Sustainability

Overview of sustainability assurance landscape research

IESBA Meeting
March 2023
Sustainability Assurance Providers
– Non-PAs
Sustainability Assurance Providers – Non-PAs

Limited research into sustainability assurance providers that are not professional accountancy firms identified the following characteristics:

• Providers range from very large global operations down to relatively small single country operators
• Generally they are corporate rather than partnerships
• The large operators provide a wide range of other consultancy services. Some services are of an accountancy nature such as:
  – Due diligence
  – Financial valuations (e.g. of landfill costs)
  – Verification of business transactions
  – Tax related services
• Some “audit” services are provided, but in the sense of the general meaning of examining/verifying something rather than financial statement audit
Assurance services provided include ISO certifications (e.g. for GHG emissions) and assurance in compliance with ISAE 3000/3410.

Assurance levels provided include both limited and reasonable.

Few indicate compliance with the IESBA Code or an equivalent.

Some refer to their own code or that of a body such as the International Federation of Inspections Agencies, which typically are very much less detailed than the IESBA Code.

Other statements on independence given in reports typically make general references such as the team was independent, the team was not involved in the preparation or collation of data, the [consultancy] has not undertaken other commissions for the client, no member of the team has a business reason for bias, processes are designed to ensure freedom from bias.
Sustainability Assurance – Regulation
The regulatory position was reviewed at a high level for a relatively small number of jurisdictions (Australia, France, Japan, MENA region, UK)

- Certain ESG disclosures are often mandated or, if not, provided voluntarily. Most disclosures are environment/climate related, but social and governance related disclosures are also given.

- Implementation of EU CSRD directive as from 1st January 2024 will significantly increase both the scope of EU entities having to report and the scope of the information to be reported with the introduction of European Sustainability Reporting Standards (ESSR).

- Currently few jurisdictions mandate assurance on ESG information (unless it is disclosed in the financial statements and thereby falls within scope of the auditor’s report). France currently requires a “verification report” from an accredited third party.

- Certain jurisdictions such as the EU and USA moving to require mandatory assurance. The EU CSRD will increase the work effort of the statutory auditor (or Non-PA assurance providers) having to provide limited assurance as a first step and aiming to reasonable assurance as from 2028.

- Other jurisdictions are following more of a “wait and see” approach and it is unclear whether and, if so, how quickly they might introduce mandatory assurance.
UK

- Certain ESG disclosures are required by law for PIEs, large companies and LLPs. These include environmental matters, social matters and human rights.

- Assurance is not mandatory but companies are expected to disclose their approach to assuring the quality of the information they report to shareholders beyond that contained in the financial statements.

- The Financial Conduct Authority has indicated that it sees a ‘strong need for assurance requirements in the long term to support the reliability of issuers’ climate-related disclosures’ and that it will consider its position on this again at a later stage.
Australia

• Australian regulators have issued guidance that climate-related financial risks must be disclosed as part of existing obligations to disclose material risks and recommend TCFD adoption

• The Australian Treasury is currently consulting on ‘Climate-related financial disclosure’ including on the design and implementation for standardised, internationally-aligned disclosures and any necessary changes to Australian financial reporting bodies

• There is currently no mandatory requirement in Australia to obtain ‘independent’ assurance on sustainability reports

• At this stage, it is uncertain whether mandatory assurance will eventuate, however, if sustainability disclosures forms part of the financial/annual reports, then the auditor is obliged to provide some form of assurance
France

• Publicly listed companies are required, since 2017, to report on environmental, social and societal aspects of their business. This integrated report should be published annually to shareholders together with a “verification report” from an accredited third party. Non-professional accountants do not have requirements to meet rules other than ISO.

• Implementation of EU CSRD directive as from 1st January 2024 will significantly impact the information to be reported with the introduction of European Sustainability Reporting Standards (ESSR) and mandatory (limited then, as from 2028, reasonable) assurance as well as increased scope of implementation for companies with more than 250 employees (against 500 today).
Japan

• The Corporate Governance Code (Revised June 2021) requires listed companies to report on addressing sustainability issues.

• A regulatory framework for “disclosure of corporate initiatives regarding sustainability” has been developed and it is planned to require some information in the Annual Securities Report for the year ending on or after March 31, 2023.

• Currently, there are no laws or regulations that require entities to obtain sustainability assurance reports. It is planned to consider the approach to the sustainability assurance, taking into account the development of the standards and practices related to the reporting of and assurance on sustainability-related information.
Sustainability Assurance - Regulators

MENA region

• The metrics that are most commonly reported are based on the most favoured mechanism and framework, i.e. the GRI Framework (Global Reporting Initiative). In terms of the sustainability types, all 3 ESG types are evenly covered

• There is a general direction and trend in the region to make sustainability reporting and disclosures more mandatory

• Obtaining sustainability assurance is largely delivered on a voluntary basis in the region as there are no clear regulatory mandates, and currently no substantive moves to introduce such mandates, although it is anticipated
Sustainability Assurance - Regulators

India

• In 2020, Ministry of Corporate Affairs recommended a new reporting framework called the 'Business Responsibility and Sustainability Report' (BRSR) for listed and unlisted Companies. In 2021, SEBI mandated the top 1000 listed companies by market capitalization to mandatorily report BRSR from 2022-23

• Independent sustainability assurance is not mandatory – but it seems to be recommended by the Institute of Chartered Accountants of India in their Background Material on Business Responsibility and Sustainability Reporting (BRSR)