

A full-page background image of a waterfall cascading over layered, reddish-brown rock formations into a pool of dark blue water. The scene is captured from a low angle, looking up at the falls.

SUSTAINABILITY ASSURANCE – RISING TO THE CHALLENGE

Think Ahead

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SUSTAINABILITY ASSURANCE – RISING TO THE CHALLENGE

About this report

This report provides an overview of the current landscape for sustainability assurance and an introduction to relevant requirements of standards and guidance issued by the International Auditing and Assurance Standards Board (IAASB). It also provides insights on the key challenges that practitioners currently face in practice, supported by evidence gathered from a series of virtual roundtables with global representation, while touching on the relevant skills and competences needed for undertaking sustainability assurance engagements.

AUTHORS

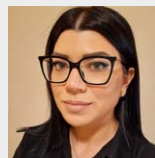


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Foreword



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The evolution of corporate reporting is here, with more eyes than ever focusing on sustainability information and its reporting. Investors place more reliance on sustainability reporting and want to be able to trust the information that they are presented with, so attention is increasingly turning to how assurance of this information will be provided.

These developments represent both a challenge and a massive opportunity for the accountancy profession. Globally, the profession is engaged in thinking about the framework within which assurance engagements should be carried out, and who will be best qualified to carry out this work. Some jurisdictions, most notably the European Union (EU) with its Corporate Sustainability Reporting Directive (CSRD), are progressing quickly in developing firm proposals for an assurance regime for sustainability reporting.

In this report, ACCA aims to provide an overview of the current landscape for sustainability assurance and an introduction to some of the key requirements of International Standard on Assurance Engagements (ISAE) 3000 (Revised), the extant standard for Assurance engagements other than audits and reviews of historical information, and the relevant paragraphs of the Sustainability and other Extended External Reporting guidance, published by the International Auditing and Assurance Standards Board (IAASB).

We also provide insights on the key challenges that practitioners currently face in practice, supported by evidence gathered from a series of virtual roundtables carried out in late 2022 and early 2023. These roundtables benefited from global representation of the profession, including experienced practitioners who provide sustainability assurance under ISAE 3000 (Revised), as well as other representatives involved with audit and assurance policy-related matters.

The report concludes that the accountancy profession, alongside other professionals performing assurance engagements, is well placed to satisfy the unprecedented demand for sustainability assurance, highlighting that the core assurance skills obtained through experience of the audit of financial statements remain of vital importance in performing sustainability assurance engagements.

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Executive summary

Sustainability reporting is evolving very rapidly and has become one of the hottest topics discussed globally, both within and outside the accountancy profession.

This is driven both by the increased importance placed by investors on sustainability reporting, influencing their investment decisions, and by the broader actions put in place by governments across the globe to address issues such as climate change and biodiversity, as well as their actions aimed at reaching their own sustainability goals. Trust in sustainability reporting is therefore of vital importance, with stakeholders expecting assurance to fulfil its role in enhancing its credibility.

ACCA recognises that owing to the high volume of information involved, it can be overwhelming for those interested to find out relevant details or to be involved in a sustainability assurance engagement, not knowing where to start. This report aims to raise awareness of the current landscape for sustainability assurance. We also refer to relevant requirements of the extant standard ISAE 3000 (Revised) (IAASB 2022a) and related paragraphs of the IAASB's Sustainability and other Extended External Reporting (EER) guidance (EER see: IAASB 2021) currently

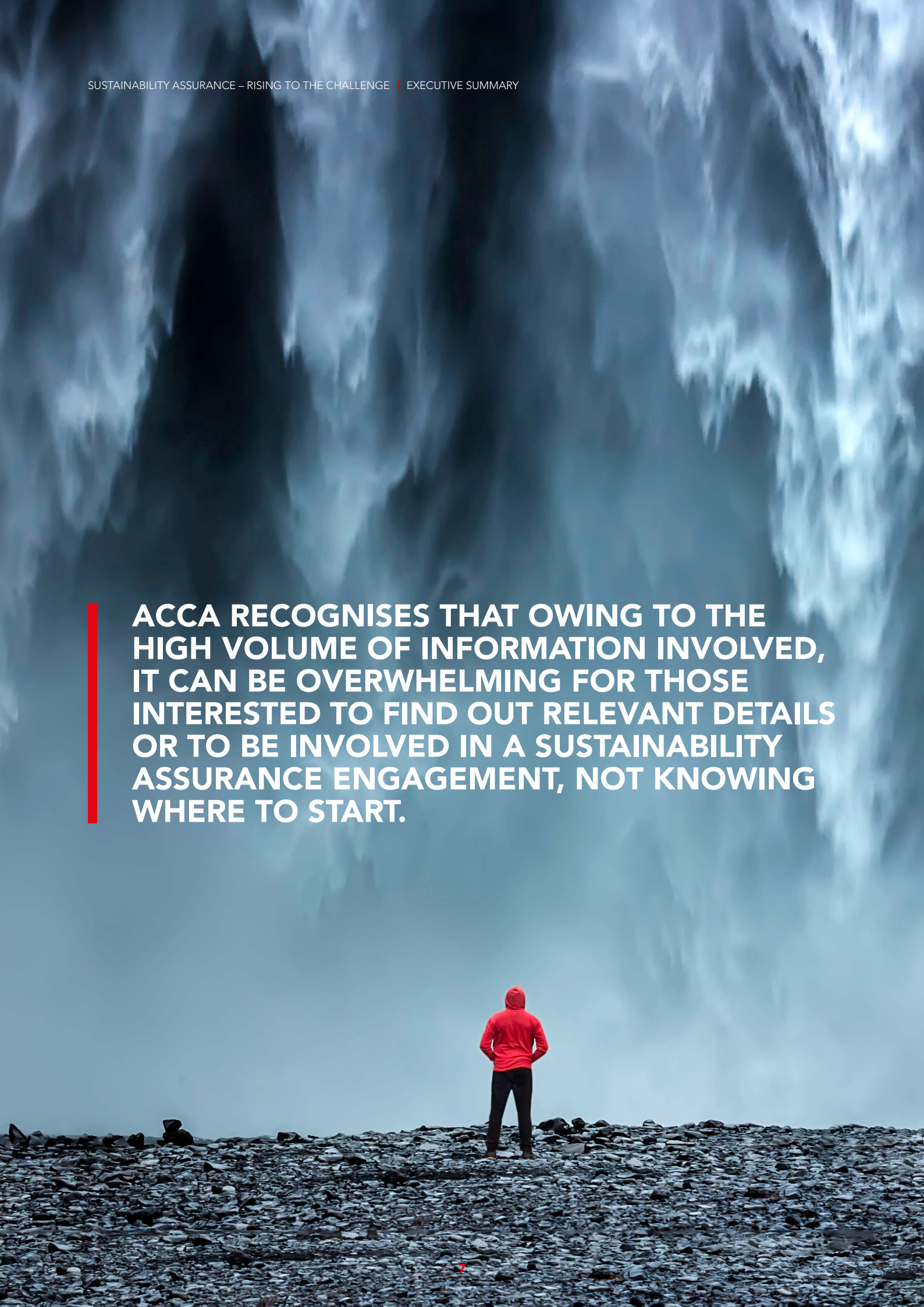
used by the vast majority of practitioners who perform sustainability assurance engagements.

Supported by evidence gathered from a series of virtual roundtables with practitioners experienced in providing sustainability assurance under ISAE 3000 (Revised), and with global representation of the profession, together with other representatives involved with audit and assurance policy-related matters, we provide insights about the key challenges currently faced in practice. The IAASB's key priority areas of focus, as part of its project on sustainability assurance (approved in 2022), formed a key part of these roundtable discussions.

Recognising the unprecedented demand for sustainability reporting and assurance, this report also provides insights on the skills required for those looking to be involved in or to undertake a sustainability assurance engagement, supported by our roundtable participants' shared experiences.

Our research yielded the following key messages

- We suggest that the IAASB and national standard setters should find the right communication channels to create visibility and awareness of some of the key differences between 'limited' and 'reasonable' assurance to avoid creating a new expectation gap in sustainability assurance engagements.
- The IAASB's extant standard ISAE 3000 (Revised) and the Sustainability/EER guidance provide a strong foundation for those intending to undertake a sustainability assurance engagement before the IAASB's overarching standard is finalised.
- In developing both reporting and assurance standards, standard setters need to consider explicitly the risk of misleading reporting via greenwashing, in a similar way to the consideration of fraud in relation to the reporting and audit of financial statements.
- Unlike financial statement audits, where estimates are normally based on historical information, estimates in sustainability assurance engagements are often based on hypothetical future scenarios. We suggest that a concept dealing with estimates in sustainability assurance engagements should be an area of future focus for the IAASB.
- In sustainability assurance engagements there is an unprecedented dependence on subject matter experts, which may suggest the need for additional standard or guidance beyond what is currently in ISAE 3000 (Revised) and ISA 620.
- The assurance report is the end-product of a sustainability assurance engagement, similar to the auditor's report in a financial statement audit. This should be recognised as a key priority area by standard setters and policymakers, particularly in dealing with the differences between 'limited' and 'reasonable' assurance.
- Assurance skills obtained through audit experience remain of vital importance in performing sustainability assurance engagements.

A person wearing a red hoodie and dark pants stands with their back to the camera on a dark, rocky beach. They are looking up at a massive, towering waterfall that fills the upper two-thirds of the frame. The water is white and turbulent as it falls, creating a sense of scale and challenge. The sky is a pale, overcast blue.

ACCA RECOGNISES THAT OWING TO THE HIGH VOLUME OF INFORMATION INVOLVED, IT CAN BE OVERWHELMING FOR THOSE INTERESTED TO FIND OUT RELEVANT DETAILS OR TO BE INVOLVED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT, NOT KNOWING WHERE TO START.

Introduction

The demand for corporate reporting that goes beyond the scope of current financial statements is growing rapidly, and in turn the global response, in particular via the work of the International Sustainability Standards Board (ISSB), has been swift.

It is very clear that the demand for sustainability reporting is now higher than ever, with regulators across the globe considering mandatory reporting requirements. Perhaps most notably, the European Commission (EC) in the EU has replaced the Non-Financial Reporting Directive (NFRD) with the Corporate Sustainability Reporting Directive (CSRD), introducing mandatory sustainability reporting requirements for a larger pool of entities, alongside requirements for assurance over published information.

There is a great deal of useful information available on sustainability reporting and assurance, but it can be difficult for those interested to find out more information or to be involved in a sustainability assurance engagement, to know where to begin. This report aims to help, by raising awareness of the current landscape on assurance over sustainability-related information. This includes sharing insights about the extant standard, ISAE 3000 (Revised) (the Standard) (IAASB 2022a) and related paragraphs of the IAASB's Sustainability/EER guidance (IAASB 2021) currently used by the vast majority

of practitioners who perform sustainability assurance engagements. Using illustrative examples where possible, this report also refers to some of the key steps involved in performing a sustainability assurance engagement.

Additionally, we share insights about the key challenges that assurance practitioners currently face in applying ISAE 3000 (Revised) in performing sustainability assurance engagements. ACCA has conducted roundtables globally with assurance practitioners to improve understanding and inform the accountancy community better about these challenges. The IAASB's key priority areas of focus, as part of its project on sustainability assurance, discussed later in Chapter 1 of this report, formed a key part of these roundtable discussions.

Recognising that there is an unprecedented demand for sustainability reporting and assurance, we also outline the key points raised during the roundtable discussions touching on the skills required for those interested in being involved in, or undertaking, a sustainability assurance engagement.

Disclaimer: This report is designed to help those interested in being involved with sustainability assurance engagements under ISAE 3000 (Revised), but it is not a substitute for the requirements of the Standard or the Sustainability/EER guidance themselves. Under no circumstances shall ACCA be liable for any loss or damage suffered, either directly or indirectly, as result of reliance on any contents of this report.

A person wearing a blue jacket and a headlamp is sitting on a rocky mountain peak. The headlamp beam illuminates the person's face and the rock. The background is a vast, dark night sky filled with stars and the Milky Way galaxy. The horizon shows a faint orange glow from the setting or rising sun. A vertical red bar is positioned to the left of the text.

**IT IS VERY CLEAR THAT THE DEMAND
FOR SUSTAINABILITY REPORTING
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WITH REGULATORS ACROSS THE
GLOBE CONSIDERING MANDATORY
REPORTING REQUIREMENTS.**

1. Current landscape

Before making a deep dive into assurance over sustainability reporting information, it is worth clarifying what we mean by sustainability reporting, starting with an overview of the current landscape.

Unlike financial reporting, sustainability reporting is currently still under development and, while it usually involves entities' reporting on environmental, social and governance (ESG) matters, there is still no universally accepted definition.

Work is advancing both globally (through the ISSB) and regionally (e.g. through the European Financial Reporting Advisory Group (EFRAG) in Europe) to develop reporting standards, and the importance of alignment between different initiatives will be crucial if progress is to be made in rationalising the current divergent landscape into a more consistent and commonly understood approach.

Therefore, while the consolidation and harmonisation of the numerous voluntary frameworks, standards and guidance, such as Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and the International Integrated Reporting Framework (<IR> Framework), into a few mandatory and potentially mandatory regulations is a positive step, there is continued significant divergence in reporting standards that will potentially have an impact on assurance.

The European Commission (EC) via the CSRD requires the adoption of EU sustainability reporting standards by eligible reporting entities. The EFRAG has been 'requested to provide Technical Advice to the European Commission in the form of fully prepared draft standards and/ or draft amendments to Sustainability Reporting Standards' (EFRAG 2022). In November 2022, EFRAG approved the amended European Sustainability Reporting Standards (ESRS) which form part of the CSRD and these are expected to be adopted by the EC by mid-2023.

From an international perspective, the ISSB published the Exposure Draft IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft), which sets out the overall requirements for an entity's disclosure of sustainability-related financial information covering all its significant sustainability-related risks and opportunities, and the Exposure Draft IFRS S2 Climate-related Disclosures (Climate Exposure Draft), which builds upon the recommendations of the TCFD and incorporates industry-based disclosure requirements derived from SASB Standards (ISSB 2022b). At the time of writing this report, the standards are expected to be ready for use in January 2024.

While it is clear that sustainability reporting is still developing, and time will be needed before companies reach full compliance with the ISSB standards, it seems that we are heading in the right direction in elevating sustainability reporting towards the same level as financial reporting. The swift response of the ISSB with the development of the ISSB standards, also reduces the risk of fragmentation in sustainability reporting, which in turn, will enable comparability, similar to the International Financial Reporting Standards (IFRS) in financial reporting.

As the demand for sustainability reporting grows and, in some instances, becomes mandatory, the demand for assurance over sustainability reporting information grows too. This should not come as a surprise, as investors, regulators and other stakeholders seek to enhance their confidence in sustainability reporting information to the same level that the statutory audit provides over financial information.

'AUDITORS CONTRIBUTE TO THAT PURPOSE BY INFLUENCING CREDIBLE BUSINESS THAT ENGENDERS TRUST AND CONFIDENCE IN ITS OPERATIONS. IN FACT, IT IS A PURPOSE THAT CAN BE TRACED BACK TO THE DAYS OF ANCIENT EGYPTIANS, ROMANS AND GREEKS' (ACCA 2020).



ACCA's report with the Adam Smith Business School of the University of Glasgow titled *Companies' Readiness to Adopt IFRS S2 Climate-related Disclosures*, examined the readiness of companies to adopt IFRS S2 climate-related disclosures, using a sample of 100 companies from two different sectors: the chemical industry and the construction materials industry. The report states: 'companies in both industries exhibit a moderate overall level of the climate-related disclosures that are prescribed by ED IFRS S2. Companies in the chemicals industry exhibit an overall mean score of disclosure of 43%, whereas companies in the construction materials industry have a slightly lower overall mean score of 39%' (ACCA and University of Glasgow 2022).

For example, the EC, via the CSRD, includes a requirement for mandatory limited assurance over sustainability reporting and aims to move gradually towards 'reasonable assurance'. In other jurisdictions, such as South Africa, assurance over integrated reporting for listed entities is also mandatory. This raises the question of whether extant assurance standards remain relevant and if so, what the challenges are for practitioners using them. This is further examined in Chapters 2 and 3 of this report.

1.1 Corporate Sustainability Reporting Directive (CSRD)

On 5 January 2023, the CSRD entered into force, replacing the NFRD. The CSRD brings approximately 50,000 companies into scope, including listed small and medium-sized enterprises (SMEs), which will be required to report on sustainability under the ESRS (EC 2023).

The new directive aims to end greenwashing and lay the groundwork for sustainability reporting standards at a global level (EC 2022a). Greenwashing is discussed in more detail later in this report (see section 3.2). The CSRD introduces more detailed reporting requirements and ensures that large companies are required to report on sustainability issues such as environmental rights, social rights, human rights and governance factors.

Additionally, the new directive also introduces a mandatory sustainability assurance requirement ('limited assurance' with a gradual move towards 'reasonable assurance') for sustainability reporting as well as 'improved accessibility of information, by requiring its publication in a dedicated section of company management reports' (European Council 2022). Requiring companies to have the information on their impact on the climate or human rights to be independently audited and certified is aimed at enhancing investors' confidence.

The implementation of the new CSRD rules will take place in three stages:

- 1 January 2024 for companies already subject to the NFRD
- 1 January 2025 for companies that are not currently subject to the NFRD
- 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings (European Council 2022).

These developments present a vast opportunity and challenge to assurance practitioners that this report explores in sections 3 and 4.

1.2 International Auditing and Assurance Standards Board (IAASB)

In September 2022, the IAASB approved a project proposal for the development of an overarching standard for assurance on sustainability reporting using a 'stand-alone' approach. The standard's proposed title is International Standard of Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. The IAASB agreed that the standard would be consistent with ISAE 3000 (Revised), recognising the need to be more innovative in some instances.

The IAASB's project objective for ISSA 5000, is to be:

- 'a) Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements;
- b) Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks, and
- c) Implementable by all assurance practitioners' (IAASB 2022b: 4).

The development of the ISSA 5000 will address how to conduct an assurance engagement in its entirety (ie all elements of the engagement from engagement acceptance through to reporting).

The following points summarise the priority areas that will be considered as part of developing the overarching standard.

- 'a) The difference in work effort between limited and reasonable assurance, including sufficiency of evidence.
- b) The suitability of the reporting criteria, including addressing concepts such as double materiality.
- c) The scope of the assurance engagement.
- d) Evidence, including the reliability of information and what comprises sufficient appropriate evidence.
- e) The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence, including the reliability of the information to be used as evidence.
- f) Materiality in the context of the assurance engagement, including materiality in the context of narrative and qualitative information' (IAASB 2022b: 9).

THE NEW DIRECTIVE AIMS TO END GREENWASHING AND LAY THE GROUNDWORK FOR SUSTAINABILITY REPORTING STANDARDS AT A GLOBAL LEVEL (EC 2022A).

1.3 International Ethics Standards Board for Accountants (IESBA)

In June 2022, the IESBA embarked upon work to develop fit-for-purpose, globally applicable ethics and independence standards as a critical part of the regulatory infrastructure needed to support transparent, relevant and trustworthy sustainability reporting. As noted in IESBA's December 2022 update, 'the coordinated development of interoperable global baseline standards addressing sustainability reporting and assurance has been explicitly supported by the international regulatory community' (IESBA 2022a), which is relevant to both the IAASB and ISSB.

In December 2022, the IESBA approved two new projects relating to sustainability. The first one was the 'Sustainability Project' focusing on:

- Profession-agnostic independence standards for use by all sustainability assurance practitioners
- Specific ethics provisions relevant to sustainability reporting and assurance' (IESBA 2022a).

The second project was the 'Experts Project' focusing on: 'Specific ethics and independence provisions addressing the use of experts by organisations as well as in the context of audit and assurance engagements (including sustainability assurance)' (IESBA 2022a).

ACCA strongly supports the very positive step forward being taken by both the IAASB and the IESBA as international standard setting boards for audit and assurance standards and ethics respectively, in response to the public-interest demand for global standards on sustainability assurance and ethics. And similarly, ACCA supports the ISSB's action on sustainability reporting information.

THE SWIFT RESPONSE OF THE ISSB WITH THE DEVELOPMENT OF THE ISSB STANDARDS, REDUCES THE RISK OF FRAGMENTATION IN SUSTAINABILITY REPORTING, WHICH IN TURN, WILL ENABLE COMPARABILITY, SIMILAR TO IFRS IN FINANCIAL REPORTING.

2. Sustainability assurance using extant standard and guidance

Sustainability assurance engagements are currently performed using different frameworks, such as AccountAbility's AA1000 Series of Standards (Accountability 2023) and the International Standard on Assurance Engagements (ISAE) 3000 (Revised) (IAASB 2022a). A recent International Federation of Accountants (IFAC) study (IFAC 2022) found that the vast majority¹ of sustainability assurance providers reviewed worldwide use *ISAE 3000 (Revised)*. The IAASB has also developed the ISAE 3410 (IAASB 2022a), a specific standard focusing on the Assurance Engagements on Greenhouse Gas Statements, and which builds on ISAE 3000.

For the purposes of this report, we focus on the ISAE 3000 (Revised) and the *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and*

Other Extended External Reporting (EER) Assurance Engagements ('Sustainability/EER Guidance').

In this chapter we highlight some of the key requirements of ISAE 3000 (Revised) and relevant paragraphs of the Sustainability/EER Guidance to help practitioners navigate some of the key steps involved in undertaking a sustainability assurance engagement. ACCA notes that this material is not a substitute of the Standard or the Sustainability/EER guidance and practitioners should refer to the full ISAE 3000 (Revised) standard and Sustainability/EER guidance.

Look out for these icons throughout this chapter, which highlight some of these key extracts:



ISAE 3000
(Revised)



Sustainability/
EER guidance

2.1 Ethical and quality management requirements

Starting with the ethical requirements, the ISAE 3000 (Revised) has been prepared under the premise that:



The practitioner shall comply with the provisions of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding (IAASB 2022a: 80 para. 20).

For quality management,² the standard requires that the engagement partner shall:

- a) Be a member of a firm that applies [ISQM 1],³ or other professional requirements, or requirements in law or regulation, that are at least as demanding as [ISQM 1];
- b) Have competence in assurance skills and techniques developed through extensive training and practical application; and
- c) Have sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion (IAASB 2022a: 85–86 para. 31).

The ISAE 3000 (Revised) standard is *profession agnostic*. Practitioners who provide sustainability assurance are often professional accountants (PAs, ie individuals who are members of an IFAC member body) but the Standard acknowledges that a competent practitioner other than a professional accountant (non-PAs) may still use the Standard and would be subject to the requirements noted above (EER, see IAASB 2021: para. 47).

¹ The report shows that 94% of the 1400 companies reviewed across 22 jurisdictions applied ISAE 3000 (Revised).

² Quality control approach has been replaced by quality management.

³ ISQC 1 was replaced by the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or other Assurance or Related Services Engagements*, which came into effect on 15 December 2022.

2.2 Applying appropriate competence and capabilities

Both the ISAE 3000 (Revised) (paragraphs 31–32) (IAASB 2022a) and the Sustainability/EER guidance (Chapter 1 of the Guidance) (EER, see IAASB 2021) explain the competence and capabilities needed to perform a sustainability assurance engagement. These include both ‘competence in assurance skills and techniques (“**assurance competence**”) and competence in the underlying subject matter of the engagement and in its measurement or evaluation (“**subject matter competence**”)’ (EER, see IAASB 2021: 9 para. 25).

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Assurance competence is required in order to obtain sufficient appropriate evidence to support the assurance provider’s conclusion. As per paragraph A9 of the Standard:

Assurance skills and techniques include:

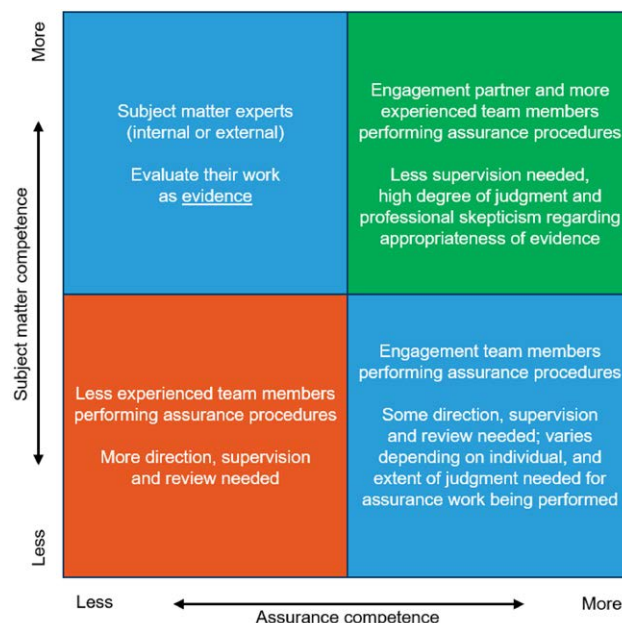
- Application of professional skepticism and professional judgment [see also section 2.4 below];
- Planning and performing an assurance engagement, including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures; and
- Applying procedures as appropriate to the engagement (which may include inquiry, inspection, recalculation, reperformance, observation, confirmation, and analytical procedures); and
- Systematic documentation practices and assurance report-writing skills (IAASB 2022a: 96 para. A9).

As in financial statements audits, assurance skills are very important for sustainability assurance engagements. As per paragraph 29 of the Sustainability/EER guidance, ‘Assurance competence is distinct from, and calls for more than application of, subject matter competence’ (EER, see IAASB 2021: 10 para. 29). This has been particularly stressed by the practitioners during our roundtable discussions, who emphasised the importance of having developed assurance skills, as discussed later in Chapter 3 of this report.

Nonetheless, the importance of subject matter competence should not be underestimated, and the members of the engagement team may need a good level of ‘competence in both, as well as industry and sector knowledge, to be able to consider the information needs of intended users and exercise the professional skepticism and professional judgment needed during planning and performing an assurance engagement’ (EER, see IAASB 2021: 10 para. 29).

Figure 2.1 shows the interconnectedness of assurance and subject matter competence when performing a sustainability assurance engagement (EER, see IAASB 2021: 13).

FIGURE 2.1: Relating competence to direction, supervision and review



Source: EER, see IAASB 2021:13

ILLUSTRATIVE EXAMPLE

A professional services firm voluntarily reports, and requests assurance, on:

- Its greenhouse gas (GHG) emissions from purchased electricity for a single office;
- Metered water consumption for its office; and
- The number of employees by gender and by grade.

In this example, an engagement partner and one or more practitioners with competence and experience in sustainability assurance engagements are likely to be able to perform the engagement to meet the requirements of the Standard without the need to engage further subject matter expertise.

By contrast, [suppose] an energy company reports and requests assurance on the quality of effluent associated with a power plant. An engagement partner may utilize a biologist, chemist or physicist (practitioner’s expert), as appropriate, to assist in designing and performing procedures associated with measuring effluent quality. (EER, see IAASB 2021:11)

2.3 Acceptance and continuance

As the practice of sustainability reporting is still maturing, with both frameworks and suitability criteria being developed at a rapid pace, determining what constitutes the acceptance and continuance is one of the most critical parts when considering undertaking a sustainability assurance engagement. This includes a process of understanding whether the preconditions have been met, the appropriateness of the underlying subject matter, suitability of criteria, and a rational purpose for the engagement. These requirements are part of paragraphs 21–30 of ISAE 3000 (Revised).



The practitioner shall accept or continue an assurance engagement only when:

- a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (b) The practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities [see also 2.2 above]; and
- (c) The basis upon which the engagement is to be performed has been agreed, through:
 - (i) Establishing that the preconditions for an assurance engagement are present and
 - (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities (IAASB 2022a: 84 para. 22).

Preconditions for the assurance engagement

A critical step before accepting or continuing an assurance engagement is to establish whether the preconditions for the assurance engagement are met. The preconditions are set out in paragraph 24 of the Standard and based on these, the practitioner will need a sufficient preliminary knowledge of the engagement circumstances to be able to establish whether the preconditions are present (EER, see IAASB 2021: 26 para. 74). In practice, obtaining the preliminary knowledge is often time consuming and as a result can be costly. It is also worth noting that the preconditions for the assurance engagement are identical for both 'limited assurance' and 'reasonable assurance' engagements.

The practitioner shall determine the answers to the following questions:



(a) Are roles and responsibilities of the parties suitable?

As per paragraph A39 of the ISAE 3000 (Revised), 'the measurer or evaluator is responsible for having a reasonable basis for the subject matter information. What constitutes a reasonable basis will depend on the nature of the underlying subject matter and other engagement circumstances.' (IAASB 2022a: 100 para. A39).

(b) Does the engagement exhibit all the following characteristics?

(i) Appropriate underlying subject matter

An appropriate underlying subject matter: 'is identifiable and capable of consistent measurement or evaluation against the applicable criteria' (IAASB 2022: 101 para. A40).

This not affected by the level of assurance.

'If an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa' (IAASB 2022a: 101 para. A41).

'IF AN UNDERLYING SUBJECT MATTER IS NOT APPROPRIATE FOR A REASONABLE ASSURANCE ENGAGEMENT, IT IS ALSO NOT APPROPRIATE FOR A LIMITED ASSURANCE ENGAGEMENT, AND VICE VERSA' (IAASB 2022A: 101 PARA. A41).

The preconditions is an area where misconceptions exist, often even among practitioners, suggesting that the underlying subject matter is affected by the level of assurance being sought. This is clearly not the case and, therefore, is an area where the IAASB needs to communicate better with key stakeholders and intended users of the sustainability-related information.

 Different underlying subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and whether it relates to a point in time or covers a period. Such characteristics affect the:

- (a) Precision with which the underlying subject matter can be measured or evaluated against criteria; and
- (b) The persuasiveness of available evidence (IAASB 2022a: 101 para. A42).

It should also be mentioned that an assurance engagement could relate to only one part of a broader underlying subject matter.

ILLUSTRATIVE EXAMPLE

The greenhouse gas emissions of an entity might be an identifiable underlying subject matter because there are widely accepted definitions of greenhouse gas emissions. Additionally, methods exist to measure or estimate those greenhouse gas emissions that are attributable to the entity's activities. Similarly, both Scope 1 and Scope 2 greenhouse gas emissions might be identifiable underlying subject matters because there are clear definitions for each of them, and methods to measure or estimate, separately, Scope 1 and Scope 2 greenhouse gas emissions.

However, the impact of the entity's activities on global temperature change more broadly might not be an identifiable underlying subject matter because it is difficult to attribute global temperature changes to greenhouse gas emissions of specific entities, and to separate the impact of greenhouse gas emissions from other factors causing such temperature changes (for example deforestation) (EER, see IAASB 2021: 28).



(b)(ii) Suitable applicable criteria

Suitable criteria exhibit the following characteristics:



(a) **Relevance:** Relevant criteria result in subject matter information that assists decision-making by the intended users.



(b) **Completeness:** Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.



(c) **Reliability:** Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.



(d) **Neutrality:** Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.



(e) **Understandability:** Understandable criteria result in subject matter information that can be understood by the intended users. (IAASB 2022:101 para A45)

This is another key area for sustainability assurance providers to consider. ISAE 3000 is framework-neutral, meaning that it could be applied to support assurance of a variety of reporting approaches (reporting criteria), including those set by the preparer. Even so, and especially when the reporting criteria are set by the preparer, there is scope for them to fail to meet the suitability criteria for assurance purposes, ie the reporting criteria could fail to support the scope for reliable assurance (EER, see IAASB 2021: 29 para. 83).

At this point, we should also highlight another misconception that is often found about the suitability of the criteria and the level of assurance, which is also elaborated in the Sustainability/EER guidance as shown below.



The suitability of criteria is not contingent on the level of assurance. If criteria are not suitable for a reasonable assurance engagement, they would also not be suitable for a limited assurance engagement, if other engagement circumstances were the same. Similarly, if criteria are suitable for a limited assurance engagement, they would also be suitable for a reasonable assurance engagement if other engagement circumstances were the same (EER, see IAASB 2021: 29 para. 82).

(b)(iii) Availability of applicable criteria to intended users

The next point to consider is whether the criteria will be made available to the intended users, as this is needed when the practitioner's report is issued, to 'enable them to understand how the underlying subject matter has been measured or evaluated' (EER, see IAASB 2021: 29 para. 84).

(b)(iv) Expectations of the practitioner about access to the evidence needed

The practitioner is also required to determine, from preliminary knowledge of the engagement circumstances, whether they expect to be able to obtain the evidence needed to support their conclusion (EER, see IAASB 2021: 29 para. 85).

The application material of the Standard refers to some relevant considerations that may be useful to the practitioner.

'The quantity or quality of available evidence is affected by:

- a) the characteristics of the underlying subject matter or the subject matter information [...] and
- b) other circumstances, such as when evidence that could reasonably be expected to exist is not available (because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by the responsible party)' (IAASB 2022a: 102 para. A53).

(b)(v) The assurance conclusion shall be in a written report

It is a precondition that the practitioner's conclusion (in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement) be contained in a written report. The assurance report also needs to contain, at a minimum, the basic elements set

out at the '2.9 Forming the assurance conclusion below (EER, see IAASB 2021: 29 para. 86).

(b)(vi) The engagement shall have a meaningful purpose

As per paragraph 87 of the Sustainability/EER guidance, the practitioner may consider that the proposed engagement has a rational purpose if it is designed to enhance user confidence in a way that is appropriate in the engagement circumstances (EER, see IAASB 2021: 30 para. 87).

In some circumstances (eg when the underlying subject matter is complex and diverse) 'the practitioner may encounter potential impediments to acceptance. In such circumstances, a separate non-assurance engagement to evaluate the maturity of the entity's reporting and inform the preparer about its readiness for an [sustainability] assurance engagement may be a valuable precursor to the entity's seeking assurance' (EER, see IAASB 2021: 25 para. 70).

If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party.

The Sustainability/EER Guidance also provides a flow diagram of acceptance and continuance considerations, which sets out questions for the practitioner based on the above-mentioned requirements (EER, see IAASB 2021: 27 Diagram 6). We find that this diagram is quite generic and the specific questions may lack the practical key aspects that a practitioner should consider. In real-life cases and as sustainability reporting frameworks continue to evolve, establishing whether the preconditions are present may create many difficulties and challenges. This is evident in both the IAASB's identified key priority areas of focus for the development of the overarching standard, and the additional challenges identified by the roundtable participants, as we discuss further in Chapter 3 of this report.

ILLUSTRATIVE EXAMPLE – diverse underlying subject matters and diverse criteria

A mining company reports on its alignment with the UN Sustainable Development Goals ("SDGs"). It has used several reporting frameworks as a basis for selecting the criteria, and has developed its own additional criteria to supplement the framework criteria. It has elected to leave out of its reporting No Poverty (SDG1), Zero Hunger (SDG2), and Life Below Water (SDG14).

It may be difficult for the practitioner to determine whether the criteria selected and developed are suitable. The SDGs are high-level principles, covering a wide range of aspects of underlying subject matter, and there is not one mandated reporting framework (set of criteria) to use. It may also be difficult for the practitioner to determine whether it is appropriate for the entity to omit information, such as that relating to the three goals noted above. While entities are not required to report on all the SDGs, if the entity is reporting on SDGs where the entity has taken positive action, but is neglecting to report on SDGs where the entity's impact has been negative, that may call into question the suitability of the criteria, for example whether they are neutral.

It may, therefore, be important for the practitioner to have a sound knowledge of the industry, business and other engagement circumstances to be able to exercise professional skepticism. For example, if the practitioner was aware that the mining company's production processes could be contaminating water courses, the practitioner may be able to question why the entity had not included reporting on SDG14. Similar considerations might apply in the case of other omitted SDGs (EER, see IAASB 2021: 20).

2.4 Professional scepticism and professional judgement

As mentioned earlier (see section 2.1), sustainability assurance providers must comply with relevant ethical and independence requirements that are at least as demanding as the IESBA Code of Ethics for Professional Accountants. This includes parts A and B of the IESBA Code (IESBA 2022a).

The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion (IESBA 2022a). Independence also enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.



It is important to understand professional scepticism as an attitude of the practitioner, as there may be a heightened need for the exercise of professional scepticism in aspects of a sustainability assurance engagement (EER, see IAASB 2021: 18 para. 56).

The importance of exercising professional scepticism and applying professional judgement has also been highlighted by the roundtable participants and is discussed later, in Chapter 3.

The Sustainability/EER guidance provides some useful examples and a diagram showing behaviours or skills that may support the exercise of professional scepticism when deciding possible actions as part of the planning and performance of the engagement (EER, see IAASB 2021: 21 Diagram 5).

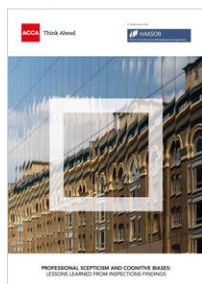
ILLUSTRATIVE EXAMPLE



An entity has asked for assurance on its EER⁴ information. The preparer asserts that they have complied with a particular framework that requires, among other matters, an entity's societal and environmental impacts to be disclosed and, where appropriate, quantified. The practitioner is considering whether to accept the EER assurance engagement.

The practitioner has had previous experience with the selected framework, and considers it to be suitable. The underlying subject matter, about which the framework requires reporting, is appropriate for the intended users and purpose identified by the preparer. Through discussions with the preparer, the practitioner expects to be able to obtain the evidence needed to support their conclusion. The preconditions therefore seem to be present. However, during discussions, the practitioner asks about a license granted to the entity to mine for copper in a fragile ecosystem. The preparer says they will not disclose anything about the new mining operations, as the infrastructure is not fully completed and operations have only just begun. Further, the mine is immaterial in the context of the entity's global operations, which include much bigger platinum and gold mines.

The practitioner discussed the matter further with the preparer, including reasons why the matter might be important to report, and considered whether not disclosing might affect the decisions of intended users. The practitioner is of the view that, even if not material quantitatively, there are qualitative factors to be considered, including the effect on the fragile ecosystem, its biodiversity, and on the local indigenous people, whose numbers are fast dwindling due to encroachment from development. Those matters, in turn, could have an impact on the entity in the future. In the practitioner's professional judgment, omitting information about the new mine could be misleading to the intended users, and mean that the preconditions for assurance are not present... If the preparer is unwilling to make changes, the practitioner is of the view that they would not accept the EER assurance engagement (EER, see IAASB 2021: 23).



ACCA's recently published thought-leadership report, produced in collaboration with the Hellenic Accounting and Auditing Standards Oversight Board and titled *Professional Scepticism and Cognitive biases: Lessons Learned from Inspections Findings*, found that 'recognising the importance that authority bias could have in the audit and assurance process is critical, given the extensive use of experts, particularly in specialised sectors and in sustainability assurance engagements' (ACCA 2022: 5). Authority bias is the tendency to attribute greater accuracy than may be merited to the opinion of an authority figure and be unduly influenced by that opinion (Milgram 1963). As the report recommends, standard setters and policymakers should take this into account when dealing with the development of future standards (ACCA 2022: 15).

4 In the document, the term 'EER' is used to refer to 'Sustainability and Other Extended External Reporting'.

2.5 Planning and performing the engagement

Following the acceptance and continuance, the next step for a sustainability assurance engagement is planning and performing the engagement. As in the case of the financial statement audits, this step includes ‘setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objective of the practitioner’ (IAASB 2022a: 87 para. 40) in an effective manner.

As we noted earlier, the firm of which the practitioner performing the engagement is a member, should be subject to ISQM1 or other professional requirements or to requirements in law or regulation that are at least as demanding. ISQM1 places much emphasis on dealing with resource allocation. This type of engagement requires careful consideration during planning to ensure the right resources are used. Paragraph A86 of the standard includes examples of matters that may be considered at the planning stage (IAASB 2022a: 107).

2.5.1 Limited versus reasonable assurance level

ISAE 3000 (Revised) addresses the requirements both for limited and reasonable assurance. Equally, the Sustainability/EER guidance provides additional information (including Appendix 3 for limited and reasonable assurance engagements) on the work to be performed under each type of sustainability assurance engagement (EER, see IAASB 2021). In this report, we provide some of the key requirements under both circumstances together with some illustrative examples.

Before diving into the specific requirements of the standard, it is worth mentioning how limited and reasonable assurance levels are defined in the Standard – given that this is an area which creates a lot of confusion on the differences between the two levels, even among practitioners. For the definitions, please see table at the end of this page.

IT IS PARTICULARLY IMPORTANT TO EMPHASISE THAT BOTH LIMITED AND REASONABLE ASSURANCE LEVELS AIM TO ENHANCE THE INTENDED USERS’ CONFIDENCE.

It is particularly important to emphasise that both limited and reasonable assurance levels aim to enhance the intended users’ confidence. The higher the level of assurance provided, the greater the confidence of the intended users’ can be on the underlying subject matter being assured.

In sustainability assurance engagements the assurance practitioner would select a combination of procedures to obtain the desired level of assurance. Such procedures ‘may include inspection, observation, confirmation, recalculation, re-performance, analytical procedures and inquiry’ (Deloitte 2011). Some illustrative examples are provided in the next page of this report (p.20).



Assurance engagement: ‘an assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria)’ (IAASB 2022a: 81 para. 12(a)).

Reasonable assurance engagement: ‘an assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria’ (IAASB 2022a: 81 para. 12 (i) a.).

Limited assurance engagement: ‘an assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, *meaningful*. To be *meaningful*, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential’ (IAASB 2022a: 81 para. 12(i)b. (emphasis added)).

Specific requirements

Understanding the underlying subject matter and other engagement circumstances

In a **limited assurance engagement**, the Standard requires the practitioner to consider the entity's process for preparing the EER information (IAASB 2022a: 88 para. 47L).

→ Relevant procedures could include, for example, inquir[ing] of management to understand:

- The control environment, including 'tone at the top'; whether systems are established or developing, automated or manual, devolved or centrally operated.
- Information systems used and interfaces (e.g., how water consumption from different sources, using different systems, is collated)

A higher end of limited assurance would include inquir[ing] of management e.g., about how the entity:

- Determines its organisational boundary and identifies facilities to be included.
- Measures and records water consumption (e.g., who reads water meters; how is mass balance performed?)
- Collates, checks and reports against the criteria, including for presentation and disclosure. (EER, see IAASB 2021: 132).

In a **reasonable assurance engagement**, 'the Standard requires the practitioner to obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement, including evaluating the design of the controls relevant to the engagement and determining whether they have been implemented (see paragraph 47R of the Standard)'. (EER, see IAASB 2021: 62 para. 223)

→ Relevant procedures could include, for example:

- Inspect[ing] documentation of user acceptance testing (UAT) and remediation of design weaknesses identified during UAT,
- Inspect[ing] evidence of training of personnel in how to operate controls,
- Perform[ing] a walkthrough to confirm the understanding of the process and related controls in place (EER, see IAASB 2021: 132).

For example:

- the assurance practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on enquiries of the entity's personnel and analytical procedures; and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than would be the case for a reasonable assurance engagement.
- where the entity uses continuous measuring equipment to quantify emissions flows, in a limited assurance engagement the assurance practitioner may decide to respond to an assessed risk of material misstatement by enquiring about how often the equipment is calibrated. In the same circumstances, in a reasonable assurance engagement the assurance practitioner may decide to examine the entity's records of the equipment's calibration or independently test its calibration, or
- where the entity burns coal, in a reasonable assurance engagement the assurance practitioner may decide to independently analyse the characteristics of the coal. In a limited assurance engagement, the assurance practitioner may decide that reviewing the entity's records of laboratory test results is an adequate response to an assessed risk of material misstatement (Australian Government n.d.).

TABLE 2.1: Limited and reasonable assurance defined

Type of engagement	Objective	Evidence gathering procedures	The assurance engagement report
Reasonable assurance engagement	A reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement, as the basis for a positive form of expression of the auditor's conclusion. Reasonable assurance means a high but not an absolute level of assurance.	Sufficient appropriate evidence is obtained as part of a systematic assurance engagement process that includes: • obtaining an understanding of the assurance engagement circumstances • assessing risks • responding to assessed risks • performing further evidence gathering procedures, and • evaluating the evidence obtained.	Description of the assurance engagement circumstances, and a positive form of expression of the conclusion.
Limited assurance engagement	A reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the auditor's conclusion.	Sufficient appropriate evidence is obtained as part of a systematic assurance engagement process that includes obtaining an understanding of the matter to be audited and other assurance engagement circumstances; but evidence gathering procedures are deliberately limited in comparison with a reasonable assurance engagement.	Description of the assurance engagement circumstances, and a negative form of expression of the conclusion.

Source: Australian Auditing and Assurance Standards Board (AUASB) Framework for Assurance Engagements Appendix 1.

2.6 Obtaining evidence

Risk consideration and responses to risks

In a **limited assurance engagement**, based on the practitioner's understanding (see above), the practitioner shall:

-  a) Identify areas where a material misstatement of the subject matter information is likely to arise;
- b) Design and perform procedures to address the areas identified in (a) and to obtain limited assurance to support the practitioner's conclusion (IAASB 2022a: 88 para. 48L).

In a **reasonable assurance engagement**, and in addition to the above to:

-  For any other procedures on the subject matter information that are appropriate in the engagement circumstances, the practitioner's procedures shall include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when:
 - (i) The practitioner's assessment of the risks of material misstatement includes an expectation that controls are operating effectively, or
 - (ii) Procedures other than testing of controls cannot alone provide sufficient appropriate evidence (IAASB 2022a: 88 para. 48R).

Determining whether additional procedures are necessary in a limited assurance engagement

-  If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to:
 - (a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or
 - (b) Determine that the matter(s) causes the subject matter information to be materially misstated (IAASB 2022a: 89 para. 49L)

Revision of risk assessment in a reasonable assurance engagement

-  The practitioner's assessment of the risks of material misstatement in the subject matter information may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence which is inconsistent with the evidence on which the practitioner originally based the assessment of the risks of material misstatement, the practitioner shall revise the assessment and modify the planned procedures accordingly (IAASB 2022a: 89 para. 49R).

The Sustainability/EER guidance also provides additional guidance on '**Considerations for the practitioners**' in the following areas:

- (a) Risk considerations, and considering what evidence is needed to respond
- (b) Considerations when determining what evidence is available
- (c) Considerations when designing and performing procedures to obtain sufficient, appropriate evidence
- (d) Considerations when evaluating the sufficiency and appropriateness of evidence obtained (EER, see IAASB 2021: 75–78 paras 274 to 276).

As per paragraph 50 of the Standard:

-  When designing and performing procedures, the practitioner shall consider the relevance and reliability of the information to be used as evidence. If:
 - (a) Evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The practitioner has doubts about the reliability of information to be used as evidence
 the practitioner shall determine what changes or additions to procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the engagement (IAASB 2022a: 89).

Work performed by a practitioner's expert

In sustainability assurance engagements, it is quite common to use the work performed by a practitioner's expert, given the breadth and depth of the subject matter competence needed and the wide range of topics that can be mapped under the sustainability reporting umbrella. As per paragraph 52 of the Standard:



When the work of a practitioner's expert is to be used, the practitioner shall also:

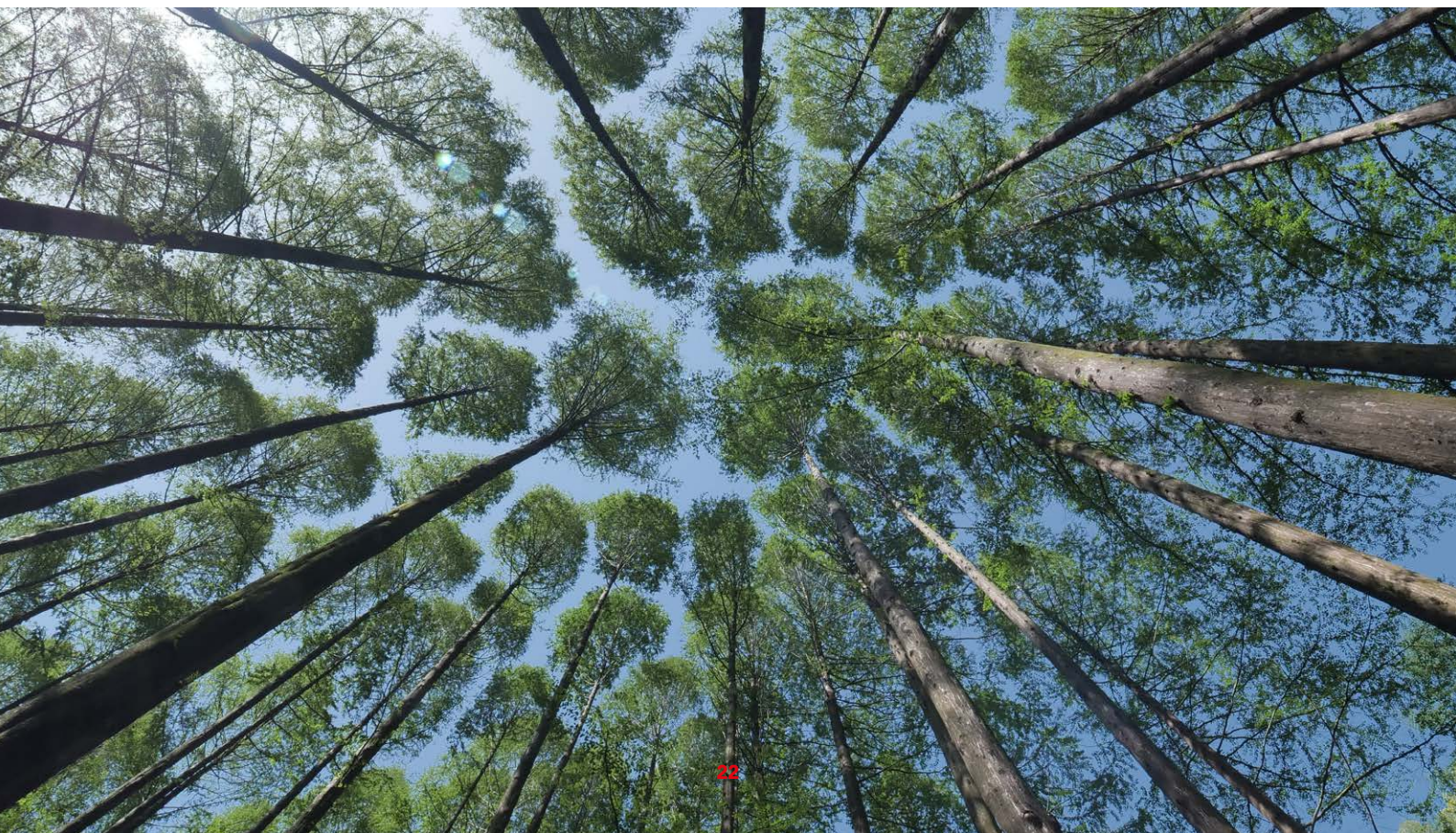
- (a) Evaluate whether the practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. In the case of a practitioner's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity;
- (b) Obtain a sufficient understanding of the field of expertise of the practitioner's expert;
- (c) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; and
- (d) Evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes (IAASB 2022a: 89 para. 52).

2.7 Identifying misstatements

As mentioned above, as in a financial statements audit, in a sustainability assurance engagement 'the practitioner's assurance conclusion is stated in terms of whether the subject matter information has been prepared "in all material respects" in accordance with the applicable criteria' (EER, see IAASB 2021: 81 para. 295). As a result, 'if during the EER assurance engagement the practitioner identifies a misstatement within the EER information, the practitioner is required to make a judgment as to whether the misstatement is material'. (EER, see IAASB 2021: 81 para. 294).

Professional judgments about materiality should be based on the information needs of the intended users and, therefore, should not be affected by the level of assurance, that is: 'for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement' (IAASB 2022a: 108 para. A92). 'The practitioner's consideration of materiality is a matter of professional judgment and is affected by the practitioner's perception of the common information needs of intended users as a group' (IAASB 2022a: 108 para. A94).

In sustainability assurance engagements, 'materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment' (IAASB 2022a: 109 para. A95).





Quantitative materiality considerations

For parts of subject matter information that are quantitative (for example, a KPI [key performance indicator] expressed in numerical terms), the starting point for materiality decisions may be to establish materiality thresholds at the planning stage of the engagement (EER, see IAASB 2021: 82 para. 299).

If the subject matter information is a discrete indicator, without component aspects, the practitioner may apply a percentage directly to the reported indicator as a whole, for example, a percentage of reported metered water consumption, when the indicator is reported as “metered water consumption”. When the subject matter information comprises a number of different indicators, with little in common to provide a basis for considering them together, materiality may be considered separately in relation to each indicator, for example x% of investment in community projects (in hours or \$), y% of energy consumed (in kWh), or z% of land rehabilitated (in hectares) (EER, see IAASB 2021: 82 para. 300).

Qualitative Materiality Considerations

Considering qualitative factors may help the practitioner to identify aspects of the subject matter information that may be more significant to the intended users. (EER, see IAASB 2021: 82 para. 302).

For example, qualitative factors that may indicate that a misstatement is more likely to be material, may include the following.

Underlying subject matter

- The misstated subject matter information relates to an aspect of the underlying subject matter that has been determined as being significant.

External factors

- The misstated information relates to non-compliance with a law or regulation, particularly when the consequence for non-compliance is severe.
- The misstated information relates to underlying subject matter that has implications for a large number of the entity’s stakeholders.
- The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

- It is a presentational misstatement that has arisen from subject matter information being misleading and the wording that has been used lacks clarity such that it could be interpreted in widely different ways (EER, see IAASB 2021: 86–89 para. 316).

Paragraph 316 of the Sustainability/EER guidance provides *additional qualitative factors* with specific examples that may be useful to practitioners (EER, see IAASB 2021: 86–89)

Accumulating misstatements

The practitioner is required to accumulate uncorrected misstatements so that those misstatements can be considered in combination with other uncorrected misstatements (EER, see IAASB 2021: 85 para. 307). ‘When the scope of the [Sustainability] assurance engagement is a number of indicators or KPIs, each relating to a different underlying subject matter, the practitioner may evaluate the materiality of misstatements separately for each different indicator (aspect of the subject matter information) misstatement (EER, see IAASB 2021: 85 para. 308).

Illustrative Example



An entity’s sustainability report includes subject matter information on greenhouse gas emissions, water consumption, hazardous and non-hazardous waste, employee work-related accident and illness, and community investment. Each of these underlying subject matters is likely to influence user decisions in different ways and at different thresholds. User tolerance for misstatement is likely to be higher for non-hazardous, degradable waste, than it would be for radioactive or other hazardous waste, so there may not be a reasonable basis for aggregating misstatements of hazardous waste and misstatements of non-hazardous waste (EER, see IAASB 2021: 85 para. 308).

2.8 Subsequent events

‘When relevant to the engagement, the practitioner shall consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner’s conclusion. However, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report’ (IAASB 2022a: 90 para. 61).

2.9 Forming the assurance conclusion

The expression of an assurance conclusion is the objective of the assurance engagement and is designed to enhance the degree of confidence of the intended users in the subject matter information, but users may not readily understand the ‘negative form’ of wording used in the Standard to express a limited assurance conclusion. It may, therefore, be helpful for the practitioner to explain that the ‘negative form’ conclusion (‘nothing has come to our attention’) reflects a lower level of assurance than reasonable assurance because of the limited nature of procedures performed. It does not mean that there is nothing that could have come to the attention of the practitioner but, rather, that the procedures would not necessarily have identified everything, owing to the limited nature of the procedures (EER, see IAASB: 112 para. 421).

The **Assurance report content** is included in paragraph 69 of the Standard. Some of the minimum elements include the following.



Assurance report content

- A title that clearly indicates the report is an independent assurance report.
- An addressee.
- An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter. When the practitioner’s conclusion is phrased in terms of a statement made by the appropriate party(ies), that statement shall accompany the assurance report, be reproduced in the assurance report or be referenced therein to a source that is available to the intended users.
- Identification of the applicable criteria.
- Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria.
- An informative summary of the work performed as the basis for the practitioner’s conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner’s conclusion. In a limited assurance engagement, the summary of the work performed shall state that:
 - o The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
 - o Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

(IAASB 2022a: 91 para. 69)

Unmodified and modified conclusions

Under paragraph 72 of the Standard:



The practitioner shall express an unmodified conclusion when the practitioner concludes:

- (a) In the case of a reasonable assurance engagement, that the subject matter information is prepared, in all material respects, in accordance with the applicable criteria; or
- (b) In the case of a limited assurance engagement, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria (IAASB 2022a: 93 para. 72).

If the practitioner considers it necessary to:

- (a) Draw intended users' attention to a matter presented or disclosed in the subject matter information that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of the subject matter information (an Emphasis of Matter paragraph); or
- (b) Communicate a matter other than those that are presented or disclosed in the subject matter information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (another Matter paragraph), and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter. In the case of an Emphasis of

Matter paragraph, such a paragraph shall refer only to information presented or disclosed in the subject matter information. (IAASB 2022a: 93 para. 73).

The practitioner shall express a *modified conclusion* in the following circumstances:

- (a) When, in the practitioner's professional judgment, a scope limitation exists and the effect of the matter could be material... In such cases, the practitioner shall express a *qualified conclusion* or a *disclaimer of conclusion*.
- (b) When, in the practitioner's professional judgment, the subject matter information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion (IAASB 2022a: 93 para. 74).

The practitioner shall express a qualified conclusion when, in the practitioner's professional judgment, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion shall be expressed as being "except for" the effects, or possible effects, of the matter to which the qualification relates (IAASB 2022a: 93 para. 75).

If the practitioner expresses a modified conclusion because of a scope limitation but is also aware of a matter(s) that causes the subject matter information to be materially misstated, the practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that [sic] the subject matter information to be materially misstated. (IAASB 2022a: 93 para. 76).



3. Key challenges identified in practice

ACCA sought to identify the key practical challenges that those carrying out assurance engagements currently face when conducting sustainability assurance engagements using ISAE 3000 (Revised).

We held a series of virtual roundtables with sustainability assurance practitioners representing the profession globally to help inform our views. Additionally, we held a virtual roundtable with other key stakeholders involved with audit and assurance policy matters, for a more holistic view of the challenges that exist in practice. More information about the roundtable sessions can be found in the appendix of this report.

The starting point of the roundtable discussions was the key priority areas of focus as identified by the IAASB, when developing its plan for its sustainability assurance project, introduced earlier in Chapter 1 of this report. We summarise below the main points raised by the participants during the roundtable discussions on these key areas, as well as other important areas where challenges exist in practice.

Overall, the roundtable participants agreed that the areas identified by the IAASB are key priority areas of focus. More specifically, our stakeholders acknowledged that sustainability assurance standard setting is an evolutionary process, and that the framing for the development of the IAASB's overarching standard on sustainability assurance, as introduced in Chapter 1 of this report, is therefore sensible. Furthermore, our stakeholders acknowledged that we should not expect standard setters to address all issues at once and appreciate that the current approach serves the purpose of the development of an overarching standard.

3.1 Roundtable insights – IAASB's identified key priority areas of focus

The following points were raised about the IAASB's identified key priority areas of focus, given that they create issues in practice.

Limited versus reasonable assurance

Many stakeholders stressed the importance of addressing any misconceptions that exist about limited versus reasonable assurance. While ISAE 3000 (Revised) does differentiate the work effort between the two to a certain extent, assurance practitioners noted the importance of providing more specificity about the differences in work effort.

One of the main challenges noted by practitioners when considering 'limited' versus 'reasonable' assurance is the lack of confidence in entities' systems and processes and therefore in the overall reliability of information produced. Nonetheless, practitioners questioned whether that is enough reason for the profession to default to 'limited' rather than 'reasonable assurance' engagements. To this end, some emphasised that limited assurance should not be used as an 'opt-out' option from reasonable assurance.

In simple terms, our roundtable participants concluded that it would not be appropriate, or indeed ethical, for practitioners to suggest that an engagement should be limited assurance, rather than reasonable assurance, solely in order to avoid a higher engagement risk attributable to the lack of confidence in entities' systems, processes and the overall reliability of information produced.

If the preconditions for an engagement, as discussed in Chapter 2 of this report, are not met, then the practitioner should not accept the engagement irrespective of the level of assurance. In cases where the preconditions are met and the practitioner encounters issues with the reliability of particular evidence, then the impact on the assurance report should be considered and that is again irrespective of whether it is a limited or reasonable assurance engagement. Financial statement audits have played their part in helping businesses enhance their internal control systems over past years. Equally, assurance engagements over sustainability reporting information can help businesses enhance their systems and processes in this area too, and this is an evolving process.

Risk of creating a new expectation gap

Our roundtable participants also noted that the users' perception of 'limited' versus 'reasonable' assurance should also be addressed. They emphasised that even though the IAASB's development of the overarching standard can help practitioners in understanding the differences, the users' perception is of vital importance in narrowing any expectation gap that may exist here.

The auditing profession has a long history with the expectation gap as examined in ACCA's thought leadership reports titled *Closing the expectation gap*

in audit (ACCA 2019) and *Closing the expectation gap in audit – The way forward on fraud and going concern: A multi-stakeholder approach* (ACCA et al. 2021). We therefore suggest that the IAASB and national standard setters should find the right communication channels to create visibility and awareness of some of the key differences between limited and reasonable assurance to avoid creating a new expectation gap in sustainability assurance engagements. Overall, there was an agreement among the roundtable participants that the profession should move forward towards reasonable assurance (as is already the case in some jurisdictions).

Assessment of risk of material misstatement

Another factor relevant to the ‘limited’ versus ‘reasonable’ assurance issue arises when dealing with the assessment of risk of material misstatement. There are a number of questions that must be addressed to provide further guidance to practitioners on how to address the risk of material misstatement when dealing with a limited and/or reasonable assurance engagement. According to ISAE 3000 (Revised) paragraph 46L, in a limited assurance engagement:

‘the practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:

- ‘(a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and
- ‘(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 46L(a) and to obtain limited assurance to support the practitioner’s conclusion’ (IAASB 2022a: 88 para. 46L).

In the case of a reasonable assurance engagement as per paragraph 46R:

‘The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:

- ‘(a) Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information; and
- ‘(b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s conclusion’ (IAASB 2022a: 88 para. 46R).

During the roundtable discussions, some assurance practitioners noted that more specificity is needed within the future standard and that what is included in Appendix 3 of the Sustainability/EER guidance, noted earlier in Chapter 2, is a good starting point. We note that for financial statements audits, there is a separate standard, namely *ISA 315 (Revised), Identifying and Assessing*

the Risks of Material Misstatement (IAASB 2022c). This standard may be a good starting point for this type of engagements too, and extracting some of its concepts can be helpful, particularly for reasonable assurance.

Suitability of reporting criteria

In the area of the suitability of the reporting criteria, our roundtable participants initially acknowledged the ISSB’s fast-paced progress with the development of the sustainability-reporting framework. Since this is still maturing, however, there are areas and issues to be considered. More specifically, participants stressed that the reporting criteria issued by the ISSB should be further developed as, at the moment, the draft standards guide preparers on ‘what’ to report, but not necessarily in sufficient granularity on ‘how’ to report. This makes assurance more challenging, as this could introduce too much subjectivity, and therefore, could reduce the assurability of the information.

If, for instance, we use the example of greenhouse gas emissions, IFRS S2 Exposure Draft states that for Scope 3 emissions ‘an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions’ (ISSB 2022c) but the requirements do not expand much further. Therefore, there is a risk of lack of comparability. Secondly, without those specific criteria, entities will be developing their own criteria, which might, for example, be very high level. Assurance practitioners really struggle with knowing how granular criteria must be in order to be suitable.

Subjective information and qualitative information

Another challenge relating to the reporting criteria raised by the assurance practitioners during the roundtable discussions is that a lot of the qualitative information included in sustainability reports can also be subjective.

For example, statements such as ‘we have helped make people happier, healthier and more resilient’ are clearly subjective and not assurable. Whereas qualitative information, which could include statements such as ‘we have equal pay for our workforce’, can be assured as long as ‘equal’ and ‘workforce’ are defined in this context. It is therefore important to differentiate between qualitative and subjective information. Getting the reporting criteria right is, therefore, fundamental.

Double materiality

Double materiality means that ‘companies have to report not only on how sustainability issues might create financial risks for the company (financial materiality), but also on the company’s own impacts on people and the environment (impact materiality)’ (EC 2022b). Assurance practitioners emphasised that double materiality is a new concept and that we really need to embed it into our behaviours and mindset while conducting sustainability assurance engagements.

Our roundtable participants commended the IAASB for taking double materiality into consideration, as part of its priority areas in developing the overarching standard. Additionally, some of the roundtable participants questioned how we currently define the ESG universe. In this context, they suggested that the IAASB should also consider developing a definition from the sustainability assurance perspective, as this would be further linked to what any supplemental or topic-specific standards would focus on in the future.

3.2 Roundtable insights – additional challenges in practice

In addition to the IAASB's identified key priority areas of focus for its overarching standard, there are some additional areas where challenges currently exist, as identified during our roundtable discussions. We outline these below.

Estimates

Practitioners noted that there are challenges when dealing with estimates in sustainability assurance engagements. More specifically, they emphasised that in financial statements audits as per ISA 540 paragraph A15: 'An auditor's point estimate or range may be used to evaluate an accounting estimate directly (for example, an impairment provision or the fair value of different types of financial instruments), or indirectly (for example, an amount to be used as a significant assumption for an accounting estimate). A similar approach may be taken by the auditor in developing an amount or range of amounts in evaluating a non-monetary item of data or an assumption (for example, an estimated useful life of an asset)' (IAASB 2022c: 351, para A15)

Unlike financial statement audits, where estimates are normally based on historical information, practitioners noted that in sustainability engagements the estimates are often based on hypothetical scenarios, and it is therefore more challenging to develop an assurer's point estimate or range. For example, as per IFRS S2 Exposure Draft Paragraph 15 'An entity shall disclose information that enables users of general-purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience' (ISSB 2022c).

The climate change scenario analysis required in those instances is not necessarily based on historical information.

Sustainability practitioners, therefore, noted that the ISA 540-related terms and concepts might not work as well in sustainability assurance engagements as in financial statements audits. Even so, they stressed that an equivalent concept dealing with such estimates would be of great benefit, and that this could be an area of future focus for the IAASB.

Using the work of experts

Another area that causes challenge in sustainability assurance practice is using the work of experts. The roundtable participants noted that the use of experts is more prevalent in sustainability assurance engagements than in financial statement audits. This is owing to the subject matter competence required in this type of engagement, and the wide range of topics that can be mapped under the umbrella of 'sustainability assurance'.

It is important to clarify who is considered to be an auditor's expert in financial audits before explaining the complexity that this brings to sustainability assurance engagements. As per paragraph 6a) of ISA 620 *Using the Work of an Auditor's Expert*, an auditor's expert is 'an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert or an auditor's external expert' (IAASB 2022c: 478 para. 6(a)).

In financial statement audits as per ISA 620 paragraph 7: 'if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert' (IAASB 2022c: 478 para. 7). This is usually the case in specialised sectors, such as in financial services, where certain types of experts, such as actuaries and independent valuers, are usually necessary.

The perspective that ISA 620 has on who is considered an auditor's expert can be very different in sustainability engagements. An expert in financial statement audits usually performs a limited amount of work, whereas in sustainability assurance engagements their involvement is often more extensive. There is therefore an unprecedented dependence on subject matter experts that needs to be considered. In financial statement audits, as per paragraph 3 of ISA 620, 'the auditor has sole responsibility for the opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert' (IAASB:478 para 3). This creates a significant challenge for assurance engagement partners undertaking sustainability engagements, as they have to manage a combined competence of assurance and subject matter expertise.

During the roundtable discussions, some assurance practitioners noted that the extant standards provide limited guidance on this and that this should be one of the IAASB's Sustainability Assurance project's priority areas. Some stressed that for sustainability assurance engagements the IAASB may need to consider moving beyond what is currently in ISAE 3000 (Revised) and ISA 620, given the additional challenges discussed above.

Assurance report

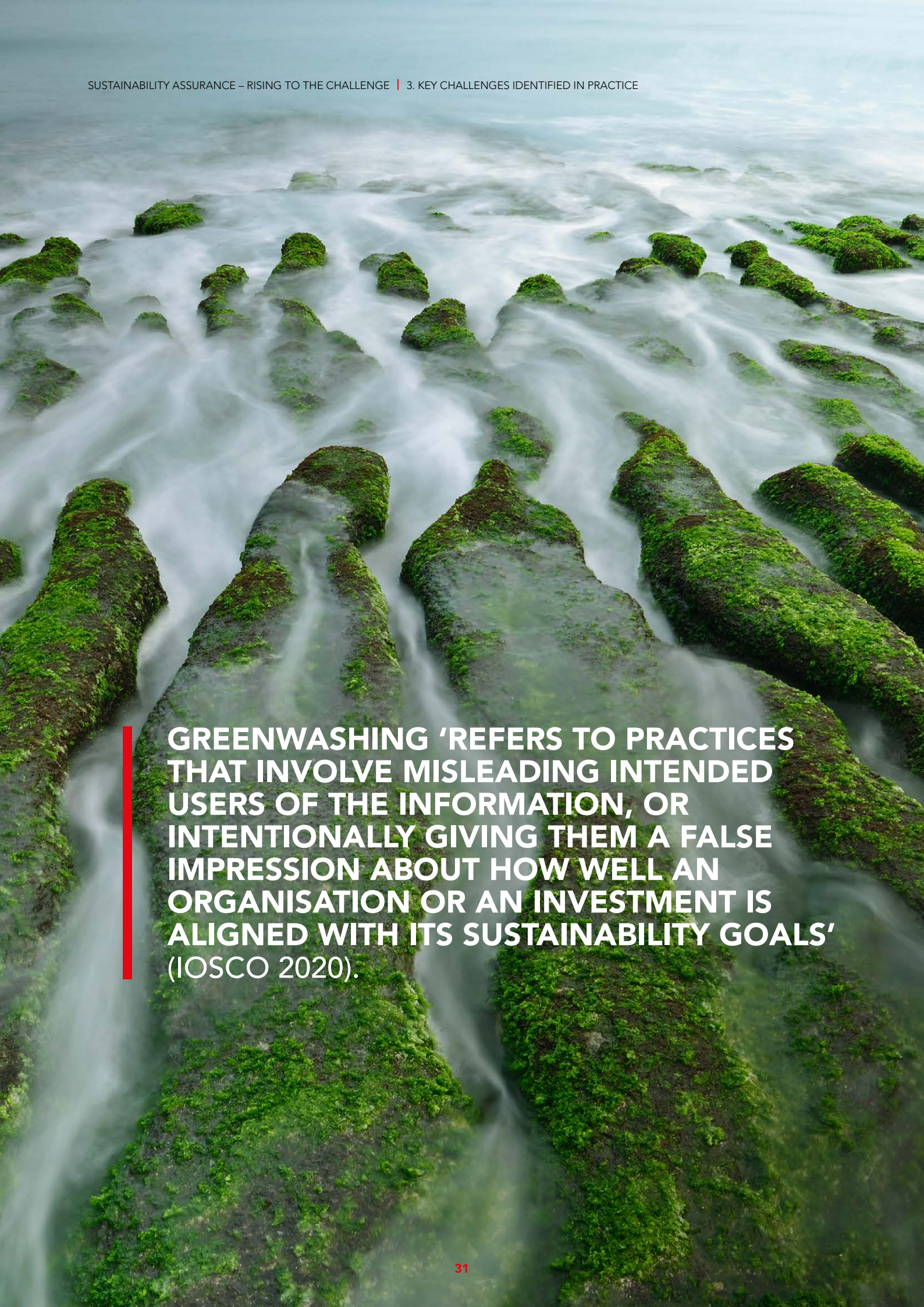
During the roundtable discussions, the participants highlighted the importance of the assurance report as the end-product of an assurance engagement, similar to an audit report for a financial statement audit and, therefore, that it deserves the necessary attention to ensure that the work performed is communicated effectively to the users of the report. Some practitioners noted that, while ISAE 3000 (Revised) does not include assurance report specimens either for limited or reasonable assurance reports, those form part of the Sustainability/EER guidance. They suggested that the IAASB should consider adding such extracts in its overarching standard on sustainability assurance that is currently being developed. This could help address questions regarding the structure, format and presentation of the assurance report. Assurance practitioners also noted that guidance on how to describe any material inconsistency found, and on modified and unmodified conclusions would also be helpful. Other guidance, such as when emphasis of matter can be included in the report, would also be helpful.

It is also important to note that assurance over sustainability reporting could be for the entire sustainability report or part of it and in some cases different levels of assurance are provided for some parts of the sustainability report. Guidance is therefore needed on how to report in these instances.

Assurance practitioners noted that they find that this is easier to communicate via the report in limited assurance engagements because the standard requires providing information on the work that has been performed to enable the user to understand the practitioner's conclusion, as per paragraph 69(k) of ISAE 3000 (Revised) (IAASB 2022a: 92). By contrast, in reasonable assurance engagements, it seems that users are assumed to have a certain knowledge and understanding of the end product. Given the expectation gap that exists for financial statement audits, addressing any misconceptions of the work performed within the assurance report would be essential for ensuring that a new expectation gap is not created.

Greenwashing

Our roundtable participants concentrated a good deal on the growing risk of greenwashing, with some noting that they would expect this to form one of the key areas of focus of the IAASB's overarching standard. Greenwashing, as defined by the International Organization of Securities Commissions (IOSCO): 'refers to practices that involve misleading intended users of the information, or intentionally giving them a false impression about how well an organisation or an investment is aligned with its sustainability goals' (IOSCO 2020). Some of our participants noted that the IAASB should address this now, given that ISA 240, which covers fraud for financial audits, is currently under revision. From an ethics perspective, although the IESBA Code does not define the term 'greenwashing', the IESBA staff recently published non-authoritative guidance titled *Ethics Considerations in Sustainability Reporting*, in the form of Q&A, with the aim to address concerns about greenwashing (IESBA 2022b).



GREENWASHING 'REFERS TO PRACTICES THAT INVOLVE MISLEADING INTENDED USERS OF THE INFORMATION, OR INTENTIONALLY GIVING THEM A FALSE IMPRESSION ABOUT HOW WELL AN ORGANISATION OR AN INVESTMENT IS ALIGNED WITH ITS SUSTAINABILITY GOALS' (IOSCO 2020).

4. Competencies and skills

During the roundtable discussions, we also sought views from our participants about the competencies and assurance skills required for those who are interested in undertaking or being involved in sustainability assurance engagements. Given the growing demand for sustainability assurance engagements, we also asked whether in their view the accountancy profession is in a position to satisfy this demand.

Assurance skills

All roundtable participants emphasised that the assurance skills obtained via experience in financial statement audits are transferable and highly valuable in sustainability assurance engagements, too. More specifically, the following were raised during the roundtables.

Professional scepticism

The importance of professional scepticism was noted by the assurance practitioners, emphasising that it is vital in sustainability assurance engagements – where practitioners are also required to assess evidence critically. Some argued that, given the immaturity of sustainability reporting, it is even more important in this type of engagement, where subjective statements often form part of sustainability reports and are not backed-up with sufficient appropriate evidence.

Ethical requirements

Another important point is that auditors are bound by the IESBA Code of Ethics for Accountants or by a local equivalent Code of Ethics and are regulated via their professional bodies. The ethical requirements and fundamental principles can foster trust when undertaking sustainability assurance engagements. Assurance practitioners also noted that in this type of engagement they come across ethical dilemmas where the experience gained from undertaking financial audits is still relevant. What is different is the nature of the ethical dilemma scenarios, which would now be in the context of a sustainability assurance engagement.

The fundamental principles of integrity, objectivity, professional behaviour, confidentiality, professional competence and due care that auditors shall follow are still relevant and applicable for assurance practitioners when undertaking sustainability assurance projects.

Experience dealing with clients in a professional manner

Another important point raised by our roundtable participants is that, through their experience with financial audits, auditors gain valuable skills in dealing with clients in a professional manner. This, of course, also stems from their duty of care as guided by the fundamental principles of the IESBA Code of Ethics for Accountants discussed earlier in this report (IESBA 2022a). Such skills also include project management, team management and client communication, all of which remain relevant when performing sustainability assurance engagements.

The link between financial and sustainability information

The link between financial and sustainability information is of vital importance when providing assurance. Sustainability assurance providers with experience in financial audits are usually very well placed to link the financial information that is reported in the financial statements with the information reported in sustainability reports. This helps them identify areas that could be more susceptible to misstatements. Additionally, their understanding of what is included in the auditor's report can also provide them with further insights about areas that could be more susceptible to misstatements. For example, if the auditor's report includes a key audit matter, and sustainability information relating to that matter is also reported in the sustainability report, then the assurance practitioner is likely to link the two and be more sceptical when designing the procedures to obtain sufficient appropriate evidence.

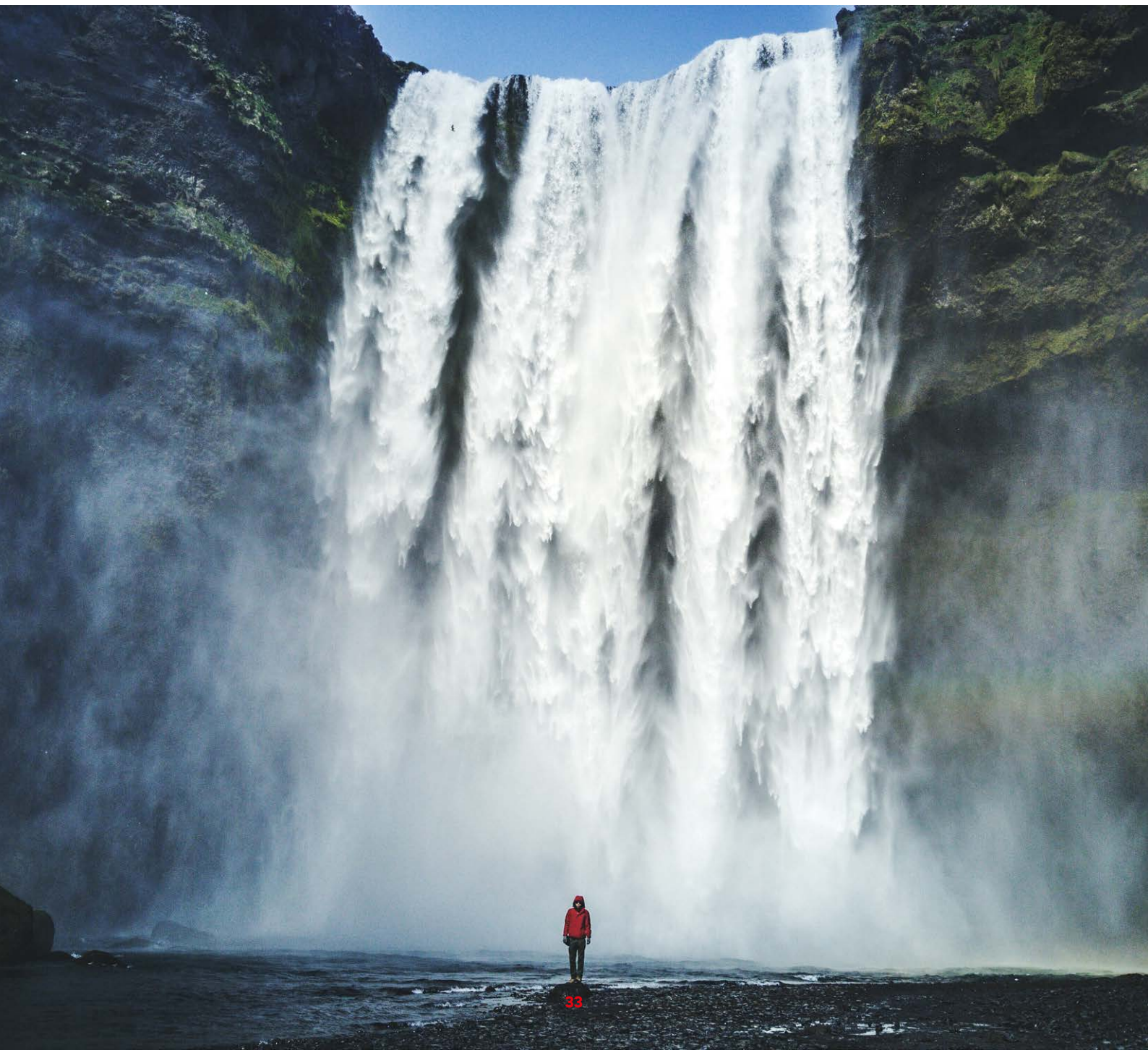
That said, the accountancy profession is well placed to satisfy the evolving demand and has a key role to play in collaboration with other non-PAs. Equally, the role of other key stakeholders should not be neglected. As this type of engagements continue to develop with regulatory standards overseeing their quality, regulators and governments need to think carefully about the requirements they place upon all sustainability assurance practitioners. This would be analogous to financial statement audits ensuring that the public can trust the quality of the sustainability assurance engagements delivered.

Subject matter competence

Sustainability reporting can relate to a large variety of subject matters, as discussed in Chapter 1 of this report. In the context of ESG, these could be environmental, social and/or governance-related topics or a combination of these. Assurance practitioners interested to be involved with sustainability assurance engagements should therefore have or develop subject matter competence skills and experience. For example, in the EU the CSRD states that 'statutory auditors should complete practical training of at least eight months in the assurance of annual and consolidated sustainability reporting or in other sustainability-related services, taking account of previous employment experience' (EC 2022c).

Assurance practitioners, during the roundtable discussions, also highlighted the importance of having a good understanding of the subject matter. They also emphasised that it is even more important to keep up to date with the developments in both reporting and assurance regulation and/or standard setting, given the rapid developments in this space.

Whilst expertise will develop with more experience in delivering these type of engagements, we echo the view of roundtable participants, that a good understanding of the subject matter at the outset is fundamental to delivering a high quality and reliable assurance engagement.



5. Limitations of our approach

The current environment for sustainability reporting and assurance is evolving very rapidly, with many developments happening.

Our research is limited to the extent that it was carried out at a specific time (late 2022 and early 2023), and subsequent developments may address or supersede some of the matters outlined within the report. Equally, the multiplicity of sustainability reporting frameworks has been briefly discussed in Chapter 1 of this report and we acknowledge that in practice there are many more frameworks for sustainability reporting. For this report, the aim is to elaborate that this may result in inconsistent approaches to reporting on sustainability information

and thus, highlight the potential implications to the assurance of such information.

In terms of the challenges identified, we understand that there are more challenges in practice to provide an assurance engagement over sustainability-related information, but in this report, our analysis has been limited by those that resonated with the majority of our virtual roundtable participants, focusing primarily on the key priority areas identified by the IAASB.



6. Conclusion and the way forward

This report has discussed various sustainability-related developments, focusing on assurance of sustainability reporting information.

The report has also provided an overview of some of the key requirements of the ISAE 3000 (Revised) and relevant paragraphs of the Sustainability/ EER guidance, with an aim of raising the awareness of those who are interested in being involved in or undertaking a sustainability assurance engagement.

Supported by a series of virtual roundtables with global representation, we have shared insights about the key challenges that assurance practitioners currently face in applying ISAE 3000 (Revised) when performing sustainability assurance engagements. The IAASB's key priority areas of focus, as part of its recently approved project on sustainability assurance, formed a key topic for these roundtable discussions.

During the roundtable discussions we also sought to obtain views on the competencies and assurance skills required for those who are interested in undertaking or being involved in sustainability assurance engagements. Given the growing demand for sustainability assurance engagements, we discussed whether the accountancy profession is in a position to satisfy this demand.

We emphasise the following key messages.

- We suggest that the IAASB and national standard setters should find the right communication channels to create visibility and awareness of some of the key differences between 'limited' and 'reasonable assurance' to avoid creating a new expectation gap in sustainability assurance engagements.
- IAASB extant standard ISAE 3000 (Revised) and the Sustainability/EER guidance provide a strong foundation for those intending to undertake a sustainability assurance engagement before the IAASB's overarching standard is finalised.
- In developing both reporting and assurance standards, standard setters need to consider explicitly the risk of misleading reporting via greenwashing, in a similar way to the consideration of fraud in relation to the reporting and audit of financial statements.
- Unlike financial statement audits, where estimates are normally based on historical information, estimates in sustainability assurance engagements are often based on hypothetical future scenarios. We suggest that a concept dealing with estimates in sustainability assurance engagements should be an area of future focus for the IAASB.
- In sustainability assurance engagements there is an unprecedented dependence on subject matter experts, which may suggest the need for additional standard or guidance beyond what is currently in ISAE 3000 (Revised) and ISA 620.
- The assurance report is the end product of a sustainability assurance engagement, similar to the auditor's report in a financial statement audit. This should be recognised as a key priority area by standard setters and policymakers, particularly in dealing with the differences between 'limited' and 'reasonable' assurance.
- Assurance skills obtained through audit experience remain of vital importance in performing sustainability assurance engagements.



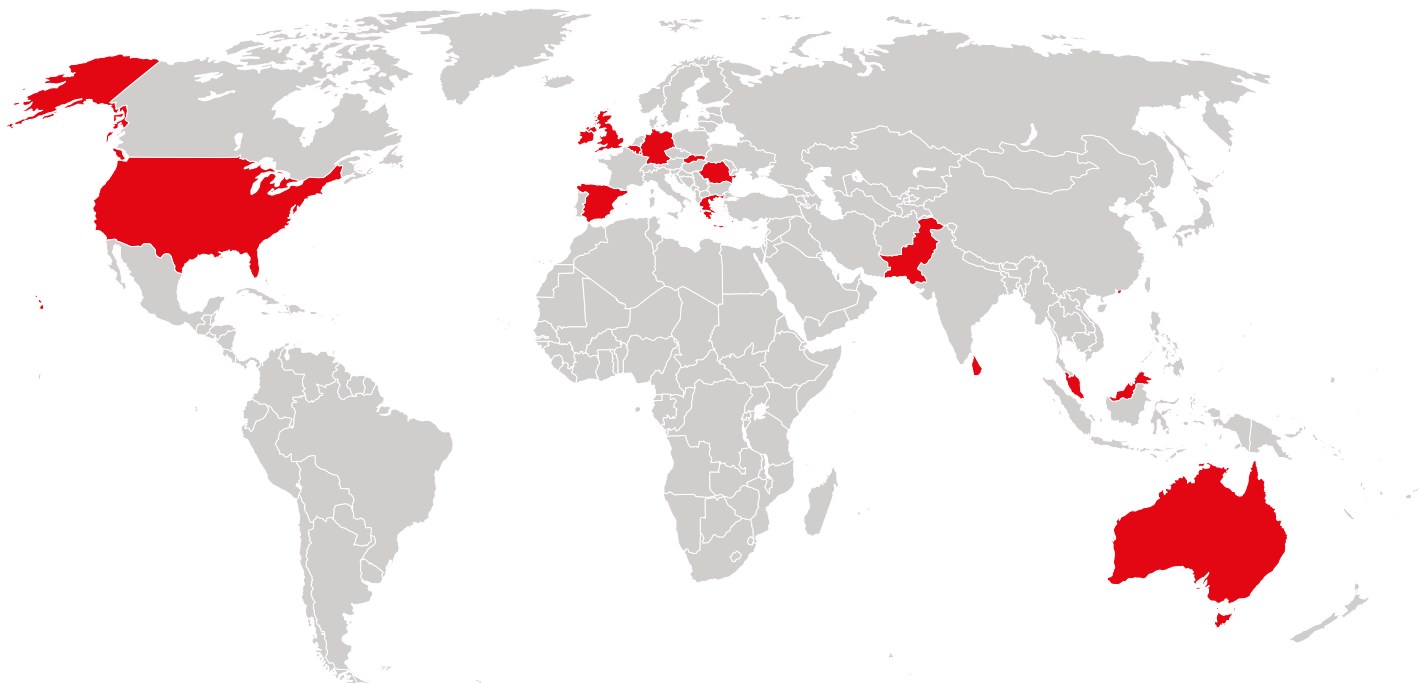
Appendix: Methodology

The underlying research for this report was supported by a series of virtual roundtables with global representation from practitioners currently providing sustainability assurance under ISAE 3000 (Revised) and using the Sustainability/EER guidance. We also held a virtual roundtable session with other stakeholders of the profession who are involved with audit and assurance policy-related matters, such as representatives from local bodies in Europe, Accountancy Europe and the IFAC.

The virtual roundtables focused on the following four areas:

- obtaining feedback on the IAASB’s identified key priority areas of focus for the development of its overarching standard on sustainability assurance
- obtaining further insights about any additional areas that currently cause challenges in practice for practitioners when using ISAE 3000 (Revised), in addition to the key areas of focus identified by the IAASB
- obtaining feedback on the competencies and skills required for those who are interested in being involved in sustainability assurance engagements
- asking whether the profession is currently in a position to satisfy the unprecedented demand for sustainability assurance engagements.

Countries with representation at the virtual roundtable sessions were:



UK	Slovakia	Luxembourg	Greece	Belgium	Australia	Hong Kong	Pakistan
Ireland	Germany	Romania	Spain	USA	Singapore	Sri Lanka	Malaysia

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