustainability disclosure standards will be located and lists different options in its draft IFRS S1 ‘General Requirements for Disclosure of Sustainability-related Financial Information’¹⁰. One might reasonably assume that, since it is intended to meet the needs of investors, at least some of the information will be included in the front-half of the annual report, referred to as the management report in certain jurisdictions, rather than in a separate report. The extent of assurance provided over the front-half of the annual report varies across jurisdictions and is not necessarily always made public.

Sustainability reports, which are largely produced using GRI standards, are generally presented as stand-alone reports to meet the needs of a broad set of stakeholders including investors and are often subject to limited assurance as part of a separate assurance engagement. Disclosures required by GRI Standards are also included in the annual report and on websites. There may be a continuing demand from those stakeholders, including investors, who use and rely on the information, for a separate sustainability report to be produced, subject to a limited level of assurance, to inform their decision-making. The GRI Standards remain necessary to meet the demands of stakeholders.

As a result, it will become necessary to ensure that, where more than one framework, or suite of standards, is being applied, there are no inconsistencies or contradictions between the frameworks. In addition, there may be certain types of sustainability information not covered by the adopted framework(s), therefore, consideration will be required around the best means and manner in which to introduce this information. This may extend to other important and relevant information from entities outside of the organisation – e.g., supply chain constituents.

Reporting frameworks do not always provide sufficiently detailed direction for a preparer to make reliable judgements about what reporting topics to address in their report thereby increasing the risk of management bias. The purpose of and intended audience for the report must be agreed and understood. Above all, the need to report within the parameters of specific frameworks should not stifle the evolution of reporting and the provision of useful and important information to stakeholders.

¹⁰. IFRS General Requirements for Disclosure of Sustainability-related Financial Information

What assurance framework/standard will be followed?

Many users of sustainability-related information will not be aware whether it has been subject to some form of independent verification. Even currently, some investors do not appreciate that much of the information in the front half of an annual report is not subject to the same level of independent scrutiny as that in the financial statements. Further, some will not understand the nature of what is involved in an assurance engagement and the likely risk-based approach that will have been adopted. They may assume that everything has been checked.

International Standard on Assurance Engagements (ISAE) 3000, issued by the International Auditing and Assurance Standards Board (IAASB), is the most comprehensive and commonly used assurance standard for sustainability assurance engagements. ISAE 3000 can be adopted by other assurance providers and does not wholly and exclusively apply to the accountancy profession. Indeed, many assurance providers outside of the accountancy profession already provide assurance of this nature and make reference to ISAE 3000 in their assurance report. Regardless of whether the assurer is a professional accountant there is a need for

them to be independent of the entity on which the assurance engagement is being performed.

The IFAC State of Play report revealed that some non-accountancy firms were alluding to compliance with but not necessarily meeting all of the requirements of that standard. This potentially creates an issue that stakeholders might assume that the engagement has been performed in accordance with this standard when the conditions for stating such have not been met. To comply with the standard, the work needs to be undertaken by individuals who are appropriately qualified in providing assurance and have sufficient knowledge of the subject matter/subject matter information on which the assurance is being provided and comply with the related quality management and ethical requirements. The IFAC report highlighted that Accountability’s Assurance Standard, (AA1000 v3) is sometimes also used as the basis for sustainability assurance engagements.

The introduction of regulatory and legislative measures cannot be overlooked when considering the developments in sustainability reporting and the associated assurance. If, for example, the UK Government introduces the requirement for companies to introduce an audit and assurance policy, then this will provide the opportunity for shareholders to better engage

with corporates over which areas they would like to see the company seek assurance. Given the current focus on sustainability related information then it is likely that this would be a prime target for which shareholders might wish the company to have assurance at least on certain aspects. The draft Corporate Sustainability Reporting Directive (CSRD), published by the European Commission, proposes the introduction of more detailed sustainability reporting requirements along with mandatory assurance over these disclosures. A member state option that would permit countries to allow that assurance to be provided by someone other than the financial statement auditor is also proposed.

All of the above illustrate that there is a need for a globally accepted assurance framework and related standard(s) that helps to ensure that assurance engagements are undertaken in accordance with a common high-quality standard(s). There is also a need for a consistent regulatory framework to ensure that all assurance providers will be subject to appropriate regulations and standards.

Additional guidance/standards on the conduct of assurance engagements

In 2021, the IAASB published Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements¹¹. The aim of this guidance is to assist practitioners carrying out EER Assurance Engagements in accordance with ISAE 3000 to enable more consistent and appropriate application of that standard. This guidance was originally issued with a different title but was renamed in December 2021 to specifically highlight its applicability to sustainability-related assurance engagements. The guidance explains the principles and requirements of ISAE 3000 and is limited to those areas identified by the IAASB that present the most significant and common challenges for practitioners applying the standard.

The IAASB has also issued other related standards on specific topics such as ISAE 3410 'Assurance Standard on Greenhouse Gas Statements'. Such standards provide greater specificity as to what is required of the assurer in relation to the provision of assurance on specific subject matter information.

¹¹. [IAASB Sustainability and Other Extended External Reporting \(EER\) Assurance Engagements](#)

Given recent developments in sustainability reporting standards, there is an urgent need for a globally recognised assurance standard on sustainability-related information. The IAASB is well placed to meet that need and indeed is currently considering what further actions it needs to take in this regard. As part of these deliberations, consideration needs to be given to reviewing ISAE 3000 given that this was last done in 2013. Whilst this may not require significant revision the exercise may be seen as necessary to ensure that proper due diligence is followed in relation to a standard, the importance of which grows by the day.

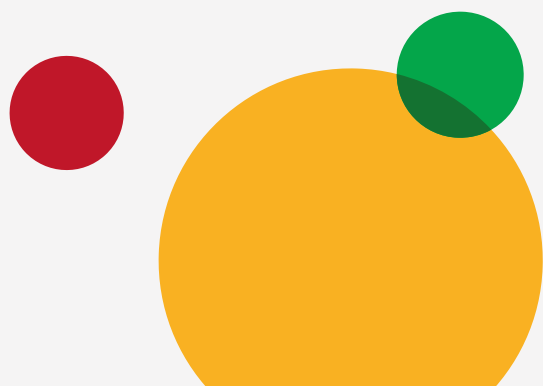
Alternatively, there is the option of producing a separate umbrella standard over sustainability-information engagements that could allow for further related subject specific standards to be produced, if necessary. The advantage of this approach is it would mean that the IAASB would then have a specific assurance standard with "Sustainability" in the title. Some stakeholders use the term ESG (Environmental, Social and Governance) when referring to sustainability-related information. The ICAS preference is for the IAASB to align with the use of "Sustainability" by the International Sustainability Standards Board and by the European Commission in its proposed Corporate Sustainability Reporting Directive. This option would also

more easily facilitate the transfer of very useful content contained in 'Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements' into a standard.

Ethics and Independence requirements

Firms and individuals providing assurance engagements should be subject to appropriate ethical and independence requirements and quality management standards of at least the same level as the International Code of Ethics for Professional Accountants (including International Independence Standards)¹² issued by the International Ethics Standards Board for Accountants (IESBA) and ISQC1/ISQM1 issued by the IAASB. These standards or others which are at least equivalent should apply to any individual or firm that claims to have complied with ISAE 3000. Therefore, care has to be exercised where an assurance provider alludes to having complied with the standard but uses different terminology to refer to its use such as "applied", "used to conduct" or "utilized the same verification principles". There is a risk that users may not understand that the full requirements of ISAE 3000 have not necessarily been complied with in such circumstances.

¹². [IESBA ETHICS FOR PROFESSIONAL ACCOUNTANTS](#)



There is a need for those providing assurance to have the necessary assurance skills, and techniques. These are distinct from expertise in the underlying subject matter. As stated in “Sustainability: the necessary conditions for reporting of high-quality information”¹³

“For assurance to have value, those who provide it must be trusted. It is therefore in the public interest that providers of assurance should have to meet certain criteria to enable them to be able to issue such reports.

The adoption of such an approach would enable experts in subjects such as sustainability to gain professional recognition in assurance and provide them with the skills and qualification to provide assurance on subject matter information in their area of expertise. This would be a means of ensuring the quality of individuals providing assurance on such information. The ability and willingness to challenge, and to exercise professional judgement and professional scepticism, are key attributes for providers of assurance to instil confidence in the information reported and reduce the risk of ‘greenwashing’. Stakeholders can take some confidence from the knowledge that this information and those providing assurance on it have been through a rigorous and robust process and examination.”

That is why ICAS in its publication ‘A roadmap to the corporate auditor profession’¹⁴ highlighted that there is a need to focus on how to equip non-financial statement subject matter experts who would wish to carry out assurance work with applicable skills in assurance and related matters to enable them to undertake assurance engagements in their respective areas of expertise. The paper set out an approach as to how that could be achieved.

¹³. [ICAS Sustainability: the necessary conditions for reporting of high-quality information](#)

¹⁴. [ICAS A roadmap to the corporate auditor profession](#)



Sustainability assurance: the key issues

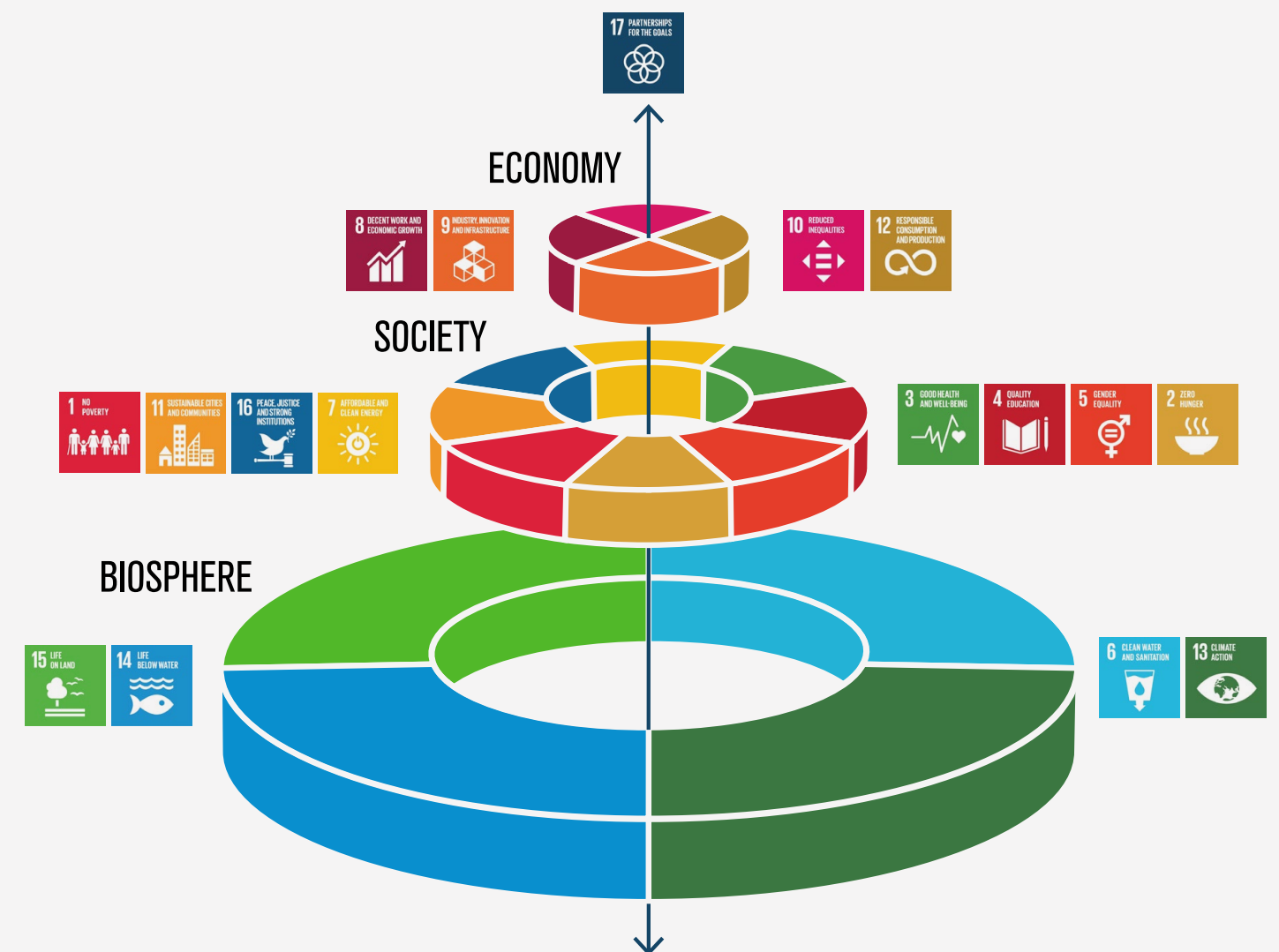
What sustainability information, if any, needs to be assured?

The subject of reported information that is encompassed under the broad umbrella of “Sustainability” varies greatly and includes information on management’s approach, governance oversight and integration with strategy. On specific aspects it might cover one or more of the following:

- An entity’s approach to the UN’s Sustainable Development Goals (see diagram right).
- Climate change
- Biodiversity
- Natural capital
- Human rights
- Equality, diversity and inclusion
- Human capital
- Geopolitical issues.

Reported information of this nature is also likely to be of interest to a wider range of stakeholders than that contained in financial statements. Arguably, the public interest dimension is therefore even more acute when the potential societal impact of such information could be at least as great as that featured in financial statements. Users are interested in information about an organisation that is materially relevant in the short, medium and longer term. The challenge around including more sustainability-related information is that this is likely to further increase the length of annual reports. Hence the focus on what is materially relevant information will be key and will need to extend beyond the traditional financial materiality focus and bring in the material impacts of the organisation’s activities on sustainable development.

Increasingly, investors would like companies to report less but do more in terms of taking positive action to align with sustainable development. Identifying what is materially relevant for stakeholders is challenging, but ultimately should be determined by the board. It will require dialogue with key stakeholders, including investors, to understand what information they need from a company-wide perspective and what they do with that information, and whether the provision of assurance over this information would be beneficial. This may become more prevalent if companies are required to have



an audit and assurance policy statement or if their voluntary adoption becomes widespread. Other stakeholders may also seek to use this mechanism to influence corporate decisions as to where assurance is sought.

There is a risk that boards will ‘cherry pick’ the information to be disclosed based on those areas where assurance will be easiest or over only information that will show the entity in a positive light. Hence stakeholder including investor dialogue and feedback, will be vital in deciding which information should be provided and what should be assured in order to meet the neutrality criterion. Assurers will of course need to be wary of the risks of “cherry picking” where they agree the terms of an engagement, the scope of which is not pre-defined in legislation, regulation, or standards.

The board should also develop and communicate its plan and the rationale behind the areas over which assurance will be sought and whether these will be extended in the future. In order to be fully transparent, they may also wish to explain why assurance has not been sought on specific areas along with their proposals to extend the scope of assurance in future years. In this regard, the quality of available data on certain subject matter may be an issue, but if so, plans will need to be put in place to address this issue. There has to be an acceptance that companies are still going through a learning process and that the

quality of reporting of sustainability-related information will evolve over time.

For some sustainability-related information, there may not always be a universally accepted means of determining the applicable data. Therefore, there is a need for greater transparency in terms of the methodology that has been applied in such circumstances to allow users to form their assessment as to its appropriateness.

A further consideration is the nature and complexity of the underlying subject matter e.g. greenhouse gas emissions, to be assured. Can this be accurately measured or is there considerable measurement uncertainty that may rely on significant knowledge and the application of professional judgement? It may also have diverse characteristics that range from matters such as objective to subjective, to the potential inclusion of both non-financial (including non-monetary) information and financial information.

Furthermore, complex business models and the reach and extent of supply chain relationships may mean that in certain situations it is simply not feasible to obtain all of the necessary information. However, it would be helpful if an organisation were to communicate any plans to make this possible over time to stakeholders. This would evidence their commitment to obtaining and reporting such information in the future.

Whilst there will be greater challenges associated with reporting on Scope 3 emissions of Greenhouse Gases, these may amount to the most significant emissions for an entity. It is, therefore, important that plans are put in place to seek to be able to reliably report on such emissions within a reasonable time frame. In the interim, use may be made of recognised methodologies and industry averages to produce estimations of such emissions.

Who will provide the assurance? / Applicable regulatory requirements for assurance providers

The demand for assurance over sustainability information is expected to increase significantly in the future. Currently, there is a lack of sufficiently and suitably qualified assurance providers in the marketplace. Therefore, it would appear that demand will exceed supply at least in the immediate term. In order to satisfy the demand, it is likely that both professional accountants /auditors and other external assurance providers will be needed. Indeed, in some situations they may form part of the same engagement team.

Currently, assurance engagements of this nature are undertaken by a vast array of assurance providers to a variety of different standards. This situation makes it difficult for users to understand the validity and reliability of the information that is being reported. To address this, there is a need for assurance engagements to be undertaken by suitably qualified individuals.

There is no recognised qualification or professional accreditation on which users can rely, and there is, at best, very limited regulatory oversight of voluntary assurance work. Many assurance providers may not be subject to any monitoring of the quality of their work. Given the importance of sustainability information this may call into question the degree of credibility or confidence that can be drawn from the assurance provided. In order to satisfy the public interest, the critical conditions to satisfy in applying ISAE 3000 are having authoritative guidance on its application, a code of ethics and a quality assurance framework, such as that in the IAASB quality management standards ISQM1 and ISQM2. An appropriate oversight or regulatory body that monitors the quality of such assurance engagements, fosters a culture of improvement in individual engagements, where necessary, and systemically and which has the ability to impose sanctions where necessary, may also be needed to meet the public interest.

Assurance providers undertaking sustainability assurance engagements should demonstrate how they possess the necessary competences in the subject matter, either in their own right or as part of a wider team of experts. The multi-disciplinary team model which brings together subject matter expertise and assurance skills and techniques is expected to be the most desirable and effective approach. This model

will also be appropriate for internal auditors. The need for the application of professional scepticism and professional judgement in sustainability assurance engagements is as relevant to sustainability assurance engagements as it is to financial statement audits. The range of skills and extent of external expertise will depend on the subject matter for each engagement and may differ from engagement to engagement and, in some cases, the involvement of a subject matter specialist may be necessary. The manner in which such an expert is engaged, and the extent to which the work of the expert will be used, is a matter for professional judgement and will be based on a variety of factors including the complexity of the subject matter concerned. Such experts also need to be independent of the entity concerned.

The incumbent statutory auditor might lead on this work with input and support from external experts on a specific matter or a separate assurer may be appointed. Whichever is the case, then clarity and agreement on the individual roles and responsibilities will be needed.

What level of assurance will be provided?

As stated earlier, ISAE 3000 permits two levels of assurance: reasonable and limited. These are as follows:

Reasonable assurance - the ‘audit’ equivalent for non-financial information

- Reasonable assurance requires sufficient evidence to confirm whether the subject conforms to the criteria and conclusions are framed in a positive manner.
- To reduce the risk of a material misstatement to a low level the assurance provider must conduct extensive procedures including, but not limited to:
 - Understanding the systems and processes that are in place to capture the data.
 - Evaluating the quality (design and operating effectiveness) of controls in operation for the year/period.
 - Thoroughly test the completeness and accuracy of the data used.

Limited assurance - the ‘limited review’ equivalent for non-financial information

- Provides comfort over whether the subject is plausible against the criteria and conclusions are framed in a negative manner, for example: ‘based on the procedures performed, nothing has come to our attention to indicate that [the disclosure] was not properly prepared’. The double negative emphasises the lower level of assurance being provided.

- This type of assurance requires less testing than reasonable assurance, with an analysis of period on period changes and reliance on representations about how processes work forming a greater proportion of the body of evidence.

The distinction between reasonable and limited assurance is not well understood by stakeholders, therefore, there is a need for better education of stakeholders on the differences between the two. Whilst there appears to be greater clarity amongst stakeholders as to what is meant by “reasonable assurance” this does not appear to be the case with regards to “limited assurance.” This is not a new issue but is one that has become more significant given the current prevalence of “limited assurance” engagements on sustainability-related information. The IAASB may need to revisit the definition of “limited assurance” as its current spectrum, ranging from “not inconsequential to less than reasonable”, is perceived by some as diluting the benefits of obtaining limited assurance. It is appreciated that this may need to be a longer-term project for the IAASB that could be informed by academic research. ICAS explored this area in its 2013 ‘Balanced and Reasonable’¹⁵ discussion paper on the provision of positive assurance on management commentary.

In the shorter-term, given the wider audience with an interest in assurance reports on sustainability-related information, there will be a need for IAASB or IFAC to develop further educational tools and material that expresses, in layman’s terms, the difference between these two levels of assurance.

The Accountability Assurance Standard, AA1000, v3, permits two levels of assurance: high and moderate; that reflect the level of confidence and the extent of evidence collected and used. Only moderate assurance may be provided over forward-looking information. Many assurance providers currently use AA1000 v3 as the basis for sustainability assurance engagements. However, the comparability and alignment between that standard’s two levels of assurance, high and moderate, and those of ISAE 3000, reasonable and limited, is difficult to ascertain. In any future review of the IAASB’s assurance framework this might be an area worthy of further exploration.

Before agreeing to the acceptance on any assurance engagement, regardless of the resulting level of assurance obtained, the assurance provider must consider the preconditions and whether the provision of an assurance engagement is possible e.g., whether the underlying subject matter is

¹⁵ ICAS Balanced and Reasonable



appropriate; determining the suitability of the criteria; the preconditions for assurance and whether the scope of the engagement is sufficient to be useful to users and to avoid their being misled as to the extent of assurance provided. Importantly, the suitability of criteria is independent of which type of assurance engagement is to be performed. If criteria are deemed unsuitable for a reasonable assurance engagement, then they are also not suitable for a limited assurance engagement. The acceptance of a sustainability assurance engagement should be based on the expectation that sufficient and appropriate assurance evidence anticipated will be available. This of course requires consideration before the engagement commences.

When planning a sustainability assurance engagement, consideration should be given to the assessment of materiality, both quantitative and qualitative. Materiality is a means of assessing the level of error that can be present in the information without it being likely to impact upon the decision-making of users.

There is increasing demand for sustainability-related information to be subject to a “double materiality” assessment. The Global Reporting Initiative (GRI) standards, require consideration of an entity’s impact on its external environment, in addition to whether information would substantively influence the assessments and decisions of stakeholders. In contrast, the ISSB’s standards focus on the user decision maker approach as applied in International Financial Reporting Standards (IFRS). The subject of materiality, therefore, needs to be considered when producing a globally accepted assurance standard on sustainability-related information, that will meet the needs of a broad group of stakeholders.

In view of the currently limited nature of most assurance reporting, care should generally be taken to avoid assurance provided being confused with a conclusion that the company is a good corporate citizen.

How will the assurance obtained be communicated/reported?

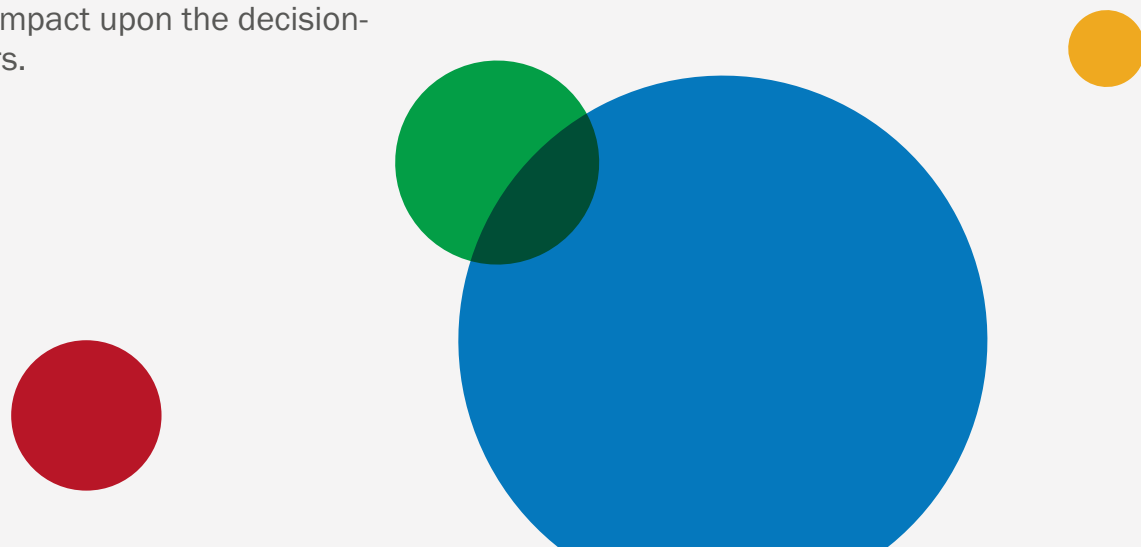
In the interests of transparency, and to enhance confidence in the information disclosed, a publicly available assurance report needs to be produced. However, this publicly available assurance report may only refer to certain discrete areas that have been subject to external assurance. Boards may obtain a private assurance report over some areas and processes from another assurance provider or source. It would be their decision as to whether or not to make this information, including where applicable, an entity’s strengths and areas for improvement, public. However clear separation of reporting would be required where different levels and types of assurance have been provided on different subject matters and this would need to be clear to users.

In a sustainability assurance engagement, understanding the needs of different stakeholders, who have a diverse range of needs, may be a challenge. The larger and more complex the entity, the more challenging it may be to identify which aspects, if any, should be given greater prominence. Indeed, there may be further challenges in measuring and assessing some information due to the lack of any definitive measurement basis or methodology thereby relying on greater application of professional judgement.

In the UK, any sustainability-related information published in the front-half of the annual report of those entities applying the UK Corporate Governance Code would be subject to the “fair, balanced and understandable” provision, regardless of whether assurance is mandated. Users and key stakeholders would expect and request that at least some reference to the organisation’s sustainable development performance should be included in the annual report.

To whom the sustainability assurance report should be addressed is a matter for further debate and discussion. Consideration might be given as to whether it should be addressed to all key stakeholders, representing the multi-stakeholder aspect of sustainability related information, but this may have unintended consequences, particularly around the liability issue and to whom a duty of care is owed.

The nature of sustainability reports can be diverse in structure and format and in the medium by which they are presented. Some may be presented principally in quantified terms and others may be presented principally in qualitative (narrative or descriptive) terms. In either case, the principal presentation may be accompanied by related disclosures. Some may contain images or embedded videos and this trend



is expected to increase as technology advances. Such diversity of approach to reporting does bring challenges to the assurer.

If the assurance report on the sustainability-related information was to form part of the statutory audit of the financial statements, then the auditor would be subject to the extant “unlimited liability” regime in the UK. This could of course lead to greater pressure being placed on directors to enter into limitation of liability agreements with their auditors. However, it is difficult to imagine an extension of this unlimited liability regime as being fair and equitable, particularly, when reporting on sustainability-related information is still in its infancy and the risk of material error is likely to be greater than that in the financial statements.

If the engagement is deemed to be a separate assurance engagement, then the firm providing the assurance would normally contractually limit its liability in the engagement letter. At present in the UK where the auditor is providing such a service to a public interest entity then the service would fall within those services which are subject to the non-audit services cap. However, if such assurance was to be mandated in the future, then, whether this would fall into the category of permitted

non-audit services that are required by law or regulation and hence, exempt from the cap, would depend on whether such assurance would need to be provided by the auditor.

Currently, it is being debated, particularly in the EU, as to whether the auditor should be permitted to provide the assurance service on sustainability-related information. Given the auditor’s knowledge of the business and its operations, it would appear appropriate to allow an option permitting the auditor to provide this assurance service.





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