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PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET

A short guide to natural capital management for internal and external auditors

Contents

1. Introduction	4
2. The audit profession's role	6
3. The assignment approach	8
3.1 Setting the scope of the assignment	8
Types of assurance	8
Considerations when deciding on the assignment and type of assurance	9
3.2 Opportunity for internal and external auditor collaboration	10
3.3 Integrate the standards and frameworks with your risk-based methodology	11
Take a case by case approach	12
Consider what a good outcome is for the subject matter	12
Reflect materiality	12
Understand the control environment	13
Adopt natural capital assurance mapping	13
Form your opinion and report	14
4. The support required	16
4.1 The role of governance	16
4.2 The internal and external auditor skills	16
References	17

About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

Find out more about us at www.accaglobal.com

This guide has been developed by ACCA with the support of Deloitte and the European Confederation of Institutes of Internal Auditing (ECIIA).

The examples reflect real world sustainability issues, which are often complex. For reasons of clarity, we provide simplified samples of the cited organisations' sustainability management approaches and the work auditors could undertake within an audit or assurance sustainability assignment. Therefore, the examples should be appreciated in this context. In providing this content, we do not endorse any commercial activities associated with these organisations.

1. Introduction

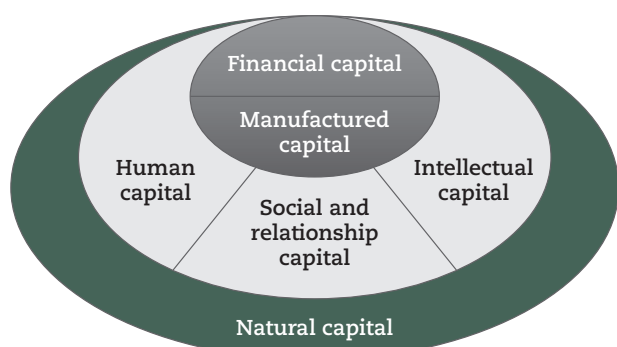
Serving the public interest is the fundamental purpose of the audit profession,¹ one that can be traced back to the ancient Egyptians, Romans and Greeks. This purpose, when discharged ethically, relevantly and reliably, underpins credible business, engendering trust and confidence in business operations and their reporting.

Industrial revolutions have propelled greater interconnectedness of intellectual capital, underpinning innovation, with financial, human, social and relationship, and manufactured capitals relevant to commercial activity and global economic prosperity (see Figure 1.1). Further, with more complex investment arrangements, business models, and supply and value chains, natural capital has become a material issue for business and society.

Therefore, the business imperative is to implement credible strategies that support sustainable value creation, engendering trust and confidence in them. Organisations are at different stages of the journey to fulfilling this imperative, some struggling – perhaps owing to deficiencies in organisational purpose, strategic focus and implementation, and capability. As a result, their reporting does not fairly reflect the use of and impact on all material capitals that are central to generating sustainable value. A business that focuses mostly on financial and manufactured capital may miss the impact that a change in quality or availability of the natural capital it relies on may have on the business and its stakeholders.

In your role as internal or external auditor, you can provide a dynamic and holistic impartial view, thereby enabling credible business activity (see Box 1.1).

FIGURE 1.1: The interconnected multi-capitals



This is one of many ways to depict the capitals. Typically, financial and manufactured capitals are the ones organisations most commonly report on. The IIRC takes a broader view by also considering intellectual, social and relationship, and human capitals and natural capital, which provides the environment in which the other capitals sit.

Source: Incite 'Sustainability 2.0: A Guide to Competing in a Changing World'



Box 1.2: The purposes of internal audit and external assurance

Internal audit

To enhance and protect organisational assets (financial and non-financial) by providing risk-based and objective assurance, advice, and insight.

Source: IIA 2017b

External assurance

To fulfil the trust and confidence needs of preparers, users and other stakeholders about environmental, social and governance (ESG) factors and related information, while enhancing the accountability of management and those charged with governance, and providing them with insights and recommendations on the reporting process, related controls and risks.

Source: Laurence Rivat, Deloitte EU Corporate Reporting Public Policy Leader and former board member of EFRAG

¹ The audit profession comprises internal and external auditors who conduct audit, advisory and/or assurance assignments in accordance with accounting, audit and assurance standards set by national and international authorities. Internal and external auditors are governed by regulation, standards and frameworks of accounting and/or audit professional bodies, such as ACCA and IIA. The term 'auditor' is used to describe both internal and external auditors, except for where a distinction is necessary.

An auditor can support natural capital assignments² in much the same way as for most audit and assurance assignments. The experts we spoke to advised ‘*take a risk-based audit approach incorporating the relevant reporting, audit and assurance standards*’, because often sustainability issues³ and therefore assurance assignments are complex and dynamic.

In this guide, we distil the key principles that should govern the natural capital audit or assurance assignment:

- take a case-by-case approach
- reflect materiality
- understand the control environment
- appreciate the value of assurance mappings
- recognise and mitigate the common challenges of non-financial information or sustainability reporting and assurance, such as those related to future-oriented information

- consider the opportunities to collaborate, especially with natural capital experts, as well as internal with external auditors and vice versa
- form and communicate your assignment opinion taking account of the wider stakeholder interest in sustainability matters. Consider opportunities for continual improvement, in ways applicable to the assignment.

Finally, there are other important elements to consider.

- The organisation needs governance that empowers your role, from facilitating unfettered access to business functions to ensuring your voice is heard and acted upon.
- You must adapt your mindset and skills to meet the broad and exciting challenges of sustainability assignments, which this guide will help you to do.

² The use of the term assignment should be taken to mean internal audit assignment and/or external assurance engagement.

³ Natural capital management is one of many sustainability issues addressed in both sustainability and other non-financial reports. The auditing and assurance principles within the guide focus on natural capital management and its reporting within sustainability and other non-financial reports.

2. The audit profession's role

There are two major factors escalating the importance of the dynamic role that auditors perform.

- The increasingly material interconnected capitals and the trade-offs arising between them create business (strategic, managerial and operational) risks and opportunities, with implications that necessitate greater than ever effort to anticipate and manage.
- There are a growing range of stakeholders interested in sustainability issues with a diverse set of expectations to manage, relating to:
 - **content**, specifically the balance and types of capitals being reported are tending towards wider enterprise and societal value creation
 - **approach to reporting**, for example, of a mix of continuous and periodic reporting and various levels of detail and formats, whether annual reports, specific business reports or data releases in paper and digital media.

Reporting must continue to comply with the tenets of good corporate reporting (ACCA 2018) (see Box 2.1).



Box 2.1: The tenets of good corporate reporting



Relevance and materiality: The report should provide information that is capable of making a difference to decisions made by its users.



Completeness: The report should contain all relevant information necessary for a user to understand the position, performance and, where appropriate, the prospects of the reporting entity.



Reliability – neutral and free from error: The report should be unbiased in its presentation. Estimates should be based on the best evidence available at the time. Significant estimation uncertainties should be disclosed.



Comparability: The report should allow the user to understand the similarities and differences between reporting entities, and to compare one entity's performance from one reporting period with that from the next.



Verifiability: Information should, as far as possible, be objective and open to testing. Knowledgeable and independent observers should be able to reach a reasonable consensus on that information.



Timeliness:
The more up to date information is, the more useful it is.



Understandability:
Reports should aim to communicate complex matters clearly.

Source: ACCA 2020

A GOOD CORPORATE REPORT SHOULD CONTAIN ALL RELEVANT INFORMATION NECESSARY FOR A USER TO UNDERSTAND THE POSITION, PERFORMANCE AND, WHERE APPROPRIATE, THE PROSPECTS OF THE REPORTING ENTITY.



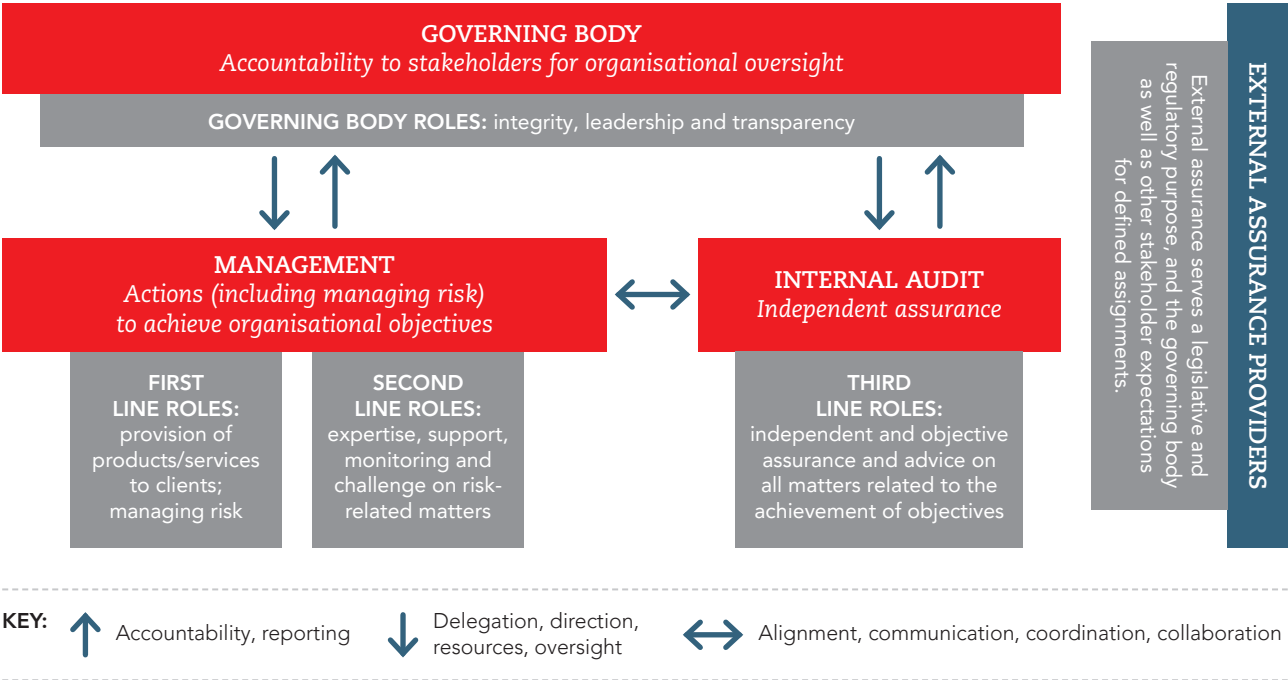
The purpose of auditors, as outlined in the introduction, is discharged in two ways:

- **internal auditors** provide the third line of risk management (see Figure 1.2).
- **external auditors** support the three lines model by giving assurance to the organisation's shareholders, including its governing body and senior management

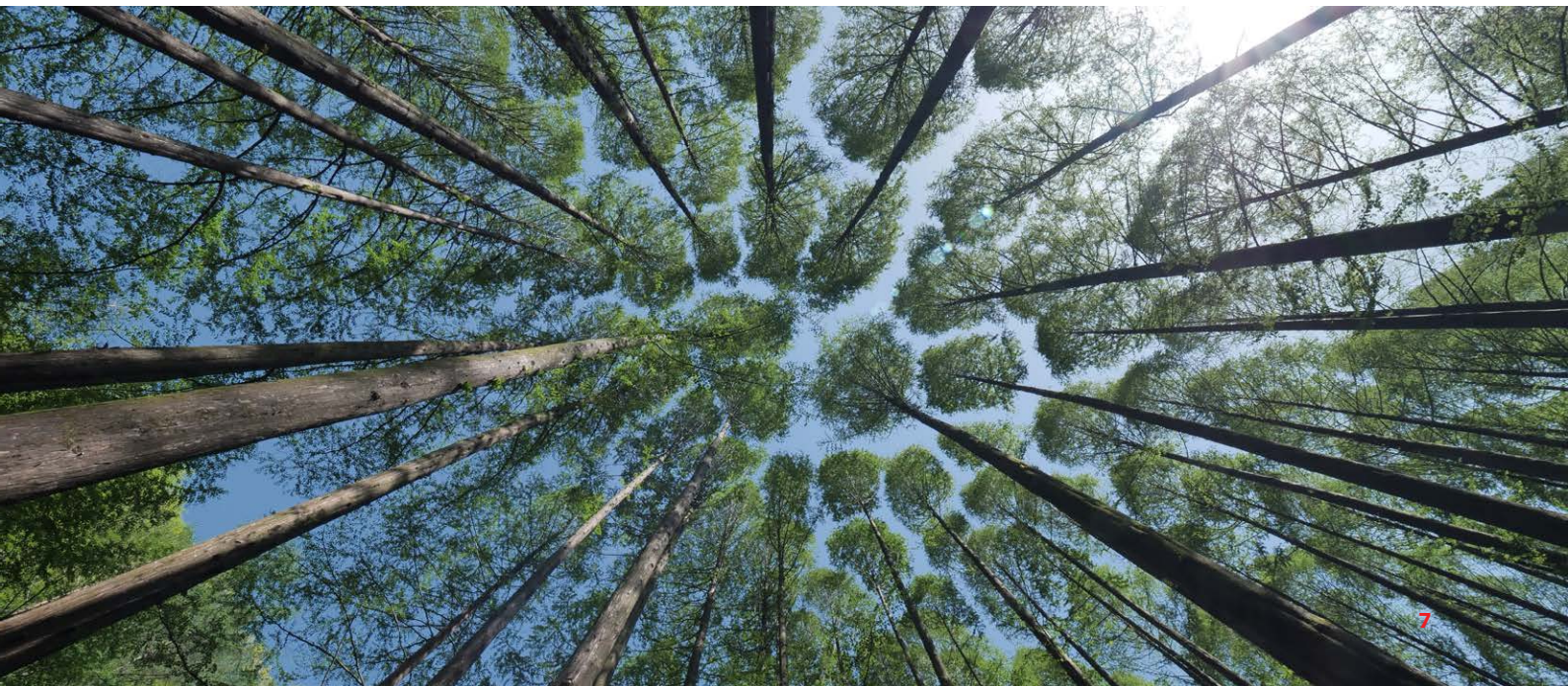
(Deloitte 2016) Further, they may, subject to the relevant permissions and in an outsourcing or co-sourcing capacity, assume aspects of the internal audit function.

Your assignments, as applicable to internal and external auditors, whether audit, advisory or assurance, are likely to be wide ranging and are explored in section 3.1.

FIGURE 2.1: The three lines model



Source: adapted from IIA 2020



3. The assignment approach

Adding value, through inputting relevant and reliable information to the stakeholder's decision-making process is fundamentally what should drive the scope of the audit or assurance assignment and how you perform it. Much of what 'adding value' means will depend on stakeholders' needs, the organisation's strategy, and the maturity of its governance, systems and processes, risk and control management, reporting environment and internal audit function.

The good news is that the assignment, whether internal or external, can follow this standard process.

- **Plan the assignment and set the scope, reflecting the risks.** This includes the nature of the assignment, for example audit, assurance or advisory. For external auditors the decision about whether you will accept the assignment is especially important.
- **Conduct the assignment**, embedding a risk-based approach into your audit methodology that:
 - incorporates the relevant reporting, audit and assurance standards
 - takes a case-by-case approach
 - reflects materiality
 - considers the control environment, taking account of the value of assurance mappings, and

- addresses specific non-financial information or sustainability reporting and assurance risks, such as those related to future-oriented information.

The methodology may include a preliminary audit stage and collaboration between internal and external auditors.

- **Form and communicate your assignment opinion and recommendations**, detailing the work performed to reach your findings.

3.1 Setting the scope of the assignment

There are many assignments for internal and external auditors linked to the end-to-end business process (see Box 3.1).

Types of assurance

The type of assurance on sustainability and non-financial reporting assignments should be a consideration for both internal and external auditors, as it has a bearing on the nature and level of audit and assurance work that has to be completed. It puts you in a better position to mitigate concerns about fulfilling the assignment reliably and/or managing potential expectations of stakeholders, for example through a clear mutual understanding of the assurance type and work performed.



Box 3.1: Examples of assignment type relating to the end-to-end business process

The aim is to provide insight to the following aspects of the business.

- **The sustainability strategy:**
 - Adequacy of the sustainability decision-making process, including challenging the materiality matrix that drives the strategic priorities and commitments linked to objectives and targets.
 - Likelihood of achieving the strategy.
- **Governance:** Assessing the quality of the sustainability strategy's integration into the governance structure, objectives and targets, processes and controls.
- **Process and systems:** economy, effectiveness and efficiency of processes and systems, including IT, for achieving the organisation's objectives.
- **Culture:** Effectiveness of policies and their deployment in shaping the organisation's culture to execute the strategy.
- **Risk:** Effectiveness and adequacy of risk-management controls, focusing on the maturity level of the monitoring system in place, and on identifying potential emerging risks.
- **Compliance:** Alignment between practices in place and internal sustainability policies, procedures and frameworks, together with the organisation's responsiveness to the introduction of new sustainability external regulations, certifications and/or green investment requirements.
- **Reporting:** Accuracy and completeness of the information included in the sustainability and other non-financial reports, also assessing the process for collecting and analysing data.

Note: External auditors must ensure the consistency of non-financial information with the financial statements in accordance with audit standard ISA 720 of the International Auditing and Assurance Standards Board (IAASB), 'The Auditor's responsibilities relating to other information' (IAASB 2015).

External auditors are specifically required to indicate the type of assurance provided, specifically 'limited' or 'reasonable' in accordance with ISAE3000 (see Figure 3.1). While this is not a requirement for many internal auditors, it is for some. This assurance can be provided:

- as a **whole**, for example, on the entire sustainability report, or
- on **components** of business activity or its reporting, where each component has a separate assurance, for example, compliance with relevant laws and policies and the selection of metrics for measuring strategic progress are reasonable but the adequacy of governance for successful execution of strategy is limited.

Considerations when deciding on the assignment and type of assurance

When agreeing and shaping the assignment, including the type of assurance required, consider the following questions.

- **Will the assignment address the material issues of the business, the environment and/or the stakeholder?** Materiality matrices depicting the relative significance of issues to stakeholders and the business will help identify the most important issues. Extending this concept to how the materiality issues may change over time or in relation to specific events will provide a sense of the dynamic nature of the issue (see Figure 3.2).

FIGURE 3.1: Limited and reasonable assurance defined

ASSURANCE TYPE	DEFINITION RELATIVE TO THE ASSIGNMENT (IAASB 2013A)	EXAMPLE OF STATEMENT
		<i>'On the basis of procedures performed to [purpose of assignment] and detailed in section YY'</i>
Limited	Negative confirmation, ie more than an inconsequential view, and usually indicating that there was no reason found to believe there was an issue.	<i>'Nothing came to our attention to indicate a material failure of [subject matter of the assignment].'</i>
Reasonable	Positive confirmation, ie stating there aren't any material issues.	<i>'We believe that [subject matter of the assignment] is reasonable/has been materially served.'</i>

Note:

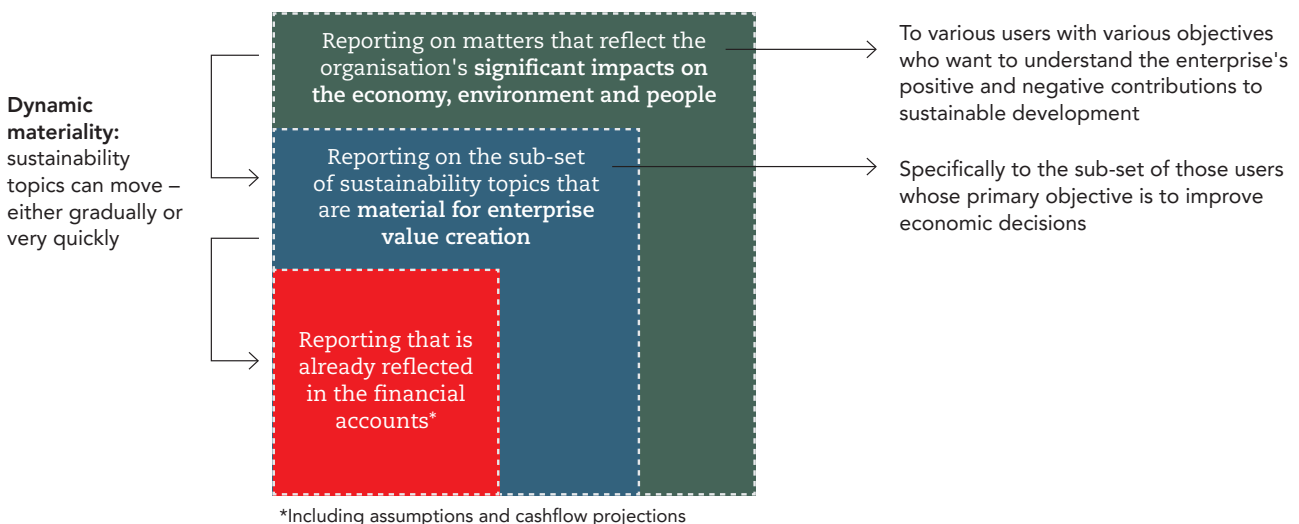
- The subject matter is the assignment topic, for example, the controls.
- The purpose of the assessment is the objective, for example, quality.

The assignment examples cited in this guide reflect the real-world sustainability issues facing organisations, which are complex. They are included to provoke thinking on the audit and assurance issues and the work required. The type of external assurance for many of the examples is likely to be limited, owing to many factors including:

- organisational readiness (eg governance, processes and systems, risk management) or users' expectation of sustainability assurance assignments
- availability of cohesive and coherent generally accepted non-financial reporting and assurance standards
- inherent uncertainty, for example associated with future-oriented information, which is often pertinent to natural capital related assignments.

Source: adapted from IAASB 2013a: paras 10 and 12

FIGURE 3.2: The interconnections of the various approaches to materiality



Source: Adapted from CDP et al. 2020: 5

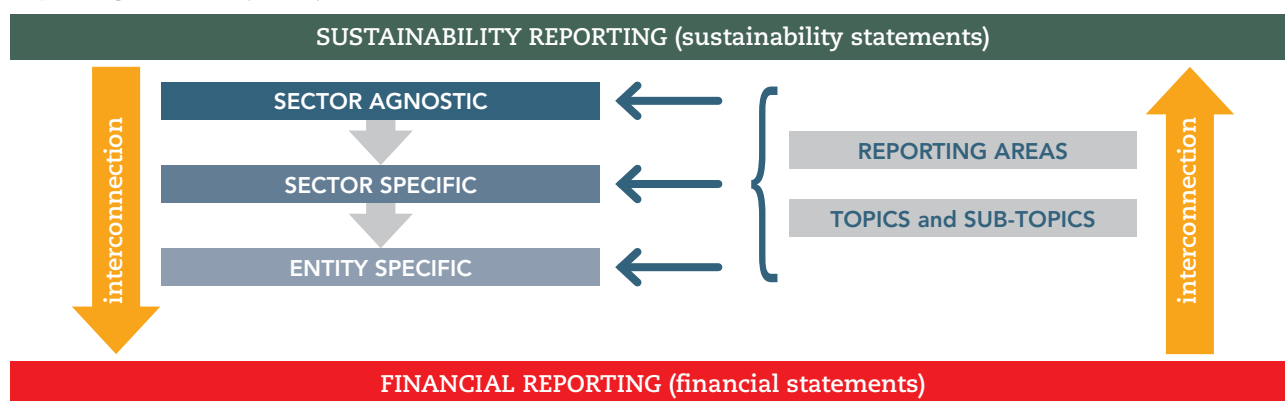
- **Who is the assurance user and what are their needs?** Consider, what do the users want to do with the opinion you provide and can you realistically fulfil that need? What level of knowledge are you assuming users have and, given that, what are your reporting requirements?
- **What is the likelihood that you will be able to provide a reliable opinion?** Consider the feasibility of conducting the assignment relative to the risks involved: this is affected by a number of factors.
 - **Nature of the assignment**, recognising parameters of size, uncertainty, subjectivity and complexity, hence the associated assurance risk. For example, an opinion on the likely success of the organisation's future business strategy is at the demanding end of these parameters whereas an assessment of the process for establishing future compliance with a specific regulation or policy is more straightforward.
 - **Maturity of the organisation in dealing with sustainability issues**, specifically pertaining to integrated thinking, connecting sustainability issues to business and finance across governance, processes and systems, risk management, data collection, measurement and documentation.
 - **Data requirements**, such as access to data and its quality, which are underpinned by investment by the business in processes and systems for collecting, connecting and controlling the quality of the interconnected capitals information sources. The better the system, the easier will the assurance assignment potentially be.
 - **Support of the organisation** is required in its many forms, not just from business leaders, who should allocate reasonable time and resource for the assignment, but also management and operations functions. Collectively, they will provide access to resources and information enabling you to set and complete the task, and support the creation of assurance maps (outlined in section 3.3), and, of course, they must be willing to consider your recommendations fairly, even those that may not reflect entirely favourably on their current practices.
 - **Commensurate remuneration**: specifically, the willingness and ability of the organisation to pay external assurance fees commensurate with the work and skill required.
- **What guidance and support from reporting, audit and assurance standards or frameworks exist to help you?** Audit and assurance guidance exist in the form of ISAE300 (IAASB 2020b) for external auditors, and the IIA Framework and its Performance Standards 2120 and 2130 (IIA 2017) for internal auditors. This guidance is principles based and to be applied in conjunction with policies and standards used by the organisation, for example those related to performance management and corporate reporting. Cited within the corporate reporting guide within this ACCA series (ACCA 2020/21), there are over 700 mandatory reporting requirements related to environmental issues across 70 jurisdictions, creating potential for variability in reporting, and hence assurance risk. Therefore, the moves towards harmonisation and consolidation are welcomed. These include the development of the Non-Financial Reporting Directive (NFRD) (EC 2014), which covers the role of assurance. Similarly, via its proposed Sustainability Standards Board (IFRS 2021), the International Financial Reporting Standards (IFRS) Foundation, and the IAASB with the EER (IAASB 2020b) are supporting the assurance standard ISAE3000 (IAASB 2013a). These will drive the relevance, reliability, consistency and comparability of your work.

3.2 Opportunity for internal and external auditor collaboration

Well-planned collaboration, conducted in line with the frameworks, standards, codes of ethics and conduct, is effective because it enables upskilling through knowledge sharing, potentially leading to more complete integrated capital assurance. Further, greater efficiency is possible through a reduction of duplication of work. The net outcome is relevant, reliable and timely opinions.

Subject to the relevant permissions, scope and independence, internal and external auditors can work together on many assignments, for example in:

- the development and assessment of assurance mappings (explored in section 3.3), that provide a sense of where controls and risks are being managed well, or where duplication, gaps or, worse, conflicts exist across the controls of the different business functions
- supporting the implementation and boosting the quality of reporting and assurance, for example, when applying the European Financial Reporting Advisory Group's proposed reporting across three categories, at entity level, sector-agnostic and specific (EFRAG 2020) (See Figure 3.3) to connect financial and sustainability reporting. Knowledge sharing is possible, internal auditors have in-depth knowledge and external auditors possess breadth at the entity and sector level.

FIGURE 3.3: European Financial Reporting Advisory Group (EFRAG) task force proposals for the Non-Financial Reporting Directive (NFRD)

The Sustainability Standards Architecture combines three layers.

- The **sector-agnostic** layer encompasses disclosures and data points that will be mandatory requirements to be followed by all reporting entities in the scope of the NFRD. This would also include the design of the sustainability reporting structure and format within corporate reporting, together with the related Reporting Taxonomy referred to as the classification of sustainability information in a way that will allow from day one a digital taxonomy).
- The **sector-specific** layer encompasses disclosures and datapoints that will be mandatory requirements to be followed by all reporting entities of each sector. This would address risks and impacts not covered, or insufficiently covered, by sector agnostic sustainability information, as a complement to sector agnostic sustainability reporting.
- The **entity-specific** layer encompasses disclosures and data points appearing material following an entity double materiality assessment process and that are not covered, or insufficiently covered, by the requirements of the above layers. The full materiality assessment process at entity level will be conducted following a standard inspired by the standard setting guidelines.

Source: EFRAG 2020: 25 and 40

Finally, if external auditors plan to rely on the work of internal auditors, they should follow the guidance of ISA 200, 'Overall objectives of the independent auditor and the conduct of an audit' (IAASB 2009) and ISA 610, 'Using the work of internal auditors' (IAASB 2013b).

3.3 Integrate the standards and frameworks with your risk-based methodology

With the scope agreed, you are now ready to begin work on either the internal audit or external assurance sustainability-related assignment. Guidance, in the form of audit and assurance standards and frameworks,⁴ must be considered in conjunction with the sustainability accounting and reporting guidance that both ACCA's performance managers and corporate reporters guides explain (ACCA 2020/2021).

Furthermore, both internal and external audit experts recommend embedding a risk-based approach into the

audit and assurance methodology. This approach, as applicable for internal and external auditors, involves consideration and action for:

- business risks, whether financial, operational, strategic, reputational or compliance risks and their management, should be reflected in the assurance approach (Chartered Institute of Internal Auditors 2014) for the assignment subject matter
- assurance risks, together with their mitigation strategies (accept, transfer, reduce, avoid or segregate) at each stage of the audit or assurance assignment, ie during planning, fieldwork, forming and reporting the opinion.

In this context, as relevant to your internal or external audit role, the techniques of inspection, observation, confirmation, interview and inquiry, reperformance, recalculation and analytical review should be applied to the assignment, while also considering materiality and the control environment.

⁴ The audit and assurance standards and frameworks include those from Committee of Sponsoring Organizations of the Treadway Commission (COSO), IIA, relevant ISAs, ISAE3000, ISRS4400 and EER.

Take a case-by-case approach

Sustainability assignments are diverse in subject matter and purpose. A further consideration for external auditors, who may conduct similar assignments but for different organisations, is that no two organisations have the same dependency and impact on the environment because operating environment, strategy, governance, systems and process, risk and controls will all be different.

Consider what constitutes a good outcome for the subject matter

You should consider your findings and compare them with what would be considered a good outcome, given the assignment's focus: in other words, the subject matter.

A good outcome for a sustainability report, or other non-financial information assignment, is that it fulfils the guidance of the selected reporting standard or framework and meets the criteria of the tenets of good corporate reporting (see Box 2.1). These reports often contain future-oriented subject matter, for instance about the organisation's strategic commitment to the environment (see Box 3.2), here ISAE3000 (IAASB 2013a) and Performance Standards 2120 & 2130 (IIA 2017) provide guidance.

Reflect materiality

Where natural capital is concerned, material issues are likely to be either those with a significant external impact or those that affect enterprise value creation, or both



Box 3.2: Good outcome for a future-oriented assignment

An organisation makes a claim that 'it will be carbon neutral in 10 years', providing details of its plans, assumptions and the conditions that need to be in place to achieve this.

The level of inherent uncertainty, among other factors, means that it is unlikely that you will be able to substantiate this claim entirely, therefore for external assurance it is likely to be a limited assurance engagement. Here is a sample of the procedures to be undertaken in obtaining some comfort on the underlined statement above.

CRITERIA	GOOD OUTCOME	PROCEDURES TO BE UNDERTAKEN
Relevant	Strategy represents genuine intentions of meeting stakeholder expectations	- Investigate the strategy development process. - What consideration has been made for internal and external stakeholders and their issues? How does this compare with other organisations that have similar strategies? - How are risks and opportunities identified and managed?
Complete	All material assumptions and conditions have been considered	Capability assessment – how is this being financed? What transformation is needed? What resources are in place?
Reliable and credible	The strategy is underpinned by evidence to suggest its achievability	- Commitment – how committed is the business to making the transformations required? - What calculations exist to support the plan? - Were several scenarios developed to identify and test the assumptions and conditions? And what sensitivity analysis was conducted? - How complete and effective are the risk-management controls?
Neutral	There is no bias internally and externally	What means of communication were used? What expectations are being set among stakeholders?
Comprehensible	The user understands the strategy, including its scope; for example, has the organisation made clear the extent to which carbon neutrality applies – just to the organisation or to its supply and customer chain too?	What supporting information was provided to aid various stakeholders understand and engage with the strategy?

Source: Adapted from IIA Netherlands and Deloitte's contribution to the NFRD

(double materiality⁵). These issues should be reflected within the leadership, management and operational functions, and therefore be identified, measured, managed and reported. Understand and assess the organisation's materiality process, including evidence of integrated thinking, to identify material issues. This means assessing how governing bodies and managers of operational functions, individually and collectively:

- identify natural capital issues
- consider the relationships between these issues and their impacts on the other interconnected capitals
- appreciate the perspectives of different stakeholder interests in the context of each issue.

Understand the control environment

For many organisations, the natural capital control environment is likely to be less well-developed than that for the financial and manufactured capitals, yet it is crucial for effective, efficient and economic achievement of many strategies. Understanding the control environment involves understanding all the following aspects of the organisation.

- **Governance structures for making and implementing decisions throughout the organisation**
 - Who in the business is accountable for sustainability issues?
 - Where and how are sustainability risks, issues and opportunities discussed within the organisation?
 - Is there buy-in across all organisation functions for sustainability initiatives?
 - What recognition is given to those who achieve sustainability strategic success? For example, is it part of the remuneration reward system?
- **Processes and systems in gathering, analysing and evaluating data**
 - What are the systems for identifying, measuring and reporting sustainability issues? Are they consistently applied? How is sustainability information integrated with information relating to the other capitals, particularly financial?

- How adaptable are data collection and compliance functions to forthcoming laws and regulations?
- How is IT used to collect and connect data?

- **Sufficiency of monitoring and risk controls in place to detect, prevent and correct, or even identify opportunities**

- If the organisation takes no action, is its relevance under threat from adverse action that might be taken by its stakeholders, policymakers, consumers, media, etc?
- How have sustainability goals been incorporated into targets and how are they monitored and acted upon?
- Are the findings from the audit and assurance process implemented? If so, are they sufficiently prioritised and how successfully are they addressed?

- **Approach taken to future proofing the above processes and systems, governance and controls**

- What processes exist to assess emerging issues?
- What activity happens to drive continual improvement? For example, are lessons learned?

Adopt natural capital assurance mapping

When the control environment is presented as an assurance map (ACCA 2021; ACCA 2011), the main users, such as the Audit Committee, assurance providers and operational management, will be able to understand:

- the assurance activity that is being undertaken across the organisation (quantity not quality)
- any gaps in that assurance (risks and controls not covered) that need to be either filled or accepted
- any conflicts in assurance, specifically instances where the controls relevant for one business function result in risk or conflicts in another
- any overlaps in assurance, where efficiency gains can be made (see Figure 3.4).

⁵ Double materiality should be taken to mean

- in the broad sense of affecting the value of the company
- impact of the organisation's activities on the environment and society

The terms 'external impact' and 'value creation' are used in the corporate reporter and performance manager guides in the ACCA (2020/2021) series and should be taken together to reflect double materiality.

FIGURE 3.4: Example assurance map

In this example, there are six assurance providers (listed on the top row of the table), each with controls to manage the strategic and operational risks (outlined in the first column of the table).

		INDEPENDENT MONITORING					
EXAMPLES OF KEY RISK AREAS	Management monitoring	Risk management	Insurance	Compliance	Internal Audit	Quality	
Strategic risks							
Market development	●	●	●	●	●	n/a	Example of duplication Strategy, Risk Management and IA functions perform independent assessments of market development risks
Customer needs	●	●	●	●	●	●	
Political and regulatory	●	●	●	●	●	●	
Economic environment	●	●	●	●	●	●	
Operational risks							
Supply chain	●	●	●	●	●	●	Example of gap Incomplete analysis of supply chain risks across the business
Legal and compliance	●	●	●	●	●	●	
Health and safety	●	●	●	●	●	●	
Financial control	●	●	●	●	●	n/a	Example of duplication Multiple financial control risk assessment languages and methodologies
Information technology	●	●	●	●	●	n/a	

Source: ACCA 2011

Source: ACCA 2011

The map can also be used to define the internal audit or focus the external assurance assignment plan, for example to review assurance provider skills and competency requirements, rather than controls, or consider a group of controls together. It is here that integrated assurance is possible, in other words providing holistic insight that considers the assurance across the various organisation functions together and/or for groups of stakeholders (Deloitte 2018).

Form your opinion and report

In forming your opinion, consider the materiality, business and assurance risks throughout the process, from the assignment inception to evidence gathering and assessment that all lead to your conclusions.

If you are an external auditor, in reporting your opinion you will need to comply with the requirements of ISAE3000. Whether you are an internal or external auditor, you should make sure your communication complies with the principles of report quality, akin to the tenets of good corporate reporting outlined earlier, and mitigate assurance risk by:

- articulating the precise scope of the assignment, including the type of assurance that was being sought
- clearly identifying the intended audience
- setting out the respective responsibilities of the organisational function commissioning the assignment and the auditor
- detailing the work performed in arriving at the insight, including
 - assumptions required to perform the assignment
 - limitations associated with any aspect of the assignment, from making assumptions and performing the work, to arriving at and reporting findings
 - standards and frameworks governing the assignment, for example reporting, audit and assurance
 - resources used
- expressing your opinion and indicating, where applicable, the connectivity to other assurance assignments. For example, this assignment may relate to key performance indicators (KPIs) subject to reasonable assurance, where the KPIs are included in a sustainability report for which limited assurance is relevant.

**IN FORMING YOUR OPINION,
CONSIDER THE MATERIALITY, BUSINESS
AND ASSURANCE RISKS THROUGHOUT
THE PROCESS, FROM THE ASSIGNMENT
INCEPTION TO EVIDENCE GATHERING
AND ASSESSMENT THAT ALL LEAD
TO YOUR CONCLUSIONS.**

”

4. The support required

Behind a successful internal audit and external assurance assignment is a governance structure and organisational culture, one that supports the work of the auditor and assurer. In addition, you must take responsibility for being suitably skilled.

4.1 The role of governance

Governance should also support the auditor and assurer, as this underpins a more meaningful assurance assignment by:

- **facilitating unchallenged access to all relevant business functions**, including their information systems
- **setting a culture of willingness to collaborate**, specifically sharing cross-functional and specialist knowledge that is fundamental to integrated thinking. Further, collaboration makes it easier to influence any required change
- **ensuring financial and operational support** for the assignment in forms of:
 - engagement, for example setting out the assignment to encourage stakeholder buy-in internally and as needed externally, so with employees or across the supply and value chain
 - provision of resources relating to budget and relevant IT, such as data analytic software
 - access to data required, such as that of sustainability experts, for which out and co-sourcing may be good options if they do not exist within the organisation.

4.2 The internal and external auditor skills

Sustainability and non-financial report assignments call for some specific skills, including the following.

- **Technical competency**, which involves being aware of the guidance in existence today and that being developed at an increasingly rapid pace. You must apply integrated thinking, which means connecting the guidance for sustainable governance, performance management, accounting and reporting, as well as audit and assurance, to the end-to-end business process and the interconnected multi-capitals. You needn't be a sustainability expert (specifically, as far as this guide is concerned, in natural capital), but should be sufficiently scientifically literate to appreciate the outputs, outcomes and key messages from the experts.
- **Professional scepticism** requires an investigative, hence curious, open, creative and innovative mindset, allowing you to
 - identify data needs, analysis and evaluation in reaching conclusions
 - assess choices about how to report on the organisation's sustainability-driven activities.
- **Vision, agility and adaptability** are needed, for example, to tailor the risk-based approach to the specifics of the assignment as it evolves.

Many of these attributes and skills are already within the auditor and assurers' toolkit, and that is why you are best placed to extend them to sustainability assignments.



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