
ESG Assurance: The next best practice for achieving competitive advantage

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Assurance is a third party process of ensuring that a company's sustainability report meets certain standards. Therefore ensuring that what they say is true. Independent Sustainability Report Assurance ensures that a company's report follows certain standards and can provide assurance about its credibility. This builds more confidence between stakeholders and companies using the information within the report.

An organization that carries out an assurance process on its sustainability information/report by an independent agency or professional demonstrates greater commitment to sustainability.

Stages of Assurance

The World Business Council for Sustainable Development has prepared a maturity model to guide the reporters navigate their Assurance journey.

The purpose of the Assurance Maturity Model is to help those who seek assurance services understand where they are, where they want to go, and how they can generate value through continuous improvement.

The model consists of three stages:

Stage 1 – Responsive

Reporters are generally aware of the external assurance requirements, market mechanisms, outside pressures and expectations, and seek limited assurance on data or a few KPIs in response. The focus is on building their reputation.

In this situation, companies may eventually be encouraged to seek enhancement to their sustainability assurance approach and be more in line with the latter stages of the journey in order to differentiate themselves in the marketplace.

Stage 2 – Enhanced

Reporters entering this stage seek external assurance at a limited or reasonable assurance level on material disclosures and potentially the reporting process. The goal here is often to develop or enhance internal control and data collection with the objective of improving sustainability performance. Reporters begin to enhance their performance for their own benefit and not just in response to the external pressures.

Stage 3 – Leveraged

Reporters here strive to achieve a competitive advantage by using various strategies and enhancing transparency and reliability through assurance. They often seek assurance on that the full report meets the generally accepted principles including balance and materiality. They work closely with the internal auditors to obtain assurance on the accuracy of the information.

Scope of Assurance

The scope of independent assurance obtained is either:

- Limited assurance – e.g. the opinion provided on a half-year review of financial statements is an example of a limited assurance; or
- Reasonable assurance – e.g. the opinion provided for an audit of financial statements is an example of a reasonable assurance conclusion.

Assurance over material ESG disclosures provides multiple benefits to both the company and its key stakeholders, including:

1. Enhanced credibility over the accuracy and veracity of what is being reported;
2. Driving the organization to improve and enhance internal processes and controls over the collation and reporting of ESG data;
3. Allows a company to benchmark their disclosures to best practice and enhance the overall quality of non-financial reporting that is of critical importance to stakeholders; and
4. Enables a company to prepare for the mandatory ESG reporting obligations coming into effect in the next 2-3 years.

Demand for Assurance

Globally, there is an increasing demand for environmental, social and governance information by investors and stakeholders who pursue long-term investment in sustainable and socially responsible companies.

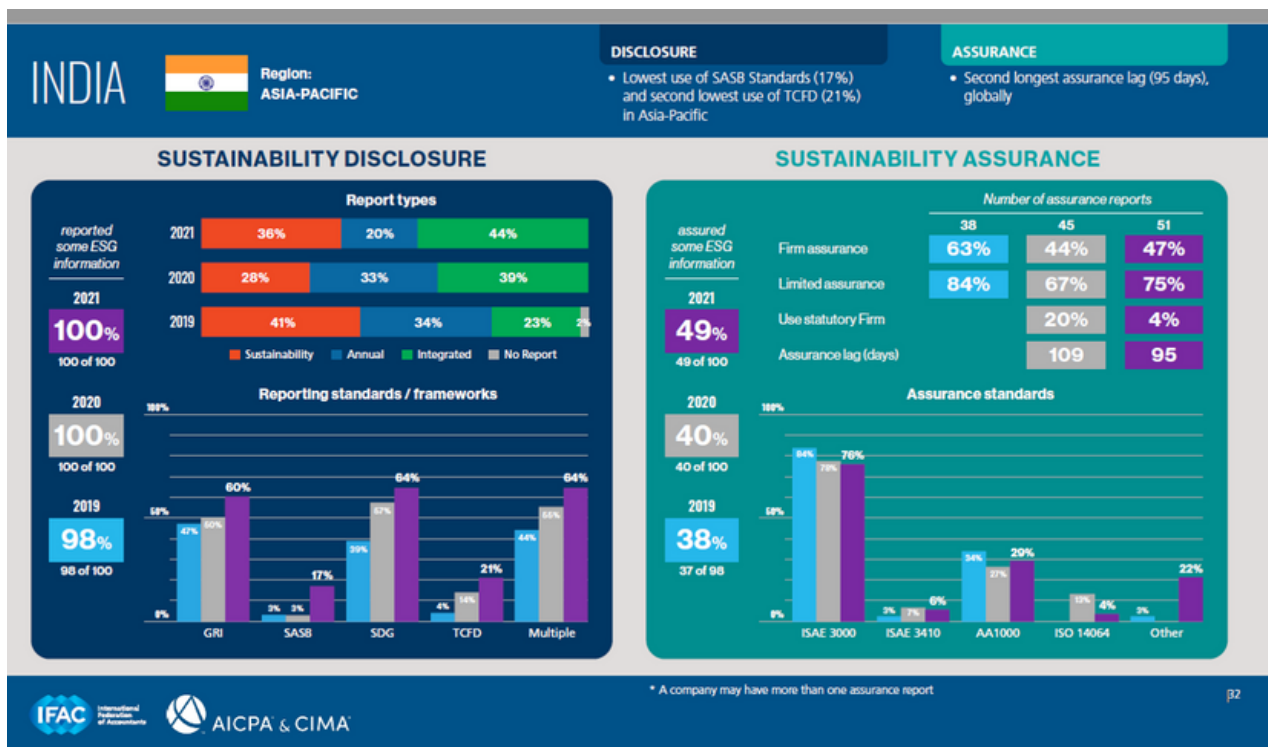
Many entities are reporting their sustainability performance for internal management purposes and are making external disclosure to various stakeholders, by preparing reports such as:

- Business Responsibility and Sustainability Reporting (BRSR)
- Sustainability/ ESG Report
- Integrated Report
- Task Force on Climate-Related Financial Disclosures (TCFD) Report
- Other reports as per global/ local sustainability standards

The escalating demand for companies to disclose their environmental, social and governance (ESG) actions - and the corresponding increase in green washing - has fuelled a need for independent, third-party assurance.

Figures published in June 2021 by the International Federation of Accountants (IFAC) showed that 91% of organizations reported some form of sustainability information. However, to be effective in terms of investor engagement, this information needs to come with assurance, and only 51% of those organizations provided this for their disclosures.

Recent Scenario of Assurance in India



ESG Assurance requirement by SEBI (proposed)

As SEBI has mandated the top 1,000 listed companies in India by market capitalization to file Business Responsibility and Sustainability Reporting (BRSR) starting in FY23. In FY22, over 175 companies voluntarily reported on the BRSR framework.

To achieve the two circular goals of improving credibility and lowering compliance costs, SEBI developed BRSR Core for reasonable assurance, which consisted of choosing Key Performance Indicators (KPIs) under each E, S, and G area that needs to be reasonably assured. The BRSR Core framework also specifies the methodology for corporate reporting and data verification by an assurance provider.

BRSR Core Assurance Time Line

SEBI has proposed a directional path approach that provides reasonable assurance that KPIs in BRSR Core can be mandated gradually. SEBI has made BRSR reporting mandatory for the top 1,000 companies in FY23, with no mandatory requirements in the assurance area. For FY24, SEBI has proposed making reasonable assurance in BRSR Core mandatory for the top 250 companies, top 500 firms, and top 1,000 firms from 2024-25 and 2025-26, respectively.

BRSR Core Parameters proposed to be assured

Environment

1. Change in GHG footprint
2. Change in water footprint
3. Investing in reducing its environmental footprint
4. Embracing circularity - details related to waste management by the entity

Social

1. Enhancing Employee Wellbeing and Safety
2. Enabling Gender Diversity in Business
3. Enabling Inclusive Development

Governance

1. Fairness in Engaging with Customers and Suppliers
2. Open-ness of business
play a role in building confidence with investors

Key considerations for ESG Assurance Preparedness

- Track the KPIs

Companies should identify the material KPIs as specified in the BRSR framework and assess whether they are supported by robust internal processes over their completeness and accuracy.

- Pre –assurance/readiness assessment

Consider undertaking a pre-assurance/readiness assessment before first publication of any assurance report. Pre-assurance are helpful to identify gaps and limit the costs of an assurance engagement or risk of getting a qualified assurance option.

- Robust internal control system

A well-established internal audit function is also a component of ensuring reliability of internal systems, processes and controls in accordance with accepted standards and frameworks

- Planning

The execution of the assurance engagement is largely shaped by the scope of assurance, the responsibilities of each party and the access and evidence to be shared with the assurance provider.

The value of assurance for external users

- Increases credibility and reliability of information within the report
- Can potentially improve the perceptions of the reporting company with external stakeholders
- Many rating agencies acknowledge the value added by external assurance
External assurance can play a role in building confidence with investors that information necessary for these decisions is reliable and credible

References

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