

VII.

UNDERSTANDING

ASSURANCE

IN THE ESRS

NOVEMBER 2023

What you will learn:

Assurance can help companies strengthen their reporting on social/human rights issues as well as their underlying management of the related risks. This article looks at the role that assurance providers will have in reviewing the information reported by companies under the European Sustainability Reporting Standards and providing an opinion as to the extent to which users of the information can rely on it in their own decision-making. We highlight some of the implications for companies and for assurance providers of this substantial increase in assurance requirements, and the need for companies, assurance providers, regulators, investors and others to anticipate a learning curve in the early years.

1. WHAT IS ASSURANCE – AND WHAT’S REQUIRED BY THE CSRD?

The CSRD will apply a gradual approach to the assurance of sustainability information, allowing limited assurance for disclosures from 2025, with an expectation of reasonable assurance by 2028.

- **Limited assurance** is expressed in an ‘opinion’ that nothing has come to the assurance provider’s attention that would lead them to conclude that the subject matter is materially misstated.
- **Reasonable assurance** is expressed in a positively framed ‘opinion’ that the subject matter has been prepared in accordance with previously defined criteria.

Financial reporting already requires a reasonable assurance opinion. The stated goal of the CSRD is that sustainability and financial information should have a similar level of assurance. However, it also recognizes that there is currently no commonly agreed standard for the assurance of sustainability reporting, especially with regards to “forward looking and qualitative” disclosures.¹ The sustainability assurance standard now under development by the International Audit and Assurance Standards Board (IAASB)² is likely to become the standard applied to the assurance of ESRS reporting in the future.

While this commonly agreed standard is being developed, provision has been made for companies to obtain a limited assurance opinion covering “the compliance of the sustainability reporting with Union sustainability

reporting standards, the process carried out by the undertaking to identify the information reported pursuant to the sustainability reporting standards and compliance with the requirement to mark up sustainability reporting.”³

Whilst the requirement for reasonable assurance is some way off, companies would be well advised to treat this as their ultimate objective and work towards it over time.

2. WHAT WILL THE ASSURANCE PROVIDER BE LOOKING FOR?

Prior to embarking on the assurance engagement, assurance providers will look at 5 areas:

1. **Scope** – compliance of reporting with the ESRS, company processes to identify reported information, and compliance with mark-up requirements;
2. **Assertions** – the completeness, accuracy and boundaries of the reported disclosures;
3. **Approach** – the processes and controls in place for gathering and ensuring the quality of the sustainability information;
4. **Key impacts, risks and opportunities covered** – that the sustainability disclosures accurately reflect the relevant impacts, risks and opportunities for the company’s operations and value chain, with no material omissions; and,
5. **Evidence** – the type of evidence required to give the opinion; and the suitability of the company’s KPIs for measuring whether current processes are effectively facilitating accurate and complete reporting.

There are several important considerations for both companies and assurance providers as they move towards the assurance of sustainability disclosures under the ESRS.

KEY CONSIDERATIONS FOR COMPANIES

1. Cross-functional collaboration

Preparation for an assurance opinion will vary from one organization to another. Where finance teams are involved in the company’s reporting process, this can bring value given their familiarity with audit and assurance processes and how to prepare information. At the same time, finance teams will need to leverage the knowledge of internal experts in social/human

rights risk management, and their expertise in the information required by sustainability reporting.

With regard to material social impacts, teams will need to ground themselves in the due diligence expectations set out in the international standards on business and human rights: the UN Guiding Principles and OECD Guidelines. These expectations underpin the impact materiality process and other key aspects of social disclosures. In turn, expertise from the finance team can help sustainability experts better understand how to collect and store the necessary data and to build the architecture for the assurance file, processes and controls. Companies can therefore be best prepared for assurance when they integrate teams to enable knowledge sharing and maximize their in-house skills and expertise.

2. Documentation

The appropriate documentation of decisions and processes is critical in gaining an assurance opinion. Disclosure requirement GOV-5 under ESRS 2 specifically requires companies to ‘disclose the main features of [their] risk management and internal control system in relation to the sustainability reporting process.’⁴

Where company decisions regarding sustainability matters are poorly documented it may be impossible for the assurance provider to attain even a limited opinion. It is therefore vital that organisations accurately document both the process they follow to reach the double materiality conclusion and their processes for addressing the material impacts, risks and opportunities on which they will be reporting. The assurance process will look at the company’s methods for collecting, storing and analyzing information regarding these processes. This includes processes for engaging with affected stakeholders and experts.

To ease the assurance process, companies should create an ‘audit file’ of the information to be assured, including documentation of processes and controls.

3. Selection of Assurance Provider

When a company selects an assurance provider, it is vital that they review the provider’s subject matter expertise, including in relation to any human rights issues that are typical to the company’s sector and locations where it sources and operates. This will help ensure the appropriate team is set up for the provision of the assurance opinion. It will also enable the company to learn from the valuable insights that these experts can bring to the organisation, helping strengthen their human rights (and environmental) materiality assessments and disclosures over time. Given the types of social-related information that will need to be assured under the ESRS, companies should also make sure that they allocate adequate time to the assurance process, in

collaboration with the assurance provider.

4. KEY CONSIDERATIONS FOR ASSURANCE PROVIDERS

Expanding competencies and external sources

The CSRD allows companies to select either their existing statutory assurance provider or another sustainability assurance provider to provide the assurance opinion. Statutory assurance providers will often have experience with the assurance of sustainability information, but not with the breadth of social topics covered under the ESRS. Moreover, many jurisdictions have allowed sustainability assurance processes to focus on a limited sub-set of reported information, which typically centres on quantitative, rather than qualitative information. By contrast, the ESRS will require comprehensive assurance.

While assurance providers outside of the professional firms often have particularly deep expertise in the social (largely human rights) impacts and risks covered by the ESRS, they have not generally been required to comply with regulated assurance standards. The forthcoming ISSA 5000 standard being developed by the IAASB is likely to be adopted in the EU for the assurance of sustainability reporting under the ESRS, regardless of whether this is provided by professional firms or other assurance providers.

All assurance providers will therefore need to ensure that they have the appropriate combination of process and subject matter expertise. With regard to social disclosures, this will include a robust understanding of the UN Guiding Principles on Business and Human Rights, including the human rights due diligence process, as well as internationally-recognized human rights standards and human rights impacts most typically relevant to the company's sector, operating and sourcing contexts.

Assurance teams will also need to have the skills – or be ready to involve external experts with the skills – to engage with affected stakeholders or their representatives directly. These groups will be a key source for assurance providers when testing company assertions about both the nature and quality of their stakeholder engagement processes and their implementation of impact mitigation/prevention strategies that affect these groups.

The Assurance Guidance to the UN Guiding Principles Reporting Framework, developed by Shift and Mazars and launched in 2018, specifically addresses the assurance of human rights-related information, which aligns closely with the substance of the ESRS social standards. It sets out key considerations such as the inclusion of human rights expertise, use of third party evidence and stakeholder engagement. The guidance also contains a set of assurance indicators that point to the types of evidence assurance providers will need in order to establish that there is no material misstatement or omission in the

company's disclosures on these issues. This includes disclosures regarding company processes to prioritize human rights impacts, (which set the basis of the impact materiality assessment), to address them and measure the effectiveness of actions taken.⁵

Given the qualitative nature of many human rights-related disclosures, and the probable need to engage with affected stakeholders, the provider should plan adequate time for the assurance process and explain the rationale for this to the company.

5. ASSURANCE OPINIONS

Many components of the sustainability reporting ecosystem are evolving rapidly - from reporting and assurance standards to companies' preparations to meet these standards and the understanding of investors and other stakeholders as to what they require. Companies reporting in the early years of the ESRS will be in a learning process as they begin to gather data they have not previously had to collect and interpret, and as they iteratively strengthen their systems, processes and controls, including for the double materiality assessment.

Given this fast-changing landscape, the nature of the assurance opinion provided may vary significantly. Although it may be as simple as emphasizing matters that the company already reports on (e.g. if the company discloses limitations in its systems, processes and controls or in the data it has been able to collect), even limited assurance opinions in these initial years may be 'modified' in some respect due to the assurance provider not being able to gather sufficient evidence to conclude positively on all areas. The 'modification' could be a 'qualified opinion' when there are specific areas of reported information for which there is insufficient evidence, and these are material but not 'pervasive' to the whole sustainability report. In cases where these are sufficient to be judged 'pervasive' to the whole sustainability report, the assurance provider may look to disclaim their opinion.

As the sustainability reporting ecosystem develops, all parties – including regulators, investors and other interested parties – should view modified opinions as a natural outcome in the short term. It will be important for assurance providers to discuss this reality with their clients and for companies to see this as a valuable part of strengthening their materiality assessments, data gathering and disclosure processes. By disclosing their plans to address any weaknesses that are identified in the early years, companies will demonstrate both their commitment to sustainability and evidence of year-on-year improvement.

ENDNOTES

- 1 60 [EUR-Lex - 32022L2464 - EN - EUR-Lex \(europa.eu\)](#)
- 2 [IAASB-International-Standard-Sustainability-5000-Exposure-Draft_0.pdf \(windows.net\)](#)
- 3 Supra note 1. Auditors will also be required to assess whether the company's reporting complies with the reporting requirements of EU Taxonomy Article : see [FAQ: What is the EU taxonomy and how will it work in practice? \(europa.eu\)](#)
- 4 See https://ec.europa.eu/finance/docs/level-2-measures/csrd-delegated-act-2023-5303-annex-1_en.pdf, p.43
- 5 See sections B2, C4 and C5

UNDERSTANDING ASSURANCE IN THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS

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ABOUT SHIFT

Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. Shift's global team of experts works across all continents and sectors to challenge assumptions, push boundaries, and redefine corporate practice, in order to build a world where business gets done with respect for people's dignity. Shift is a non-profit, mission-driven organization, headquartered in New York City. Visit shiftproject.org and follow us at [@shiftproject](https://twitter.com/shiftproject).

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