

Navigating sustainability reporting assurance practices

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SUSTAINABILITY metrics and disclosures have attracted significant attention globally. Yet, assurance practices vary in the amount of work performed, and investors may be lulled into a false sense of security by the word “assurance”.

The voluntary nature of sustainability reporting has led to fragmented practices and concerns about greenwashing, prompting recent regulatory actions such as the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) and the climate-related disclosure rule for US Securities and Exchange Commission (SEC) registrants.

Investors and other stakeholders increasingly rely on sustainability information for decision-making, given the rise of environmental, social, and governance (ESG) considerations. Naturally, this has increased demand for external assurance, even in the absence of regulatory requirements. For instance, the US-based Center for Audit Quality noted that in 2021, 320 of the S&P 500 companies voluntarily purchased assurance services for some of their sustainability information.

However, these assurance practices vary in the level of assurance provided. The two common levels are “limited” and “reasonable”. So, what do they cover, and what sets them apart?

Assurance-of-sustainability reports: What is covered?

Sustainability reports cover a wide range of topics, from environmental impacts and employee diversity to governance oversight. They often communicate trends and key takeaways in the form of figures and tables.

Notably, sustainability-assurance engagements do not automatically cover all the information disclosed in a sustainability report. To understand what is assured within a sustainability report, one must refer to the accompanying assurance report. This report may be included in the sustainability report, or be available through referenced links (for example, on the company’s website).

The assurance report should explicitly identify what is subject to

How they differ

	Limited Assurance	Reasonable Assurance
What does the assurance report cover?	Can range from specific metrics to full sustainability reporting	Can range from specific metrics to full sustainability reporting
What is the assurance provider evaluating against?	Can range from globally recognised standards (eg GHG Protocol) to company-specific manuals	Can range from globally recognised standards (eg GHG Protocol) to company-specific manuals
What common terminology might be used?	<ul style="list-style-type: none"> • “Limited assurance” • “Review” 	<ul style="list-style-type: none"> • “Reasonable assurance” • “Audit” • “Examination”
What are some common procedures that may be performed?	<ul style="list-style-type: none"> • General understanding of processes used to compile assured information • Inquiries • Analytical procedures 	<ul style="list-style-type: none"> • In-depth understanding of processes used to compile assessed information • Inquiries • Analytical procedures • Inspection of records and supporting information • On-site inspections • Confirmations with third parties or legal providers • Use of subject-matter specialists
Example of conclusion	Negative form: “Based on our review, we are not aware of any material modifications that should be made to the sustainability information.”	Positive form: “In our opinion, the sustainability information is fairly stated, in all material respects.”

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assurance. For instance, the assurance report for the 2023 Sustainability Report of Siemens Healthineers states: “We have performed a limited assurance engagement on the disclosures marked with the (check mark) symbol (hereafter the “disclosures”) in the Sustainability Report of Siemens Healthineers AG.”

But the assurance statements for Coca-Cola’s 2022 Business and Sustainability Report have appendices listing the indicators that were subject to assurance.

The assurance report should also disclose the criteria against which the sustainability information is evaluated.

For Siemens Healthineers, the criteria were the Global Reporting Initiative standards. For Coca-Cola, the criteria were also listed in the appendices and included company-specific manuals.

Particularly in cases such as Coca-Cola, investors are encouraged to take a look at the appendices and assess whether the chosen criteria seem reasonable, given company-specific business operations.

In the absence of specific regulatory requirements, companies can opt for either limited or reasonable assurance services. Limited

assurance and reasonable assurance represent different levels of confidence in the accuracy of reported information.

What is reasonable assurance?

Reasonable assurance is akin to what most investors may be familiar with from financial audits. It provides the highest level of assurance.

The assurance provider reduces the risk that the sustainability information is materially misstated to a predefined acceptably low level, though never to zero.

Importantly, despite being the highest form of assurance service offered, reasonable assurance does not provide absolute certainty. The assurance provider does not guarantee that all possible errors or fraud indicators are detected.

Because the assurance engagement provides only “reasonable” assurance, the procedures are performed on a test basis.

This means that the assurance provider draws samples and uses analytics to identify specific transactions or estimates that warrant further testing.

Testing may involve tracing evidence to supporting documents,

confirming information with third parties or legal providers, consulting specialists to verify the reasonableness of assumptions made in estimates or calculations, and conducting on-site testing. It also includes gaining in-depth understanding of the processes used by the management to prepare the disclosures and testing the accuracy of data processed by information technology systems and manual spreadsheets.

Finally, the assurance provider will evaluate whether the procedures identified any errors or misstatements. To determine whether management needs to correct these errors or misstatements before the publication of the sustainability report, the assurance provider uses a predefined materiality threshold, which may or may not be disclosed in the assurance report.

If the total effect of the identified errors or misstatements is below the predefined materiality threshold, the assurance provider can sign off without additional disclosure about the identified issues because they are deemed less than material.

The conclusion in a reasonable-assurance engagement report is

expressed in a positive form, as exemplified by the 2022/2023 ESG Report of Guess: “Our responsibility is to express an opinion on the management’s assertion based on our examination... We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion... In our opinion, the management’s assertion related to the Key ESG Metrics and Disclosures as of and for the year ended Jan 29, 2022, and Jan 28, 2023, is fairly stated, in all material respects.”

Depending on the assurance standard used, the assurance provider will likely use the term “examination” or “audit” to describe the reasonable assurance engagement.

What is limited assurance?

In a limited-assurance engagement, the assurance provider still aims to perform procedures that reduce the risk that the sustainability information is materially misstated.

However, the accepted level of risk of material misstatement is higher than reasonable-assurance engagements.

The procedures performed are limited in nature, relative to those in reasonable-assurance engagements.

For instance, in the 2022 Greenhouse Gas (GHG) Emissions Assurance Statement of Coca-Cola, the assurance provider stated: “The procedures we performed were based on our professional judgment. Our review consisted principally of applying analytical procedures, making inquiries of persons responsible for the subject, obtaining an understanding of the data management systems and processes used to generate, aggregate, and report on the subject (that is, selected GHG emission indicators) and performing such other procedures as we considered necessary in the circumstances.”

The conclusion in a limited-assurance engagement report is expressed in a negative form. In the case of Coca-Cola, it read: “Our responsibility is to express a conclusion on the subject (that is, elected GHG emission indicators) based on our review... We believe that the re-

view evidence obtained is sufficient and appropriate to provide a reasonable basis for our conclusion. ... Based on our review, we are not aware of any material modifications that should be made to the schedule of selected GHG indicators for the year ended Dec 31, 2022, for it to be in accordance with the criteria (that is, Coca-Cola Company’s carbon accounting manual).”

Depending on the assurance standard used, the assurance provider will likely use the term “review” to describe the limited-assurance engagement.

Sustainability-assurance engagements: key takeaways

Limited-assurance engagements provide a lower level of assurance from the fewer procedures performed and less evidence being obtained.

Many companies opt for the lower level of assurance because it costs less. Reasonable-assurance engagements involve more comprehensive procedures and offer more confidence that potential material misstatements are caught and corrected.

A key takeaway is that a limited-assurance engagement report states that the assurance provider is “not aware” of any material misstatement, whereas a reasonable-assurance engagement report “affirms” that the information reported is materially correct.

To assess whether and what sustainability-assurance engagement is provided, it is recommended that investors locate and read the assurance report to learn the following:

- the sustainability information subject to assurance procedures;
- the criteria the sustainability information is evaluated against;
- the level of assurance provided.

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