

Part of the State of Play Series

A Deep Dive into Sustainability Assurance Engagements

The Who, What, & How of Current Practice

May 2023



INTRODUCTION

This study was designed to enhance understanding of current market practice for the assurance of environmental, social, and governance (ESG or sustainability) information, with a focus on who conducts assurance engagements, what standards are used, the scope of disclosure being assured, and how various assurance practitioners apply internationally recognized standards set by the International Auditing and Assurance Standards Board (IAASB).

The results of this research are intended to inform regulators, policy makers, standard setters, and *all assurance practitioners* about global trends and current market practice. As the reporting and assurance of sustainability information evolves from voluntary to mandatory requirements, important decisions about who will conduct assurance, how these engagements will be overseen, and what scope of information will be assured, using what standards, must be made.

The goal must be high-quality, assured sustainability information that serves the needs of investors, capital markets, and other stakeholders—all in the public interest.

IFAC has examined how audit firms and consultancy organizations (called Other Service Providers, or OSPs, in the study) have applied the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised). Engagements and resulting assurance reports were selected from the 2021 sample set underlying IFAC and AICPA-CIMA's *The State of Play in Sustainability Disclosure & Assurance, 2019 – 2021 Trends & Analysis*.



SUMMARY OBSERVATIONS

STANDARDS: Accountancy firm engagements use IAASB assurance standards, while other service providers currently use different standards for different types of engagements in different jurisdictions.

LEVEL: Current practice indicates that accountancy firm engagements result in limited assurance reports. Other service providers issue limited, moderate, as well as reasonable assurance reports.

SCOPE: Accountancy firm engagements are generally broad scope—covering three or four sustainability topic areas. Other service providers are observed to specialize in narrower scope engagements, especially with respect to greenhouse gas-related metrics.

APPLICATION: This research identifies differences in the application of the IAASB’s standard ISAE 3000 (Revised) between accountancy firm vs. other service providers. There is also evidence to suggest that engagements conducted “in accordance with” ISAE 3000 (Revised) are more likely to reference compliance with an ethics code/standard as well as comply with quality control standards.



BACKGROUND:

Who is providing assurance & at what level?



SUMMARY GLOBAL ASSURANCE PRACTICE

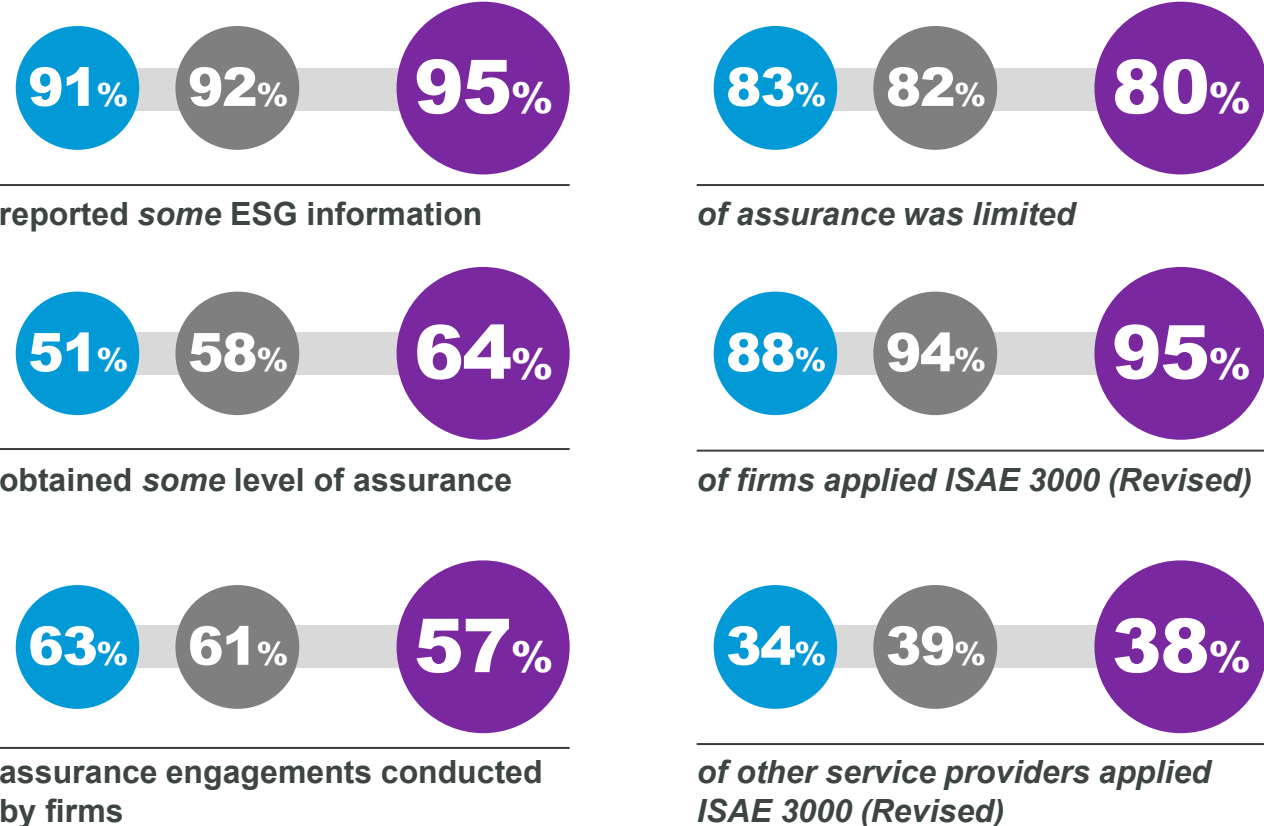
For the third consecutive year, [The State of Play](#) analysis indicates that while the frequency of reporting ESG information is very high and the incidence of assurance is on an upward trend, there continues to be a meaningful difference between reporting and assurance rates. Over the three-year period, there is also a persistent gap in assurance standards used by accountancy firms (Firms) versus other types of consultancy organizations (Other Service Providers or OSPs).

1350 companies across 21 jurisdictions were reviewed in 2021¹; 1400 companies across 22 jurisdictions were reviewed in 2019 and 2020. A company was considered to have reported ESG information or obtained assurance, regardless of how much information was provided or assured (i.e., one GHG number counts).

¹Russia was excluded in 2021 due to restricted access to Russian company data.

Data from IFAC and AICPA & CIMA's [The State of Play: Sustainability Disclosure & Assurance, 2019-2021 Trends & Analysis](#).

KEY FINDINGS: 2019 | 2020 | 2021



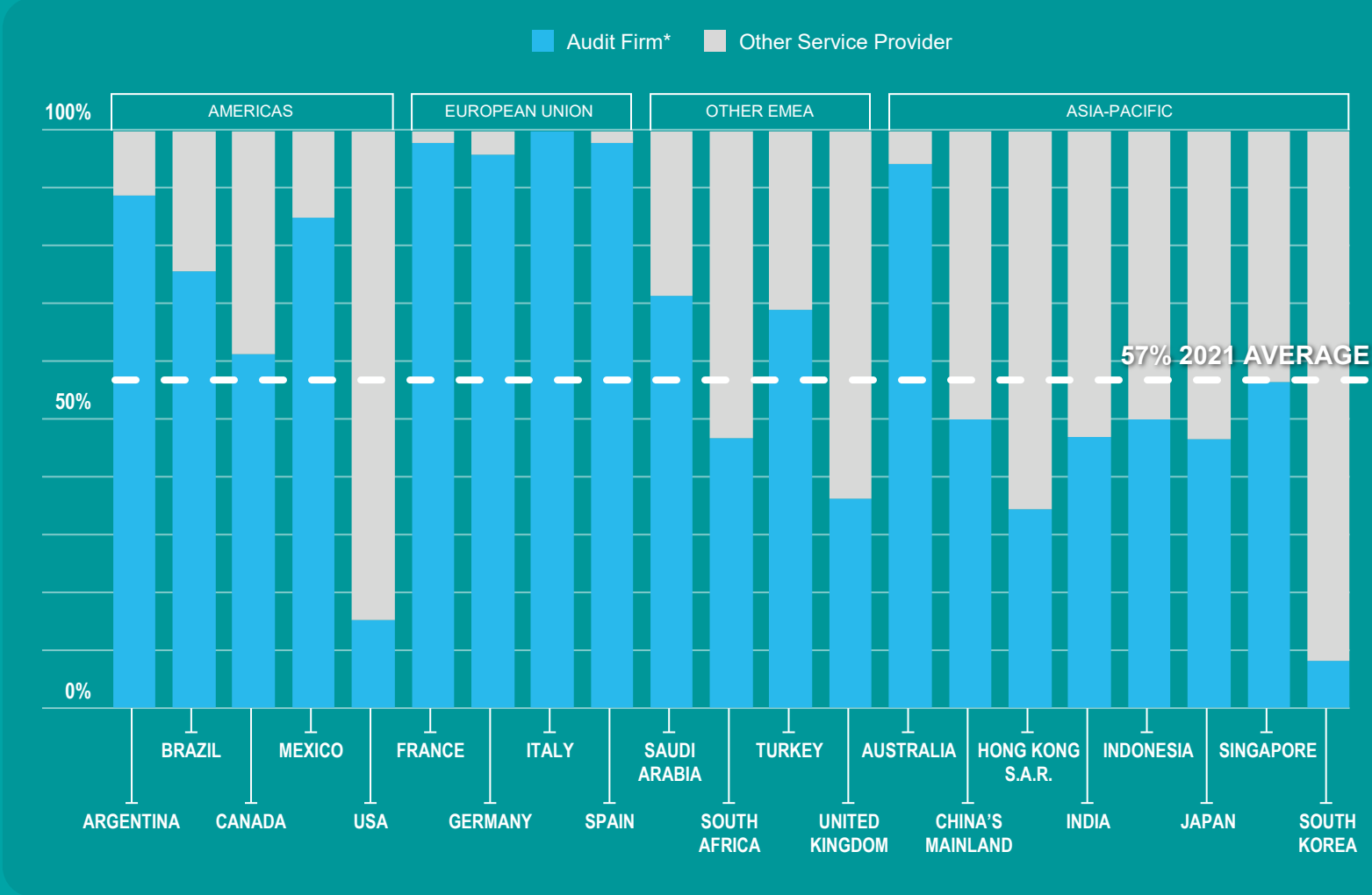
TYPE OF ORGANIZATION PROVIDING ASSURANCE

In 2021, other service providers held a majority market share in seven jurisdictions—Hong S.A.R., India, Japan, South Africa, South Korea, the U.K., and the U.S.

Assurance provider is calculated as the number of assurance reports signed by firm type vs. the total number of assurance reports observed [913] in this study. See Methodology.

Data from IFAC and AICPA & CIMA's [The State of Play: Sustainability Disclosure & Assurance, 2019-2021 Trends & Analysis](#).

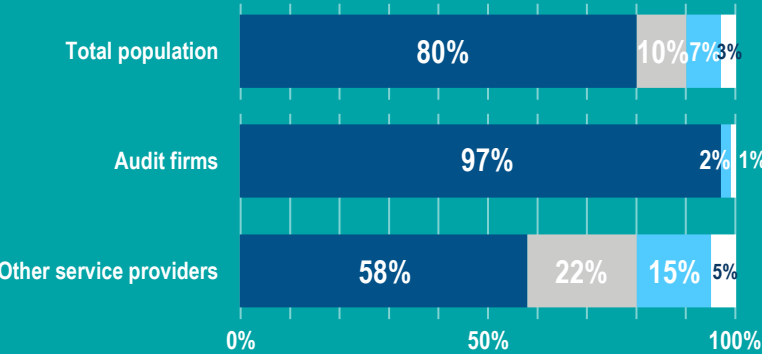
57% of assurance performed by Firms | 43% performed by OSPs



LEVEL OF ASSURANCE

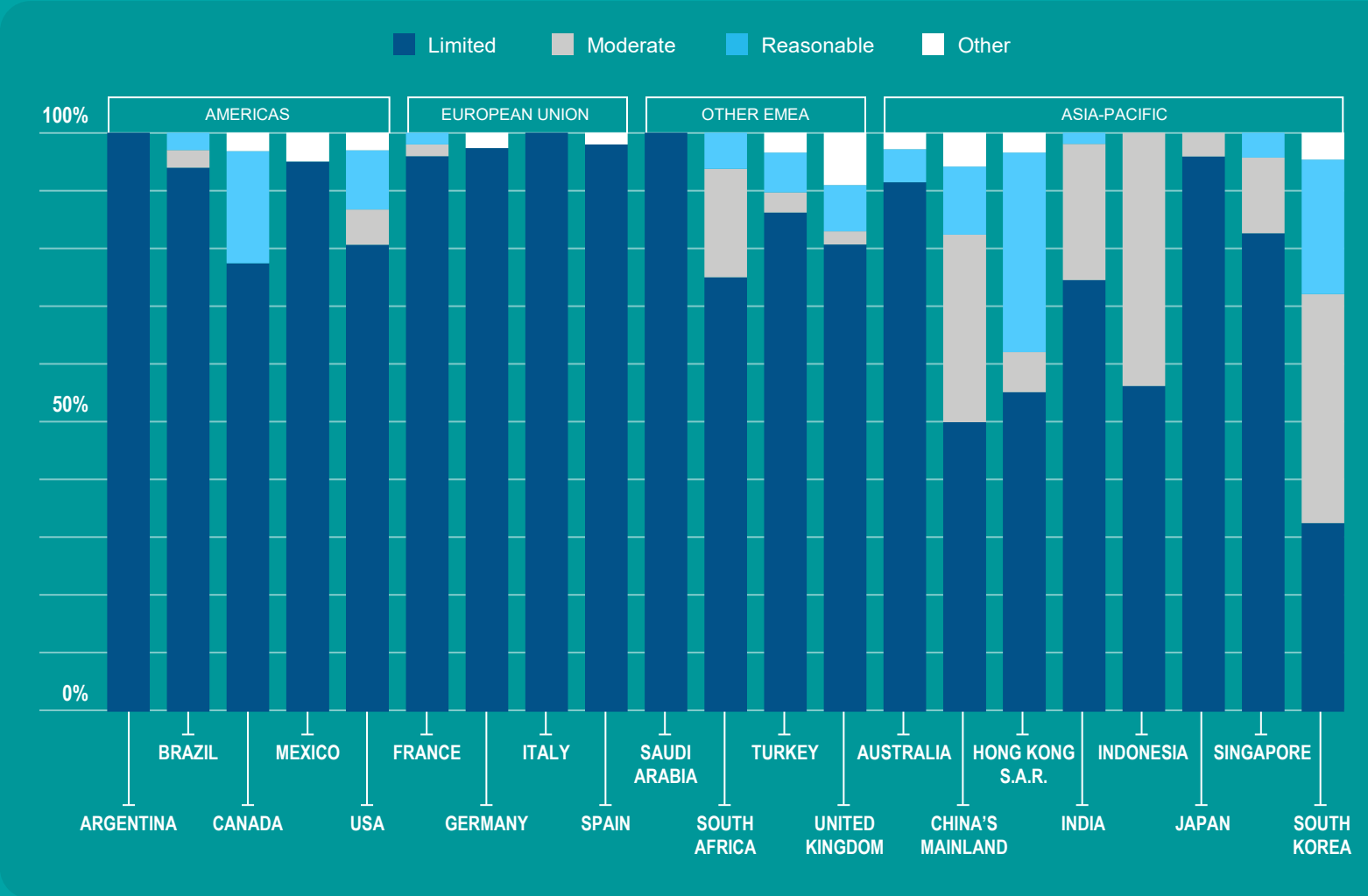
97% of Firm engagements resulted in limited assurance compared to 58% of engagements performed by Other Service Providers.

LEVEL OF ASSURANCE – 2021



Assurance from OSPs in Asia-Pacific resulted in more moderate and reasonable opinions.

Data from IFAC and AICPA & CIMA's [The State of Play: Sustainability Disclosure & Assurance, 2019-2021 Trends & Analysis](#).

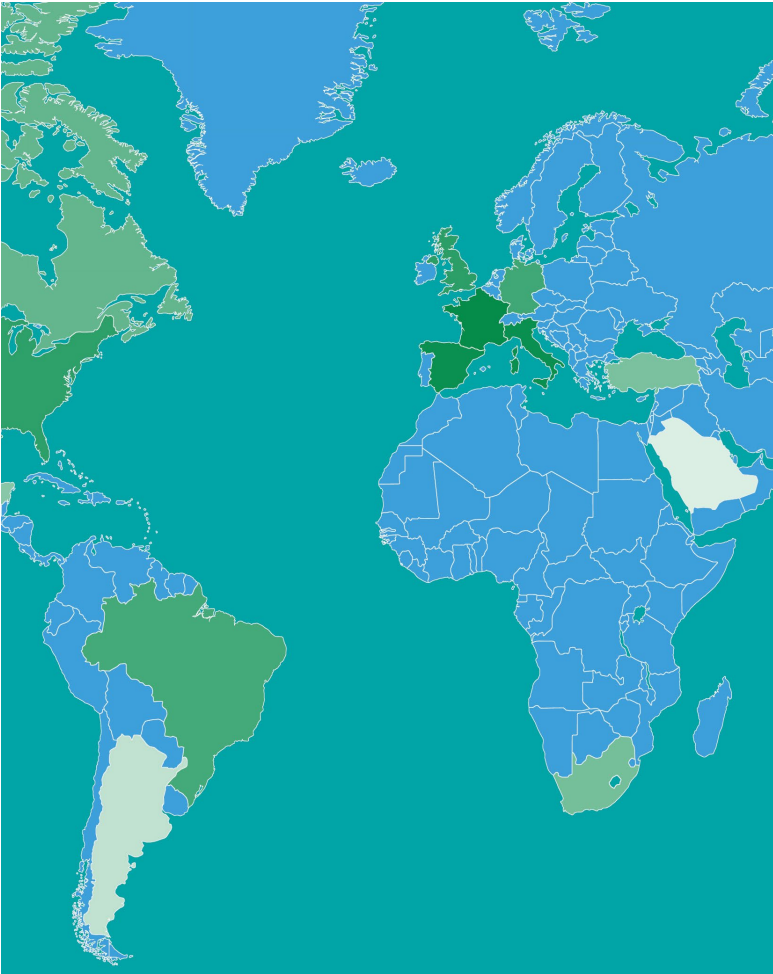


Standards Used

Scope of Engagements



KEY FINDINGS: STANDARDS & PRACTITIONERS



MARKET STRUCTURE. A large number of organizations provided assurance on ESG disclosures in 2021. Of 913 assurance reports reviewed:

- 80 Other Service Providers provided 397 reports using a mix of standards, including ISAE 3000 (Revised), ISO 14064, and AA1000.
- 11 OSPs performed 70% of these 397 reports, globally.
- 14 accountancy firms provided 516 assurance reports

STANDARDS USED

638 of 913 assurance engagements relied on ISAE 3000 (Revised)

77%

were done by Firms

- 95% of Firm engagements relied on ISAE 3000 (Revised) and were conducted by 13 accountancy firms.

23%

were done by OSPs.

- 83% of 149 OSP engagements using ISAE 3000 (Revised) were conducted by 8 organizations.
- 4 of these OSPs operated internationally and used ISAE 3000 (Revised) for the majority of their engagements.

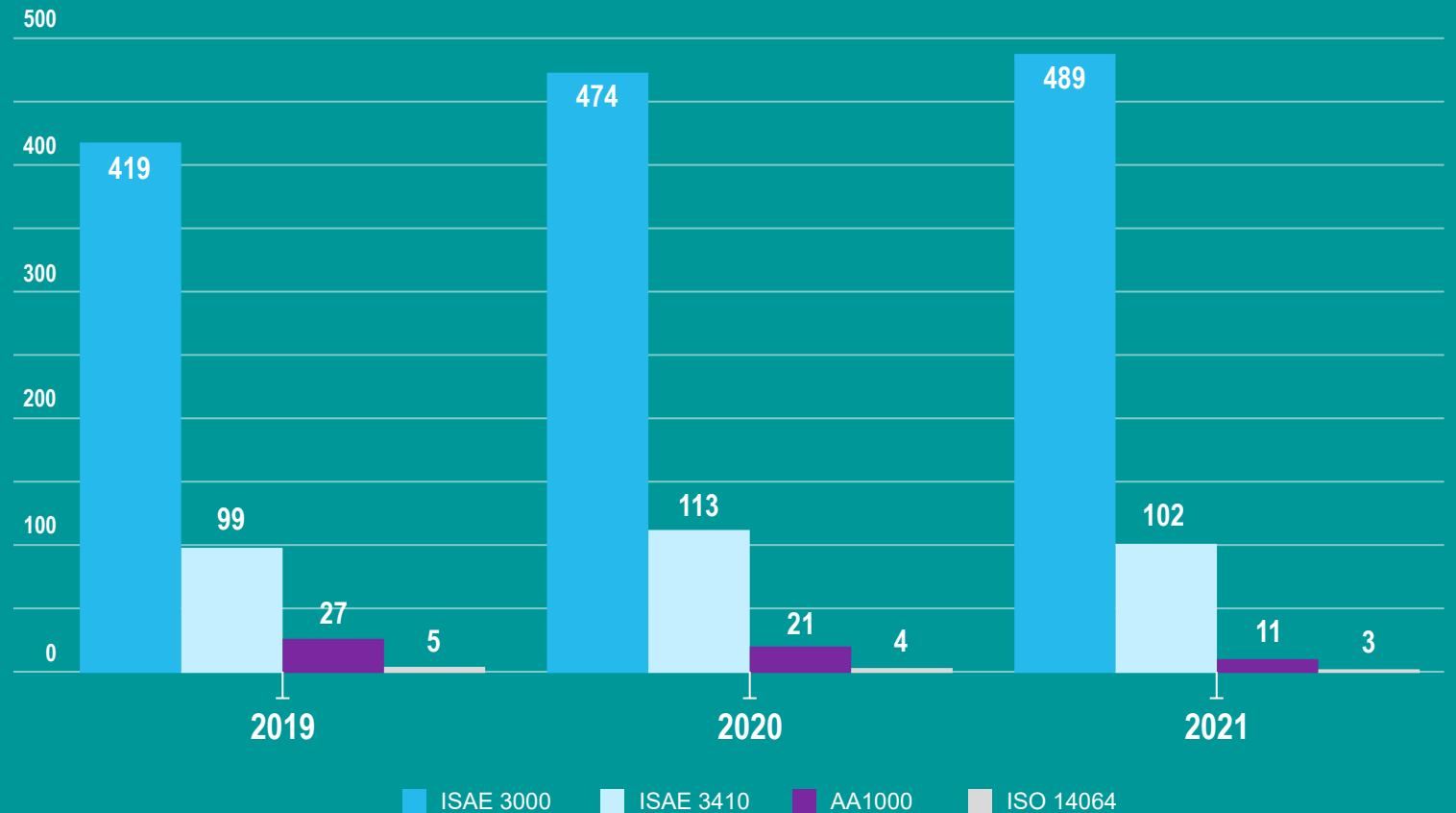
ASSURANCE STANDARDS USED BY FIRMS: 3-YEAR TREND

As the number of audit firm engagements has increased, reliance on ISAE 3000 (Revised) has also increased, while the use of alternative standards has declined.

- ISAE 3410 for GHG verification is the next most frequently used standard, but its use is not increasing.

Our review identified 516 assurance reports provided by audit firms in 2021.

Number of Audit Firm Engagements



Note: More than one standard may be used per engagement.

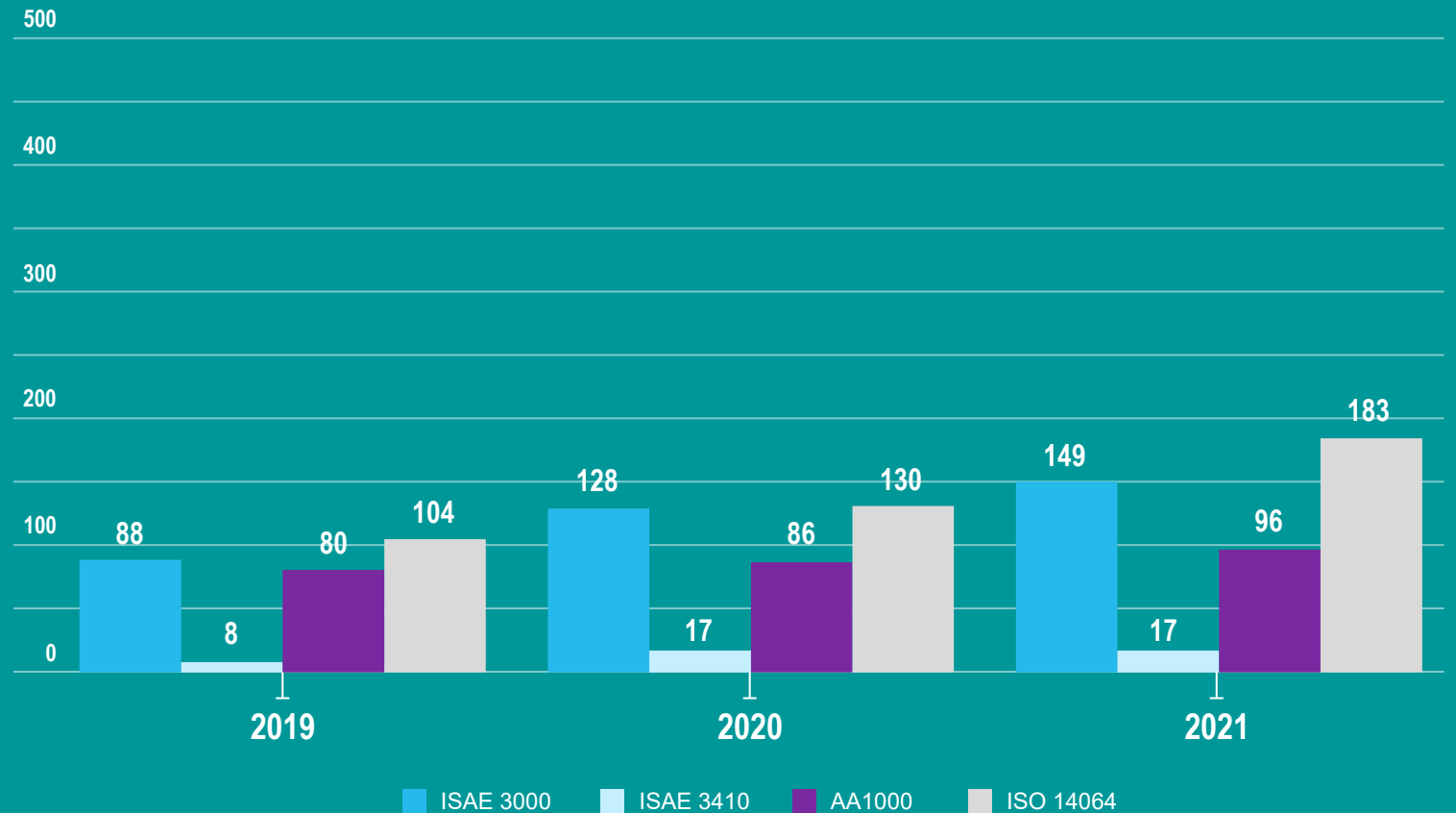
ASSURANCE STANDARDS USED BY OSPs: 3-YEAR TREND

Other Service Providers use a mix of standards for different types of engagements in different parts of the world.

- ISO 14064 – GHG verification standard – was the most common standard used by OSPs in 2021 (46%).
 - The use of ISO 14064 by OSPs is rising – increasing 76% over three years.
- ISAE 3000 (Revised) was the next most frequently used standard (38%).
- AA1000 has a meaningful market share (24%) but its use is not increasing at the same pace.

Our review identified 397 assurance reports provided by OSPs in 2021.

Number of OSP Engagements



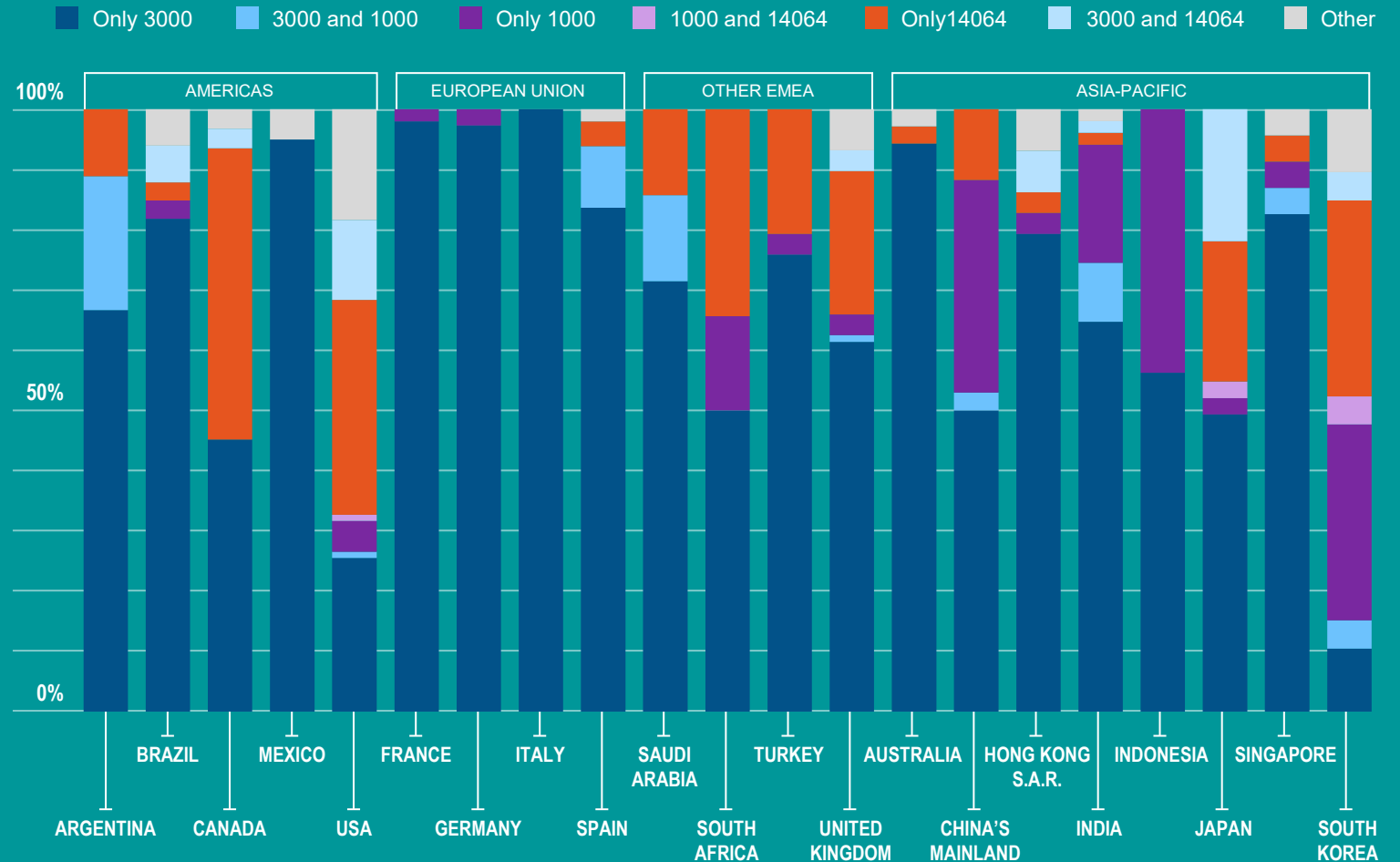
Note: More than one standard may be used per engagement.

ASSURANCE STANDARDS USED BY JURISDICTION

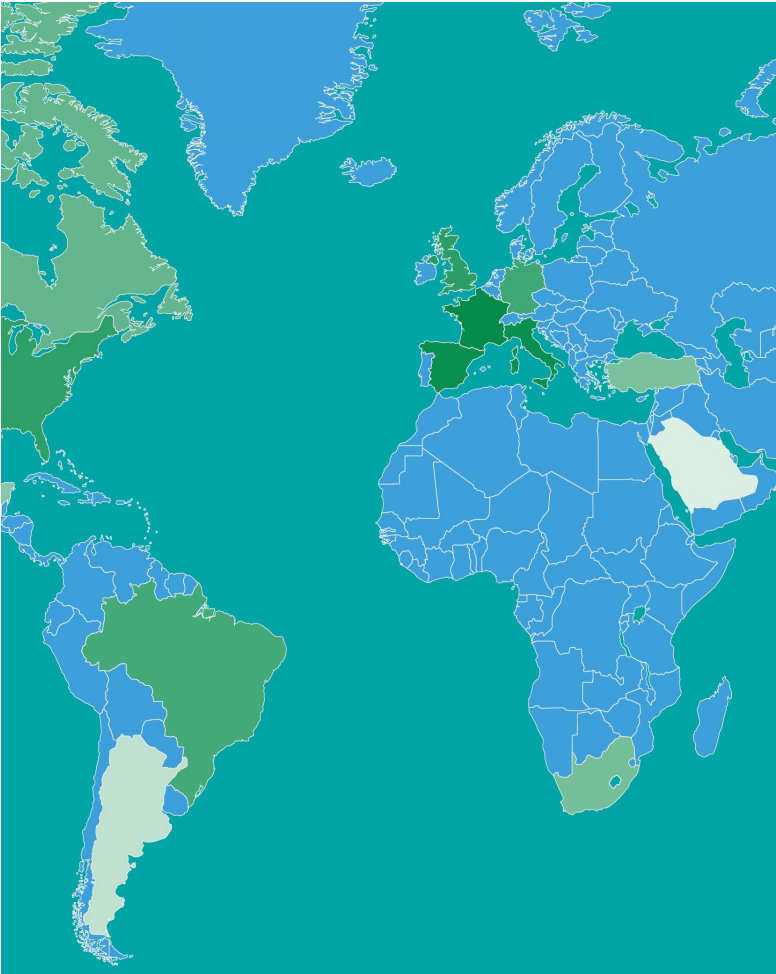
The use of AA1000 and ISO 14064 corresponds with jurisdictions where OSPs have a greater market share.

Standard fragmentation is evident in several jurisdictions, especially the US and South Korea.

- US and Japan have a significant number of engagements that use both ISAE 3000 (Revised) and ISO 14064, concurrently in a single engagement.
- Engagements using ISAE 3000 (Revised) in combination with ISO were also observed in Brazil, Canada, the UK, Hong Kong S.A.R., India, Japan, and South Korea.
- ISAE 3000 (Revised) was used in combination with AA1000 in Argentina, Spain, Saudi Arabia, India, Singapore, and South Korea.



KEY FINDINGS: SCOPE OF ENGAGEMENTS



53%

of assurance engagements reviewed from 2021 covered GHGs as well as environmental, social, and governance topics.

FIRMS: Most engagements covered a range of topics across the ESG spectrum.

- 80% of Firm engagements included 3 or 4 topics in scope.
- 20% of Firm engagements included 1 or 2 topics in scope.

OTHER SERVICE PROVIDERS: Most engagements (58%) covered one topic (GHG-related metrics).

- Of 11 OSPs who conducted 70% of engagements:
 - Four conducted primarily (60% - 85%) three or four topic engagements.
 - Four OSPs conducted primarily (60% - 90%) one or two topic engagements.
 - Three OSPs conducted a “50/50” split of Broad vs Narrow engagements.

SCOPE OF ASSURANCE: ALL 2021 ENGAGEMENTS

Many jurisdictions that have high rates of integrated reporting also have high rates of assurance—e.g., the assurance rate is 98% in France and 72% in Brazil in 2021.

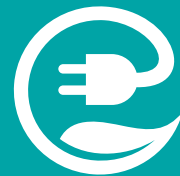
ASSURANCE RATE BY REPORT TYPE

SUSTAINABILITY REPORT	65%	2021
ANNUAL REPORT	50%	2021
INTEGRATED REPORT	77%	2021

Current assurance practice focuses primarily on GHG data, with the rate of assurance declining for other environmental, social, or governance-related topics.

- About half (53%) of assurance engagements reviewed covered all four categories of sustainability topics.

Data from IFAC and AICPA & CIMA's [The State of Play: Sustainability Disclosure & Assurance, 2019-2021 Trends & Analysis](#).



94%

GHG



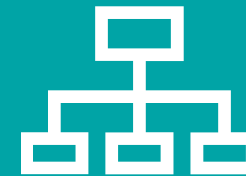
82%

**Other
Environmental**



74%

Social



56%

Governance



53%

All Topics

SCOPE OF ASSURANCE: 2021 FIRM & OSP ENGAGEMENTS

80% Firm engagements – 3 or more categories of ESG information

40% OSP engagements – 3 or more categories of ESG information

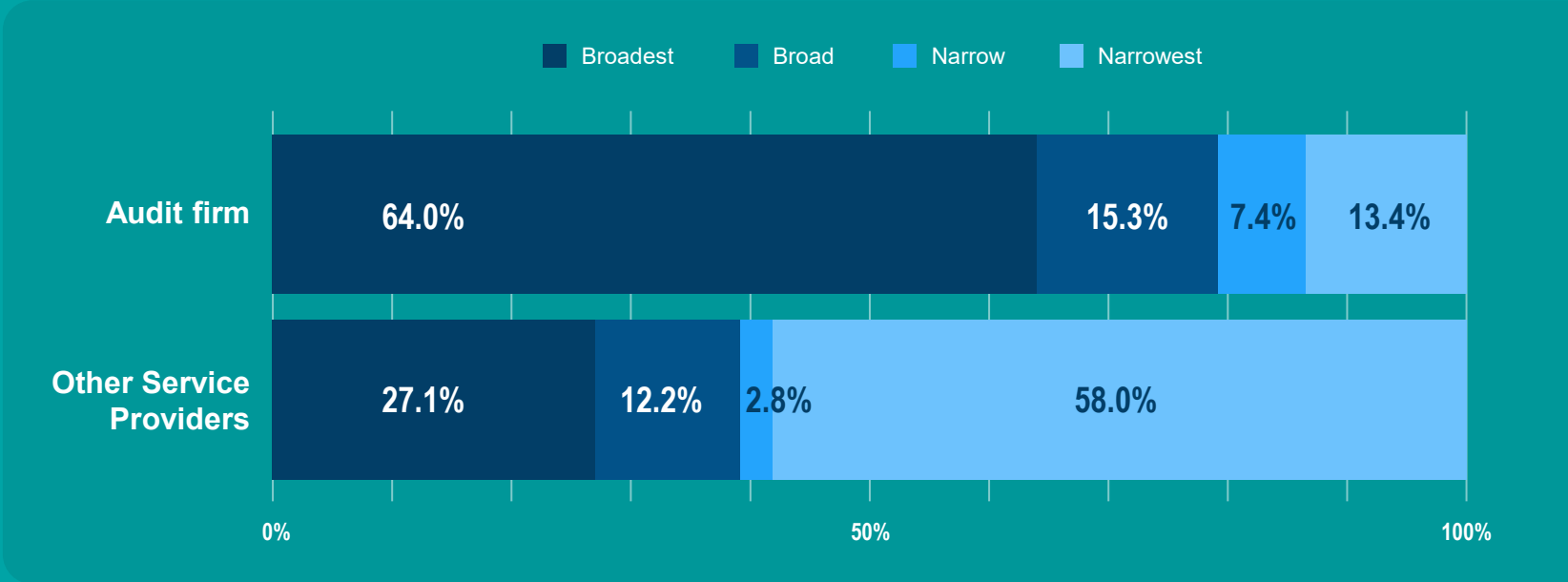
60% OSP engagements cover one or two categories of ESG information

Broadest – assurance covered at least one metric in each of 4 categories (GHG, Environmental, Social, and Governance)

Broad – assurance covered at least one metric in 3 of 4 categories

Narrow – assurance covered at least one metric in 2 of 4 categories

Narrowest – assurance covered a metric/metrics in one category – typically GHG emissions related



Data is based on 913 assurance reports—516 from Firms and 397 from OSPs.

STANDARDS USED: BROAD-BASED OSP ENGAGEMENTS

Broad scope engagements performed by OSPs were most prevalent in six jurisdictions.

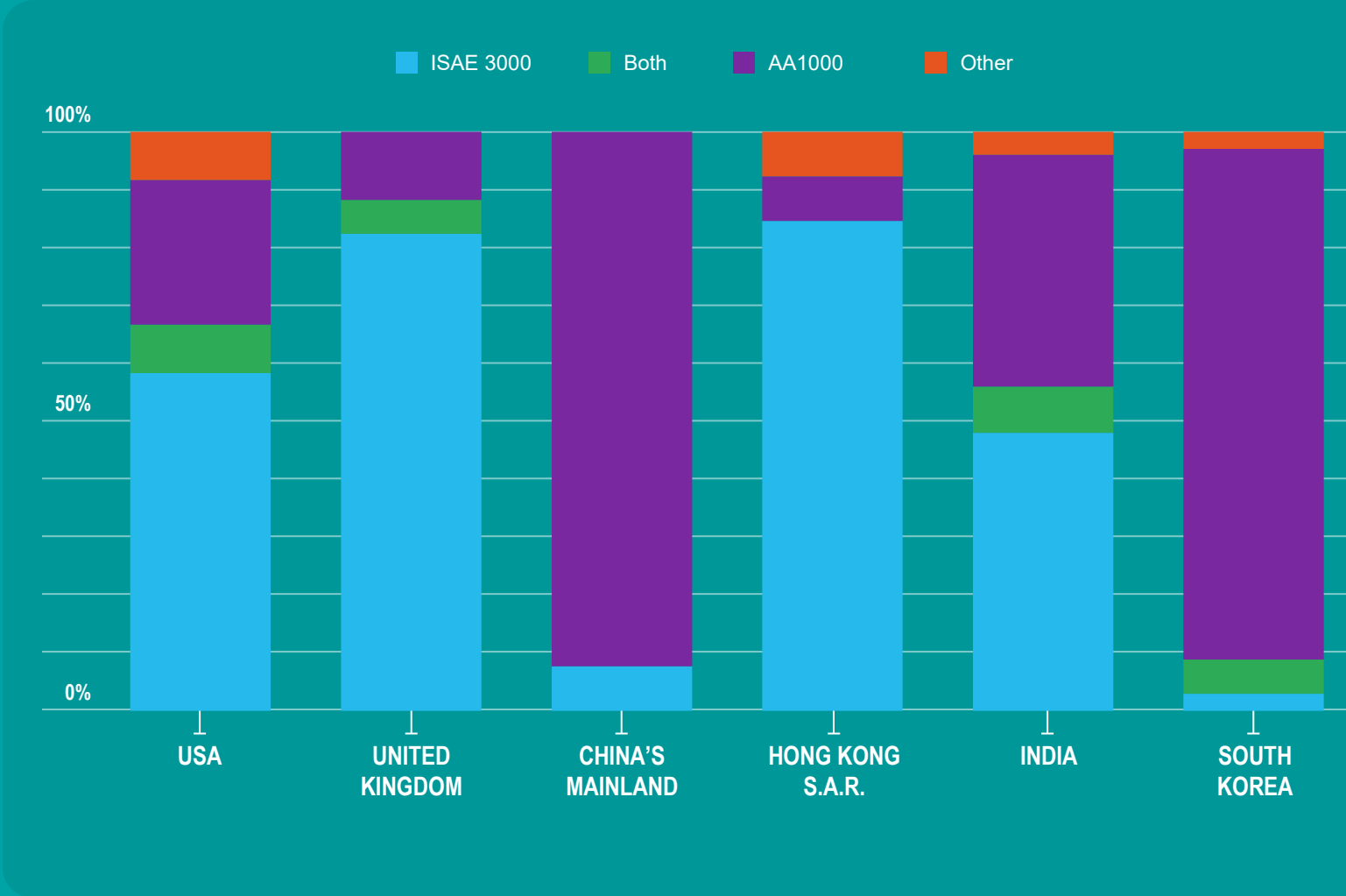
53% of broad scope OSP engagements used AA1000—including 90% of engagements observed in China mainland and South Korea.

49% of broad scope OSP engagements used ISAE 3000 (Revised)—including the majority of engagements in the USA, UK, and HK S.A.R.

5% of broad scope OSP engagements used *both* ISAE 3000 (Revised) and AA1000.

OSP engagements in India and USA split broad assurance engagements between ISAE 3000 (Revised) and AA1000.

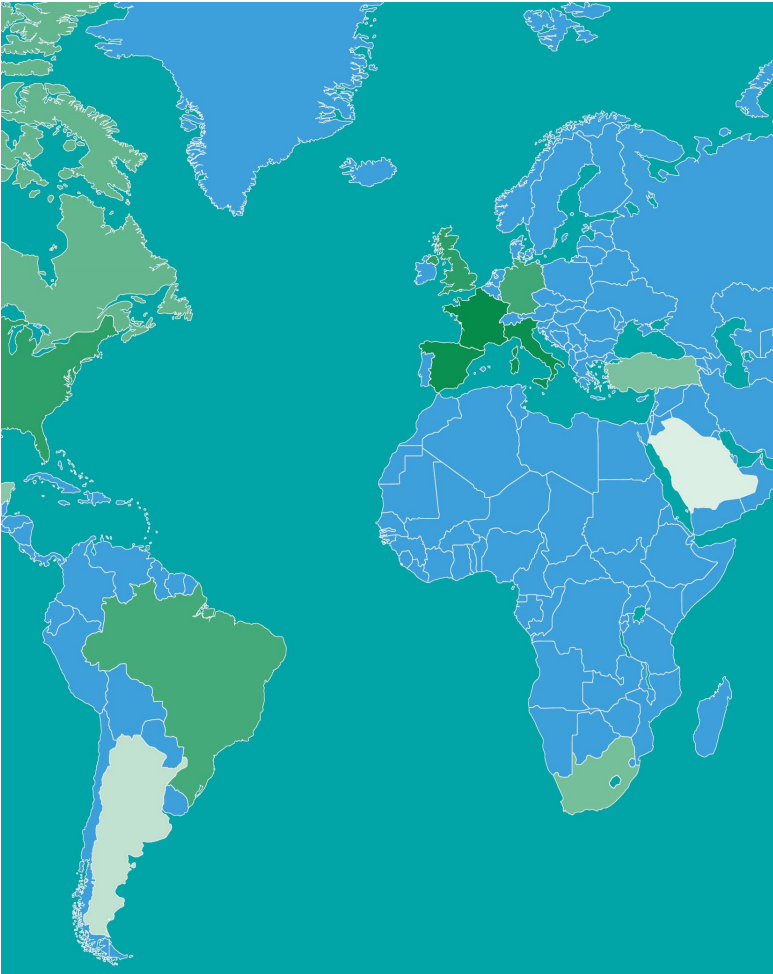
Data is based on 155 broad scope OSP engagements.



Practitioner Application of ISAE 3000 (Revised)



MAPPING ASSURANCE PRACTICE: APPLICATION OF ISAE 3000 (REVISED)



Percent of assurance reports that use **ISAE 3000(R)**.

AUDIT FIRMS

95%

OTHER SERVICE PROVIDERS

38%

Percent of assurance performed **“in accordance with”** ISAE 3000(R).

98%

53%

Percent of ISAE 3000(R) engagements that **apply IESBA Code** or other **international ethics code/std.**

93%

28%

Percent of ISAE 3000(R) engagements that apply ISQC 1 or other international **quality control standard.**

91%

38%

IN ACCORDANCE WITH

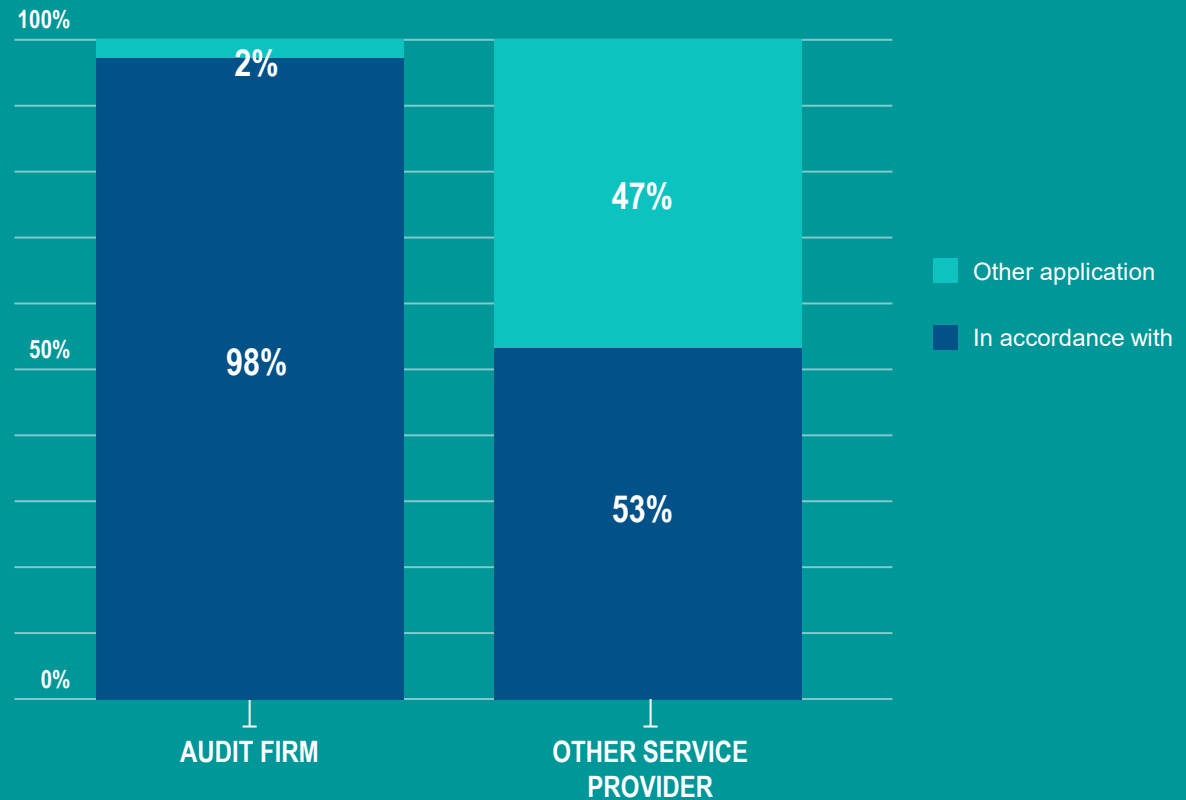
98% Firm assurance reports reference the engagement was conducted “in accordance with” ISAE 3000 (Revised).

53% OSP assurance reports reference the engagement was conducted “in accordance with.”

Four OSP organizations conducted 67% or more of their engagements stating “in accordance with.”

Other OSPs demonstrated a lower level of compliance with this requirement of ISAE 3000 (Revised).

Data is based on 489 audit firm and 149 other services provider sustainability assurance engagements that applied ISAE 3000 (Revised). 13 Firms were observed / 21 OSPs were observed.



*Other applications include representations like “based on ISAE 3000 (Revised)” and “with reference to ISAE 3000 (Revised).”

INDEPENDENCE

OTHER SERVICE PROVIDERS

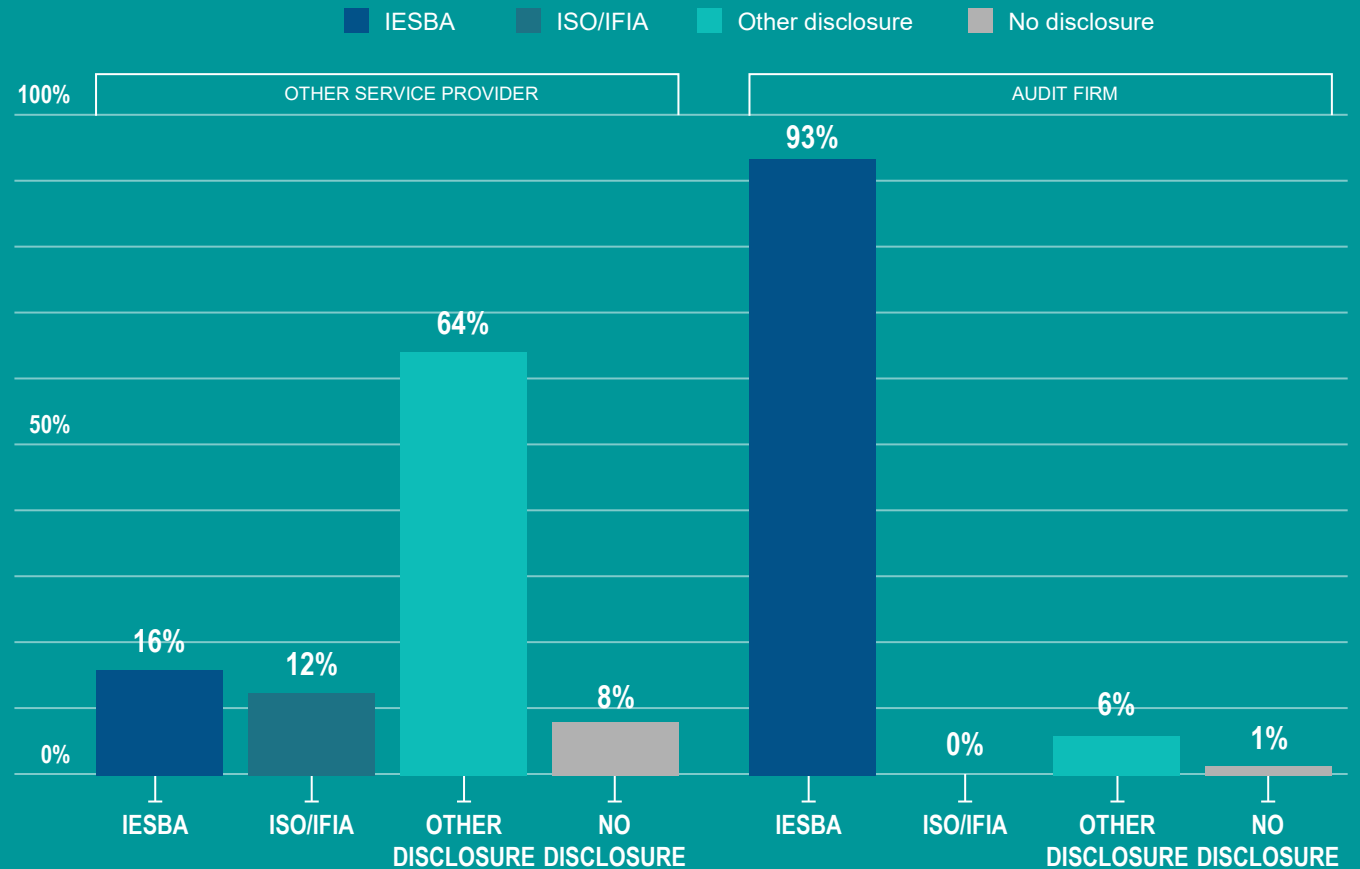
- 64% provided general statement
- 16% referenced IESBA Code
- 12% referenced alternative ethics std.
- 8% provided no disclosure

AUDIT FIRMS

- 93% Firms referenced IESBA Code
- 6% Firms provided general statement
- Less than 1% did not disclose

Three OSP organizations referenced an ethical code/standard in 70% or more of engagements. Other OSPs demonstrated a lower level of compliance with this requirement of ISAE 3000 (Revised).

Data is based on 489 audit firm and 149 other services provider sustainability assurance engagements that applied ISAE 3000 (Revised). 13 Firms were observed / 21 OSPs were observed.



QUALITY CONTROLS

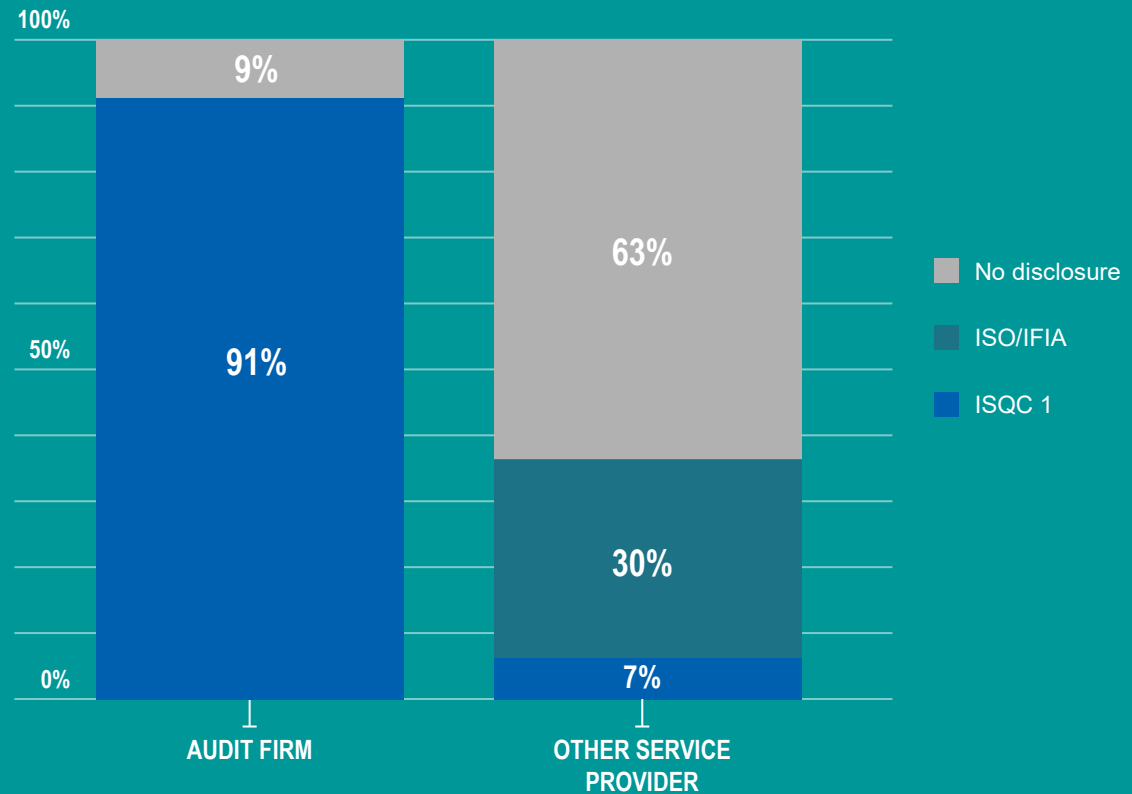
62% OSP engagements - no evidence of compliance with ISQC 1 or equivalent quality control standard.

30% OSP engagements referenced ISQC 1 alternatives.

91% Firm engagements provided evidence of compliance with ISQC 1.

Four OSP organizations referenced quality controls in 60% or more of engagements. Other OSPs demonstrated a lower level of compliance with this requirement of ISAE 3000 (Revised).

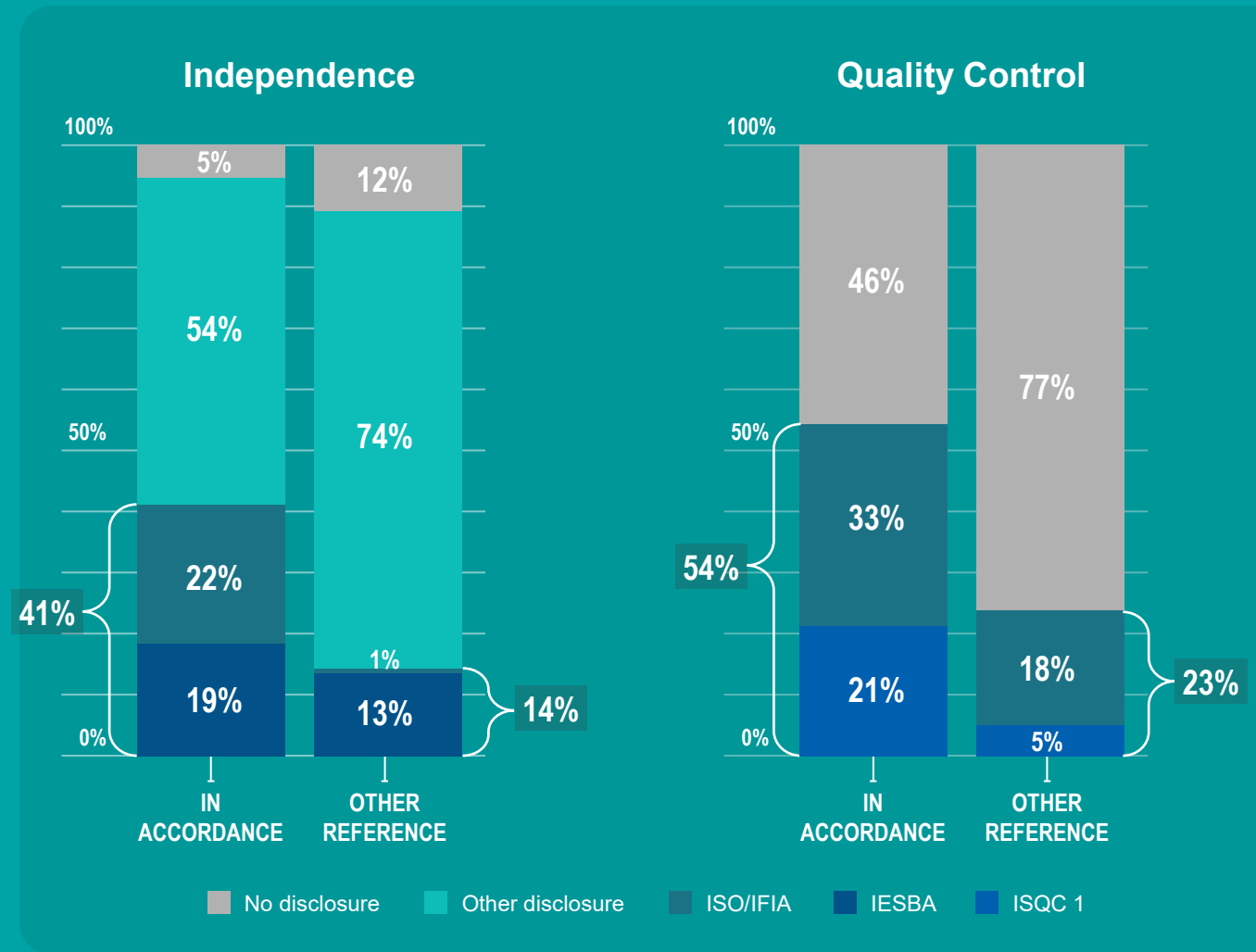
Data is based on 489 audit firm and 149 other services provider sustainability assurance engagements that applied ISAE 3000 (Revised). 13 Firms were observed / 21 OSPs were observed.



INDEPENDENCE & QUALITY CONTROLS: DOES “IN ACCORDANCE WITH” MAKE A DIFFERENCE?

This analysis suggests OSP engagements conducted “in accordance with” ISAE 3000 (Revised) may be more likely to also reference a specific independence code and quality control standards as required by ISAE 3000 (Revised).

- **3 times as likely** to use the IESBA Code or ISO/IFIA.
- **2 times as likely** to use ISQC 1 or ISO quality control standards.



METHODOLOGY



METHODOLOGY

The **population** of this analysis was based on the 1350 companies across 21 jurisdictions reviewed in 2021 and 1400 companies across 22 jurisdictions reviewed in 2019 and 2020 from *The State of Play* (see link for more details). The State of Play population resulted in 913 assurance and verification statements in 2021, 833 reports in 2020, and 704 reports in 2019 which were reviewed for this report.

A company was determined to have **assurance** if a third-party assurance or verification report that covered at least one sustainability metric or conformity with a sustainability standard was included in the sustainability, annual, or integrated report; was included on a company's website; or was included on a third-party's website, such as CDP. The assurance must have also applied to the most current reporting year. Certificates were not included as assurance reports.

Jurisdictional **standards** that were local adoptions of IAASB standards were included in the ISAE 3000 (Revised) and ISAE 3410 counts and percentages. For example, Australian firms use ASAE 3000 and ASAE 3410.



METHODOLOGY: POPULATION OF WHO PERFORMS ASSURANCE

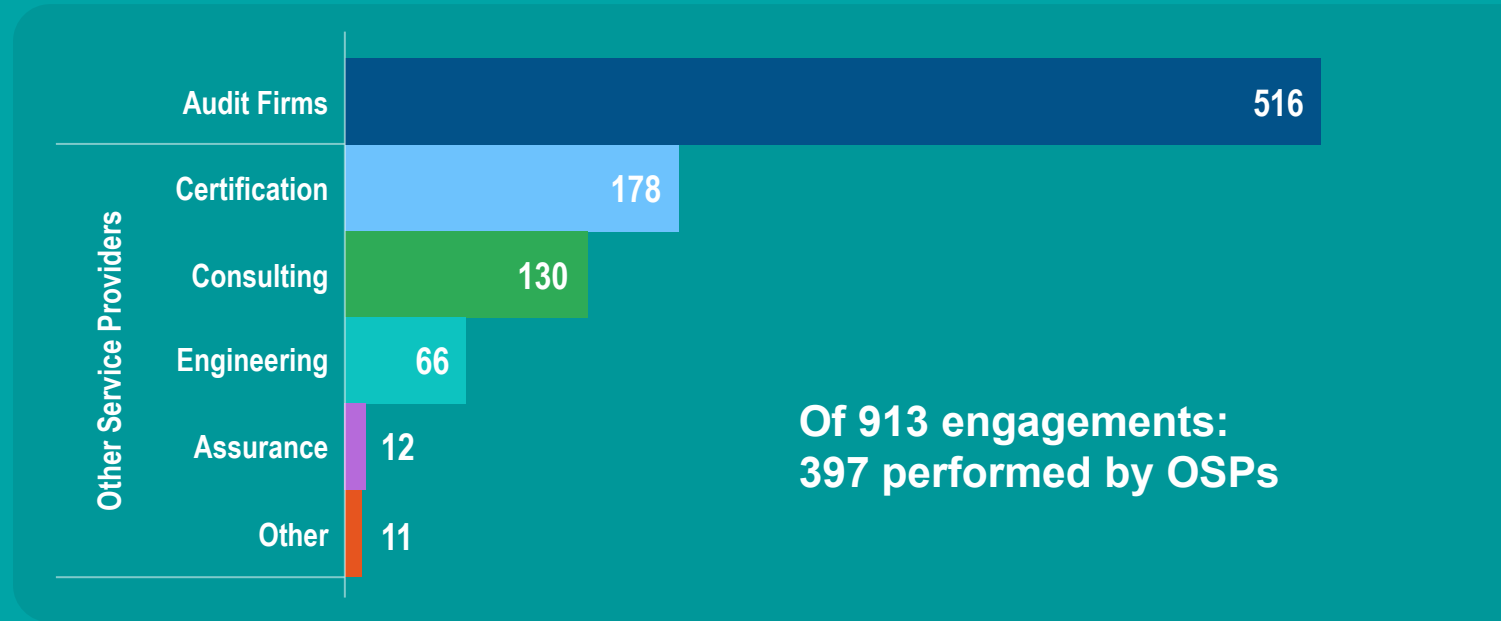
2021 State of Play

- **1350** companies in 21 jurisdictions
- **913** assurance reports, regardless of standard or practitioner
 - **57%** Firms / 43% OSPs
 - Five categories of OSPs

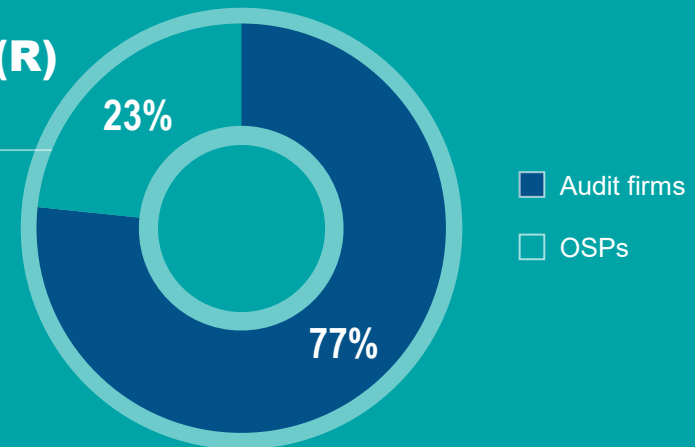
Analysis of ISAE 3000(R)

638 (70%) of 913 engagements used 3000.

- **489** Firm engagements (77%)
 - 95% of Firm engagements applied 3000.
- **149** OSP engagements (23%)
 - 38% of OSPs engagements applied 3000.



OF 638 ISAE 3000(R) ENGAGEMENTS



METHODOLOGY (CONTINUED)

Application of ISAE 3000 (Revised) terminology (page 19)

- **“In accordance with”** refers to assurance reports that make a declarative statement that the assurance provider conducted their engagement “in accordance with” or “according to” the ISAE 3000 (Revised) standard.
- **“Other application”** refers to assurance reports that make a statement that the assurance provider conducted their engagement “based on,” “referred to,” or any other type of application of ISAE 3000 (Revised) other than “in accordance with.”

Independence criteria terminology (page 20)

- **IESBA** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and the use of the IESBA Code of Ethics, including a jurisdictional Code of Ethics for the accounting profession.
- **ISO / IFIA** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and the use of ISO or IFIA (now the TIC Council) independence standards.
- **Other disclosure** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and the disclosure of general independence statements. For example, the statement that the team is independent of the assurance client or that the assurance provider avoids conflicts of interest.
- **No disclosure** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and make no reference to independence.

Quality criteria terminology (page 21)

- **ISQC 1** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and the use of the IAASB’s quality control standards, including jurisdiction quality control standards for the accounting profession.
- **ISO / IFIA** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and the use of the ISO 9001 or ISO 17021 quality control systems or standards.
- **No disclosure** refers to assurance reports that invoke the use of ISAE 3000 (Revised) and make no reference to quality control standards.



METHODOLOGY:

ISAE 3000 (REVISED)

ISAE 3000 (Revised) Engagement Requirements	Communicating the Performance of an ISAE 3000 (Revised) Engagement in the Assurance Report
<p>Conduct of an Assurance Engagement in Accordance with ISAE <i>Complying with Standards that are Relevant to the Engagement</i></p> <p>14. The practitioner shall comply with this ISAE and any subject matter-specific ISAE relevant to the engagement.</p> <p>15. The practitioner shall not represent compliance with this or any other ISAE unless the practitioner has complied with the requirements of this ISAE and any other ISAE relevant to the engagement.</p> <p style="text-align: right;">(Ref: Para. 14 & 15)</p>	<p>“A statement that the engagement was performed in accordance with this ISAE or, where there is a subject-matter specific ISAE, that ISAE.”</p> <p style="text-align: right;">(Ref: Para. 69(h))</p>
<p>Ethical Requirements</p> <p>20. 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.</p> <p style="text-align: right;">(Ref: Para. 20)</p>	<p>“A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.”</p> <p style="text-align: right;">(Ref: Para. 69(j))</p>
<p>Quality Control <i>Characteristics of the Engagement Partner</i></p> <p>31. The engagement partner shall:</p> <p>(a) Be a member of a firm that applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1;</p> <p>(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.</p> <p style="text-align: right;">(Ref: Para. 31)</p>	<p>“A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1.”</p> <p style="text-align: right;">(Ref: Para. 69(i))</p>



DEFINITIONS

AA1000 – references the assurance standard (AA1000AS v3) as issued by AccountAbility.

ESG – an acronym for environmental, social, and governance.

IAASB – the International Auditing and Assurance Standards Board which sets high-quality international standards for auditing, assurance, and quality management.

IESBA – the International Ethics Standards Board for Accountants which sets high-quality international ethics (including independence) standards.

IFIA / TIC Council – the International Federation of Inspection Agencies – which merged with CEOC International to form the Testing, Inspection, and Certification Council – was an industry group that issued a compliance code for inspection firms which covered aspects of ethics and independence. IFIA's compliance code has been replaced by TIC Council's compliance code.

ISAE 3000 (Revised) – an IAASB standard that deals with assurance engagements other than audits or reviews of historical financial information, which includes sustainability information.

ISAE 3410 – an IAASB standard that deals with assurance engagements on greenhouse gas statements.

ISO – the International Organization for Standardization which sets various standards, including standards for calculating, reporting, and assuring greenhouse gases.

ISO 9001 – a standard developed by ISO that sets out the criteria for a quality management system.

ISO 14064 – a series of standards developed by ISO that set out the criteria for quantifying and verifying greenhouse gas information.

ISO 17021 – a standard developed by ISO that sets out criteria for principles and requirements for the competence, consistency and impartiality.

ISQC 1 – an IAASB standard that deals with a firm's responsibility for its system of quality control for audits and reviews of financials, and other assurance and related services engagements. ISQC 1 has been replaced by ISQM 1.



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