Sustainability Assurance Alert

JULY 2021

A CPA's Role in Third-Party Assurance Over Sustainability Information

Why Should I Read This *Alert*?

An increasing number of entities are providing information on their sustainability or environmental, social and governance (ESG) performance. A variety of factors, including growing investor and stakeholder demand and new regulatory requirements, are influencing this development. The COVID-19 pandemic has given rise to enhanced attention on sustainability factors including climate change, employee health and safety, social equity, and diversity and inclusion.

The current level of sustainability reporting varies by region, sector and entity. According to a recent KPMG survey, Canada is among the top 10 countries and jurisdictions with the highest sustainability reporting rates in the world.

Source: ***The Time Has Come: The KPMG Survey of Sustainability Reporting 2020***

Currently there are several bodies producing frameworks and recommendations on sustainability reporting; however, the world has not coalesced around any one set of standards. This has resulted in inconsistent sustainability reporting and concerns around the usefulness, comparability and reliability of such information. There are calls for global convergence in this area and support from the business, investor and regulatory communities for the IFRS Foundation's proposal to create a global Sustainability Standards Board (IFRS Foundation, 2020).

As the sustainability landscape continues to change, with increased reporting and momentum towards standardization, it is crucial for assurance providers to remain cognizant of the impacts to their clients' business activities and assurance needs. We believe demand for independent assurance will continue to increase in the future as entities look to enhance the credibility of their sustainability reporting. Assurance providers may also be called upon to, for example:

- evaluate an entity's sustainability reporting controls and processes
- provide advice on sustainability-related compliance obligations and appropriate reporting approaches that align with stakeholder expectations

Read this *Alert* to learn about:

- sustainability reporting
  - approaches
  - trends
- a movement towards global sustainability standards
- assurance over sustainability information
  - auditor's current responsibilities over sustainability information
  - need for and value of third-party assurance over sustainability information
  - engagement options that exist

Sustainability Reporting

Sustainability Reporting Approaches

Sustainability reporting refers to a variety of approaches that entities can take to communicate their ESG priorities, policies, programs and performance.

Some examples of ESG issues include:

- **governance:** board quality, independence and accountability; board oversight of executive performance and compensation; and the board's oversight of entity strategy, risk management, performance and disclosure
- **environmental and social:** climate change, water use, indigenous relations, human capital management, diversity and inclusion, and health and safety

Sustainability reporting has been practised by entities for decades and is relevant to a diverse group of stakeholders including investors, consumers, suppliers, employees and regulators.

The terms "sustainability reporting" and "ESG reporting" are often used interchangeably. For the purpose of this document, we will use "sustainability reporting" throughout.

Companies disclose sustainability information in a variety of formats which can include:

- portions of an annual report
- regulatory filings[1]
- standalone sustainability reports
- company website
- survey responses (e.g., CDP submissions)

Sustainability reporting encompasses both qualitative and quantitative information. The common voluntary reporting frameworks used to prepare these reports include:

- Task Force on Climate-related Financial Disclosures (TCFD)
- Sustainability Accounting Standards Board (SASB)[2]
- Global Reporting Initiative (GRI)
- Climate Disclosure Standards Board (CDSB)
- International Integrated Reporting Council (IIRC)[2]
- Climate Disclosure Project (CDP)

Appendix A includes additional information on these frameworks.

Sustainability Reporting Trends

There are significant signs in Canada and globally that sustainability reporting is growing in importance. Consider the following.

- **Demand from investors:**
  - In a 2020 EY survey, 72 per cent of investors say they conduct a structured, methodical evaluation of ESG disclosures (EY, 2020).
  - Responsible investment (RI) continues to grow rapidly in Canada with $3.2 trillion in RI assets under management as at December 31, 2019, a 48 per cent increase over two years (Responsible Investment Association, 2020).
  - Large institutional investors are calling for increased focus and disclosure about sustainability issues by public companies (BlackRock [2021], State Street Global Advisors [2020], "Maple 8"[3] [2020]).

1 Under Canadian securities regulations, public companies must disclose information material to investor decision-making which encompasses material ESG matters. The Canadian Securities Administrators (CSA) have issued staff notices providing guidance on various aspects of environmental and social disclosure. For further information, see CPA Canada's publication *A Primer for Environmental and Social Disclosure*.

2 Subsequent to when this publication was written, the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) merged to form the Value Reporting Foundation.

3 The "Maple 8" consists of the CEOs of Canada's eight leading pension plan investment managers: AIMCo (Alberta Investment Management Corporation), BCI (British Columbia Investment Management Corporation), CDPQ (Caisse de dépôt et placement du Québec), CPP Investments (Canada Pension Plan), HOOPP (Healthcare of Ontario Pension Plan), OMERS (Ontario Municipal Employees Retirement System), OTPP (Ontario Teachers' Pension Plan), and PSP Investments (Public Sector Pension).

- **Demand from within entities:** Entities are using sustainability data to provide insight into various aspects of their business, such as risks and opportunities for collaboration and competitive advantage.
- **Demand from broader stakeholder groups:** Groups such as communities, consumers and governments seek information on sustainability for a variety of reasons.
- **Changes to regulation:** In recent years, there has been a surge in attention to sustainability disclosure by governments, securities and financial regulators, as highlighted below.

We are also seeing increased focus on sustainability and climate change disclosure in Canada as evidenced by the following:

- The Canadian Securities Administrator (CSA) issued *Staff Notice 51-358 Reporting of Climate Change-Related Risks,* which provided guidance and staff expectations related to climate change disclosures (Canadian Securities Administrators, 2019).
- The Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI) launched a pilot project on climate risk scenarios to better understand the risks to the financial system related to a transition to a low-carbon economy (Government of Canada, 2020a).
- Sustainability and climate action are core pillars of Canada's COVID-19 Economic Response Plan – entities that accessed the Large Employer Emergency Financing Facility (LEEFF) will be required to complete annual climate change reporting (Government of Canada, 2020b).
- Ontario's Capital Markets Modernization Taskforce released a final report recommending a phased-in approach to adopting a significant portion of the TCFD recommendations (Capital Markets Modernization Taskforce, 2021).

A Movement Towards Global Sustainability Standards

In 2020, the IFRS Foundation issued a formal consultation paper, which addressed sustainability reporting and whether there is a need for global sustainability standards (IFRS Foundation, 2021b). Response to the consultation confirmed the growing and urgent demand for global sustainability reporting standards and support for the IFRS Foundation to play a role in their development.

In March 2021, the IFRS Foundation confirmed their intent to establish an International Sustainability Standards Board (ISSB) with the purpose of setting standards to improve the consistency and comparability of sustainability reporting. The IFRS Foundation Trustees announced that the strategic direction of the new board will (IFRS Foundation, 2021a):

- focus on information that is material to investors, lenders, and other creditors
- initially focus effort on climate-related matters, while working toward meeting the information needs of investors on other sustainability matters
- build on the well-established work of the TCFD, as well as work by the alliance of leading standard-setters in sustainability reporting
- work with standard setters from key jurisdictions, to provide a globally consistent and comparable sustainability reporting baseline

The formal announcement of the new board is planned for November 2021 at the United Nations COP26 Conference.

In addition to the IFRS Foundation proposal, other recent developments from a regulatory perspective include:

- The U.S. Securities Exchange Commission (SEC) announced an Enforcement Task Force focused on climate and ESG issues.
- European Financial Reporting Advisory Group (EFRAG) announced plans to establish a comprehensive set of EU sustainability reporting standards.
- International Organization of Securities Commissions (IOSCO) announced the establishment of a Technical Expert Group under their Sustainable Finance Task Force, who will work closely with the IFRS Foundation.

Assurance Over Sustainability Information

Auditor's Current Responsibilities Over Sustainability Information

Currently in Canada, assurance over sustainability information is voluntary, and the requirements over this information as part of the financial statement audit are limited. Canadian Auditing Standard (CAS) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements,* requires auditors to read other information[4] and to consider whether there is a material inconsistency between the other information and:

- the financial statements; and/or
- the auditor's knowledge obtained in the audit.

The auditor is also required to remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

The auditor's opinion on the financial statements does not cover other information, nor does the standard require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

Also, in instances where the sustainability information is included in documents outside of an entity's annual report, the auditor has no responsibility for that information as part of the financial statement audit.

MANDATORY LIMITED ASSURANCE IN THE EUROPEAN UNION

In April 2021, the European Commission proposed the Corporate Sustainability Reporting Directive (CSRD). The CSRD seeks to mandate limited assurance over non-financial reporting and evolve towards reasonable assurance once capacity is built up. The mandate would include all large entities (whether they are listed or not and without the previous 500-employee threshold) and all listed small- to medium-sized enterprises (SMEs).

Source: *Questions and Answers: Corporate Sustainability Reporting Directive Proposal*

4 Other information: financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report (CAS 720.12(c)).

Need for and Value of Third-Party Assurance Over Sustainability Information

As the trend in reporting sustainability information grows, so will the demand for third-party assurance over the data and underlying processes. Although there is extensive sustainability information available, stakeholders express concern surrounding the quality of the information. Similar to assurance over financial statements, third-party assurance over sustainability information can increase credibility of data and improve stakeholder confidence.

CPAs in public practice are known for providing assurance opinions on both financial and non-financial information. This expertise, coupled with a CPA's core principles – including objectivity, integrity and professional competence – result in their being well-positioned to play a key role in assurance over sustainability information. CPAs in public practice can leverage their understanding of business processes, ability to identify and assess risks and controls, and expertise in applying assurance standards – all to assist their clients[5] in addressing concerns related to the integrity of their sustainability information.

Among the world's 250 largest companies, the underlying trend for third-party assurance of sustainability data is 71 per cent.

Source: ***The Time Has Come: The KPMG Survey of Sustainability Reporting 2020***

Third-party assurance can enhance stakeholder confidence in an entity's data, processes, procedures and oversight of their ESG information.

What Engagement Options Exist?

There are several elements to consider in determining the type of engagement that will best meet the needs of the user (which could include management, shareholders, etc.). The nature of the engagement drives the level of assurance, the work effort, the extent of procedures performed and the cost of the engagement.

Not ready for an assurance engagement yet? Consider a readiness assessment

CPAs can be engaged to provide readiness assessments for their clients. These assessments can allow the entity to obtain a third-party view as to whether, for example, the following provide the basis for an assurance engagement:

- sustainability reporting framework applied
- key performance indicators and sustainability information reported
- reporting process and related internal controls

A readiness assessment is considered an advisory service or consulting engagement; no assurance is provided.

Assurance engagement

In an assurance engagement, a practitioner aims to obtain sufficient appropriate evidence to express an opinion (or conclusion) designed to enhance the intended users' degree of confidence about the outcome of the measurement or evaluation of an **underlying subject matter** against **criteria**.

5 CPAs in public practice are required to adhere to the rules of professional conduct, including independence requirements, and should review such requirements before accepting an engagement.

Assurance over sustainability information would most commonly be performed as an attestation engagement, in accordance with Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*.[6, 7] In an attestation engagement, the responsible party (often management) is responsible for measuring and evaluating the underlying subject matter against the criteria and, when applicable, providing a public statement or assertion regarding their measurement or evaluation of the underlying subject matter.

For example, in an attestation engagement on sustainability reporting, management or management's expert evaluates the entity's sustainability performance against criteria, and management prepares a statement about the outcome of that evaluation. The practitioner then reports on management's statement.

Assurance over different forms of non-financial reporting, including sustainability reporting, can be described as extended external reporting (EER). In April 2021, the International Auditing and Assurance Standards Board's (IAASB) EER assurance project developed non-authoritative **guidance**, to support the application of ISAE[7] 3000 (Revised) to EER assurance engagements. The guidance responds to ten key stakeholder-identified challenges in performing assurance engagements on non-financial information, such as applying appropriate competence and capabilities and exercising professional skepticism and professional judgment. It can be applied to EER assurance engagements to:

- strengthen the influence of such engagements on the quality of EER reporting
- enhance trust in the resulting assurance reports
- increase the credibility of EER reports so that they can be trusted and relied upon by the intended users

Reasonable versus limited assurance

A practitioner can provide two types of assurance engagements: a **reasonable assurance** engagement or a **limited assurance** engagement.

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 still planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful.

6 An assurance engagement other than audits or reviews of historical financial information can also be performed as a direct engagement in accordance with CSAE 3001, *Direct Engagements*. For the purposes of this paper, we assume the assurance provider has opted to perform the engagement as an attestation engagement under CSAE 3000. For more information comparing attestation versus direct engagements, please see **CPA Canada's FAQ for auditors: What you need to know about attestation engagements and direct engagements**.

7 CSAE 3410, *Assurance Engagements on Greenhouse Gas Statements,* deals with assurance engagements to report on an entity's greenhouse gas statement.

8 International Standard on Assurance Engagements.

Currently in Canada and internationally, most entities obtaining third-party assurance over sustainability information are opting for limited assurance over specific metrics within their reports. As reported sustainability information progresses into mainstream financial reporting, and as regulatory requirements unfold, the expectations and best practices for assurance services will continue to evolve.

Agreed-upon procedures engagement

Practitioners also have the option of performing an engagement in accordance with *Canadian Standard on Related Services (CSRS) 4400, Agreed-upon Procedures (AUP) Engagements*. In an AUP engagement, no assurance is provided. The practitioner agrees the procedures to be performed with the engaging party (for example, management), performs the agreed-upon procedures and communicates the procedures performed and the related findings, including exceptions when applicable, in their report.

Comparison of engagement types

The table below illustrates the key differences between the types of engagements available.

Engagement Elements	Reasonable assurance	Limited assurance	Agreed-upon procedures
Level of assurance	High, but not absolute, level of assurance For example, an audit of financial statements is a reasonable assurance engagement.	Lower than in a reasonable assurance engagement, but a level of assurance that still enhances the intended users' confidence about the subject matter being reported For example, a review engagement of financial statements is a limited assurance engagement.	No assurance provided
Practitioner's report	The practitioner's report includes a positive conclusion regarding, for example, whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria.	The practitioner's report includes a negative form of assurance, for example, about whether any matters have come to the practitioner's attention that cause them to believe the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.	The practitioner's report includes the procedures performed and the related findings (including exceptions) of those procedures.

In determining the type of engagement to perform, an entity and its practitioner may consider these questions:

- What is the purpose and objective of the engagement on sustainability information?
- Who are the intended users of the sustainability information and related practitioner report?
- Why do the intended users want or require assurance over the sustainability information?
- What are the potential risks associated with a misstatement or omission in the sustainability information?
- Is there a clear understanding of what sustainability information the intended users want or need to be in the scope of the engagement?

Conclusion

Assurance is a key component of the evolving global sustainability reporting landscape. The assurance profession has an opportunity to play a bigger role in enhancing trust and confidence in the sustainability data that entities are disclosing and in identifying opportunities for improvement. As the use of sustainability information continues to evolve, it is crucial for assurance professionals to focus on how these changes impact their clients' needs now and in the future.

What additional resources are available?

References

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- British Columbia Investment Management Corporation. (November 25, 2020). CEOs of eight leading Canadian pension plan investment managers call on companies and investors to help drive sustainable and inclusive economic growth.
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- Government of Canada. (November 16, 2020a). Bank of Canada and OSFI launch pilot project on climate risk scenarios.
- Government of Canada. (May 11, 2020b). Prime Minister announces additional support for businesses to help save Canadian jobs.
- IFRS Foundation. (March 8, 2021a). IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation.

- IFRS Foundation. (September 30, 2020). IFRS Foundation Trustees consult on global approach to sustainability reporting and on possible Foundation role.
- IFRS Foundation. (2021b). Sustainability reporting.
- Responsible Investment Association. (2020). *2020 Canadian responsible investment trends report*.
- State Street Global Advisors. (January 28, 2020). CEO's Letter on our 2020 Proxy Voting Agenda.

CPA Canada sustainability resources

- A primer for environmental and social disclosure [PDF] (August 2020)
- Climate change disclosure and decision making: Resources
- Overview of sustainability trends and reporting frameworks [webinar] (On-Demand)
- Sustainability Assurance Resource Page

Other resources

- American Institute of CPAs (AICPA) – Sustainability reporting and assurance resources
- Centre for Audit Quality (CAQ) – Auditors and ESG information resources
- International Auditing and Assurance Standards Board (IAASB) – Non-authoritative guidance on applying ISAE 3000 (revised) to extended external reporting (EER) assurance engagements (April 2021)
- International Federation of Accountants (IFAC) – Sustainability reporting resources

Feedback

Comments on this *Sustainability Assurance Alert* or suggestions for future alerts should be sent to:

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Appendix A: Commonly Used Sustainability Disclosure Frameworks and Recommendations[9]

<table>
<tr><th colspan="2">Commonly used sustainability disclosure frameworks and recommendations</th></tr>
<tr><td>Task Force on Climate-related Financial Disclosures (TCFD)
A set of recommendations that provide a framework for identifying and reporting on the impacts of different climate-related risks and opportunities on issuers.
There are four overarching categories for the recommended disclosures:
• governance
• strategy
• risk management
• metrics and targets
Although the users of the recommendations are not explicitly defined, entities are encouraged to disclose recommendation in their mainstream annual financial filings.</td><td>Sustainability Accounting Standards Board (SASB)
Industry-specific standards (qualitative and quantitative) which cover five dimensions of sustainability:
• environment
• social capital
• human capital
• business model and innovation
• leadership and governance
The SASB standards are designed to facilitate disclosure that is useful to investors, lenders and other creditors for the purpose of making investment decisions.</td></tr>
<tr><td>Global Reporting Initiative (GRI)
A set of general and industry specific standards (qualitative and quantitative) which cover three dimensions of sustainability:
• economic
• environmental
• social
The GRI standards are designed to facilitate disclosure that is useful to a broad range of users including investors, companies, policy makers, civil society, employees and customers.</td><td>Climate Disclosure Standards Board (CDSB)
The CDSB framework sets out an approach to reporting environmental information in mainstream reports.
The intended audience for information reported using this framework is investors and other primary users of mainstream financial reporting.</td></tr>
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9 The information in the table above has been adapted from Reporting on enterprise value: Progress towards a comprehensive corporate reporting (Appendix 5).

Commonly used sustainability disclosure frameworks and recommendations

International Integrated Reporting Council (IIRC)

The IIRC Framework establishes guiding principles and content elements that govern the overall content of an integrated report for use by investors.

It highlights six types of capital to provide insight about the resources and relationships used and affected by an entity:

- financial
- manufactured
- intellectual
- human
- social and relationship
- natural

Climate Disclosure Project (CDP)

CDP oversees the CDSB and supports companies, cities and regions in measuring and managing environmental risks.

CDP collects data through an annual survey and then scores companies and cities on a scale ranging from A to F. The survey can also function as a *de facto* disclosure standard for environmental information, and companies may include their responses to the survey within their reporting on sustainability information.