

Sustainability Assurance Standards: Two Disappointments for Users in ISSA 5000 Exposure Draft

Maybe OK for Auditors. For Users? Not So Much.

By Douglas Hileman, FSA, CRMA, CPEA

The International Auditing and Assurance Standards Board issued an exposure draft of General Requirements for Sustainability Assurance Engagements – International Standard on Sustainability Assurance (ISSA) 5000, inviting comments by December 1, 2023. Douglas Hileman Consulting LLC (DHC) submitted comments, with two topics of interest to preparers and users of these reports.



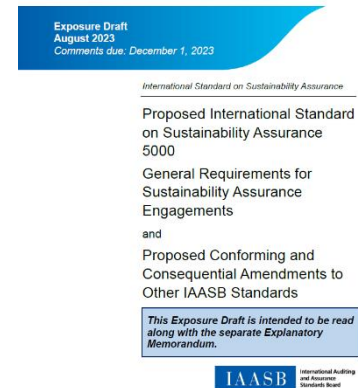
Why the push for assurance standards?

Sustainability reports have been around for over 25 years. Sustainability factors affect companies' prospects for obtaining capital, delivering financial performance, as well as their effect on the environment and society. They have matured over the years. Even so, the scope, content, metrics, and rigor leave much to be desired by users – notably investors. Some regulations, including the EU's Sustainability Reporting Standards (ESRS) and California's SB 253 (disclosure of greenhouse gas emissions) will require external assurance within a few years.

What were DHC's key issues with the exposure draft?

I've led and supported many assurance engagements on Sustainability content, but I am not a CPA. I consider not only how the effort is done, but the effort required of the preparers (e.g., the companies preparing the Sustainability report and disclosures) and the users (anyone reading/ using Sustainability information).

- **Users will not find the assurance reports helpful.** The exposure draft includes considerable focus on quality management; documentation; communications; planning; evidence; risk procedures; evaluation; forming conclusions, etc. All the "behind the scenes" stuff that is already familiar to assurance providers. The report would [to oversimplify] dutifully indicate the assurance provider followed methodology, and our opinion is [insert here]. Reports would not indicate scope, exceptions, target areas for procedures, what was done, exceptions or gaps found, or recommended actions.





If one looks at assurance reports in financial filings, they quickly begin to look all the same. The principles and fundamentals for financial reporting are well-developed. Although rules vary from one jurisdiction to another, there is a longstanding common language. It is understood by investors, analysts, and other primary users of financial statements and disclosures.

Sustainability reporting is not to this level of maturity. There are scores of disclosure topics demanded by different stakeholder groups – including common investors, impact investors, other providers of

capitals, and business partners. The disclosure topics vary by industry, and they continue to evolve. Scope limitations are a reality. But a standard assurance report with standard content and signature poses the risk of becoming boilerplate, with the inferred message of “trust us.” When the Sustainability failure occurs (and it will), this puts both the company and practitioner on the defensive. DHC suggested that all Sustainability assurance reports follow a model similar to GAO reports.

✓ *Followed our standards*
✓ *Everything OK!*
✓ *Nothing else to see here*



➤ **Context and transparency:** Users would not have some information that could limit their trust in the sustainability assurance reports. For example, is the assurance provider also the financial auditor? Do they provide other audit, tax, management, or other technical consulting services? Accounting firms are one logical choice for assurance engagements, but they are not the only option.

One key reason for the downfall of Enron was that the external financial auditor also provided advisory services; the revenues from advisory services far exceeded those from the financial audit. This created independence problems, and created incentives that did not serve the interest of those relying on assurance of financial statements. Sarbanes-Oxley allows financial auditors to provide non-audit services under certain circumstances. The engagements must be approved under governance arrangements at the company (often the Board). Every U.S. public company is required to disclose the fees paid to their independent auditor for the audit of their financial statements, as well as audit-related, tax and “other” fees.



Users of Sustainability assurance reports should have similar information. Furthermore, they should not have to hunt through financial filings, Board statements or company websites to find it. It should be included in the Sustainability assurance report itself. DHC suggests the report should include information such as: whether the practitioner is also the financial auditor; the number of years the practitioner has performed Sustainability assurance for the entity; the fees paid for the Sustainability assurance engagement; whether the practitioner has performed other services related to Sustainability (and if so, a general description of the services and the fees paid) during the reporting period and two prior reporting periods.



Aren't there standards now? There are. ISAAB – the same organization that published the exposure draft of ISSA 5000 – published ISAE 3000, a standard for Assurance Engagements Other than Audits or Reviews of Historical Financial Information¹. These were published in December 2013. ISAE 3000 provides for two types of reports. A Type 1 report provides assurance on the suitability of design and *existence* of controls. Type 2 goes further, providing assurance on suitability of design, *existence and operational effectiveness* [emphasis added]. To simplify, Type 1 confirms the design of controls² are suitable; Type 2 confirms that they are working as intended.

This is a little meta, but who watches over the assurance providers? This is a great question, and another parallel to historic gaps in the financial auditing world. In the wake of the Enron and WorldCom accounting/ auditing scandals, Sarbanes-Oxley created the Public Company Accounting Oversight Board – an entity to audit the [financial] auditors. DHC is not aware of an entity that does the same thing for Sustainability audits, let alone for Sustainability assurance practitioners. Absent an oversight entity with authority and competence, this is another reason for Sustainability assurance reports to include more content. Preparers are expected to be transparent in their Sustainability reporting to enable users to make informed decisions; shouldn't the Sustainability assurance practitioners follow suit?

¹ See <https://www.ifac.org/flysystem/azure-private/publications/files/ISAE%203000%20Revised%20-%20for%20IAASB.pdf>.

² DHC encourages readers to read COSO's important supplemental guidance "Achieving Effective Internal Control over Sustainability Reporting (ICSR)", released March 2023. This document shows how the COSO Internal Controls Integrated Framework – standard for designing and evaluating internal controls over *financial* reporting – can be applied to *Sustainability* reporting. Douglas Hileman is an author of this document. This guidance is available at no charge; there is a link to the document at www.douglashileman.com and on the COSO website.



About Douglas Hileman Consulting LLC



Douglas Hileman helps clients with Sustainability compliance, risk, programs, reporting and disclosures and audits. He is an author of COSO's supplemental guidance "Achieving Effective Internal Control over Sustainability reporting (ICSR)", which has taken the accounting and audit community by storm. He is the only non-CPA and only ESG specialist on the author team. He has over four decades of experience in operations, corporate, management consulting, Big 4 firm experience (including during early Sarbanes-Oxley years), and with his consultancy. He was on the Volkswagen Monitor Team for three years, as the senior environmental management/ auditing specialist, working on behalf of the DOJ. He is in demand for training, workshops, and presentations at conferences. One distinction is his ability to bridge the gap between traditional financial reporting professionals (Accounting, Internal Audit, Finance) and functions responsible for much of the Sustainability data and information (Environmental, HR, IT, Operations, Procurement, Real Estate, etc.). More at www.douglashileman.com.

