THE SWITCH TO MANDATORY REQUIREMENTS: Policymakers and regulators are moving with pace to introduce mandatory sustainability reporting and assurance. Even for companies already reporting on a voluntary basis, the evolution to mandatory sustainability reporting will take time as companies develop governance structures and rigorous processes, systems, and controls related to their sustainability reporting—all to be tested through internal assessment and external assurance. Unbiased estimates, assumptions, and scenario analysis, as well as reliable value chain data, will be important. Preparers must develop new, robust materiality assessments in accordance with reporting requirements.

To make informed decisions related to important global issues like climate change, stakeholders need reliable data and narrative information about companies’ GHG emissions and other sustainability-related matters. When a company engages an assurance practitioner to obtain assurance over these disclosures, users’ trust and confidence about the information is enhanced.

WHAT TO EXPECT: Many jurisdictions are electing to implement a phased approach to both reporting and assurance requirements—reflecting the readiness of preparers to apply new sustainability reporting standards, as well as implement information systems and reporting processes. Users of sustainability disclosures should expect, depending on jurisdiction-specific requirements or market practices, that assurance engagements may initially cover only some sustainability topics (e.g., climate change) and will seek to deliver a different level of assurance (i.e., limited assurance) than financial statements audits (i.e., reasonable assurance). Further, engagements may result in modified assurance conclusions. (See definitions below and examples on the IFAC website).

Meanwhile, assurance practitioners are developing the methodologies to test, analyze, and evaluate new sustainability-related datasets, processes and controls in accordance with a new global International Standard on Sustainability Assurance (ISSA) and global ethics standards.

LEVEL OF ASSURANCE

Research on The State of Play in Sustainability Disclosure and Assurance finds most engagements currently do not result in reasonable assurance conclusions.

REASONABLE: In a reasonable assurance engagement, the level of assurance obtained is like that in a financial statements audit. The practitioner gathers sufficient, appropriate evidence—based on procedures designed to obtain reasonable assurance (i.e., a high, but not absolute, level of assurance)—that the sustainability information is free from material misstatement.

LIMITED: A practitioner gathers sufficient, appropriate evidence—based on procedures that are limited compared to a reasonable assurance engagement—to conclude whether anything has come to the practitioner’s attention that causes them to believe the sustainability information may be materially misstated.

CALL TO ACTION:
The accountancy profession, market regulators, preparers, investors and all users of sustainability disclosures need to engage with each other and develop a shared understanding of—and commitment to delivering—high-quality sustainability assurance that includes:

- Mandatory, independent assurance that can be performed alongside financial audits.
- Engagements conducted in accordance with global IAASB and IESBA standards, including independence, ethics, quality management.
- Reporting and assurance requirements—supported by best practices inside of companies—that ultimately deliver reasonable assurance over sustainability information.

TYPES OF MODIFIED ASSURANCE CONCLUSIONS

Modified opinions (conclusions) are not common in financial statements audits, but they may occur during initial years of new reporting and assurance requirements.*

QUALIFIED CONCLUSION

Effects, or possible effects, of a misstatement or scope limitation are material but not pervasive.

DISCLAIMER OF CONCLUSION

A material and pervasive scope limitation exists that precludes the practitioner from obtaining sufficient, appropriate evidence to form a conclusion.

ADVERSE CONCLUSION

The sustainability information is misstated and the misstatement is material and pervasive.

* e.g., under the Sarbanes-Oxley Act, adverse auditor attestations related to internal controls over financial reporting in the U.S. were initially double that of current levels.