

Extended external reporting assurance: Current practices and challenges

Joanna Krasodomska¹ | Roger Simnett² | Donna L. Street³

¹Cracow University of Economics, Krakow, Poland

²UNSW Sydney, Sydney, Australia

³University of Dayton, Dayton, OH, USA

Correspondence

Donna L. Street, University of Dayton,
Department of Accounting, Dayton, OH,
USA.

Email: dstreet1@udayton.edu

Abstract

This paper summarizes the UNCTAD ISAR WBCSD Webinar—*Assurance on Sustainability Reports: Current Practices and Challenges*, which explored views and practices on assurance of extended external reporting (EER) and identified challenges and potential ways forward. Stakeholders are demanding more accountability, as reflected in increased publication of EER and regulatory developments. EER can play an important role in rebuilding trust by catalyzing corporate focus and disclosure of business-centric matters material to stakeholders including strategy, business model, governance, and greater transparency on other material non-financial matters. Relatedly, EER cannot rebuild trust unless disclosures are credible and viewed as credible. Therefore, it is important that assurance, and other credibility enhancing techniques, is developed alongside EER frameworks and takes account of regulatory initiatives. We expand on lessons outlined during the Webinar by highlighting questions posed by participants, providing a historical overview of European regulatory developments (e.g., Directive 2014/95/EU and a forthcoming revision), providing a historical overview of the IAASB's development of ISAE 3000 and forthcoming guidance on addressing major challenges aimed at supporting EER

[Correction added on 18 January 2021, after first online publication: The ACKNOWLEDGEMENT section has been updated in this version]

This is an open access article under the terms of the Creative Commons Attribution-NonCommercial-NoDerivs License, which permits use and distribution in any medium, provided the original work is properly cited, the use is non-commercial and no modifications or adaptations are made. © 2021 The Authors. *Journal of International Financial Management & Accounting* published by John Wiley & Sons Ltd

assurance, and providing an overview of practice-focused publications addressing EER assurance. We conclude with an assessment of the way forward in regard to possible changes in the EER institutional setting, potential harmonization of EER standards, and the ability to provide reasonable versus limited assurance. Along with our companion paper (*Venter and van Eck, 2021, 32*), we contribute to the current discussion on EER assurance by providing a comprehensive assessment of the EER assurance landscape.

KEYWORDS

CSR, Directive 2014/95/EU, EER Assurance, ISAE 3000, non-financial information, SDGs, sustainability

1 | INTRODUCTION

On June 16, 2020, the United Nations Conference on Trade and Development—International Standards of Accounting and Reporting (UNCTAD ISAR) and the World Business Council for Sustainable Development (WBCSD) cosponsored *Assurance on Sustainability Reports: Current Practices and Challenges* (hereafter the Webinar).¹ The objectives of the Webinar were to explore views and practices on extended external reporting (EER) assurance, identify key challenges, and explore the best ways forward. Panelists addressed, among other things, recent developments in EER assurance, efforts recently undertaken to promote quality and consistency of assurance practices, the link between EER assurance and regaining stakeholder trust in EER reporting, and challenges necessitating additional consideration and collaboration to further improve assurance of sustainability and Sustainable Development Goal (SDG) reporting.

The Webinar was moderated by Mario Abela, WBCSD Director of Refining Value. Panelists were as follows:

- Jeffrey Hales, Chair Sustainability Accounting Standards Board (SASB)
- Marek Grabowski, Director Audit Policy Financial Reporting Council (FRC) United Kingdom (UK) and former member International Auditing and Assurance Standards Board (IAASB)
- Eric Dugelay, Partner Deloitte and member Sustainable Finance Group Accountancy Europe
- Hilary Eastman, Director Global Investor Engagement PwC
- Felipe Janica, Partner EY Columbia
- Vladimir Skobarev, Partner and Head of Corporate Governance and Sustainability FBK Grant Thornton Russian Federation

Participants included senior policymakers, regulators, professional accountants, investors, and academics.

UNCTAD ISAR's leadership supports the publication of this paper which aims to inform the readership of the *Journal of International Financial Management and Accounting* of issues covered in the Webinar and encourage further debate and thought leadership.

Our paper begins with an overview of the Webinar (Section 2). In Sections 3 and 4, we expand on select segments of the Webinar to, *inter alia*, highlight questions posed by Webinar participants (e.g.,

ability to provide reasonable versus limited assurance of EER, the European Commission's (EC) plan to develop European Union (EU) standards on NFI, and the merger of a plethora of sustainability standard-setting bodies). Section 3 provides a historical overview of recent regulatory developments in Europe addressing EER assurance, and Section 4 provides a historical overview of the IAASB's development of International Standard on Assurance Engagement (ISAE) 3000 and an update on the work of the IAASB as it strives to develop high-quality standards to support EER assurance. Section 5 provides an overview of relevant practice-focused publications addressing EER assurance beyond those mentioned in Sections 2 and 3. Section 6 provides an assessment of the way forward.

Our paper and its companion piece, coauthored by Venter and van Eck,² support the International Association for Accounting Education and Research's (IAAER) mission "to maximize the contribution of accounting academics to the development and maintenance of high quality, globally recognized standards of accounting practice."³ Consistent with IAAER's mission, we take an international perspective; however, we note that there are observed inconsistencies in practice regarding EER and assurance of EER across countries and regions as well as size of the company being assured (KPMG, 2017b). The Webinar speakers and the papers reviewed in this study reflect these different experiences, adding to the richness of the international mosaic which currently represents EER in practice and lessons learned. We further note that EER includes various forms of reporting, including corporate social responsibility (CSR) reporting, sustainability reporting, environmental reporting, integrated reporting (which includes both financial and non-financial information [NFI]), and other forms of NFI. While EER is broader in scope than NFI, we use the two terms interchangeably throughout the paper.

2 | WEBINAR OVERVIEW

2.1 | Webinar preface

This section provides an overview of key points addressed during the Webinar, which, along with the panelists' slides, can be accessed via the UNCTAD ISAR website. James Zhan, Director, Division on Investment and Enterprise, UNCTAD described UNCTAD ISAR's role in promoting EER assurance. He noted that UNCTAD ISAR was a pioneer in extending the reporting dimensions of enterprises to include not only financial but also environmental, social, and governance (ESG) aspects. Zhan stated that creditors, shareholders, and potential investors for years have relied on financial statement audits provided by independent third-party providers. The increasing demand for enterprises to also disclose information on their ESG performance has spurred a steady increase in third-party EER assurance. However, concerns exist about the assurance. Zhan explained that:

... quality and reliability of the ESG data provided by companies to external users remains an issue. There is a need for further efforts to harmonize the process as well as the manner of reporting on assurance of sustainability reporting. Users need to have a clear view of what is being assured and the process undertaken to arrive at conclusions provided by the assurance provider. ... The effect of the fragmentation of sustainability reporting frameworks has spilled over to assurance. Consistency on the reporting side will translate into more meaningful and useful output on the assurance side. Similar to the work done by ISAR and GRI, there is room for further consultation and consensus building to promote quality and consistency in assurance of sustainability reporting.

2.2 | Importance of assurance to WBCSD

Abela, WBCSD Director of Refining Value, explained that assurance is an important aspect of WBCSD's work. The Redefining Value programs help companies measure and manage risk, gain competitive advantage and seize new opportunities by understanding ESG information.⁴ The Council achieves these objectives by building collaborations and developing tools, guidance, case studies, engagement, and education opportunities to aid companies in incorporating ESG performance into mainstream business and finance systems. A key redefining value program for WBCSD is looking at how its membership can improve the financial system and particularly ESG issues. The WBCSD believes assurance plays a crucial role in enhancing the credibility of information reported and providing users with confidence that the information is reliable. To date, WBCSD has focused on three areas related to assurance, being working with:

1. Standard setters, especially IAASB, on developing guidance for ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
2. Preparers, to understand the maturity of the marketplace and the different needs that companies have from assurance providers
3. PwC, to conduct investor roundtables around the world to understand what investors need from assurance on NFI.

Abela added that working with partners such as the Institute of Chartered Accountants of England and Wales (ICAEW), IAASB, national standards setters, and member companies, the WBCSD has developed a range of resources to help improve assurance globally. Appendix 1 provides an overview of these resources.

2.3 | Importance of assurance to a sustainability standard setter

Sustainability Accounting Standards Board Chair Hales addressed the importance of assurance from the perspective of an organization that sets ESG reporting standards. He referred to an increasing awareness that as investors make decisions based on ESG information provided by companies, there is a need for that information to be high quality. While SASB does not rate companies' reporting, the Board believes ESG reporting should be subject to the same systems of controls and assurance typical for financial reporting.

Since November 2018 when SASB launched its standards, the Board has seen information based on its framework in a number of different types of reporting. While the majority is located in CSR reporting, there is an increasing trend toward SASB reporting being included in mainstream reports, that is, consistent with the goal of the Task Force on Climate-Related Financial Disclosures (TCFD).⁵ Hales stressed that regardless of where companies provide SASB disclosures, the information must be provided in a way that supports high-quality decision-making with investors trusting the information. However, based on SASB's experience, which is primarily US focused, between two thirds and three quarters of companies are not providing assurance for their SASB reports. A report by Deloitte notes a similar ratio.⁶

SASB's observations reveal the following:

- Limited issuers receive third-party review
- There is wide variety in how ESG assurance is conducted and communicated

- Of the companies that obtained assurance, most use a non-traditional assurance firm, for example, engineering firm or environmental compliance firm
- The most common metrics assured are those associated with relatively well-established environmental measures, for example, Water (consumption, discharge, efficiency), Green House Gas (GHG) emission, and Energy (consumption, efficiency).

Furthermore, SASB's observations reveal the following positive and interesting trends: more assurance, more complete disclosure, an increased role played by accounting firms, and attention toward assurance of ESG disclosures.

Hales closed by illustrating how companies are moving toward comprehensive and tailored disclosure. Like many companies, Vornado Realty Trust bases its 2019 ESG report on multiple frameworks.⁷ Since the Global Reporting Initiative (GRI) and SASB standards followed by Vornado are different, the assurance provider prepared two reports. Deloitte provided limited assurance for the GRI index stating that, because of the nature of the GRI report, there is more discretion required by management in identifying the issues and interpreting the criteria, while the firm provided reasonable assurance for the SASB report. The next sub-section and Section 6 address the challenges associated with developing high-quality assurance standards given the plethora of EER frameworks.

2.4 | Challenges in delivering assurance and guidance on EER

Grabowski, former IAASB member, addressed the challenges in delivering assurance and guidance on EER and how the IAASB is addressing the challenges. Between 2014 and 2019, Grabowski served as a member of the IAASB and from 2018 to 2020 as Chair of the IAASB's EER Task Force. Grabowski reiterated the view of prior panelists, that is, if EER is to meet the information needs of users, they need to trust the information and be confident it is credible.

Grabowski addressed consultation draft guidance issued by the IAASB in March 2020 to assist assurance providers in applying ISAE 3000 to EER, which includes sustainability reports.⁸ IAASB also issued two supplements. *Supplement A: Credibility and Trust Model and Background and Contextual Information* first outlines a model for credibility and trust, and then provides other background assurance concepts and contextual information. While simple practical examples were interspersed throughout the chapters, *Supplement B: Illustrative Examples* provides more complex practical examples across different types of EER including examples relating to sustainability reports.

Grabowski explained that EER engagements should serve the public interest by enhancing user confidence in sustainability reports and other types of EER. The purpose is threefold: (1) strengthen the influence of assurance engagements on the quality of EER, (2) enhance trust in the resulting assurance reports, and (3) enhance user confidence in the credibility of EER so the intended users can trust and rely on the reports.

The guidance addresses 10 key challenges the IAASB (2016) identified in performing EER assurance engagements. The 10 key challenges identified were as follows: scoping EER assurance engagements, suitability of criteria, materiality, building assertions in planning and performing the engagement, maturity of governance and internal control processes, narrative information, future-oriented information, professional skepticism and professional judgment, competence of practitioners performing the engagement, and form of the assurance report.

Grabowski next discussed how assurance engagements provide public interest protections for users. Such engagements are accepted as an assurance engagement only if they fulfill two criteria. First, the engagement must have a rational purpose and the criteria for measurement or evaluation

must be aligned with user information needs. Second, the entity's reporting process must provide a reasonable basis for the EER and support an expectation that necessary evidence can be obtained.

The assurance conclusion is to be communicated in writing, based on the assurance provider meeting requirements contained in ISAE 3000, to:

- Understand the entity and other engagement circumstances, based on entity prepared (and more widely available) information
- Apply competence, exercise professional judgment and skepticism and behave ethically
- Design and perform procedures to obtain sufficient appropriate persuasive evidence
- Consider how potential misstatements could occur, in the designing and performing of procedures
- Consider whether misstatements could be material, throughout the engagement
- Reach an assurance conclusion at the agreed level of assurance (reasonable or limited), based on the evidence gathered.

In constructing this guidance, the IAASB addressed practical challenges experienced in performing EER assurance engagements. The Board found that the challenges are related to circumstances commonly encountered in EER assurance engagements in relation to characteristics of the four elements of EER. These include what is being reported on four elements: (1) the underlying subject matter, (2) the reporting framework, (3) the resulting content of the EER, that is, the subject matter information, and (4) the entity's system of internal control relevant to preparation of the EER. Figure 1 summarizes key characteristics of the four elements and how the key characteristics commonly differ between EER and the same elements in financial reporting. Common themes include more diversity and complexity in the subject matter; greater measurement and evaluation uncertainty, and therefore greater subjectivity in measurement or evaluation outcomes; less quantifiability; and less maturity both in the reporting frameworks and in relevant aspects of the reporting entity's system of internal control. In addition, EER reporting and assurance remain largely voluntary in most parts of the world and are accordingly often without the rigor associated with regulatory requirements.

In closing, Grabowski provided an overview of takeaways from the IAASB's consultation stemming from practical challenges in preparing EER and ways the reporting challenges may lead to practical challenges in performing assurance engagements. He explained that the challenges have the potential to limit the value of assurance engagements by undermining their effectiveness in enhancing

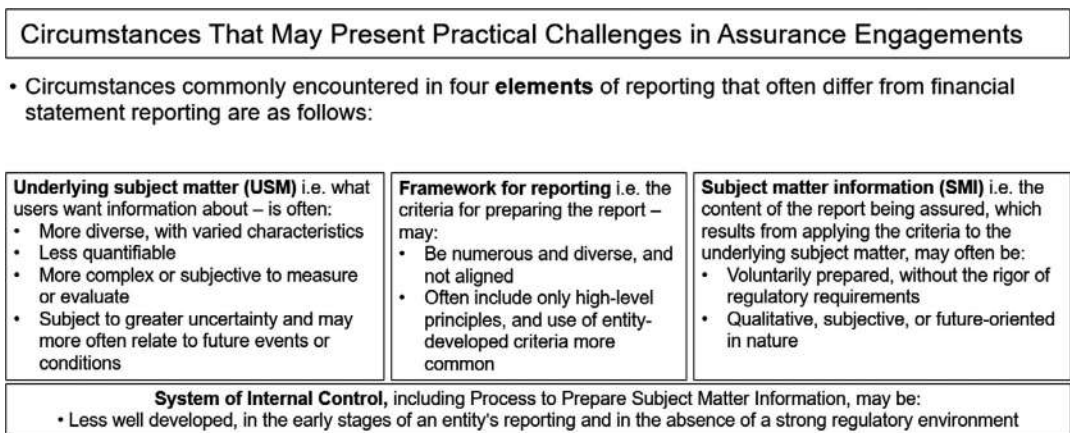


FIGURE 1 Four elements of EER (reproduced from webinar slides). Source: Presentation delivered by M. Grabowski, FRC, available at https://unctad.org/system/files/non-official-document/isar_wbcasd20MGrabowski.pdf

the credibility of EER and therefore users' trust in the reliability of the information provided. These challenges may relate to, among other things, the need for professional skepticism and enhanced assurance practitioner competences, including communication skills. The challenges can also give rise to difficult acceptance judgments, difficulty in obtaining evidence, or drawing the assurance conclusion. The draft guidance seeks to explain how the practical challenges articulated in Figure 2 may be addressed in performing assurance engagements.

Grabowski encouraged webinar participants to review the IAASB's draft guidance as each chapter addresses a different aspect of the 10 key challenges. Two chapters do so in the context of the requirements for the professional competence and professional behavior of the assurance practitioner. Eight achieve this in the context of meeting the requirements for key process stages in the performance of an EER assurance engagement. The remaining two chapters provide guidance in the context of two types of more subjective information that are common in EER (i.e., qualitative information and future-oriented information). Each chapter explains what is covered, how the challenges identified affect that area, and how they might be addressed.

In Section 4, we further explore the evolution of the IAASB's work regarding EER. *Inter alia*, we address comments the IAASB received during the consultation and the approach going forward to gain approval of the IAASB guidance scheduled for release in March 2021.

2.5 | EU and Accountancy Europe's position on assurance of EER

Dugelay, a member of Accountancy Europe's Sustainable Finance Group, provided an overview of the current EU regulatory environment for EER assurance⁹ and the efforts of Accountancy Europe. He referred to the Accountancy Europe (2020e) survey results published in the factsheet *Towards Reliable Non-Financial Information Across Europe* in February of 2020. Only three EU Member States (France,¹⁰ Spain, and Italy) require mandatory independent assurance (12%). Other countries

Practical Challenges May Limit the Value of Assurance to the Public Interest		
<ul style="list-style-type: none"> Such circumstances may present practical challenges in preparing subject matter information that give rise to challenges in performing an assurance engagement, which may: 		
<p>Underlying subject matter:</p> <ul style="list-style-type: none"> Affect precision and certainty of measurement or evaluation Enhance opportunity for bias in reporting Make professional judgment more difficult Enhance the need for: <ul style="list-style-type: none"> Professional skepticism Subject matter competence or use of practitioner's experts Clear communication in assurance report so users understand 	<p>Reporting Framework – give rise to:</p> <ul style="list-style-type: none"> The need for criteria to be selected from multiple frameworks or developed by the entity Greater opportunity for preparer choice in selection or development, and for bias, undue emphasis or omission More difficulty in making criteria available to users Need for enhanced practitioner competence in exercising professional judgment and professional skepticism 	<p>Subject matter information - result in:</p> <ul style="list-style-type: none"> Information reported and assured not aligned with that used by the entity's or user information needs Difficult judgments about whether information is materially misstated, when qualitative or future-oriented and absent a common basis for aggregating misstatements Difficulty in identifying, for users, what has and has not been assured Complexity in forming the assurance conclusion and in communicating in the assurance report
<p>System of Internal Control – not include a reporting process that provides a reasonable basis for preparation of the subject matter information, prevents or detects and corrects misstatements, or is integrated with the entity's own decision-making, which may give rise to difficult acceptance judgments, difficulty in obtaining evidence or drawing the assurance conclusion. The practitioner may be asked to advise on the system, which could pose a self-review threat.</p>		

FIGURE 2 Challenges in performing EER assurance (reproduced from webinar slides). Source: Presentation delivered by M. Grabowski, FRC, available at https://unctad.org/system/files/non-official-document/isar_wbcsd20MGrabowski.pdf

apply the minimum requirement for statutory auditors to check whether the non-financial statement is provided (46%) or have an additional requirement to check whether the provided information is consistent with the financial statements (42%). Companies in some EU countries also seek voluntary independent assurance.¹¹

Dugelay also discussed the Accountancy Europe (2020d) position paper *Setting Up for High Quality Non-Financial Information Assurance in Europe*. The paper articulates conditions needed to provide high-quality and consistent NFI assurance across Europe. According to the paper, the three conditions are suitable for all 27 countries (e.g., not only the most advanced): (1) the EU regulatory framework should clearly mandate independent external assurance, (2) assurance standards should apply to all assurance providers (i.e., statutory auditors, other independent practitioners working for accounting firms or other service providers such as engineering firms), and (3) public oversight by existing bodies should cover all assurance service providers.

Dugelay also referred to ongoing discussions about limited versus reasonable levels of assurance. He utilized Philips to illustrate the feasibility of a company providing reasonable assurance for both financial reporting and NFI (i.e., Philips has provided reasonable assurance for both since 2013). Accountancy Europe's position is that to ensure the quality of corporate reporting the level of assurance of NFI should be the same as for financial information. Professional accountants use their knowledge and experience from financial audit and already provide assurance on NFI. Consistently providing reasonable assurance for both financial and NFI is important to improve connectivity of the two types of reporting.

As articulated in Dugelay's final slide:

Given the growing importance of NFI to investors, but also to the public interest at large, public oversight of assurance providers is necessary. It will ensure that the principles and requirements ... are fulfilled by the service provider. It will also add credibility to the assurance service being provided. Such a role would better fit within the remit of existing oversight bodies by extending their current mandate. It will also help the liability regime to function properly. Given the connectivity between financial and NFI, it might be confusing to have different oversight mechanisms for different service providers.

Due to time constraints, it was not possible for Dugelay to provide much detail on the contributions of the EU and Accountancy Europe in enhancing the reliability of sustainability reporting throughout Europe. Therefore, in Section 3, we revisit and build on his comments by providing 1) an historical overview of EU regulation regarding assurance of sustainability reporting and 2) an overview of related publications by Accountancy Europe.

2.6 | Investors' perspective on assurance of EER

PwC's Director of Global Investor Engagement Eastman began by noting that, during her six years of engagement with the Investment Community, investor interest in ESG information has increased. She referred to research conducted by WBCSD and PwC (2018) addressing investor views regarding assurance and the need for assurance on NFI reporting (see Appendix 1). The research reveals that investors focus more on the quality of NFI reporting and need for better information. Given their lack of confidence and trust regarding the quality of NFI, and hence its usefulness, investors are unsure about the type of assurance needed. Investors believe the cost of assurance could be better spent elsewhere until reporting quality improves.

The research reveals that, if investors had the information they desire, their preference for assurance would be similar to that provided for financial information. Investors want information about risk; the policies companies use and whether they have been applied correctly rather than too conservatively or too aggressively; internal controls and governance; metrics and evaluation methodologies/calculations; assumptions used for stress testing and how sensitive measurements are to changes in the assumptions; and comparison between the company and its peers.

According to Eastman, investors often believe that because assurance providers offer services across a large number of companies, they can produce benchmarks and comparisons to indicate where the company stands. Referring to Grabowski's update on the IAASB's work, Eastman believes it is important that assurance providers provide credibility on NFI once investors view the reporting quality as sufficient.

In concluding, Eastman revisited her four main points. The main challenges are the following:

- Quality of ESG reporting and assurance (is it high enough?)
- Relevance of the information reported (is it tailored and relevant to the company?)
- Clarity about what the information means (is it understandable to the user, what is the information trying to describe or measure?), and
- Reliability of the information and the confidence and trust users have in it.

To move forward, it is critical users view ESG information as useful and assurance as valuable.

2.7 | Providers' perspective on EER assurance

EY's Head of Climate Change and Sustainability Practice Janica prefaced his remarks emphasizing that assurance is a crucial component of climate change and sustainability reporting. He referenced a framework developed by EY and the Coalition for Inclusive Capitalism to guide companies in providing investors with the information they want, that is, information that encapsulates a broad view on value, a stakeholder perspective, and a long-term orientation. The Long-Term Value Framework builds on, among other things, other standards and frameworks. According to Janica, instead of presenting "at a glance" climate change and ESG information, companies need to achieve a symbiosis between financial information and NFI and communicate their Long-Term Value Proposition.

Janica outlined two major challenges when providing EER assurance. First, assurance providers need to ascertain the quality of the NFI that companies are preparing, as the quality of the underlying subject matter information and systems to capture this information, while generally improving, will impact the assurance approach as well as the amount of assurance work the assurance provider is required to do. Second, in this period of greater integration of financial and NFI, assurance providers need to understand how companies are combining these two types of information. To provide a high-quality assurance report, assurance providers need to understand the quality of the information. Like other presenters, Janica described that we are still on the journey toward quality ESG information and better assurance services for sustainability reports.

2.8 | International assurance standards for EER

Skobarev of FBK Grant Thornton further explored the perspective of assurance providers. He introduced two main characteristics of a sustainability assurance engagement: (1) there must be suitable

reporting criteria against which the assurance provider can provide assurance (e.g., GRI standards; IR framework, AA 1000 Accountability Principles), and (2) there must be assurance standards. Regarding the latter, the main two in practice are ISAE 3000, as described by Grabowski (Section 2.4 and expanded on in Section 4), and AA1000 Assurance Standard (2008). For both assurance standards, the subject matter of the engagement is agreed between the assurance practitioner and the client and may include sustainability reports, activities on aspects of ESG, other activities, and systems and processes (i.e., internal control and effectiveness of IT systems). AA1000¹² is based on the effective application of the AA1000 AccountAbility Principles. The assurance standard, AA1000AS, is based on the principles of inclusivity, materiality, responsiveness, and impact. Skobarev asserted that ISAE 3000 and AA1000AS are technically complementary and can be (and are) applied together in an assurance process. Furthermore, there is no underlying methodological conflict between the two assurance standards.

Skobarev used the graphic reproduced in Figure 3 to illustrate differences between ISAE 3000 and AA1000AS. While ISAE 3000 is in some countries mandatory for accounting firms, AA1000AS is not.¹³ The target users for ISAE 3000 are all assurance practitioners, while the target users for AA1000AS are all licensed sustainability practitioners (e.g., global engineering and certification firms and small local sustainability consultancies). In terms of quality control, ISAE 3000 specifies that the practitioner must be a member of a firm subject to the International Standard on Quality Control (ISQC) 1¹⁴ or stricter. AA1000AS does not formally define quality control.

Skobarev cautioned that a significant percentage of sustainability reports which are not assured claim to comply with stated reporting standards/frameworks (in particular, GRI Standards) even though the reports may contain material deviations from the standards/framework. To achieve an increase in the importance assigned to assurance when assessing the quality of sustainability reports, Skobarev recommends that assurance become mandatory for entities listed on stock exchanges, calculations of sustainable development ratings, and NFI reporting competitions.

Skobarev indicated that the vast majority of engagements presently provide limited level assurance. He added that, at the current level of development of systems and processes for preparing NFI reports, it is practically difficult, and commonly not economically feasible, to perform assurance at a reasonable

	ISAE3000 – 2015	AA1000AS – 2008
Recent Release	• Dec 2013 (for use after Dec 15, 2015)	• 2008 • New release in 2020?
Fee for usage	• No fee	• Royalty payment by assurance provider
Mandatory	• Mandatory use for accounting firms	• No
Target users	• All assurance practitioners -members of a firm subject to ISQC 1 (Internal Standard on Quality Control) or more demanding standards	• All licensed sustainability assurance practitioners
Criteria	• Any «applicable criteria» used for the particular engagement	• Adherence to Accountability Principles • Quality of sustainability disclosure («suitable criteria»)
Risk/Levels of Assurance	• Reasonable (lower risk) or Limited (higher risk)	• High assurance (lower risk) or Moderate assurance (higher risk)
Quality Control	• Practitioner must be a member of a firm that is subject to ISQC 1 or stricter	• No formal definition

FIGURE 3 ISAE 3000 versus AA1000AS (reproduced from webinar slides)*. Source: Presentation by V. Skobarev, FBK Grant Thornton, Russian Federation, https://unctad.org/system/files/non-official-document/isar_wbcsd20Vskobarev.pdf. * International Standard on Assurance Engagement (ISAE) 3000 is issued by the International Auditing and Assurance Board (IAASB) and the AA1000 Assurance Standard is issued by AccountAbility

level. Skobarev further noted that sometimes an assurance engagement is limited to checking specified indicators. An advantage of this approach is the reduced costs, while a disadvantage is recognition that the report was assured without the assurance provider confirming compliance with internationally recognized standards of sustainability reporting. We note that it is reasonable for companies that are not mature in non-financial reporting to limit the scope of an external assurance engagement.¹⁵ Nevertheless, there is an acknowledged need for reasonable assurance, as supported by WBCSD and Accountancy Europe as well as recent EU initiatives. We further discuss this issue in Section 3.

Skobarev also indicated that, based on his experience, internal auditors are not directing as much attention to non-financial reporting as they are to financial reporting. Therefore, external assurance providers cannot rely on their work. Interestingly, the Institute of Internal Auditors (IIA, 2015) believes internal audit can play the following four critical roles in supporting organizational governance over non-financial reporting:

- Be a change agent for integrated thinking in the organization, a necessary precursor to non-financial reporting;
- Participating in the project team, to provide guidance to implementation plans and performance;
- Provide assurance on the accuracy and reliability of the information being reported, both internally and externally as appropriate; and
- Partner with external assurance providers to ensure that the engagement is performed efficiently, reliably, and cost-effectively.

In closing, Skobarev addressed the problems associated with the assurance of interactive web sustainability reports, which is a common practice. This practice has led to modifications in the requirements of sustainability reporting standards. For example, GRI Standards allow multiple information blocks from different locations to be included in the report that should be connected only through the GRI content index. This requirement causes difficulties, both in terms of documenting the object of assurance and excluding the possibility of making changes to the web report later. Skobarev's final recommendation was that assurance standards for sustainability reporting need to be updated to address interactive web reports. We note that while the IAASB has considered the assurance standard ISAE 3000 and decided it is fit for purpose, the Board is providing more guidance on assurance reporting, including how to assure new interactive forms of reporting, in the guidance material developed to address the 10 key challenges (IAASB, 2020). We further address modifications to assurance standards in Section 4.

The Webinar ended with a brief question and answer session. Questions posed by participants addressed, among other things, the EC's plan to develop EU standards on NFI and the ability of assurance practitioners to provide reasonable versus limited assurance of EER. We further address the former in Section 3 and the latter in Section 4. Both questions are revisited in Section 6 in terms of the way forward. Another question addressed the merger of a plethora of sustainability standard-setting bodies; we revisit this issue in Sections 5 and 6.

3 | EER ASSURANCE: THE EU

3.1 | Implementation of Directive 2014/95/EU

Across Europe there has historically been significant variability regarding sustainability reporting. This has especially been the case between Western and Eastern Europe with, in the latter, the rate of

reporting being relatively low (KPMG, 2017b). Eastern European countries are, however, expected to slowly close this gap, as a result of the implementation of Directive 2014/95/EU (EU, 2014) (i.e., the non-financial reporting directive [NFRD]). In addition, 54% of the top 100 European listed companies included in a KPMG (2015) report provided GRI reports assured by an independent third party (Braam & Peters, 2017). Therefore, recent EU efforts have been aimed at addressing the increasing needs of the investment community and other stakeholders for comparable and reliable NFI.

The NFRD represents the most significant EU legislative initiative with regards non-financial disclosure in nearly a decade (FEE, 2016). Starting from 2018, large public interest entities (PIEs¹⁶) must disclose information on environmental, social, and employee matters, respect for human rights, anti-corruption, and bribery matters. NFI can be presented in the management commentary (as a non-financial statement) or in a separate (CSR or sustainability) report.¹⁷ Disclosures include a description of the company's business model, non-financial policies, and non-financial key performance indicators (KPIs). NFI can be prepared using various international, EU-based, or national reporting frameworks (e.g., GRI Standards, Integrated Reporting < IR > Framework, SASB standards, UN Global Compact (UNGC); UN SDGs, EC guidelines, the Sustainability Code of the German Council for Sustainable Development, Guidance on the Strategic Report of the UK FRC).

The NFRD also refers to independent assurance of the required disclosures. EU Member States shall ensure that the statutory auditor or audit firm checks whether the non-financial statement is provided or the required information is included in a separate report (i.e., presence of statement). However, Member States may require that an independent assurance provider verify the NFI. According to Article 34 of Directive 2013/34/EU, the statutory auditor or audit firm shall express an opinion on whether the management report is consistent with the financial statements for the same financial year and whether the management report has been prepared following applicable legal requirements (i.e., consistency check) (EU, 2013). The independent assurance provider shall also state whether, based on its knowledge and understanding of the company and its environment obtained in the course of the audit, any material misstatements in the management report have been identified and shall give an indication of the nature of any misstatements. However, the non-financial statement published according to the NFRD—whether contained in the management report or a separate report—is explicitly excluded from the scope of 2013/34/EU. Consequently, the NFRD does not require assurance of the content of the non-financial statement (i.e., content statement) (GRI, CSR Europe, & Accountancy Europe, 2018).

EU Member States, despite being under the same regulation regime, are not homogenous. They differ regarding institutional and legal environments, economic development, religions, cultures, languages, or ethical issues. Member States' approaches to sustainability issues, related disclosures, and assurance practices also vary. Even before implementation of the NFRD, EER assurance was mandatory in some European countries, for example, France and Sweden (FEE, 2015). While amending national laws, a majority of Member States implemented the minimum requirements regarding auditors' involvement (GRI, CSR Europe, & Accountancy Europe, 2018). Thus, the Member States, mostly, decided to require the auditor or audit firm to only check whether the information is provided. The option, under which the auditor considers whether NFI is not materially inconsistent with the audited financial statements, that is, the consistency check, was chosen only by some. While more informative, FEE (2015) asserts that the latter does not give much comfort to stakeholders about the quality of the non-financial data reported.

According to the NFRD, companies can present non-financial disclosures either in the corporate management commentary or a separate report. The first option is understandably more convenient with regard to the assurance process if the company chooses to perform the consistency check. Only France, Greece, Hungary, Malta, the Netherlands, Slovakia, the UK, Norway, and Iceland implemented

into national law the requirement to present the NFI as an integral part of the annual report (i.e., in a management commentary, directors' report, or strategic report). In Italy, there is an option to provide the NFI in a separate report. However, the NFI shall be approved by the administrative body and made available to the supervisory body and the auditor within the deadline for the financial statements to be published on the company register and alongside the management report (GRI, CSR Europe, & Accountancy Europe, 2018).

3.2 | Consultation on revision of Directive 2014/95/EU

On February 20, 2020, the EC launched a public consultation to ascertain stakeholders' views about revisions to the NFRD. In particular, the EC sought the opinions of preparers of reports containing NFI and the end users. The consultation period ended June 11, 2020, with 588 responses received (EC, 2020).

The consultation document contained 45 questions in eight categories. The assurance category presented eight questions as to whether EU law should require more robust assurance obligations, if assurance engagements should be reasonable or limited, and if there is a need for a common assurance standard. The questions also referred to materiality, key engagement risks, and assurance costs. The primary respondent groups included academic/research institutions, business associations, company/business organizations, NGOs, public authorities, and trade unions. Reporting entities publishing assured NFI constituted only 19% of the respondents.

63% of participants acknowledged that current differences in assurance requirements regarding financial and NFI are not justifiable and sufficiently appropriate. 73% agreed that EU law should impose stronger assurance requirements for NFI reported by companies falling within the scope of the NFRD. A majority of respondents (89%) believed that, if EU law were to require assurance of NFI, assurance engagements should be performed based on a common assurance standard. Views regarding the level of assurance that should be provided were almost equally divided with 239 opting for reasonable and 242 for limited. 81% agreed that the assurance provider should assess the reporting company's materiality assessment process, and 75% agreed there should be a requirement to identify and publish the key engagement risks, the response to these risks, and any related key observations (if applicable). Thus, there is support for the EU to establish more substantial assurance requirements for NFI reported under the NFRD. The EC expects to publish draft legislation in the first quarter of 2021 (EFRAG, 2020).

3.3 | Accountancy Europe's contributions to the EER assurance debate

Accountancy Europe (formally known as the Federation of European Accountants [FEE]) unites 51 professional accountancy organizations from 35 countries representing 1 million qualified accountants, auditors, and advisors. It is Europe's most active organization in fostering the role of professional accountants and auditors in the provision and assurance of NFI. Accountancy Europe has produced Discussion Papers (DPs) to contribute toward the international debate on providing assurance on environmental (FEE, 1999) and sustainability reports (FEE, 2002). The organization also made a series of recommendations for corporations, standard setters, assurance providers, sustainability indexes, and NGOs concerning independent assurance on CSR reports (FEE, 2004) and contributed to the debate around assurance standards and associated guidance (FEE, 2006, 2011). A recent publication refers to assurance practices in Europe in the context of the NFRD (Appendix 2). According to Accountancy

Europe Chief Executive Officer (CEO) Boutellis-Taft: "In the era of fake news, the trustworthiness of information determines its value and impact. Non-financial information needs to be reliable to strengthen confidence in companies and in markets" (Accountancy Europe, 2020a).

Accountancy Europe also launched its own consultations on assurance of NFI. A 2017 DP addresses how professional accountants should respond to the growing demand for assurance on NFI, establishes six steps to follow while conducting an assurance engagement on NFI, and poses items for discussion (Accountancy Europe, 2017). An analysis of experts' feedback on the DP indicates that further guidance is needed on how to use ISAE 3000 (i.e., the most widely utilized NFI assurance standard in Europe). Additionally, the difference between limited and reasonable assurance requires further clarification, as well as the use of terms such as "check," "verify," "establish consistency," "establish not being contradictory," and "establish not containing material misstatements." A need to converge professional standards dealing with financial audit and non-financial assurance to establish integrated assurance is also acknowledged.

According to the DP, non-financial assurance is complicated because, in many companies, non-financial reporting is not mature and simply serves as a communication and marketing tool. Non-financial reporting often evolves separately from financial reporting, due to organizational issues and lack of proper communication and collaboration between the company's departments. Moreover, clients of professional accountants are often not ready to move from limited to reasonable assurance. According to the experts referenced above, companies not advanced in non-financial reporting could start by performing their own due diligence, engaging in a dialogue with stakeholders who can assess their non-financial disclosures, and having a limited number of KPIs assured. Further guidance from standard setters is needed to help companies achieve maturity in non-financial reporting, as well as forward-looking subject matters. Companies also need more guidance on materiality assessment and the form of the assurance report, as well as better definitions of crucial concepts.

Accountancy Europe (2019a, 2019c) stresses the critical role of accountants in non-financial reporting and assurance. Accounting specialists are seen as companies' strategic partners who may contribute to a more sustainable global economy. Accountancy Europe (2019b and 2020c) also actively participates in consultation processes related to development of guidance to assist assurance practitioners in the application of ISAE 3000.

During the Webinar, Dugelay (Section 2.5) argued that the EU should mandate assurance, the same standard should be applied to all assurance providers, and a pathway for reasonable assurance on NFI should be proposed within three to five years. Dugelay also touched on Grabowski's intervention and stressed that it has already been demonstrated that the subject matter of the report can be the full report and the level of assurance can be reasonable. He further stressed that in Europe, assurance on NFI is already being provided in many countries and this practice needs to spread.

4 | CHRONOLOGY OF EVOLUTION OF IAASB INITIATIVES ON EER ASSURANCE

4.1 | 2002 Reconstitution of IAASB

The International Auditing Practices Committee (IAPC) was founded in 1978, and following a comprehensive review undertaken during 2001 was reconstituted as the IAASB in 2002. In 2003, the International Federation of Accountants (IFAC) approved a series of reforms designed, among other things, to strengthen further its standard-setting processes, including those of the IAASB, to make

them more responsive to the public interest. Prior to its reconstitution in 2002, the IAASB concentrated mainly on auditing standards.

4.2 | 2003 Development and approval of ISAE 3000

In 2002, the IAASB recognized the broader range of subject matters over which assurance could meaningfully be provided and set out to develop an umbrella standard for assurance of NFI. In 2003, the Board approved ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, with an effective date of 2005. The IAASB recognized that an umbrella standard such as ISAE 3000 (Revised) should foster innovation and flexibility to enable application of ISAEs to a broad range of underlying subject matters and engagement circumstances. At the time of developing the standard, the Board acknowledged that the major public use of the standard was assurance of sustainability reports.

Under ISAE 3000, an assurance engagement cannot be undertaken unless there are suitable criteria. While there was some debate when ISAE was being developed as to whether internationally recognized suitable criteria (i.e., criteria against which to report) for sustainability reporting existed, the most commonly used and well-accepted reporting criteria were the GRI framework. At the time, GRI clearly suggested that companies could use their guidelines or that suitable criteria could be devised on a case-by-case basis for specific assurance engagements.

As outlined in ISAE 3000 (2005), as with audits of financial information, assurance on NFI can be provided at two levels. In a reasonable assurance engagement, and only in a reasonable assurance engagement, the conclusion is expressed in the positive form. Examples from ISAE 3000 include the following:

- “In our opinion internal control is effective, in all material respects, based on XYZ criteria”
- “In our opinion the responsible party's assertion that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated.”

In a limited assurance engagement, the conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated.

4.3 | 2012 Revision of ISAE 3000 (approved for 2015 implementation)

When approving ISAE 3000 in 2003, the IAASB acknowledged that assurance services other than audits and reviews of historical financial information represent an evolving field. Accordingly, the IAASB kept practical implementation of ISAE 3000 under review. Following several years of application in practice, in October 2008 the IAASB surveyed National Standard Setters and others in several countries regarding their experiences with ISAE 3000. Overall, the results indicated that assurance practitioners were applying ISAE 3000 around the world without serious difficulty. Nonetheless, respondents identified a number of opportunities for revising ISAE 3000, for example, clarify how to better apply some of the underlying concepts in practice.

During a March 2009 meeting, the IAASB approved a project proposal to revise ISAE 3000. The main stated purposes were (i) to incorporate enhanced requirements and guidance in light of relevant

concerns raised by stakeholders and the extensive and growing use of ISAE 3000 by professional accountants and National Standard Setters globally and (ii) adopt the clarity drafting conventions.

Major issues in the revision as they affected assurance of sustainability reports included:

- Better distinguishing between reasonable and limited levels of assurance in that both types of assurance reports are commonly issued for assurance on sustainability reports
- Evaluating internal control in a limited assurance sustainability report engagement
- Determining the stage at which the assurer needs to undertake additional procedures for limited assurance sustainability report engagements, and
- Describing the practitioner's procedures in the assurance report.

Consistent with extant ISAE 3000, the revised standard recognized two levels of assurance: reasonable and limited (IAASB, 2013). ISAE 3000 (Revised) explained that, in a reasonable assurance engagement, the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. In a limited assurance engagement, the practitioner reduces engagement risk to a level acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement. Under this approach, the set of procedures performed is limited compared with that necessary in a reasonable assurance engagement. However, the procedures to be performed are planned to obtain a level of assurance that is meaningful to the intended users based on the practitioner's professional judgment.

For both reasonable and limited assurance engagements, ISAE 3000 (Revised) required the assurance practitioner's report to include an informative summary of the work performed as the basis for the practitioner's conclusion to help users understand the nature of the assurance conveyed. The IAASB re-affirmed its view that it was (and remains) appropriate for ISAE 3000 (Revised) to require a summary of work performed in the practitioner's report. In this regard, the IAASB noted that the summary assists users in understanding the level of assurance obtained by the practitioner. The IAASB also noted that ISAE 3000 (Revised) requires that the practitioner's report in a limited assurance engagement include a statement that the practitioner's procedures vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance obtained had a reasonable assurance engagement been performed. The IAASB believed this mitigates the potential that the summary may be misunderstood by some users as conveying a level of assurance equal to or even higher than that conveyed by a reasonable assurance conclusion.

During the development of ISAE 3000 (Revised), considerable discussion focused on whether practitioners outside the accounting profession should be permitted to apply the standard. The IAASB eventually concluded that it is appropriate for ISAE 3000 (Revised) to permit competent practitioners outside the accounting profession to apply the standard. The IAASB acknowledged that the Board is not able to prevent individuals from asserting compliance with its standards and that it was preferable to instead set out clear requirements for individuals who assert compliance with ISAE 3000 (Revised). The IAASB also re-affirmed its view that the provisions of ISAE 3000 (Revised), with respect to the requirements of the practitioner who intends to represent compliance with the ISAE, continue to be appropriate.

The traditional assurance approach outlined in ISAE 3000 (Revised) is similar in methodology and procedure to a financial statement audit, with the major differences being the subject matter being assured and the attention paid to the various challenges that the subject matter poses to these assurance engagements. As identified during the Webinar (e.g., Grabowski, Section 2.4), compared to financial information, information assured under ISAE 3000 is more diverse, more qualitative, and

can be more forward-looking in nature. In addition, business-centric information (e.g., strategy), often in diagrammatic or graphical forms, is commonly important. These characteristics pose challenges in undertaking assurance engagements on NFI including whether traditional assurance models represent an appropriate fit for enhancing credibility. In addition, the broader subject matter means that under a traditional (ISAE 3000) assurance approach, there is increased complexity in the subject matter information being assured and a potential broadening of the skill set required by the assurance team, leading to the increased likelihood of requiring multidisciplinary assurance teams. These challenges became a focus of the IAASB, as outlined further in this chronology.

4.4 | 2014 Development of a working group by the IAASB

In September 2014, the IAASB established the Integrated Reporting Working Group (IRWG), later renamed the EER Working Group (IAASB IRWG, 2014). The aims of the working group were to 1) monitor developing interest in EER and related demand for assurance over EER and 2) develop initial thinking on the nature of such engagements, the scope of the subject matter information and the suitability of criteria, and other matters related to assurance, including how the IAASB's existing assurance standards could be applied.

In July 2015, the IAASB (2015) issued *Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting*. The publication provided an update on the ongoing work undertaken by the IAASB to explore issues on the assurance of < IR> that the International Integrated Reporting Council (IIRC) had highlighted in DPs. Issues addressed included the nature of assurance, the suitability of the < IR> Framework as criteria for assurance, and the necessary competence and capability of assurance practitioners.

4.5 | 2016 Ten key challenges discussion paper

As outlined during the Webinar by Grabowski (Section 2.4), challenges faced by assurance providers when providing assurance over EER, including sustainability reporting, had become a focus of the IAASB's work. In 2016, the IAASB released a DP, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. The 10 key challenges as discussed by Grabowski during the Webinar are presented in Section 2.4. The DP set out the principal findings from research and outreach regarding developments in emerging forms of EER frameworks and professional services (IAASB, 2016).

The IRWG's research and outreach revealed that EER continues to evolve to meet the emerging needs of a variety of stakeholders for wider information about the entity. Furthermore, the DP identified the following ways the characteristics of EER assurance services can support enhancing credibility and trust: competence demonstrated or generally well known; objectivity and independence; quality of the performance of the engagement; quality control, where applicable, at the engagement and firm level by the practitioner and firm that performs the engagement; and clarity of reporting, including a summary of the work performed.

Appendix 2 provides a summary of the IAASB's EER initiatives, including ways to address the 10 key challenges. Respondents rated the highest priority challenges to be suitability of criteria, materiality, and the form of the assurance report. Respondents also noted the inter-relatedness of the challenges and suggested that they may need to be jointly addressed. While the DP suggested the 10 key challenges are currently barriers to more widespread use of assurance engagements in relation to

EER, many respondents alternatively suggested the low demand is related more to the immaturity of reporting frameworks and regulatory requirements regarding EER. Some respondents also noted the cost of assurance as key barrier.

A majority of the respondents supported development of more non-authoritative guidance on existing international assurance standards (i.e., ISAE 3000). However, these respondents additionally cautioned that the IAASB should develop guidance in a manner that does not stifle innovation in EER and related assurance engagements.

4.6 | 2017 EER assurance project proposal and development of EER task force (supported by WBCSD)

In response to comments received on its 2016 DP, in October 2017 the IAASB approved an EER assurance project proposal and established the EER Task Force. The WBCSD provided grant funding for the project through a collaboration established by the Gordon and Betty Moore Foundation. The key objective of the project is to enable more consistent and appropriate application of ISAE 3000 (Revised) to EER assurance engagements and attain greater trust in assurance reports by users of EER. The scope is development of non-authoritative guidance, rather than issuance of new or modified IAASB standards.

The IAASB progressed the project in three areas: (1) developing non-authoritative guidance in applying the IAASB assurance standards to EER, in particular ISAE 3000 (Revised); (2) continuing to provide thought leadership on assurance issues in relation to EER; and (3) coordinating the project work with related initiatives of other relevant international organizations, for example, Corporate Reporting Dialogue, IIRC, WBCSD, and Principles for Responsible Investment (PRI).

4.7 | 2019 IAASB Consultation Paper *Extended External Reporting Assurance*

In February 2019, the IAASB issued the Consultation Paper *Extended External Reporting Assurance*. The exposure draft provides guidance on five of the 10 key challenges: (1) making materiality judgments, (2) maturity of governance and internal control over EER processes, (3) evaluating the suitability of criteria, (4) building assertions, and (5) working with narrative and future-oriented information (IAASB, 2019). In general, respondents were supportive. However, a common concern was that the guidance was too long and technical and hence not easily accessible.

During the second phase, the IAASB developed guidance addressing the remaining five key challenges. In early 2020, the IAASB published the guidance from both phases. The draft guidance is “framework-neutral” and can be applied to assurance engagements over EER reports prepared using any framework, or entity-developed criteria, including sustainability reports (IAASB, 2018a).

4.8 | 2020 Draft Guidance on EER Assurance

As outlined by Grabowski during the Webinar (see Section 2.4), in March of 2020, the IAASB released *Extended External Reporting (EER) Assurance*. The IAASB developed the guidance to assist assurance providers in applying ISAE 3000 to EER engagements, including sustainability reports. Along with the draft guidance, the IAASB issued Supplements A and B. For details, see Section 2.4.

4.9 | Further developments

The IAASB received 43 responses to its 2019 consultation paper from a broad range of stakeholders.¹⁸ All respondents, including those providing only a general response, either fully supported or largely supported the guidance. There were some recommendations and editorial comments for further enhancement of the Guidance. None of the respondents disagreed fully with any chapter of the guidance.

Respondents commended the IAASB for driving forward the discussion regarding assurance on EER. Respondents noted that NFI is vital to assist companies and stakeholders in making sound business decisions. However, as mentioned by most of the Webinar panelists (see Section 2), stakeholders also need to know that the information provided can be trusted. Representative comments include the following:

- “Investors are increasingly talking about the need for assurance as a technique to provide them with more confidence in such reporting”
- “The importance of the international standards on assurance engagements and accompanying guidance in delivering quality services”
- The EER project is “critically important to the credibility of the global corporate reporting system”
- “It is timely to release the guidance to promote more robust and consistent practice around the world.”

A number of respondents commented on the rapidly evolving landscape of EER reporting; regulation and assurance; and an increasing recognition by standard-setting bodies, regulators, investors, preparers, practitioners and others that reporting on historical financial information alone is insufficient to provide a holistic view of a company's performance and prospects. Some respondents noted that the current global environment, including the COVID-19 pandemic, social unrest and climate-related risks, might potentially further increase the rate of change. A number of respondents emphasized the need for similarly evolving guidance on assurance. Respondents viewed continuing the momentum established by the IAASB as being essential in making sure the guidance remains relevant as reporting evolves.

An area identified as having already evolved since the inception of the EER project is the increasing integration of financial and non-financial reporting, especially as observed under frameworks such as the <IR> Framework. A number of respondents noted the following challenges that have accordingly arisen.

- A lack of clarity as to whether ISAE 3000 (Revised) can be applied to financial information when such information is part of an EER report and, if so, under what circumstances, to what extent, and to what level of assurance
- Whether and how financial information included within a non-financial report can and should be reconciled to the financial information in the preparer's financial statements
- In general, whether the financial statement auditor or alternatively other practitioners should be expected to perform the EER assurance engagement.

Several respondents also encouraged monitoring of assurance practitioners' experience in implementing the guidance through a post implementation review, with a view to further enhancement of the guidance as it is “tried and tested.” Notwithstanding the support expressed, a number of overarching themes for further enhancement of the guidance surfaced. These include the following:

- Limited versus reasonable assurance: Over a third of the respondents called for further guidance and practical examples on applying differential requirements for limited and reasonable assurance engagements—from pre-acceptance through reporting. In practice, the differences between limited and reasonable assurance are often misunderstood. Further, the guidance should not suggest requirements beyond those in ISAE 3000 (Revised)
- Use of examples: A majority of respondents who commented on the examples noted their usefulness. Several viewed the comprehensive examples in Supplement B as the most useful aspect of the guidance, and called for more such examples.

Notwithstanding strong support for the restructured and simplified guidance, a number of respondents noted that it remains lengthy. Respondents also commented that developing a well-structured and easily accessible electronic format is essential to achieving the following:

- Overcoming the perceived barrier resulting from the length of the guidance
- Facilitating both its usefulness to, and successful adoption by, practitioners.

The EER working group is currently addressing these issues. In September 2020, the working group presented its views to the IAASB and received a positive response to its suggested way forward. The working group will again present to the IAASB in March 2021 and request approval of the final EER guidance and supplements.

5 | PRACTICE-FOCUSED PUBLICATIONS ADDRESSING EER ASSURANCE

5.1 | Regulatory body and other policymakers' perspective and impacts

Venter and van Eck (2021) review the academic literature addressing EER. This section complements their paper by providing an overview of publications issued by important regulatory bodies and other policymakers; accounting and consultancy firms, investor advocates, and professional accountancy organizations between 2015 and 2020 that address EER assurance. Several of these publications were issued post-Webinar. Additional publications by the WBCSD and Accountancy Europe are listed in Appendices 1 and 2, respectively. Appendix 3 presents the chronology of assurance standards, guidance development, and related publications by the IAASB.

As discussed previously in Sections 2.5 and 3, EER assurance is presently of considerable interest to regulators and other policymakers, for example, the EU and Accountancy Europe. As such, organizations including the International Organization of Securities Commissions (IOSCO); IFAC; UK Department for Business, Energy, & Industrial Strategy (Beis, U.K.); and UNCTAD ISAR have issued publications addressing EER assurance.

Sustainable Finance and the Role of Securities Regulators and IOSCO provides an overview of initiatives, both by regulators and the industry, and a detailed analysis of the most relevant ESG-related international initiatives and third-party frameworks and standards (IOSCO, 2020). The report asserts that investor protection issues may arise from a lack of effective assurance processes to ensure that investors are not misled about a company's sustainability practices. Aspects contributing to investor concerns include availability and quality of ESG data, integrity of reporting frameworks, and a company's compliance with a framework. The report refers to lessons IOSCO can learn by considering the

level of global adoption of IFRS and ISA standards which may in part be linked to assurance standards applying to the information published.

A form of EER that has recently gained increased momentum is reporting in accordance with the UN SDGs. In 2020, the IIRC, World Benchmarking Alliance (WBA), Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants of Scotland (ICAS), Chartered Accountants Australia and New Zealand (CAANZ), and IFAC published *Sustainable Development Goals Disclosure (SDGD) Recommendations* (Adams et al., 2020). The consultation addresses enhancing the credibility of SDGD.¹⁹ The authors assert that a lack of assurance and the limited scope of many assurance engagements represents a barrier to the information being effectively utilized by investors in capital allocation decisions. They further posit that maintaining documentary evidence as articulated in their “Examples of Evidence” (Adams et al., 2020, p. 17) adds credibility and robustness to an organization's approach to SDGDs. The “Examples of Evidence” address Governance (e.g., Board meeting minutes and minutes of the Audit and Risk Committee), Strategy (e.g., Documented outcomes of Board strategy meetings, Strategic plan and supporting documents), Management approach (e.g., Terms of reference of Audit and Risk Committee, Internal documents and policies concerned with monitoring risk and opportunity), and Performance and targets (e.g., Data sources, Data protocols and documents justifying choice of indicators). Documentation may provide the Board of Directors with confidence that an organization's 1) approach to the SDGs is fully integrated into processes, policies and practices and 2) the company's SDGD follow the Fundamental Concepts and Principles articulated in the 2020 recommendations.

Adams et al. (2020) suggest the “Examples of Evidence” may be used by assurance providers to extend the scope of engagements to include narrative reporting on governance, strategy, and management approach. Along with internal controls, internal audit, and external assurance, they suggest an organization may appoint a panel of independent experts and representatives of key stakeholders to comment on narrative SDGDs. Such panels may provide valuable input in reviewing judgments, ensuring the organization is transparent regarding value destruction and negative impacts, and benchmarking an organization's approach.

Also in 2020, ACCA, IIRC, and WBA published an overview of feedback on the consultation. Regarding assurance, Adams (2020, p. 14) provides a summary of feedback on three questions posed during the consultation:

- Are there additional sources of assurance evidence that could be included?
- Do you foresee issues in the supply of assurance? Why?
- Are there alternatives to assurance that could be included to enhance credibility of reporting?

Concerns received regarding the status quo include, but are not limited to: limited provision of external assurance and limited scope of assurance engagements, lack of maturity of assurance standards increasing the liability risk of assurance assignments, cost of assurance limiting its provision and scope, and the need to increase the supply, education, and upskilling of accountants.

Possible sources of feedback for each example of evidence are also identified.

More broadly, *Stakeholder Perceptions of Non-Financial Reporting* discusses a post implementation review addressing perceptions of new UK and EU requirements regarding NFI reporting (Beis, U.K., 2019). The research, conducted by PwC, reveals mixed views. Of 30 stakeholders interviewed, four believe the investor community and wider stakeholders can only be confident in NFI if it is audited. Five believe mandatory third-party assurance would make reporting overly complex and uniform. Some note that, without clear key indicators and metrics, assurance is very difficult as many

of the risks and opportunities are qualitative in nature. The report quotes the former CEO of Social Value UK:

The issue is that, in the absence of any independent assurance, the analyst or the user will not be able to form a view as to whether the information is materially complete. They might be able to form a view as to whether what's there is reasonably accurate but they won't know if the information they need has been included. Unless there is an assurance process designed with that in mind, this significantly undermines the usefulness of that information. (Beis, U.K., 2019, p. 29).

In a case prepared for UNCTAD ISAR, Street and Calvin (2020) address the 2018 sustainability reporting of the Dow 30. They find that 22 of the Dow 30 engaged a third-party assurance provider. A total of 14 obtained external assurance for a broad scope of areas (i.e., more than GHG emissions). Of the 14, nine included the full assurance statement in the sustainability report, and one referred to external assurance in the sustainability report. The remaining four included a link in their online sustainability report to an external assurance statement. The reference to external assurance by one company did not disclose the provider. For the remaining eight companies that engaged a third-party assurance provider, the scope was limited to GHG emission disclosures. For these eight companies, two included the full assurance statement in the sustainability report; three referred to external assurance in the sustainability report, two provided a link in their online sustainability report to an external assurance statement, while for the last company, following multiple links from the online sustainability report was required to locate the external assurance report. Three companies did not identify the assurance provider.

A theme repeated through the Webinar, and potentially impacting assurance and the quality of assurance, is the fragmentation of sustainability reporting frameworks. In this regard, on September 30, 2020, the IFRS Foundation (2020) issued *Consultation Paper on Sustainability* with feedback due December 30, 2020. The aims are to determine whether there is a need for global sustainability standards; whether the IFRS Foundation should play a role; and what the scope of that role could be. The consultation document asserts that, "A broad consensus holds that the current practice of sustainability disclosure is inefficient and sometimes ineffective due to a lack of commonly accepted standards and the inability to compare the information reported or provide assurance" (IFRS Foundation, 2020, p. 5). The document also posits that, "Auditing firms could play a major role in providing assurance if sustainability reporting were to be standardised and the information provided required such assurance" (IFRS Foundation, 2020, p. 6).

In a section on assurance, the consultation document asserts that while it may take time to develop common sustainability disclosures, the objective is for companies to disclose information that has been externally assured. The consultation document adds that it would be desirable for the assurance framework for sustainability information to ultimately be similar to that for financial statements. The IFRS Foundation argues that it has expertise in creating financial reporting standards with regard to auditing challenges and to help achieve this, has developed working relationships with the IAASB and audit profession. Regarding assurance, the consultation document poses the following question.

- Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision useful?

We note that despite the fact that ISAE 3000 and potentially other assurance frameworks are reporting framework neutral, it is commonly recognized that the multitude of reporting frameworks is

confusing to report users and is a hindrance to assurance providers, as they need to develop expertise across a broad range of reporting frameworks.

5.2 | Accounting firms and consulting firms promote assurance on EER

5.2.1 | Stakeholder views regarding the need for assurance of EER

Several publications by international accounting firms (Deloitte, 2015, 2016; EY, 2017; KPMG, 2017a, 2017b, 2019; PwC, 2019) and consultancy firms (GA Institute, 2020; McKinsey & Company, 2019) address the need for assurance on EER. In general, these publications assert that the credibility of EER information is important and that assurance is key to attaining credibility. A recurring theme is that a feature that differentiates annual reports from most other information is the assurance steps the annual report passes through (Deloitte, 2016). Reasons to consider assurance over EER as articulated by the Big 4 include:

- Over two thirds of surveyed investors indicate independent verification of NFI is very useful or essential (EY, 2017)
- Assurance providers provide information for future improvements—based on findings and the developments in the market—in the form of a management letter (KPMG, 2019)
- External assurance represents part of a range of mechanisms management utilizes to assure itself that internal processes and the information reported is credible and of investment-grade quality (Deloitte, 2015; KPMG, 2017a)
- Growing awareness and engagement of investors, audit committees, and management (KPMG, 2017b)
- Recent developments such as the reporting recommendations of the TCFD Disclosures (KPMG, 2017b)
- Pressure to demonstrate that GHG emissions data are reliable and accurate (KPMG, 2017b)
- Assurance of NFI helps to achieve or is required for listing on sustainable stock indexes, for example, Dow Jones Sustainability Index (KPMG, 2017b)
- The assurance process provides companies and their stakeholders with comfort over the organization's risk management processes, compliance with reporting standards and framework, and that appropriate KPIs are used within the company (KPMG, 2017a)
- Improved Board and CEO engagement (KPMG, 2017a).

The Future of Audit Perspectives on How the Audit Could Evolve shares the findings of a program of events hosted by PwC (2019) in the UK to ascertain the views of over 150 investors, audit committee members, CEOs, Chief Financial Officers (CFOs), and academics. Regarding assurance of EER, the predominant view expressed during roundtables is that it would be valuable to have independent verification of the accuracy of information reported outside the financial statements. However, some participants have concerns about the practicality of including some of this information in the central scope of the financial statement audit, particularly if it relates to EER. While businesses and investors that participated in a survey have different priorities of what should be included in the scope of the statutory audit, there is support for expanding it to cover non-financial areas such as compliance with laws and regulations, operational KPIs, and dividend policy, with investors generally more strongly supporting inclusion. There is less enthusiasm for expanding the audit's scope to include sustainability KPIs.

Concerns about assuring NFI are partly associated with whether NFI is ready for assurance. Participants question whether the underlying data are sufficiently robust to be assured, compared with the core financial information. Some assert that today's assurance providers do not have the skills and expertise to assure these types of metrics because for many their training and background has focused on financial information. Some suggests that for some information, assurance could be provided more effectively by third-party specialists rather than the financial statement auditors.²⁰ Some businesses are concerned that they risk being required to report, and have assured, information that is neither relevant nor appropriate for the company or their stakeholders. Businesses also express concerns about the cost of assurance.

Despite skepticism about the practicality of expanding the audit to NFI, there is more interest (including by a substantial majority of participating investors) in having financial measures currently reported outside the financial statements included in the financial statement audit. The findings suggest that pressure to include this kind of information in the audit is intensifying, especially among investors.

The PwC (2019) report suggests that natural language processing could help to provide assurance over EER when dealing with large bodies of unstructured data. Along this line, Deloitte (2016) includes the following recommendations: auditing standards need to evolve for broader measures and continuous reporting; users need to know that the information they are accessing on different platforms and using different technology has the same level of assurance as the annual report from which it is drawn; and international standards should be developed for providing assurance over tagged data.

McKinsey and Company (2019) reports on a sustainability reporting survey of investors and interviews of corporate executives. Based on the findings, the authors assert that investors question current reporting practices and are calling for change. Investors express concerns about sustainability disclosures because few undergo third-party audits. 97% (88%) of surveyed investors (executives) believe sustainability disclosures should be audited, with 67% (36%) indicating sustainability audits should be as rigorous as financial audits. The authors posit that establishing one or two reporting standards would simplify the task of auditing sustainability disclosures, making it more economical to have the reports independently verified.

5.2.2 | EER assurance trends

Several practice-focused publications identify EER assurance trends. These publications reveal that the number of companies seeking EER assurance has increased globally in recent years; however, the percentage of companies seeking assurance on EER differs both by country and by company size.

In addition to addressing the need for EER assurance as noted above, *The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting* addresses global EER assurance trends (KPMG, 2017b). The report represents the 10th in a series and is based on a survey of 4,900 companies in 49 countries and regions. The findings reveal that the number of companies investing in third-party assurance of EER has grown steadily since 2005. Approximately two thirds (67%) of G250 companies seek assurance. Assurance rates among the N100 (the largest 100 companies in each of 49 countries) are lower at 45%; however, if recent trends continue, KPMG expects a majority to have EER data assured within the next two to five years. Assurance rates increase more quickly in countries with higher rates of EER reporting. Consistent with trends identified throughout our paper, the US has one of the lowest rates of assurance of the 49 countries.

The Governance & Accountability Institute (GA Institute, 2020) reports on an analysis of the 2019 ESG disclosures of the S&P 500. With only 29% of the S&P 500 seeking external assurance,

the authors argue, “Assurance provides increased recognition, transparency, and credibility of a company's ESG disclosures while reducing risk. Seeking external assurance often indicates strong internal reporting and management systems. Overall, assurance improves stakeholder communication and trust” (GA Institute, 2020, p. 13). Of the S&P 500 seeking external assurance of ESG disclosures:

- Scope of assurance: 55% specified sections, 40% GHG disclosures only, 5% entire sustainability report
- Assurance provider: 52% engineering firms, 24% accountants, 24% small consultancies
- Level of assurance: 78% limited/moderate, 2% combination, 8% high, 12% not specified.

We note that the GA Institute's (2000) findings for 2019 on the US dominated S&P 500 are consistent with percentages reported in other studies for the US, (Casey & Grenier, 2015; KPMG, 2017b; Simnett et al., 2009 for US only) but contrast with the results for most of the other developed countries. For example, as mentioned previously, KPMG (2017b) reports that 67% of the G250 provided some form of third-party assurance for their 2016 CSR reporting.²¹ Hence, findings on the prevalence of seeking external assurance of EER are not generalizable, with results varying both by country and company size.

5.3 | Investor perspective

In line with McKinsey and Company (2019) and PwC (2019) (see Section 5.2), publications by other organizations address the investor view of EER assurance (CERES, 2018; CII, 2020; EIOPA, 2020; IRRCI, 2018). In a Statement on Corporate Disclosure of Sustainability Performance issued September 20, the Council of Institutional Investors (CII, 2020) indicates that it “believes that over time, companies should obtain external assurance of the sustainability performance information they provide.”

The European Insurance and Occupational Pensions Authority (EIOPA, 2020) asserts that the lack of reliability and comparability of NFI is one of the challenges to embedding sustainability considerations in investors' risk management and other processes. Responding to the EC consultation on amending the NFRD, EIOPA said NFI should be of high quality, equal to financial data. Therefore, the revision should consider including verification requirements, within a longer time perspective, preferably aiming at audit opinions offering a reasonable level of assurance.

CERES (2018) reports on how well the 476 largest Forbes Global 2000 companies disclose and perform on five indicators valued by investors. Three phases of maturity of sustainability disclosures are identified, that is, comparability, integration, and reliable. Companies in the reliability phase demonstrate that their sustainability disclosures are as reliable as financial disclosures by acquiring external assurance. As of 2018, most sample companies did not externally assure their sustainability disclosures, that is, 58% no evidence of formal assurance, 32% third-party verification with only some extent of assurance, 5% third-party verification with some extent of assurance with some recommendations for improvements, and 4% third-party verification with a reasonable or high extent of assurance including clear recommendations for improvement.

According to CERES (2018) although investors value assurance of sustainability reporting, most global companies do not appear prepared to provide it. Factors contributing to poor performance may include companies underestimating investor demand and lacking confidence that the data can be assured or that the benefits justify the costs. The authors believe it will likely take substantial pressure from investors, securities regulators, and/or securities markets to improve the state of sustainability reporting assurance. CERES posits that “when companies are able to provide robust external

assurance prepared with the same level of rigor as financial disclosures, these disclosures will provide the ‘investor ready’ and mature approach that investors look for in sustainability disclosures” (p. 2). CERES (2018) further asserts that “external assurance demonstrates that sustainability disclosures are obtained using rigorous and reliable systems. By externally assuring their sustainability disclosures, companies can increase the confidence that users have in the information presented in a sustainability report” (p. 5).

In line with the best practice illustration provided by Dugelay during his Webinar comments, CERES (2018) refers to Philips as a company whose sustainability information is audited by an accounting firm in accordance with Dutch law (with the Dutch standard consistent with ISAE 3000). Furthermore, the audit is aimed at obtaining reasonable assurance of the company's policies, business operations, and achievements in corporate social responsibility. The audit report provides significant details about the process, including analyzing the systems for collecting information, visiting production sites to validate source data, and evaluating the presentation of the information overall, while also discussing the limits of the audit process.

The Investor Responsibility Research Center Institute (IRRCI, 2018) examines the 2018 sustainability reports or self-declared integrated reports of the S&P 500 and finds that only 38% include external assurance.²² About 90% of external assurance pertains only to some data, primarily GHG emissions. Only 3% of the S&P 500 indicate their report's environmental and social performance data are fully externally verified. About half of the integrated reporters (14) in the sample obtained some form of external assurance (i.e., two full and five partial).

IRRCI's (2018) analysis of the S&P 500 reveals significant ambiguity due to the varying language used and level of transparency offered about external assurance. For example, some of the S&P 500 indicate their “report” was externally verified, explaining that a third party reviewed the accounting methods for providing the information but did not necessarily verify that the environmental and social performance data were accurate. Others state their environmental social metrics were reviewed by multiple assurers through a process including site visits.

IRRCI (2018) asserts that the issue of external assurance is a key problem for investors, who consistently bemoan the lack of external verification of sustainability data. Varying standards and the haphazard nature of external data verification hinders stakeholders' evaluation of company performance and more robust analysis of comparable metrics among peer groups.²³ IRRCI (2018) includes appendices to illustrate, among other things, the statements companies made when referring to external assurance and identification of the external assurance providers.

5.4 | Insights into integrated reporting

A series of reports by the ACCA (2017, 2018, 2019, & 2020) examines the corporate reports of <IR> Network participants. External assurance over IR reports, or aspects of them, increased between 2016 and 2019 (i.e., 2016/46%, 2017/60%, 2018/63%, 2019/63%) (ACCA, 2020). ACCA (2017) notes that a challenge previously faced by participants in the <IR> Network was that the widely recognized mechanisms that provide assurance over financial information were yet to emerge in non-financial reporting. However, ACCA (2019) highlights evidence, via examples of IR disclosures for which companies are providing assurance, that audit firms are evolving their service offerings to provide reasonable assurance on some areas that fall outside of the scope of the statutory audit.

ACCA (2020) asserts that market forces may spur the increasing proportion of integrated reports providing some form of assurance beyond the financial audit. This commonly takes the form of assurance over preparation of KPIs, or a separate report about the integrated report itself, giving limited

assurance over its preparation, in both cases from the auditors of the financial statements. It is further asserted that audit firms are now able to collect enough evidence on integrated reports to express a positive opinion that the information assured is reasonably stated.

ACCA (2019) cautions that EU regulation may lead to conflicts around auditors' requirements for reasonable assurance. The definition of what makes information material under the NFRD is different from how the <IR> Framework, or the TCFD recommendations, approach materiality. ACCA (2019) notes that a move toward a higher level of assurance could be accelerated by national legislation. For example, Germany's national implementation of the NFRD requires those KPIs defined as relevant for "steering" the company—used for internal management purposes—to be subjected to reasonable assurance.

ACCA (2019) asserts that the scope of assurance, the methodology used, and the level of assurance provided could vary greatly from one organization to another—driven, not least, by the different reasons why assurance is sought. Whether an organization decides to seek external assurance, sound internal assurance and robust internal controls remains as important as ever.

We note that prior to the launch of the ACCA series, IIRC (2015) published a summary of significant matters raised in the debate stimulated by <IR> reports published in July 2014. The publication provides an overview of feedback and calls for action to continue to strengthen the overall credibility of, and trust in, integrated reporting (see also IIRC, 2014a; 2014b).

5.5 | Role of internal audit

Internal auditing member organizations and standard setters (CIIA, 2015; IIA, 2015) and other organizations (AICPA & GRI, 2020) have articulated the need for internal auditors to play an important role in assurance of EER. For example, the American Institute of CPAs (AICPA) and GRI (2020) explain that an internal audit function can perform procedures to assist the organization by identifying risks, monitoring and evaluating the effectiveness of controls, and verifying data as it is gathered for sustainability reporting purposes. Internal audit can provide feedback throughout the reporting period and assist an organization in preparing for its external assurance engagement. A strong internal audit function can reduce the risk of misstatements in the sustainability information, whether or not it is subject to external assurance.

The Chartered Institute of Internal Auditors (CIIA, 2015) addresses how internal audit is being harnessed by organizations in the new era of corporate reporting. With the UK Companies Act requiring a strategic report and the EU NFRD, challenges faced by companies include how to ensure controls are effective, that the right things are measured, and systems and processes are in place to capture the data needed for reporting purposes. The quality of systems and outputs must be, to the extent possible, evaluated, and stakeholders assured on them for reporting to be accurate and reliable. CIIA (2015) posits that internal audit has a broad view across an organization's systems and processes and should have a role in providing assurance over the quality of information contained in strategic and integrated reports. CIIA contends this is within the remit of a well-resourced, appropriately positioned, and influential internal audit function.

The IAA (2015) addresses the need for assurance of NFI by internal auditors, external auditors, and other specialists. The report suggests that in some situations, an efficient and cost-effective source for assurance may be the internal audit function, because of its in-depth understanding of the processes and internal controls related to an organization's value drivers. IAA posits that an adequately sourced, independent internal audit function operating in accordance with the International Standards

for the Professional Practice of Internal Auditing is well positioned to help assure that non-financial reports are purposeful, reliable, timely, and, most importantly, credible.

5.6 | Advice for assurance practitioners

AICPA and GRI (2020) and Rao (2017) provide advice for assurance practitioners. An AICPA and GRI (2020) guide provides advice for US organizations reporting in accordance with GRI Standards and CPAs performing assurance engagements in accordance with AICPA Standards. Disclosure 102-56 in GRI 102 recommends that organizations use external assurance to increase confidence in the accuracy and reliability of the reported information. An organization reporting in accordance with GRI Standards is required to include information about the organization's policy and current practice about seeking external assurance and provide details if the sustainability reporting has been assured. The AICPA GRI Guide addresses numerous important frequently asked questions.

In an article published by the New York Society of CPAs, Rao (2017) reports the findings of a survey of 100 assured sustainability reports obtained from CorporateRegister.com and the Sustainability Disclosure Database of the GRI with a focus on, among other things, reasons for seeking assurance. The article offers practical advice for accounting professionals.

6 | THE WAY FORWARD

This paper outlines the views heard from panelists representing leading organizations at a June 16, 2020, cosponsored UNCTAD ISAR and WBCSD Webinar entitled *Assurance on Sustainability Reports: Current Practices and Challenges*. The objectives of the Webinar were to explore views and practices on the assurance of sustainability reporting, identify key challenges, and explore the best way forward. Panelists emphasized that in the current environment various stakeholder groups are demanding a greater range of accountability. From a reporting perspective, this is reflected in a significant increase in the publication of EER and a number of current regulatory developments. Panelists stressed that EER can play an important role in rebuilding trust by catalyzing corporate focus and disclosure of business-centric matters such as strategy, business model and governance, on matters material to stakeholders, and also through providing a framework for greater transparency on material non-financial matters. Relatedly, EER will not rebuild trust, unless the disclosures are credible, and seen to be credible. Therefore, it is important that assurance and other credibility enhancing techniques are developed alongside EER models and frameworks and take account of regulatory initiatives in the reporting of EER information.

Both the Webinar presentations and the concluding question and answer segment addressed ongoing reporting initiatives, in particular consultations around the merger of a plethora of sustainability standard-setting bodies and consultation on the standard-setting process. Panelists emphasized that assurance of EER cannot be viewed in isolation of these initiatives. Following the Webinar, several important developments transpired that will impact the way forward for not only EER but also assurance of EER. As articulated by five leading sustainability standard setters in a joint paper issued in September 2020, sustainability reporting has reached a “pivotal moment” and “conditions are ideal for rapid progress” (CDP, CDSB, GRI, IIRC, & SASB, 2020). These five bodies declared an intent to work together toward development of a comprehensive reporting framework.²⁴ That same month IFAC (2020) proposed the creation of a Sustainability Standards Board (SSB) to be housed by the IFRS Foundation and exist alongside the International Accounting Standards Board (IASB). Responding

to IFAC's proposal, IIRC Board Chair (and AICPA President and CEO) Melancon stated, we "need innovation to complete the corporate reporting system, to ensure we have an assurance process that is fit for purpose and the technology to support high quality reporting and governance" (IFAC, 2020).

As outlined in Section 5.1, on September 30, the IFRS Foundation (2020) issued *Consultation Paper on Sustainability* with feedback due December 30, 2020. Regarding assurance, the consultation document poses the questions, "Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision useful?" We will watch responses to this proposed initiative and the assurance questions with interest.

Responding to a question during the Webinar regarding the EC's plan to develop EU standards on NFI, Hales referenced *Ensuring the Relevance and Reliability of Non-financial Corporate Information: An Ambition and A Competitive Advantage for a Sustainable Europe*. We note that this report by de Cambourg (2019) analyses ways of consolidating the development of EER by companies with the long-term goal of achieving a status comparable to financial information.²⁵

Responding to assurance considerations around these reporting initiatives, and specifically a question from a Webinar participant regarding how to get to reasonable assurance with so many diverse EER frameworks, Grabowski indicated the proliferation of reporting standards has a practical impact. Companies realize that many frameworks are already rather advanced in the way they approach reporting requirements, forcing companies to make decisions regarding what standards or frameworks to follow in communicating information on specific sustainability issues. This will not necessarily result in the most effective comparability and makes it harder for assurance practitioners to address those judgments and have confidence that the judgments are appropriate in the circumstances of each engagement. When considering these judgments, the assurance provider is trying to determine whether the approach is appropriate in terms of the users of that information. Diversity of reporting standards and lack of harmonization is a factor that makes it hard to perform an EER assurance engagement. Thus, while this would be difficult to achieve internationally, Grabowski would like to see consolidation.

Although significant development is under way in the reporting of EER and the associated standard-setting approach, for the assurance side the challenges are different. In general, assurance frameworks are framework-neutral. As Skobarev described, the IAASB developed ISAE 3000 for performing any type of assurance other than financial audits and reviews of historical financial information; professional accountants must follow the standard when conducting an EER assurance engagement. The other frequently utilized assurance standard in practice, AA1000, is for assurance on sustainability information and may be utilized by an assurance provider of any type (e.g., engineering firm). Thus, the assurance frameworks should be able to react to any developments in reporting frameworks.

Regarding, the way forward, as outlined by Grabowski, the IAASB is poised to issue guidance for assurance practitioners to enable more consistent and appropriate application of ISAE 3000 (Revised) to EER assurance engagements and greater trust in the resulting assurance reports by users of EER. This guidance addresses 10 key challenges identified by the IAASB in providing assurance on EER, including assurance of narrative and forward-looking information, both of which are commonly contained in EER frameworks. Expectations are that the IAASB will approve this guidance in early 2021. We note that current IAASB publications already provide a response to the question posed in the IFRS Foundation consultation regarding whether information required to be disclosed should be assurable. If a reporting framework goes through due process, it is presumed to be assurable.

A major issue for the way forward concerns the ability to provide reasonable versus limited assurance. The Webinar question and answer segment began with Dugelay addressing whether reasonable assurance requires certain competencies for the assurance provider (both audit and engineering firms)

as well as the company seeking assurance. He acknowledged that it is a challenge to audit EER with reasonable assurance especially because of restrictions on the reporting side. If the reporting entity is not sufficiently competent in preparing the NFI, a qualified assurance report may need to be issued because the auditor of the EER is not able to conclude that the report is not materially misstated in accordance with the reporting criteria. The auditor evaluates the risks underlying given indicators, or assertions, or action plans. Based on the level of risk, the auditor performs a certain level of field-work either at the site level or consolidated level. However, based on 19 years of experience, Dugelay believes the ability to provide reasonable assurance is improving, due largely to the level of internal control over NFI, which he sees as having improved significantly in recent years. Dugelay also agreed with Skobarev's assertion that internal audit can be beneficial (see Section 5.5). As outlined by the approach known as combined assurance, if management processes, the internal control function, and the internal audit function all work correctly, the likelihood of a clean assurance report is higher.

While reasonable versus limited assurance was not one of the 10 key challenges addressed by the IAASB as outlined by Grabowski, it represents an issue the IAASB heard during the exposure process, and, as outlined in Section 4.9, is an issue being addressed by the IAASB. In line with Grabowski's position, our paper highlights important stakeholder support for reasonable assurance of EER. These include EIOPA (2020), WBCSD and PwC (2018), Accountancy Europe (2020d) (see Section 2.5), and McKinsey and Company (2019). We further note that during his presentation at the October 30, 2020 UNCTAD ISAR and WBCSD *Workshop Assurance on Sustainability Reports: Current Practices and Challenges*, Dugelay reiterated that Accountancy Europe believes reasonable assurance is the way forward.²⁶ The ability of the assurance provider to place greater reliance on developing internal control systems is also identified as an area requiring further guidance and is being addressed by the IAASB.

In the companion article to our paper, Venter and van Eck (2021) articulate the importance of evidence informed policy and decision-making and stress that research in the area of EER is a burgeoning area. They identify a number of research opportunities structured around the IAASB's 10 key challenges. We encourage academic researchers to examine their comprehensive literature review and carefully consider the associated identified research opportunities.

ACKNOWLEDGEMENT

The authors would like to thank Elizabeth Gordon for her helpful comments. The authors acknowledge the financial support provided by the Cracow University of Economics subvention funds.

ENDNOTES

¹ The Webinar is available at <https://isar.unctad.org/blog/2020/06/03/unctad-isar-wbcscd-webinar-16062020/#Recording>.

² In this issue of JIFMA, Venter and van Eck (2021) provide a comprehensive review of the academic literature addressing EER assurance. Additionally, they present recommendations for future research.

³ In support of its mission, IAAER coordinates research grant programs to inform standard setting. These include programs sponsored by the KPMG Foundation and KPMG LLP to inform the International Accounting Standards Board (IASB). IAAER also hosts workshops to build research and teaching skills capacity in emerging economies (e.g., in collaboration with Bucharest University of Economic Studies and the Association of Chartered Certified Accountants (ACCA); Southern African Accounting Association (SAAA); and Cracow University of Economics). The *Journal of International Financial Management & Accounting* is the official research journal of the IAAER.

⁴ See <https://www.wbcscd.org/Programs/Redefining-Value>.

⁵ See www.fsb-tcfd.org.

⁶ See Robinson, Vodovoz, Sullivan, & Burns (2019) at <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/ASC/HU/2019/us-aers-hu-deloitteESGnow-sustainability-disclosure-goes-mainstream.pdf>. This report

cites the Investor Responsibility Research Center Institute IRRCI (2018) which notes that only 38% of S&P 500 2018 sustainability reports included external assurance.

⁷ Vornado's 2019 ESG report is available at <https://www.vno.com/sustainability/overview>.

⁸ The non-authoritative draft guidance and two supplements are available at <https://www.iaasb.org/publications/public-consultation-proposed-guidance-extended-external-reporting-eer-assurance-march-2020>.

⁹ Art. 19a (5) of the Directive 2014/95/EU (non-financial reporting directive—NFRD) requires that the statutory auditor check whether the NFI statement has been provided and art 19a (6) gives Member States the option to have the NFI statement verified by an independent assurance service provider. See also Section 3.

¹⁰ France has required mandatory assurance for the full sustainability report since 2013.

¹¹ These include: Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Latvia, the Netherlands, Norway, Slovenia, Spain, Sweden, and UK (Accountancy Europe, 2020e).

¹² AA1000 is available at <https://www.accountability.org/standards/>.

¹³ We note that, while the Webinar is international in scope, US Certified Public Accountants (CPAs) provide assurance services in line with the AICPA Statements on Standards for Attestation Engagements (SSAEs), which only CPAs are qualified to use (see <https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/sustainability/downloadabledocuments/sustainability-faqs.pdf>). In 2016, the Auditing Standards Board of the AICPA issued SSAE 18, which clarified and restructured attestation engagements for the US. The ASB's general strategy is to converge its standards with the IAASB's. Therefore, ISAE 3000 served as the cornerstone for SSAE 18, with many of the paragraphs in the relevant attestation engagements converged with their ISAE equivalents (see <https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/ssae-no-18.pdf>). This holds for many countries around the world, which use the IAASB standards as base standards for their national standards.

¹⁴ ISQC 1 is available at <https://www.ifac.org/system/files/downloads/a007-2010-iaasb-handbook-isqc-1.pdf>.

¹⁵ See <https://www.wbcds.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Responding-to-assurance-needs-on-non-financial-information>.

¹⁶ The definition of PIEs was introduced by the Statutory Audit Directive (Directive 2006/43/EC) and updated in 2014 (Directive 2014/56/EU). PIEs are entities governed by the law of an EU Member State whose transferable securities are traded on a regulated market of any Member State, credit institutions, insurance undertakings, or entities designated by Member States as such. Examples of PIEs include public companies, banks, or insurers (see <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Audit/gx-audit-public-Interest-entity.pdf>). Large PIEs have more than 500 employees. Member States may differ in the way they categorize entities as PIEs.

¹⁷ The separate report must be published alongside the management report or within six months of the balance sheet date, made available on the company's website, and referenced in the management report.

¹⁸ Available at <https://www.iaasb.org/publications/public-consultation-proposed-guidance-extended-external-reporting-eer-assurance-march-2020>.

¹⁹ The Sustainable Development Goals (SDGs) were adopted by the UN Member States in 2015 as part of the **2030 Agenda for Sustainable Development** to address global challenges in health, education, social equity and justice, economic security, and environmental issues.

²⁰ KPMG (2019) reports on an analysis of the NFI provided in the 2017 and 2018 annual reports of 44 Dutch companies. Based on their findings, the authors, in contrast, assert that companies with a team of external (NFI) assurance providers that includes subject-matter experts and non-financial reporting specialists score higher on the quality of EU required disclosures.

²¹ Low levels of assurance findings for the US are explored by Venter and van Eck (2021). Reasons, such as the initial banning of the accounting profession from providing such assurance services in the US (Simnett, Vanstraelen, & Chua, 2009), or the litigation environment, or incidence of other strong governance mechanisms are offered as possible reasons for these observations.

²² See endnote 21.

²³ A 2015 survey of CFA members revealed that CFA Institute members were divided regarding the level of independent ESG data verification they thought was needed. 44% favored an approach similar to a formal audit, and 46% were satisfied with more limited assurance. See <https://irrcinstitute.org/wp-content/uploads/2015/09/FINAL-CFA-ESG-Study-August-20151.pdf>.

²⁴ On November 25, the IIRC and SASB (2020) announced their intent to merge and form the Value Reporting Foundation with the aim to provide "investors and corporates with a comprehensive corporate reporting framework

across the full range of enterprise value drivers and standards to drive global sustainability performance.” Their press release notes that “The merger will advance the work of CDP, CDSB, GRI, IIRC and SASB in the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, which outlines a vision for a comprehensive corporate reporting system. By integrating the IIRC and SASB ... this merger demonstrates momentum towards simplifying the corporate reporting landscape. The Value Reporting Foundation could eventually integrate other entities focused on enterprise value creation, and the Foundation and CDSB have jointly signaled interest in entering into exploratory discussions in the coming months.”

²⁵ de Cambourg chairs the European Lab Project Task Force for the elaboration of possible EU non-financial reporting standards (PTF-NFRD), which evolved out of the EC’s mandate that EFRAG undertake preparatory work for possible EU non-financial reporting standards in connection with the revision of NFRD. The PTF-NFRD is undertaking a project expected to be completed in early 2021. de Cambourg believes it is critical NFI reaches “the same level of robustness and quality as financial information, to create coherence and consistency in corporate reporting, to ensure the full success of the Sustainable Finance agenda of the European Commission, and to stimulate global evolution, with the EU being one of the leaders in this crucial field. This can be achieved by leading a much needed non-financial information standard-setting effort, embracing the European dimension and vision as well as a global ambition” (see <https://www.efrag.org/News/Project-434/Appointed--Members-and-Chair-of-the-European-Lab-Project-Task-Force-o>).

²⁶ See https://unctad.org/system/files/non-official-document/ciisar37_WS_EDugelay_en.pdf.

REFERENCES

- ACCA (2017). *Insights into integrated reporting: Challenges and best practice responses*. <https://www.accaglobal.com/us/en/technical-activities/technical-resources-search/2017/april/insights-into-integrated-reporting.html>
- ACCA. (2018). *Insights into integrated reporting 2.0: Walking the talk*. <https://www.accaglobal.com/vn/en/professional-insights/global-profession/Insights-into-integrated-reporting-2-walking-the-talk.html>
- ACCA. (2019). *Insights into integrated reporting 3.0: The drive for authenticity*. https://integratedreporting.org/wp-content/uploads/2019/05/Insights-into-integrated-reporting-3.0_final.pdf
- ACCA. (2020). *Insights into integrated reporting 4.0: The story so far*. <https://www.accaglobal.com/my/en/professional-insights/global-profession/Integrated-reporting-4.html>
- Accountancy Europe & WBCSD (2018). *Responding to assurance needs on non-financial information. Analysis of expert feedback*. <https://www.accountancyeurope.eu/wp-content/uploads/Responding-to-assurance-needs-on-non-financial-information.pdf>
- Accountancy Europe. (2017). *Discussion Paper, How to respond to assurance needs on non-financial information*. <https://www.accountancyeurope.eu/publications/respond-assurance-needs-non-financial-information/>
- Accountancy Europe. (2019a). *7 ways accountants can help companies get more sustainable*. <https://www.accountancyeurope.eu/good-governance-sustainability/7-ways-accountants-can-help-companies-get-more-sustainable/>
- Accountancy Europe. (2019b). *IAASB's consultation on Extended External Reporting (EER) assurance*. https://www.accountancyeurope.eu/wp-content/uploads/190621-Response-ACE-IAASB_EER-assurance_final.pdf
- Accountancy Europe. (2019c). *Sustainable finance call to action achieving high quality & consistent reporting*. <https://www.accountancyeurope.eu/wp-content/uploads/191015-Call-to-action-SF-final-version.pdf>
- Accountancy Europe (2020a). *Better business decisions with assurance on non-financial information by Olivier Boutellis-Taft and Mario Abela*. <https://www.accountancyeurope.eu/reporting-transparency/better-business-decisions-with-assurance-on-non-financial-information/>
- Accountancy Europe (2020b). *EC's consultation on the Non-Financial Reporting Directive revision*. https://www.accountancyeurope.eu/wp-content/uploads/200611-NFRD-consultation-response_final-1.pdf
- Accountancy Europe. (2020c). *IAASB's consultation on proposed guidance: Extended external reporting (EER) assurance*. https://www.accountancyeurope.eu/wp-content/uploads/200723-Letter_IAASB-EER-assurance-guidance_final.pdf
- Accountancy Europe. (2020d). *Setting up for high quality non-financial information assurance in Europe*. <https://www.accountancyeurope.eu/wp-content/uploads/200609-Accountancy-Europe-setting-up-for-quality-non-NFI-assurance-paper.pdf>
- Accountancy Europe. (2020e). *Towards reliable non-financial information across Europe. Factsheet*. <https://www.accountancyeurope.eu/publications/towards-reliable-non-financial-information-across-europe/>

- Adams, C. A. (2020). *Sustainable Development Goals Disclosure (SDGD) Recommendations: Feedback on the consultation responses by ACCA, IIRC, WBA*. https://www.ifac.org/system/files/publications/files/Adams_2020_Feedback-on-the-consultation.pdf
- Adams, C. A., Druckman, P. B., & Picot, R. C. (2020). *Sustainable Development Goals (SDGD) Recommendations*. Published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. <https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/sustainable-development-goals-disclosure-sdgd-recommendations>
- AICPA & GRI (2020). *Frequently asked questions on external assurance of sustainability reporting: For organizations in the United States reporting in accordance with the GRI Standards and CPAs performing assurance engagements in accordance with AICPA Standards*. <https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/sustainability/downloadabledocuments/sustainability-faqs.pdf>
- Beis, U. K. (2019). *Stakeholder perceptions of non-financial reporting*. BEIS Research Paper Number 2019/027. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841047/stakeholder-perceptions-of-non-financial-reporting.pdf
- Braam, R., & Peeters, R. (2018). Corporate sustainability performance and assurance on sustainability reports: Diffusion of accounting practices in the realm of sustainable development. *Corporate Social Responsibility and Environmental Management*, 25(2), 164–181. <https://doi.org/10.1002/csr.1447>
- Casey, R. J., & Grenier, J. H. (2015). Understanding and contributing to the enigma of corporate social responsibility (CSR) assurance in the United States. *Auditing: A Journal of Practice & Theory*, 34(1), 97–130. <https://doi.org/10.2308/ajpt-50736>
- CDP, CDSB, GRI, IIRC & SASB (2020). *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting: Summary of alignment discussions among leading sustainability and integrated reporting organizations CDP, CDSB, GRI, IIRC, and SASB*. <https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>
- CERES (2018). *Disclose what matters: Bridging the gap between investor needs and company disclosures on sustainability*. <https://www.ceres.org/resources/reports/disclose-what-matters-bridging-gap-between-investor-needs-and-company-disclosures>
- CII (2020). *Statement on corporate disclosure of sustainability performance*. https://www.cii.org/sustainability_performance_disclosure
- CIIA (2015). *Research report: The role of internal audit in non-financial and integrated reporting*. <https://www.iaa.org.uk/resources/integrated-reporting/research-report-the-role-of-internal-audit-in-non-financial-and-integrated-reporting/>
- de Cambourg, P. (2019). *Ensuring the relevance and reliability of non-financial corporate information: An ambition and a competitive advantage for sustainable Europe*. http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/4.%20Qui%20sommes-nous/Communique_de_presse/Report-de-Cambourg_extra-financial-informations_May2019_EN.pdf
- Deloitte. (2015). *A Directors' Guide to Integrated Reporting*. https://www2.deloitte.com/content/dam/Deloitte/na/Documents/audit/na_zs_Directors_Guide_on_Integrated_Reporting.pdf
- Deloitte. (2016). *Thinking allowed: The future of corporate reporting: Meeting the information needs of corporate stakeholders*. <https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/audit/ch-en-audit-thinking-allowed-future-corporate-reporting.pdf>
- EC. (2020). *Non-financial reporting by large companies (updated rules)*. <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revisionof-Non-Financial-Reporting-Directive/public-consultation>
- EFRAG. (2020). *Progress report of the Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS). Status and preliminary high-level assessment points*. <https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FPTF-NFRS%2520Progress%2520Report%2520Final.pdf>
- EIOPA (2020). *EIOPA calls for non-financial information to be audited*. <https://www.environmental-finance.com/content/news/eiopa-calls-for-non-financial-information-to-be-audited.html>
- EU. (2013). *Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC*

- and 83/349/EEC Text with EEA relevance. EUR-Lex. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013L0034>
- EU (2014). *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups*. <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014L0095&from=EN>
- EY. (2017). *Is your non-financial performance revealing the true value of your business*. https://www.ey.com/en_us/assurance/is-your-nonfinancial-performance-revealing-the-true-value-of-your-business
- FEE (1999). *Discussion paper, providing assurance on environmental reports*. Accountancy Europe. https://www.accountancyeurope.eu/wp-content/uploads/DP_Assurance_Environmental_Reports1732005311524.pdf
- FEE (2002). *Discussion paper, providing assurance on sustainability reports*. Accountancy Europe. <https://www.accountancyeurope.eu/publications/providing-assurance-on-sustainability-reports/>
- FEE. (2004). *FEE call for action: Assurance for sustainability*. Accountancy Europe. https://www.accountancyeurope.eu/wp-content/uploads/FEE_Call_for_Action_-_Assurance_for_Sustainability_04061532005311159.pdf
- FEE. (2006). *Discussion paper, key issues in sustainability assurance: An overview*. Accountancy Europe. <https://www.accountancyeurope.eu/publications/key-issues-in-sustainability-assurance-an-overview/>
- FEE. (2011). *FEE Comment Letter on IAASB Exposure Draft on ISAE 3000 on Assurance Engagements Other Than Audits or Reviews of historical Financial Information*. Accountancy Europe. https://www.accountancyeurope.eu/wpcontent/uploads/Gunn_110909_Assurance_Engagements_Other_Than_Audit_or_Reviews992011101541.pdf
- FEE (2015). *EU Directive on disclosure of non-financial and diversity information. The role of practitioners in providing disclosure*. Accountancy Europe. https://www.accountancyeurope.eu/wp-content/uploads/1512_EU_Directive_on_NFI.pdf
- FEE (2016). *EU Directive on disclosure of non-financial and diversity information. Achieving good quality and consistent reporting. Position Paper*. Accountancy Europe. https://www.accountancyeurope.eu/wp-content/uploads/FEE_position_paper_EU_NFI_Directive_final.pdf
- GA Institute. (2020). *Trends on the sustainability reporting practices of S&P 500 Index Companies*. http://www.gainstite.com/fileadmin/ga_institute/images/FlashReports/2020/G_A-Flash-Report-2020.pdf
- GRI, CSR Europe and Accountancy Europe. (2018). *Member State Implementation of Directive 2014/95/EU. A comprehensive overview of how Member States are implementing the EU Directive on Non-financial and Diversity Information*. <https://www.accountancyeurope.eu/wp-content/uploads/NFR-Publication-3-May-revision.pdf>
- IAASB (2011). *ISAE 3000 (revised), assurance engagements other than audits or reviews of historical financial information*. <https://www.iaasb.org/publications/isaee-3000-revised-assurance-engagements-other-audits-or-reviews-historical-financial-information>
- IAASB (2013). *International Standard on Assurance Engagements (ISAE) 3000 Revised, assurance engagements other than audits or reviews of historical financial information*. <https://www.iaasb.org/publications/international-standard-assurance-engagements-isaee-3000-revised-assurance-engagements-other-audits-or-0>
- IAASB (2015). *Exploring assurance on integrated reporting and other emerging developments in external reporting*. <https://www.iaasb.org/publications/exploring-assurance-integrated-reporting-and-other-emerging-developments-external-reporting-0>
- IAASB (2016). *Discussion paper, supporting credibility and trust in emerging forms of external reporting*. <https://www.iaasb.org/publications/discussion-paper-supporting-credibility-and-trust-emerging-forms-external-reporting>
- IAASB (2017). *IRWG discussion paper, (DP) – disclosure of resources - approval of project proposal – agreement to issue feedback statement*. https://www.iaasb.org/system/files/meetings/files/20171024-IAASB_Agenda_Item_4-A-EER_Issues-Paper_Final.pdf
- IAASB (2018a). *IAASB Project Proposal – Emerging forms of external reporting*. <https://www.iaasb.org/publications/iaasb-project-proposal-emerging-forms-external-reporting>
- IAASB (2018b). *Supporting credibility and trust in emerging forms of external reporting: Ten key challenges for assurance engagements*. <https://www.iaasb.org/publications/supporting-credibility-and-trust-emerging-forms-external-reporting-ten-key-challenges-assurance>
- IAASB (2019). *Consultation Paper, Extended External Reporting (ERR) Assurance*. <https://www.ifac.org/system/files/publications/files/EER-Consultation-Paper.pdf>
- IAASB (2020). *Public Consultation on Proposed Guidance: Extended External Reporting (EER) Assurance*. <https://www.iaasb.org/publications/public-consultation-proposed-guidance-extended-external-reporting-eer-assurance-march-2020>

- IAASB IRWG. (2014). *Briefing paper—Market developments in integrated reporting and emerging assurance issues relevant to IAASB*. IFAC. https://www.ifac.org/system/files/meetings/files/20141201-IAASB-Agenda_Item_10-B-IRWG_Briefing_Paper_Market_Developments_Integrated_Reporting_and_Assurance.pdf
- IFAC (2020). *IFAC Calls for Creation of an International Sustainability Standards Board Alongside The International Accounting Standards Board (IASB)*. Cision PR Newswire. <https://www.prnewswire.com/news-releases/ifac-calls-for-creation-of-an-international-sustainability-standards-board-alongside-the-international-accounting-standards-board-iasb-301128284.html>
- IFRS Foundation. (2020). *Consultation paper on sustainability reporting*. <https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>
- IIA. (2015). *Global perspectives and insights: Beyond the numbers – Internal audit's role in nonfinancial reporting*, Issue 2. <https://global.theIIA.org/knowledge/Public%20Documents/2015-Oct-GPI-English.pdf>
- IIRC (2014a). *Assurance on IR: An exploration of issues*. <https://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-exploration-of-issues.pdf>
- IIRC (2014b). *Assurance on IR: An introduction to the discussion*. <https://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-introduction-to-the-discussion.pdf>
- IIRC (2015). *Overview of feedback and call to action*. <https://integratedreporting.org/resource/assurance/>
- IOSCO (2020). *Sustainable finance and the role of securities regulators and IOSCO*. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf>
- IRRCI (2018). *State of sustainability and integrated reporting 2018*. <https://www.weinberg.udel.edu/IIRCiResearchDocuments/2018/11/2018-SP-500-Integrated-Reporting-FINAL-November-2018-1.pdf>
- KPMG (2015). *The KPMG Survey of Corporate Responsibility Reporting 2015*. <https://home.kpmg/xx/en/home/insights/2015/11/kpmg-international-survey-of-corporate-responsibility-reporting-2015.html>
- KPMG (2017a). *Non-financial assurance: Improving the transparency of your non-financial disclosures*. <https://assets.kpmg/content/dam/kpmg/nz/pdf/October/nonfinancial-assurance-kpmg-nz.pdf>
- KPMG (2017b). *The road ahead: The KPMG Survey of Corporate Responsibility Reporting 2017*. <https://assets.kpmg/content/dam/kpmg/be/pdf/2017/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>
- KPMG (2019). *The next steps in non-financial information reporting: Research into the decrees on non-financial information and diversity in the Netherlands in 2018 and 2017*. <https://assets.kpmg/content/dam/kpmg/nl/pdf/2019/advisory/the-next-steps-in-non-financial-information-reporting.pdf>
- McKinsey & Company (2019). *More than values: The value-based sustainability reporting that investors want*. <https://www.mckinsey.com/business-functions/sustainability/our-insights/more-than-values-the-value-based-sustainability-reporting-that-investors-want>
- PwC. (2019). *The future of audit perspectives on how the audit could evolve*. <https://www.pwc.co.uk/who-we-are/future-of-audit/pwc-future-of-audit-report-july-2019.pdf>
- Rao, S. (2017). Current state of assurance on sustainability reports. *The CPA Journal*, 87, <https://www.cpajournal.com/2017/07/26/current-state-assurance-sustainability-reports/>
- Robinson, C., Vodovoz, I., Sullivan, K., & Burns, J. (2019). Sustainability Disclosure Goes Mainstream. *Heads Up*, 26(21). <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/ASC/HU/2019/us-aers-hu-deloitteESGnow-sustainability-disclosure-goes-mainstream.pdf>
- Simnett, R., Vanstraelen, A., & Chua, W. F. (2009). Assurance on sustainability reports: An international comparison. *The Accounting Review*, 84(3), 937–967.
- Street, D. L., & Calvin, C. G. (2020). A survey of the Dow 30: Reporting on the UNCTAD-ISAR global core indicators, in *UNCTAD ISAR Annual Review 2019*, 1–12. https://unctad.org/system/files/official-document/diaeed2019d1_en.pdf
- Venter, E., & van Eck, L. (2021). Research on extended external reporting assurance: Trends, themes and opportunities. *Journal of International Financial Management and Accounting*, 32(1), this issue.
- WBCSD & Accountancy Europe (2018). *Responding to assurance needs on non-financial information*. <https://www.wbcسد.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Responding-to-assurance-needs-on-non-financial-information>
- WBCSD & Baker & McKenzie (2020). *Reporting matters: Maintaining ambition amidst disruption*. <https://www.wbcسد.org/Programs/Redefining-Value/External-Disclosure/Reporting-matters/Resources/Reporting-matters-2020>

- WBCSD & FSR - Danish Auditors. (2019). *Guidance on improving the quality of ESG information for decision-making*. <https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Guidance-on-improving-the-quality-of-ESG-information-for-decision-making>
- WBCSD & ICAEW (2019). *A buyer's guide to assurance on non-financial information*. <https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/A-buyer-s-guide-to-assurance-on-non-financial-information>
- WBCSD & PwC (2018). *Enhancing the credibility of non-financial information: The investor perspective*. <https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Enhancing-the-credibility-of-non-financial-information-the-investor-perspective>
- WBCSD (2016). *Assurance: Generating value from external assurance of sustainability reporting*. <https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Generating-Value-from-External-Assurance-of-Sustainability-Reporting>

How to cite this article: Krasodomska J, Simnett R, Street DL. Extended external reporting assurance: Current practices and challenges. *J Int Financ Manage Account*. 2021;32:104–142. <https://doi.org/10.1111/jifm.12127>

APPENDIX 1

1 | WBCSD EER assurance resources

Assurance: generating value from external assurance of sustainability reporting (WBCSD, 2016) shows that sustainability reporting effectiveness can be enhanced by obtaining an independent assurance statement. The report also provides guidance from assurance providers and standard setters to assist reporters. WBCSD members are required to report on their sustainability performance and impacts within a year of joining WBCSD. Reporting Matters data from 2014 to 2015 shows that a majority of WBCSD members use external assurance to validate their disclosures.

Responding to assurance needs on non-financial information (WBCSD & Accountancy Europe, 2018) explains that, while NFI reporting is increasingly important for investors and other stakeholders, the practice is more mature in certain countries than others. Even in countries where companies have a history in NFI reporting, the quality is not as robust and reliable as could be expected. Evidence shows that companies providing independent assurance on their NFI reports usually have better reporting practices. The publication examines six key steps for NFI assurance included in Accountancy Europe's, 2017 discussion paper *How to respond to assurance needs on non-financial information?*

Enhancing the credibility of non-financial information: the investor perspective (WBCSD & PwC, 2018) explores what value NFI has for investors, what could make it more reliable, and what role assurance can play in increasing confidence in it. Investors who want assurance over NFI prefer reasonable assurance, emphasizing the growing importance of NFI in decision-making. However, for the vast majority of NFI, the level of assurance is limited. Investors want assurance reports to provide a better understanding of the assurance work performed on NFI and where significant judgments were applied. Investors also prefer that assurance reports be in the same report containing the assured NFI. The frequency of assurance on NFI should be annual. Since many investors obtain NFI through data aggregators, it is important that investors know what information is assured; however, such information is not always readily available.

Guidance on improving the quality of ESG information for decision-making (WBCSD & FSR—Danish Auditors, 2019) provides guidance on how companies can improve the quality of, and confidence in, their ESG information by considering the basic building blocks of internal controls. Providing practical suggestions aligned to the Committee of Sponsoring Organizations (COSO) Internal Control Framework, the guidance offers a series of questions for conducting a gap analysis and understanding what needs to be improved.

A buyer's guide to assurance on non-financial information (WBCSD & ICAEW, 2019) addresses questions such as “What is assurance?” “How does it work?” “How is it beneficial to users of NFI?” and aims to bring clarity on a topic often perceived as confusing.

Reporting matters Maintaining ambition amidst disruption (WBCSD & Baker & McKenzie, 2020) analyzes the ESG reporting of 158 WBCSD members and addresses reporting trends from 2017 to 2020. The percentage of members providing some form of external assurance over their ESG disclosures increased annually from 73% in 2017 to 84% in 2020. A limited level of assurance on a large range of indicators or the reporting process remained the norm (80% in 2020 vs. 76% in 2017). A combination of limited and reasonable assurance (15% and reasonable assurance on the whole report (5%) continued to see limited use in 2020.

APPENDIX 2

1 | Accountancy Europe EER assurance resources

EU Directive on disclosure of non-financial and diversity information: The role of practitioners in providing assurance (FEE, 2015) stresses the role of practitioners in providing assurance on NFI in the context of the NFRD requirements.

How to respond to assurance needs on non-financial information (Accountancy Europe, 2017) refers to ISAE 3000 and provides six key steps for professional accountants to follow while conducting an assurance engagement on NFI.

Member State Implementation of Directive 2014/95/EU. A comprehensive overview of how Member States are implementing the EU Directive on Non-financial and Diversity Information (GRI, CSR Europe, & Accountancy Europe, 2018) explains how the 28 EU Member States, as well as two countries from the wider European Economic Area (i.e., Iceland and Norway) implemented the NFRD into national laws and how they approached NFI assurance.

Responding to assurance needs on non-financial information. Analysis of expert feedback (Accountancy Europe & WBCSD, 2018) provides insights into the assurance of NFI from a practical perspective (see Appendix 1).

IAASB's consultation on Extended External Reporting (EER) assurance (Accountancy Europe, 2019b) supports the IAASB's project to develop non-authoritative guidance to assist assurance practitioners in applying ISAE 3000. Main issues raised concern the length of the guidance, a need to clearly state its target audience and the purpose, and careful use of specific terms and language.

Sustainable Finance call to action. Achieving high quality & consistent reporting (Accountancy Europe, 2019c) presents five steps to revise NFRD and stresses the accountants' role in the move toward a more sustainable economy, also by providing independent NFI assurance.

Towards reliable non-financial information across Europe Factsheet (Accountancy Europe, 2020e) focuses on the transposition of NFRD into 26 European countries' national laws as regards the required assurance process, as well as voluntary assurance practice beyond legal requirements (see Section 2.5)

Setting up for high-quality non-financial information assurance in Europe (Accountancy Europe, 2020d) discusses conditions needed to provide high-quality and consistent EER assurance in Europe, asks for a clear definition of the key terms, suggests that the level of EER assurance should be the same as for financial information, professional standards should apply to all assurance service providers and definitions used in the EU legislation, and standards should be aligned (see Section 2.5)

EC's consultation on the Non-Financial Reporting Directive revision (Accountancy Europe, 2020b) supports corporate reporting that connects financial and NFI. The organization advocates for strengthening NFI assurance requirements.

IAASB's consultation on proposed guidance: extended external reporting (EER) assurance (Accountancy Europe, 2020c) raises issues which concern clarifying certain matters that are not aligned with ISAE 3000 or inappropriately go beyond the standard. The guidance is considered beneficial for educational purposes and for assurance providers who are relatively new to the area.

APPENDIX 3

1 | Timeline of IAASB initiatives and publications on EER assurance

2003 (approved). Implementation year 2005. ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information

First standard issued by IAASB, which establishes requirements and provides application and other explanatory material for undertaking and reporting on assurance engagements other than audits or reviews of historical financial information. Serves as an umbrella standard for a number of other ISAEs, which cover more specific subject matter information, meaning all ISAE audits are to be in accordance with ISAE 3000.

2012 (approved). Implementation year 2015. ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information (IAASB, 2011)

IAASB revised ISAE 3000 after 10 years of experience to incorporate enhanced requirements and guidance to address concerns raised by stakeholders and adopt the clarity drafting conventions (used to redraft the International Standards on Auditing (ISAs)).

2014. Establishment of Integrated Reporting Working Group (IRWG), later renamed EER Working Group. (IAASB IRWG, 2014)

IAASB tasked a working group to monitor developing interest in and demand for assurance over EER, and develop initial thinking on nature of such assurance engagements, the scope of the subject matter information and the suitability of criteria.

2015. Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting
IAASB intended for the publication to inform stakeholders of the ongoing work undertaken by the Board to explore issues on the assurance of <IR> highlighted by the IIRC's DPs.

2016. Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements (IAASB, 2016)

The DP specified principal findings from research and outreach on developments in emerging forms of EER frameworks and professional services. Ten key challenges were identified as specified in Section 2.4.

October 2017. Approval of project proposal on EER Assurance and development of EER Task force (IAASB, 2017)

In response to comments received on the 2016 DP, IAASB approved an EER assurance project proposal and established the EER Task Force. The project scope was to develop non-authoritative guidance, rather than new or modified IAASB standards.

February 2019. Issuance of Consultation Paper. Extended External Reporting Assurance (IAASB, 2018b, 2019)
IAASB issued the exposure draft to provide guidance on five key challenges: Making materiality judgments; Maturity of governance and internal control over EER processes; Evaluating the suitability of criteria; Building assertions; and Working with narrative and future-oriented information.

March 2020. Release of Draft Guidance. Extended External Reporting (EER) Assurance
IAASB released draft guidance to assist assurance providers in applying ISAE 3000 to EER engagements. The guidance was discussed by Grabowski in Section 2.4

March 2021. Anticipated approval of Guidance on EER Assurance.

IAASB is expected to approve the Guidance on EER Assurance in early 2021.