SUSTAINABILITY ASSURANCE: UNDERSTANDING THE VARIATIONS IN SCOPE OF ENGAGEMENTS

The disclosure of non-financial information in the form of sustainability reports and integrated reports is now a globally established practice. Most jurisdictions across the world encourage, either through stock exchange listing requirements or through legislation, the need for companies to provide information on their non-financial performance. However, these disclosures are often criticised for failing to offer a credible account of the reporter's sustainability performance. To address this criticism many reporters voluntarily secure third-party assurance over their disclosures.

The ADGM Academy Research Centre is pleased to publish a series of articles by Associate Professor Muhammad Bilal Farooq on the key issues related to the assurance of non-financial reports, such as sustainability and integrated reports, also referred to as sustainability assurance. This fourth and final article in the series provides a detailed discussion on the key differences in the scope of non-financial information assurance engagements.

KEY FACTORS INFLUENCING THE SCOPE OF SUSTAINABILITY ASSURANCE ENGAGEMENTS

Sustainability assurance engagements remain voluntary undertakings in most jurisdictions across the world. This allows assurance practitioners and reporting managers to decide on the scope and objectives of the engagement. This contrasts sharply with financial audits which are heavily regulated in most countries. In financial audits, neither the reporting entity nor the auditor can alter the scope and objectives of the engagement, as these are set in stone by regulators using a combination of rules/legislation and auditing standards. The following are some of the key points that assurers and assurees discuss when deciding on the scope of engagements.

LEVEL OF ASSURANCE

Will the assurer provide a high/reasonable or low/limited level of assurance? A higher level of assurance requires more work which will cost the assuree more money. However, sometimes a higher level of assurance is not possible as the underlying systems and processes are not mature and the evidence available does not support a reasonable level of assurance. In some engagement's reporters seek mixed assurance levels where certain sections of the sustainability report are assured to a higher level than others. For example, in some countries there may be strict laws mandating GHG emissions disclosures and the assurance of the same. Consequently, corporate boards will typically seek a higher level of assurance over this information, while choosing to secure a lower level of assurance over other information (to keep the audit cost low). In comparison, financial auditors cannot provide say a high level of assurance over the income statement while providing a low level of assurance over the balance sheet. Nor can financial auditors provide a higher level of assurance over say sales revenue while providing a lower-level assurance over expenses.

PARTIAL ASSURANCE

Continuing with the above point, some boards may request partial assurance, where some sections/content is assured (whether to a high or low level), while other sections/content are not assured. Again, this may be due to either the reporter not having the evidence to support assurance over all sections of the report, or alternatively corporate boards simply aiming to reduce the cost of the engagement. In comparison, financial auditors cannot provide say assurance over the income statement while providing no assurance over the cash flow statement.

ASSURANCE OVER WHAT?

In some engagements practitioners will provide assurance over data and information, while in other engagements they offer assurance over underlying systems and processes which produce the data and information. This occurs when assurance providers are reluctant to providing assurance over content (data and information) which involves a high degree of subjectivity and estimation. For example, assurers are more comfortable offering assurance over the materiality assessment process than providing assurance over the balance of a sustainability report (see below). Also, in some engagements the assurer may offer combined assurance, i.e. assurance over a mix of some data and information and some underlying systems and processes. For example, the assurer may offer a limited level of assurance over health and safety data but not the greenhouse gas emissions. For the latter the assurer may simply provide a limited level of assurance over systems or processed used to work out greenhouse gas emissions.

ASSURANCE STANDARDS AND METHODOLOGIES

Accounting sustainability assurance providers are members of professional accounting bodies. As a condition of this membership these assurers need to follow assurance standards approved by their accounting body. For example, in many countries, standards developed by the International Audit and Assurance Standards Board (IAASB) are used by assurance providers. For sustainability assurance engagements practitioners tend to use ISAE3000 (Revised). However, the limitation of this standard is that it is based on the IAASB's existing suite of financial audit standards. As a result, the standard mimics the approach adopted by financial auditors, which may not be suitable for sustainability assurance engagements. Second, ISAE3000 (Revised) is a generic standard that is designed for a range of assurance engagements other than those involving assurance over historic financial information, i.e. it is not specifically designed for sustainability assurance engagements. For example, if an assurance practitioner was to undertake assurance over a cash flow forecast, they would be required to use this standard. However, given the unique nature of sustainability reporting, these two drawbacks potentially hinder accounting assurance practitioners ability to offer high quality sustainability assurance services.

In comparison, non-accounting sustainability assurance providers appear to be a lot more flexible in their selection of assurance standards, many of whom prefer to use AccountAbility's AA1000 Assurance Standard. AccountAbility's adopts a holistic approach to sustainability, sustainability reporting and sustainability assurance. They have three standards; AA1000APS (AccountAbility Principles Standard); AA1000SES (Stakeholder Engagement Standard); and AA1000AS (Assurance Standard).

AA1000APS identifies three principles that reporters must adopt in order to embed sustainability into their operations. These principles are Inclusivity, Materiality and Responsiveness. AA1000SES offers reporters with guidance on how to engage with stakeholders. Once a company has embedded these principles, they can discuss these in their sustainability report as well as getting their disclosures externally assured in accordance with AA1000AS. The assurance standard identifies two Types of sustainability assurance engagements. A Type 1 engagement involves assurance over a company's application of the three principles identified above, but no assurance over disclosures. A Type 2 engagement involves both, i.e., assurance over the application of AccountAbility's three principles as well as sustainability disclosures. Importantly, non-accounting sustainability assurance providers will combine AA1000AS with other standards, such as the IAASB's ISAE3000. In such engagements AA1000AS offers a broad framework for the engagement while ISAE3000 offers more detailed guidance over the engagement.

ASSURANCE OVER CONTENT AND ASSURANCE OVER MATERIALITY

Often assurers typically focus on assuring the contents of sustainability reports, i.e. verifying through evidence the reliability of data and information contained within the sustainability report. The balance of these disclosures, i.e., whether the reporter has covered all material issues, is excluded from the scope of the engagement. In broader engagements practitioners offer the user with assurance over both the report content as well as the overall balance of the report.

THE INTENDED USER/S

Financial statements are prepared for the shareholders of a company (and in some jurisdictions for lenders as well). Thus, the financial auditors report is also addressed to the shareholders of the company, i.e. the auditor's opinion is designed to enhance the confidence of the shareholders in the financial statements which have been prepared by the board of directors. Similarly, if a sustainability report is prepared for the stakeholders of a company, then the sustainability assurance statement should also be addressed to the stakeholders of the company. However, research shows that this is usually not the case, as assurers, particularly accounting sustainability assurance providers, address their reports/opinion to corporate boards or managers of the company. Such reports are often accompanied with a disclaimer.

CONCLUSION

In conclusion, narrow scope engagements will typically offer lower levels of assurance over some sections of the report. The assurer will prefer to focus on underlying systems and processes as opposed to data and information. Further, no assurance will be offered over the balance of the sustainability report. The assurers opinion will be addressed to the board of directors and not stakeholders. Arguably these engagements do little to enhance the credibility of corporate disclosures. In comparison, broad scoped engagements, certainly have the potential to offer considerable value addition to reporters and their stakeholders.

Narrow scope engagements serve their purpose when reporters are starting off on their sustainability reporting journey and underlying systems and processes are still not mature. However, if a reporter is entering their fourth of fifth reporting cycle, such assurance scopes are difficult to justify without raising questions over the reporter’s commitment to credible reporting and ultimately sustainability. If a reporter has been publishing a sustainability report for ten or more years, then critics may argue that such disclosures function more as marketing tools designed to gain, maintain and repair the reporter’s legitimacy and not as tools that can support transparency and accountability of corporate sustainability performance to stakeholders.

Finally, it is important to note that if during the course of the engagement an assurer identifies unverifiable information this may result in; (1) the information being removed from the sustainability report; or (2) the information being changed to reflect the evidence available; or (3) the scope of the engagement being revised to exclude assurance over that particular piece of information. Regulators need to act by introducing tougher rules on sustainability assurance engagements, especially since users are often unable to understand the implications of the differences in assurance scopes. Tougher regulations mandating broad scoped engagements will ensure higher quality disclosures that benefit corporate stakeholders.

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For more information on sustainability assurance please read:

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