

Environment, social, and governance considerations: Corporate reporting and assurance basics

Market participants and broader stakeholders are calling for greater insight into corporate performance, specifically demanding enhanced transparency around environmental, social, and governance (ESG) impacts and dependencies of a company's business model and strategy.

Climate-related risks and opportunities in particular have become a central focus of investors, policy makers, and regulators, given the breadth and depth of potential impacts on many industries. Climate-related risks can be pervasive to an organization, including implications to its business model (e.g., operations, processes, and external reporting) and its ability to raise capital and attract investors, talent, and customers.

ESG information helps stakeholders understand:

- **Enterprise value creation**, to gain insights into the resilience of companies' business models and supply chains, as well as the broader risks they face.
- **Sustainable development**, to understand the impact companies have on people, profit, the planet and their contributions to achieving the [Sustainable Development Goals](#) (SDGs) set out by the United Nations.

As a result, investors and other users of corporate information are increasingly demanding comparable and reliable ESG reporting from companies. Deloitte is proactively working with key stakeholders in the financial/corporate reporting ecosystem to advance high-quality, transparent, relevant, comparable, timely ESG disclosures to accelerate more systematic integration of relevant ESG factors into mainstream financial reporting.

There are a range of considerations for both companies and auditors as outlined in this document.

Financial reporting and audits of financial statements

Companies

Corporate information is interdependent and interconnected. ESG-related information often has impacts on financial reporting—whether through financial statements or separate ESG-related financial disclosures. One cannot evaluate financial statements in a vacuum without taking ESG financial implications into account.

For example, imagine that a company commits to adhere to the tenets of the Paris Agreement or makes a Net Zero commitment, and doing so requires the company to evaluate useful lives of assets, research and developed (R&D) spend, impairment considerations, etc. If the company fails to evaluate the assumptions in its accounting estimates in light of its stated Paris Agreement commitment, investors could make investment decisions based on inaccurate information as to the company's financial position.

IFRS states: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that ... investors make on the basis of those financial statements.¹

¹ [Effects of climate related matters on financial statements \(ifrs.org\)](#)

Auditors

Companies follow financial reporting standards such as the International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP). Auditors follow auditing standards such as those established by the International Auditing and Assurance Standards Board (IAASB), International Standards on Auditing (ISA), and Public Company Accounting Oversight Board (PCAOB). These standards require auditors to identify and assess the risks of material misstatement in the financial statements of the companies they audit and design and perform audit procedures responsive to those risks.

Some audit standard-setters such as IAASB issued clarifying guidance in certain ESG-related areas². For example, depending on the facts and circumstances of an entity, climate-related events or conditions may contribute to the susceptibility of certain accounts and disclosures in an entity's financial statements to be materially misstated.

Deloitte is taking the following steps to promote focus on the ESGs during the audit process, specifically around climate-related matters

- Increasing awareness among Deloitte professionals of the potential financial impacts (accounting and auditing) of ESG reporting and climate matters through guidance, tools, templates, learning, and leading practices (including industry-specific elements).
- Considering the many potential ways that technology can be applied to support the audit process and deliver more robust outcomes (e.g., using Deloitte audit platforms such as Deloitte Omnia and the related tools and leveraging Deloitte specialists from within our multidisciplinary talent model).
- Deploying other initiatives with the objectives of delivering audit quality today—in the context of evolving ESG-related risks, similar to how Deloitte evaluates other relevant risks as part of the audit process.

Deloitte, in its role as independent auditor, remains focused on discharging its professional obligations and complying with all professional standards. Financial statement audits continue to be a cornerstone of the Deloitte brand.

ESG reporting and related assurance

Companies

Over time, many organizations have developed standards, metrics, and measurements for various components of ESG matters for use by companies. Standards such as those established by the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) are well-known. However, currently there is no global enforcement mechanism or assurance requirements for consistent adherence or adoption.

Deloitte supports the International Financial Reporting Standards Foundation's (IFRSF) proposal to establish a Sustainability Standards Board (SSB) alongside the International Accounting Standards Board and under the governance and oversight of the IFRSF that would provide standards for use by organizations globally.

The IFRSF has confirmed that the new SSB would build on what is already well established, including by the five leading sustainability bodies including CDP, CDSB (Climate Disclosure Standards Board), GRI, IIRC (International Integrated Reporting Council), and SASB.

As it relates to climate, a [prototype climate-related financial disclosure standard](#) was published jointly by CDP, CDSB, GRI, IIRC, and SASB in December 2020, facilitated by Deloitte, the World Economic Forum (WEF), and the Impact Management Project. IFRSF has confirmed that the SSB will consider the prototype climate-related financial disclosure standard as a 'potential basis' for developing standards. To this end, it has set up a working group to include sustainability initiatives that focus on enterprise value creation, including CDSB, IIRC, and SASB, together with International Accounting Standards Board (IASB), TCFD³ and WEF⁴.

² <https://www.iaasb.org/publications/consideration-climate-related-risks-audit-financial-statement>

³ The Task Force on Climate-Related Financial Disclosures (TCFD)'s recommendations are not a corporate reporting standard. It is expected that TCFD will be brought into a standard under the proposals by the SSB. TCFD disclosures today encourage greater transparency and corporate action in relation to climate-related issues. A future standard can deliver the consistent and comparable information that the capital markets need.

⁴ In 2020, the WEF International Business Council (IBC) initiative developed [a core set of 21 universal, comparable disclosures](#) that companies can report on regardless of industry or region. This project responds to the recognition by business that it has a wider responsibility to its stakeholders. The Big Four networks, including Deloitte, provided significant contribution to the WEF IBC efforts.

Some geographies, such as the US, are proactively taking steps to contribute to the advancement of ESG-related disclosure. In March 2021, the US Securities and Exchange Commission (SEC) asked for [public input](#) on climate change disclosures. Another example is the European Commission, which published a [proposal for legislation](#) requiring large companies to report on sustainability matters in April 2021.

Deloitte believes that global standards can provide a consistent and comparable baseline of information reported to capital markets by companies. This enable comparability of corporate disclosures in all jurisdictions that can be supplemented with additional requirements to reflect particular jurisdictional public policy priorities, subject to applicable laws and regulations.

Auditors⁵

It is important that publicly disclosed ESG information is credible and well-supported. *Assurance provides a greater confidence in ESG information.*

ESG reporting may include both qualitative disclosures and quantitative metrics. Although ESG-related matters may impact financial statements, assurance on standalone ESG-related disclosures and information is not currently part of a financial statement audit. Obtaining assurance on standalone ESG disclosures is an additional step, under an effective governance structure, that many organizations elect to provide additional confidence in broader corporate disclosures beyond the financial statement audit. [International Standard on Assurance Engagements \(ISAE\) 3000 \(Revised\)](#), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, provides requirements and application material for assurance engagements other than audits or reviews of financial statements.

Current global standards ⁶ :	Corporate reporting standards	Auditing and assurance standards
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Financial reporting	IFRS, US GAAP	ISA standards issued by IAASB, PCAOB
ESG reporting	Existing standards include GRI, SASB; proposal to establish a global Sustainability Standards Board (SSB) to provide global baseline that will lead to consistent and comparable information	Existing standards include ISAE 3000 (Revised), attestation standards established by the American Institute of Certified Public Accountants (AICPA); these may need to evolve as SSB standards are developed

Examples (not all inclusive):

- In 2019, 90% of S&P 500 Index companies published sustainability/responsibility [reports](#), where 29% of reporters received external assurance.
- [The Brydon Review \(UK\) report](#) includes a number of recommendations for the future of audit and the profession, and also includes references to climate change. For example, climate change is referenced as a topic that may be considered as part of a “resilience statement,” or as an area about which directors may choose to seek further assurance.
- The European Commission’s [proposal](#) for a corporate sustainability reporting directive, which integrates the recommendations of TCFD, among others, includes requirements for assurance of the information reported by companies.
- The International Federation of Accountants ([IFAC stated](#)) that financial auditors including statutory auditors and independent practitioners working in an accountancy firm, are well-placed to deliver high quality integrated reporting assurance given their assurance skillset, experience in financial audit and professional scepticism and judgment.
- The US Center for Audit Quality (CAQ) in its [paper](#) titled, *The Role of Auditors in Company Prepared ESG Information: Present and Future*, stated that “although assurance over ESG information is not required, leading ESG raters, rankers, and data providers assign a greater value to ESG information that has been assured. Trust and confidence in the information companies disclose are essential to a healthy economy; an independent assessment of that information can contribute to its reliability.”
- The [white paper](#) by World Economic Forum, states “The metrics should be capable of verification and assurance, to enhance transparency and alignment among corporations, investors and all stakeholders”.

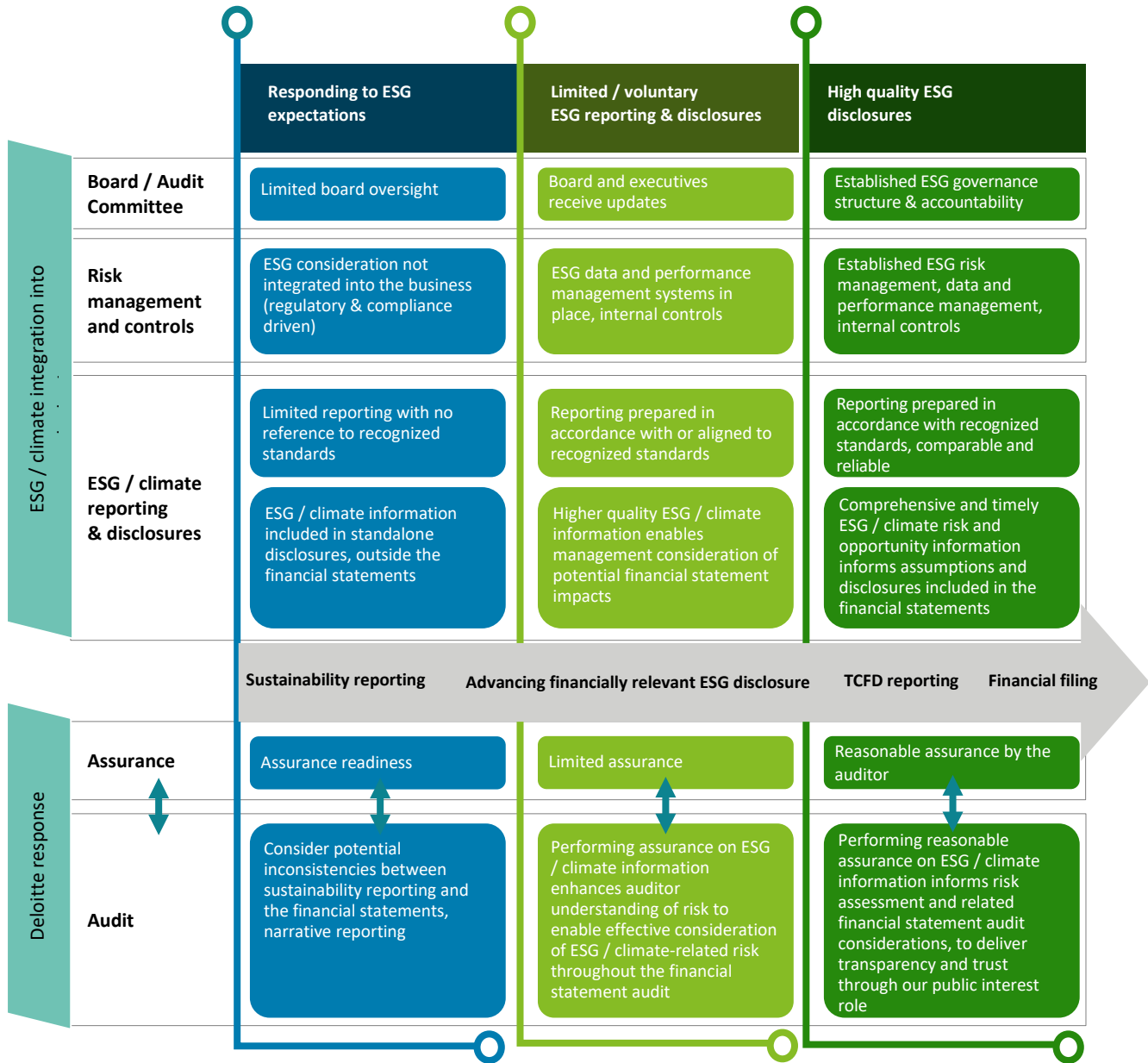
Under ISAE 3000, there are two different types of assurance—**limited** and **reasonable**. Both reasonable and

⁵ The ISAE 3000 is based on the premise that in addition to auditors, a competent practitioner other than a professional accountant in public practice can provide assurance services on ESG information. However, the individual would have to follow equivalent independence and systems of quality controls standards as required by ISQC 1 (prior to ISQM1 becoming effective).

⁶ Other local frameworks may be in place.

limited assurance engagements involve the evaluation of information by practitioners as it relates to companies' processes and systems.

It is important for users of the ESG information to clearly understand the level of assurance that has been assigned to the information (please refer to **Appendix A**).



Can ESG information be assured under ISAE 3000 (Revised) currently?

Yes. In parallel with moves toward the establishment of the SSB (governed by the IFRSF) to develop globally consistent corporate reporting standards, companies and auditors can also provide leadership. In order to provide assurance services on ESG information, the auditor must be independent. Such services are typically permissible, meaning that they can be provided by the existing statutory auditors of the company (subject to certain local laws and regulations).

However, such assurance engagements should only be undertaken where suitable and available criteria have been established. Some ESG reporting areas are viewed as more mature and “ready” for assurance. For example, GRI and SASB are organizations that have produced standards by the same name that provide the basis for suitable criteria. Another helpful resource is the [ESG reporting and attestation: A roadmap for audit practitioners](#) issued by the Center for Audit Quality (CAQ) that provides examples as to how to evaluate suitability

However, it is harder to establish criteria in some areas of reporting than for others. For example, it is difficult today to evaluate items such as “robustness of the business strategy” as there are no well-defined criteria against which to measure information about a business strategy. Stated plainly, *What makes a business strategy robust?* Credibly answering this question in a way that can be presented consistently, enabling comparison of the same information between entities and jurisdictions, requires consistent criteria and standards.

Appendix A provides more detail on the types of assurance engagements that can be provided under ISAE 3000 (Revised).

Assurance, and the confidence and trust it instills, requires specific pre-conditions to be in place. In other words, the whole financial reporting ecosystem participates in producing useful, reliable, credible, relevant ESG-related disclosures. Since auditors are required to apply professional standards, standard setters are in a position that essentially governs the speed of the ecosystem's move toward the kind of assurance the market is requesting.

1. ISAE 3000 (Revised) requires establishing that certain preconditions are present prior to performing an assurance engagement, including ESG information that is identifiable and capable of consistent measurement or evaluation against suitable and available criteria.
2. Companies' underlying records should integrate strong internal control principles and mechanisms with the appropriate oversight by those charged with governance to form the basis for reliable ESG data.
3. Those charged with governance (e.g., Audit Committees, Boards) will need to incorporate ESG considerations in their oversight responsibilities of companies' management—companies' readiness, companies' management skillsets, and implementation of processes and controls to collect data.
4. Further, assurance standards and regulatory oversight that evolve with stakeholder expectations for corporate reporting are critical to supporting auditors as they work to meet the needs of capital markets and serve the public interest.

Deloitte is also taking the following steps (this list is not all-inclusive):

- Refreshing Deloitte's existing Global Sustainability Assurance Methodology and learning programs to improve the quality and consistency of sustainability assurance engagements around the world.
- To the extent permitted by the independence rules, offering assurance and advisory services, including assurance readiness.
- Exploring considerations for preparing the audit profession for a dynamic future.

While the first two aims are likely to be sufficiently addressed by the existing audit and assurance standards frameworks, it is unlikely that the third objective can be fully achieved without the contributions of standard-setters and collaboration and harmonization with other financial reporting ecosystem participants.

Who can provide ESG assurance?

Deloitte believes that there is a benefit of ESG assurance being provided by an audit firm. *Objectivity, credibility, and integrity are qualities valued most in assurance providers**. These are in addition to independence, professional skepticism, commitment to quality, and appropriate training that are equally critical. All of these are covered under the typical infrastructure of audit firms and will be further reinforced with the adoption of ISQM 1, which becomes effective in December 2022.

A further benefit arises from ESG information being highly interconnected with financial reporting. For example, knowledge obtained from financial statement audits, including internal controls, may be beneficial in planning the ESG assurance procedures (e.g., auditor understanding of the business holistically across all of an organization's functions, its industry, market forces, and why certain sustainability metrics are important financially as well as from a risk perspective).

* [AICPA and GRI Assurance FAQs](#)

Conclusions

While significant progress is being made to address stakeholder needs for new and additional information about how companies create value and contribute to sustainable development, significant work remains to ensure that investors and the market participants receive consistent, comparable, and reliable information upon which to make decisions.

Deloitte supports the continued collaboration of all participants in the financial reporting ecosystem, working together to develop and implement common standards upon which to measure, disclose, and ultimately assure ESG information.

Appendix A

Assurance engagements under ISAE 3000 (Revised) ⁷		
	Reasonable Assurance	Limited Assurance
Applicable professional standards ⁸	International Auditing and Assurance Standards Board International Standard on Assurance Engagements (ISAE) 3000 (Revised), <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> .	
Independence requirements	Deloitte is required to comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other professional requirements. The Code applies to professionals regardless of which type of assurance they are engaged to provide.	
Description of the engagement	<p>The practitioner obtains the same level of assurance as in a financial statement audit by obtaining sufficient appropriate evidence.</p> <p>A reasonable assurance engagement is one in which the practitioner reduces engagement risk to an acceptably low level as the basis for the practitioner’s conclusion.</p> <p>A reasonable assurance engagement involves:</p> <ul style="list-style-type: none"> identifying and assessing the risks of material misstatement in the subject matter information; designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s conclusion; and evaluating the sufficiency and appropriateness of the evidence obtained in the context of the engagement. 	<p>Limited assurance engagements result in a level of assurance that is not as robust as that of a reasonable assurance engagement.</p> <p>A limited assurance engagement is one in which the practitioner reduces engagement risk to a level that is acceptable, but where that risk is greater than for a reasonable assurance engagement.</p> <p>The nature, timing and extent of procedures performed in a limited assurance engagement are limited compared to that necessary for a reasonable assurance engagement, and yet are planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful.</p> <p>To be “meaningful,” the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.</p>
Elements of an assurance engagement	<p>All assurance engagements feature at least three separate parties: the practitioner, the responsible party and the intended users. Depending on the engagement circumstances, there may also be additional parties involved.</p> <p>An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria.</p>	

⁷ Other national assurance standards may apply based on jurisdiction. For example, in the US the Statements on Standards for Attestation Engagements established by the American Institute of Certified Public Accountants apply.

⁸ Other ISAEs may apply depending on the subject. For example, ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, also applies when the subject matter information is Greenhouse Gas emissions Statement.

Assurance engagements under ISAE 3000 (Revised) ⁷		
	Reasonable Assurance	Limited Assurance
	<p>Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without a frame of reference provided by suitable criteria, any conclusion is vulnerable to individual interpretation and, therefore, misunderstanding. Suitable criteria exhibit the following characteristics: relevance, completeness, reliability, neutrality, and understandability; and they need to be available to the intended users of the report.</p>	
	<p>Assurance engagements are planned and performed with an attitude of professional skepticism to obtain sufficient appropriate evidence in the context of the engagement about the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. Professional judgment is applied when considering materiality, engagement risk, and the quantity and quality of available evidence when planning and performing the engagement; and in particular when determining the nature, timing and extent of procedures.</p>	
	<p>A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement (see below).</p>	
Reporting	<p>The practitioner’s conclusion is expressed in a form that conveys that practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.</p> <p>An informative summary of the work performed as the basis for the practitioner’s conclusion is part of an assurance report.</p> <p>Reasonable assurance conclusions are expressed in a positive form. For example: In our opinion the Entity’s <i>[identify the subject matter information]</i> for the year ended <i>Day Month, 20XX</i> is prepared, in all material respects, in accordance with the <i>[identify the suitable and available criteria]</i>.</p>	<p>The report is intended to enhance the degree of confidence that intended users can place on the subject matter, but not to the degree of a reasonable assurance.</p> <p>An informative summary of the work performed as the basis for the practitioner’s conclusion is included in the assurance report. In a limited assurance engagement, the summary of the work performed is ordinarily more detailed than for reasonable assurance engagement and identifies the limitations on the nature, timing and extent of the procedures.</p> <p>Limited assurance conclusions are framed in a negative manner. For example: Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Entity’s <i>[identify the subject matter information]</i> for the year ended <i>Day Month, 20XX</i> is not prepared, in all material respects, in accordance with the <i>[identify the suitable and available criteria]</i>.</p>

Connect with us and learn more

If you would like to discuss this topic further, please contact

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Other helpful resources:

- [Assurance standards keeping pace on non-financial reporting](#) – article by IAASB Chair, March 2021
- [ESG reporting and attestation: A roadmap for audit practitioners](#) – Center for Audit Quality (CAQ), February 2021
- [Accelerating Integrated Reporting Assurance in the Public Interest](#) – International Federation of Accountants (IFAC), February 2021
- [Frequently asked questions on external assurance of sustainability reporting](#) – American Institute of Certified Public Accountants (AICPA) September 2020

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