



AUDIT &
ASSURANCE
FACULTY

SUSTAINABILITY ASSURANCE: YOUR CHOICE

re:Assurance initiative

INSPIRING CONFIDENCE

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All types of business, public and voluntary bodies, investors, governments, tax authorities, market participants and their stakeholders need to rely on credible information flows to make decisions. Confidence suffers when there is uncertainty about the integrity of information or its fitness for purpose.

The ICAEW Audit and Assurance Faculty is a leading authority on various types of assurance services including statutory audits. It is recognised internationally by members, professional bodies and others as a source of expertise on issues related to audit and assurance.

Through the *re:Assurance* initiative, the ICAEW Audit and Assurance Faculty is promoting dialogue about external assurance: finding out where new assurance services could strengthen markets and enhance confidence by making information flows more credible; asking how the *International Framework for Assurance Engagements* can be applied and developed; and answering demands for practical guidance to meet emerging business needs. To find out more about the *re:Assurance* initiative, go to icaew.com/assurance.

If you want to learn more about business sustainability, try our Business Sustainability Programme. This is an online e-learning programme designed to highlight issues and increase your awareness of the business case for corporate responsibility. It consists of five modules. Modules one and two are free for all users. Find out more at icaew.com/bsp.

Visit our website icaew.com

To find a chartered accountant who can help you with assurance, visit icaewfirms.co.uk.

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SUSTAINABILITY ASSURANCE: YOUR CHOICE

The market offers a number of different models for sustainability assurance to choose from. In this booklet, the ICAEW Audit and Assurance Faculty outlines what is distinct about the assurance service you get from a professional accountant in public practice.

More and more businesses are producing information on their social, economic and environmental performance (sustainability information) to respond to user needs and to meet regulatory requirements. Organisations choose to get assurance on their sustainability information in order to:

- challenge and confirm views expressed in the annual report as part of the narrative disclosure; or
- complement internal processes, such as internal audit or stakeholder engagement, which are designed to improve business sustainability and enhance the trust of external stakeholders; or
- enhance the credibility of information with those who use it to make economic and other decisions.

Such assurance might be internal for management use or external, published together with management's sustainability report, for other stakeholders.

In this booklet we highlight key issues around the assurance of sustainability information using a series of questions and answers. The questions cover report users, what an assurance service is, what it should achieve, and what other services could help enhance your business sustainability.

Q1. What sustainability information should I report for my business?

You are responsible for your business and its sustainability: your reporting on business sustainability is ultimately a reflection of your commitment to measure and report on it. It should provide information on general or specific aspects of social, economic and environmental performance to those who are interested in your business but do not have the level of access to it that management does.

When reporting on business sustainability, you will need to ask yourself a few questions to define its contents and scope. The things you need to think about might include:

- Who will use this information?
- What kind of information do they want to see and in what format?
- How will they use the information?

Your answers to these questions will help in shaping the scope of your reporting.

Q2. What guidance is available to help me report on business sustainability?

At the moment there is no single, generally accepted framework or standard for preparing a sustainability report. Although this means that directors can be flexible in their reporting, it also means that they might be inclined to report only good news, which gives a one-sided view to readers. It also means that there is little comparability among the sustainability information that different businesses prepare.

Sustainability reporting varies in terms of the breadth and depth of information it covers; the format and extent will vary according to what you are reporting on. You need to communicate essential points clearly to readers, including how you have evaluated or measured sustainability information (See 'Defining criteria' on page 4).

There are some well-known voluntary guidelines for sustainability reporting such as the Global Reporting Initiative (GRI) and many frameworks for greenhouse gas emissions reporting. The Prince of Wales' *Accounting for Sustainability* project has also developed a Connected Reporting Framework to help provide clearer and more consistent information for internal and external use. You might also find publications from AccountAbility useful for identifying and reflecting stakeholder requirements. In some cases, users (eg, a regulator) may specify a format for a report.



Getting ready for first-time assurance

ABC wanted, for the first time, to report a conclusion about carbon savings achieved by its clients and customers. It had to deliver its annual report to investors in three months' time. ABC approached a professional accountant for a professional assurance service on its carbon savings.

Discussions between the management and the professional accountant, and some initial assessment by the professional accountant, highlighted a large number of significant weaknesses in governance, the control environment, processes and systems. The professional accountant advised management that they would need to rectify these weaknesses before producing a clean assurance conclusion.

Due to the nature of the weaknesses and the timescales involved, management judged that it would not be possible to rectify these fully to enable the professional accountant to give a clean conclusion in time. Consequently, ABC decided instead to report on the nature and extent of its carbon savings programme in its annual report, confirming that it was addressing weaknesses in order to get an assurance report and affirming its commitment to do so in the following year.



Adopting suitable criteria for reporting

An oil and gas company wanted an assurance opinion on its sustainability activity to include in its published annual report. Management used GRI and the AA 1000 series to determine the content of the report. On some other aspects that were important to the company, there were no suitable global standards. However, the company had its own global policies and practices based on a range of standards and guidelines that it used as benchmarks.

When accepting the assurance engagement, the professional accountant used its own specialists to evaluate and challenge the company's policies and practices to ensure that they were fit for purpose (see below). When this proved to be the case, the professional accountant used the criteria as the basis for evaluating the information prepared by the company.

In order to make them available to users of the report, the company published the criteria in full on its website and referred to them by reference to the URL in its management report. High-level summaries of the policies were also set out in the report. By making its policies and practices public in this way, the company communicated clear criteria against which the professional accountant could conduct an assurance engagement.

Defining criteria

Criteria are the benchmarks against which you evaluate business sustainability information. Without such criteria, it would be almost impossible for external users to understand how you decide what to report. Professional accountants will assess your sustainability reporting using the criteria and considering their appropriateness at the same time. Criteria have the following characteristics:

- **relevant:** relevant criteria contribute to conclusions that help users make decisions;
- **complete:** so that relevant factors that affect conclusions are not left out;
- **reliable:** to allow consistent evaluation of information;
- **neutral:** free from bias; and
- **understandable:** criteria contribute to clear and comprehensive conclusions that are not subject to significantly different interpretations.



Q3. Who will use the sustainability information I report and why would they want assurance?

Users of sustainability information include:

- the board of directors;
- shareholders and investors;
- trading partners (eg, suppliers and customers);
- regulators;
- other stakeholders (eg, non-government organisations); and
- members of the public.

Users may read your business sustainability information and the associated assurance report when making a major decision about your business including whether to buy your products, to trade with you, or to invest in your business.

Knowing how sustainability information will be used will help the professional accountant determine whether the scope of your report matches what users want, and if the criteria used to evaluate the information are suitable and available to users of your report.

There are many ways that you can enhance the credibility of sustainability information. For example, your internal auditors can monitor and check information or you could ask stakeholders to give their view on the contents and scope of your sustainability report. Getting an assurance report from a professional accountant is one of the most powerful ways to add credibility.

Q4. What do we mean by an independent assurance service?

A professional accountant assesses sustainability information provided by you and gives an independent opinion on the outcome: this is what an assurance service is about. An assurance service should build trust in your sustainability information. To do this, a professional accountant's assessment needs to be independent from management which is responsible for business sustainability and providing sustainability information. This is likely to be important for users of your sustainability reporting; an independent viewpoint is more credible than one that is too closely associated with the business and its information.

Independent professional accountants can carry out the various stages of an assurance service while objectively considering users' needs. This includes considering criteria, gathering evidence, and reaching a conclusion on your sustainability report (for example, on it being fairly stated).

A three-party relationship – management, users, and the professional accountant – is a key aspect of an assurance service.

- Management prepares the sustainability information to be reported.
- The professional accountant independently evaluates the information and issues an assurance conclusion in a separate report.
- Users of information will have confidence in sustainability reporting that is accompanied by an independent assurance report.





Q5. Why should I use a professional accountant for an assurance engagement?

A professional accountant who provides assurance services has important skills that enhance the quality of those services.

For example, a professional accountant uses professional judgement when performing an assurance service. Professional judgement should be ethical and applied with the relevant knowledge for specific situations. It is essential that the professional accountant can understand and assess the reliability of information and have the strength of character to challenge management if concerns arise. Where appropriate, the professional accountant should bring specialists into the team to deal with technical matters.

Professional accountants have come through a rigorous regime of training, and have broad practical experience, which enables them to apply sound judgement to a wide range of services, including assurance. They follow well-established and widely recognised standards when conducting their work, which allows a consistent and more readily understandable approach to the work they perform. They are bound by a strict code of ethics and are subject to regular assessment by regulators. Their commitment to professional competence and due care requires them to offer high-quality services to businesses and to act in the public interest. This is why a sustainability report with a clean assurance conclusion from a professional accountant is seen as credible in the marketplace.

Q6. What standards does a professional accountant follow when delivering an assurance service?

The accountant follows a framework issued by the International Auditing and Assurance Standards Board (IAASB). This includes the IAASB *International Framework for Assurance Engagements* (the Assurance Framework) and ISAE 3000, *Assurance engagements other than audits or reviews of historical financial information*.

Having this framework ensures that professional accountants provide assurance services that are consistent and meet a high standard. This reduces the risk of misunderstanding between you, the professional accountant, and the users of your sustainability reporting.



International assurance standards

The *International Framework for Assurance Engagements* and the assurance standard, ISAE 3000, are issued by the IAASB and apply to various types of assurance engagement.

The Assurance Framework sets out the key elements of an assurance engagement and applies to financial or non-financial, and historical or prospective information. For instance, International Standards on Auditing (ISAs) are consistent with the Assurance Framework.

ISAE 3000 provides stringent requirements and accompanying guidance on the performance of assurance engagements including guidance on planning the engagement and collecting evidence.

There is an expectation that the IAASB will in future develop assurance standards on specific sustainability topics such as greenhouse gas emissions.

Ethical requirements of accountants

Professional accountants performing an assurance service are governed by a code of ethics. In the case of ICAEW members this is based on an international standard and requires professional accountants to follow fundamental ethical principles and be independent of their assurance clients. They must also satisfy educational, ethical and other professional requirements and maintain relevant skills through continuous professional development. Professional accountants in public practice are subject to regular monitoring procedures and must have professional indemnity insurance.

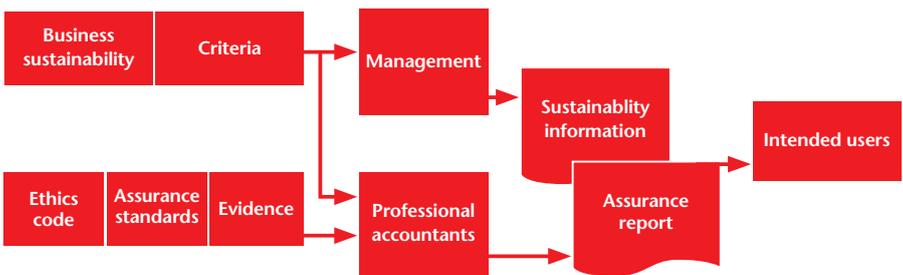
In summary, professional accountants are trained to challenge you to act responsibly, provide clarity and rigour, and so help create and sustain confidence in information.

Q7. What does an assurance service conducted under ISAE 3000 and the Assurance Framework seek to achieve?

When providing an assurance service in accordance with the Assurance Framework, accountants consider whether there are specific characteristics including suitable criteria and the availability of evidence. Matters considered by professional accountants include:

- appropriateness of the subject matter (what is covered by the sustainability information);
- suitable criteria (see Q3);
- sufficient appropriate evidence (sufficiency relates to the quantity and appropriateness relates to the quality of the evidence, its relevance and reliability);
- a written assurance report (see Q8); and
- a rational purpose for the engagement.

IAASB APPROACH TO ASSURANCE ENGAGEMENTS





Getting ready to evaluate performance

A trade association XYZ wanted to show how good its business sustainability performance had been over recent years, based on data from its membership. It also wanted to demonstrate reductions in emissions.

Supporting calculations used data from its members collected over 10 years. However, neither XYZ nor its members had verified the data at the time. More importantly, the data covered about 60% of the membership base but excluded some major countries and members.

Management and the professional accountant agreed that evidence to support business sustainability performance was unlikely to cover the whole of XYZ. On the other hand, if the professional accountant was to perform an assurance service only on the membership for which evidence was available, there were significant risks that a user would misunderstand the nature and scope of the assurance report.

Following a discussion with the professional accountant, XYZ decided to request a private report addressed only to their management team which then made reference to that report when encouraging the membership to develop verification practices with a view to enabling external assurance in future years.

The main elements of an independent assurance report

- Addressee of the report eg, management.
- Reference to the sustainability information.
- Identification of criteria – how the professional accountant assessed the sustainability information.
- Respective responsibilities of the professional accountant and you.
- Reference to relevant standards eg, ISAE 3000.
- Summary of the work the professional accountant performed.
- Assurance conclusion worded according to the type of assurance.



Q8. What types of assurance does a professional accountant provide?

A professional accountant will provide an assurance conclusion in a separate written report that is attached to the sustainability information that is being reported on. It tends to be short and concise, and contains information such as the criteria used and a summary of work performed. ISAE 3000 sets out the basic elements of the report.

Two types of conclusion are available. They differ due to the different nature, timing and extent of evidence-gathering work. A conclusion may be worded positively or negatively, depending on the type of assurance service ('reasonable assurance' and 'limited assurance', respectively).

A reasonable assurance conclusion might be worded as:

'In our opinion, **ABC's report on its greenhouse gas emissions** is fairly stated...'

A limited assurance conclusion is typically expressed as:

'Based on our work, nothing has come to our attention that causes us to believe that **XYZ's report is materially misstated...**'

The decision about which type of assurance conclusion is appropriate depends on factors such as the needs of users and cost and benefit considerations.

Before the work starts, you need to agree with the professional accountant what type of assurance conclusion you want, because it will affect the type and extent of work required and the planning involved. Other factors, such as user needs or what the business sustainability report consists of, also affect the type and extent of work.

Once the assurance engagement starts, you can't expect the professional accountant to change the type of assurance without a good reason. Even if management and the professional accountant agree to change the type of assurance, evidence already obtained will still be used. The professional accountant does not simply ignore the work already performed.



Q9. What else can a professional accountant do to help with my business sustainability programme?

As well as providing an assurance service, a professional accountant may be able to help in other ways to enhance your business sustainability performance. If, for example, you are just about to start measuring and managing your carbon footprint, you will need to think through the governance, control environment, process and systems implications before starting. A professional accountant will be happy to help you with this by providing advice, preparing a report or performing what is known as an agreed-upon procedures service (see below).

Where a professional accountant has helped you set up and manage a sustainability programme or measured its performance, this might preclude them from offering assurance services at a later date. This is because it might be seen as impairing their independence from management.

What is an agreed-upon procedures service?

In an agreed-upon procedures service, a professional accountant performs certain specified procedures agreed by clients and reports factual findings without giving any form of overall opinion on the information based on the work performed. An agreed-upon procedures report is available only to those who have agreed to the procedures to be performed and is not provided for public disclosure.

MATTERS TO CONSIDER

Choosing what to report on sustainability	1. Report information people need and won't have if you don't report it.
	2. Use published guidelines to promote balanced and consistent reporting.
	3. Know whether your reporting is credible in helping people make decisions.



Choosing whether to ask a professional accountant for assurance	4. Assurance from an independent professional accountant makes reporting credible.
	5. You can expect professional accountants to apply sound judgement and expertise.
	6. Professional accountants use a common set of international assurance standards.



Choosing between a professional accountant's assurance services	7. All services require reporting to be supported by sufficient and appropriate evidence.
	8. You can choose an opinion that your report is fairly stated or a limited alternative.
	9. Accountants can provide other services to help you get ready for sustainability assurance.

As a world-class professional accountancy body, ICAEW provides leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry to maintain the highest standards.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. ICAEW ensures these skills are constantly developed, recognised and valued.

Because of us, people can do business with confidence.

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