A buyer’s guide to assurance on non-financial information
ACKNOWLEDGMENTS:

WBCSD is delighted to partner with the Institute of Chartered Accountants in England and Wales (ICAEW), a world leading professional membership organization that promotes, develops and supports over 181,500 chartered accountants and students worldwide. We extend our sincere thanks to all WBCSD member companies, assurance working group members and ICAEW’s members and the Audit and Assurance Faculty who shared their insights, experience and recommendations throughout the ideation and review process.
Support for the guidance

The demand for reliable non-financial information is on the rise and stakeholders need confidence in the reported information. Furthermore, with this evolution in reporting, companies will increasingly look to assurance providers to provide trust and reliability around entire systems of information used to collect and report data. Yet, they are often confused about what assurance is and how to distinguish between service providers’ offerings. This publication by WBCSD and ICAEW is timely and important because buyers of assurance services must have a clear understanding of the types and process of assurance. We believe the majority of the guide’s concepts are applicable internationally and in the United States, which benefits companies and stakeholders alike.

Barry Melancon, CPA, CGMA
CEO, Association of International Certified Professional Accountants

“I fully support this initiative. In the current environment, it is very important for organizations to provide this broader range of information and, in order to rebuild trust in organizations and society, this information must be seen to be credible. Independent assurance is an important element of these credibility-enhancing procedures and it is important that those purchasing assurance have a clear understanding of the types and process of assurance. I highly recommend this publication to buyers of assurance”

Professor Roger Simnett AO,
Chair and CEO, Australian Auditing and Assurance Standards Board

“FSR - Danish Auditors welcome this new guidance from WBCSD and ICAEW. It is much needed as it serves to help organizations and buyers of assurance understand and select the provisions that best suit their needs. In view of the societal challenges we are facing with climate change, and the momentum we see around sustainable finance, reliable ESG information that can be trusted to inform investment decisions is essential. Assurance is a natural part of the evolution to bring sustainability and ESG information on par with the robust and assured measures we know from financial reporting and assurance.”

Tom Vile Jensen,
COO, FSR - Danish Auditors

“We support this initiative as we recognize how important it is for buyers of assurance to have a clear understanding of what they are purchasing; what they can expect from assurance providers; and what will be required from them during the assurance process.”

Loshni Naidoo,
Project Director: Integrated Reporting, South African Institute of Chartered Accountants
Executive summary

Independent assurance can enhance the credibility of, and trust in, information that organizations disclose in their corporate reports.

By providing external validation of disclosures and of the processes undertaken in producing those disclosures, assurance can increase the confidence of capital providers and other stakeholders using non-financial information to guide their decision-making.

But what is assurance? How does it work? And how is it beneficial to users of non-financial information?

This ‘Buyer’s guide to assurance on non-financial information’ (the guide), written by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) and the World Business Council for Sustainable Development (WBCSD), addresses these questions and brings much needed clarity on a topic that is often perceived as confusing.

For those unfamiliar with the topic of assurance, the first part of the guide explains the concept of assurance, what it means to obtain assurance for non-financial information and how assurance is conducted. In doing so, we address some common misconceptions about assurance and explore the differences between reasonable and limited assurance – an area that can be challenging to understand.

The second part of the guide offers practical guidance, considerations and tips to help organizations assess whether assurance is the right service to meet their needs and to identify and procure assurance services that are ‘fit for purpose’.

While this guide is focused on listed organizations, it can be applied by all organizations worldwide. And although increasing demand for robust and reliable environmental, social and governance (ESG) information has shaped many of the considerations, it can be used in the context of all non-financial information.

Given recent inquiries into the audit profession – following corporate collapses and other examples of perceived audit failure – the timeliness of this publication is clear. Whatever the outcome of these inquiries, ICAEW and WBCSD share the view that assurance will play a more prominent role in the future of corporate reporting.

In the context of these inquiries and the rise in demand for credible ESG and other non-financial information, it is more important than ever that organizations understand what assurance is, the value it can bring to users of non-financial information, and how to procure assurance services that meet the needs of users and the organization itself.

In producing this guide, ICAEW and WBCSD aim to address these specific points and help to ensure that those charged with procuring assurance services are better informed.
Introduction

The purpose of the guide is to explain, in straightforward terminology, what assurance is, how the process of assurance works and what organizations need to consider when seeking to procure assurance services that are ‘fit for purpose.’
WHY DID WE WRITE THE GUIDE?

ICAEW and WBCSD have written this ‘Buyer’s Guide to assurance on non-financial information’ based on insights gained through our work with private sector companies such as WBCSD’s members and other stakeholders worldwide.

Companies have told us that they find the marketplace for assurance services on non-financial information confusing. In particular, they find it challenging to determine what an appropriate cost for assurance is and to discern the quality of one provider compared with another.

There are common misconceptions about assurance, including what the term assurance means, how the types of assurance (reasonable and limited) differ, and what elements of the annual report and other forms of reporting need to be audited or assured, if at all. This was a key finding in a recent series of roundtables with investors, undertaken by PwC and WBCSD, which found these areas of confusion are particularly prevalent in the context of non-financial information.

It is a longheld view of ICAEW’s Audit and Assurance Faculty that greater clarity is needed among organization’s procuring assurance services. They have developed an online resource to raise awareness of these issues. This is consistent with WBCSD’s first assurance project and consistent with the view of national-standard setters who identify a need to explain what assurance is to users of non-financial information.

HOW TO USE THIS DOCUMENT.

The first part of the guide provides an overview of the key concepts and processes common to assurance engagements. Chapters 1-5 have been designed for those new to assurance or looking to confirm their understanding.

Those already familiar with assurance may wish to focus on chapters 6-7, which provide practical guidance to assist those looking to procure assurance.

WHO SHOULD READ IT?

The guide is written with organizations (the buyer) in mind. It may also be helpful to investors and other users of non-financial information.

The ‘buyer’ could be one of a variety of different people within an organization – including management, sustainability, finance and procurement professionals. With this in mind, we have tailored the report and have provided a glossary of technical terms and practical examples to illustrate technical points.

The assurance needs of a publicly listed organization will naturally vary between industries and geographies as well as across unlisted organizations, owner-managed organizations and public sector (government funded) bodies. However, the fundamental principles and the processes that need to be considered remain the same.

While this guide is focused on listed organizations, it can be applied by all organizations worldwide. And although increasing demand for robust and reliable ESG information has shaped many of the considerations, it can be used in the context of all non-financial information.

For the purposes of this guide, non-financial information refers to all information outside of the audited financial statements including, but not limited to, operational and financial key performance indicators (KPIs) and ESG information - whether in the annual report, separate corporate social responsibility reports, sustainability reports or other material information (e.g. company presentations to investors).

Where relevant, we have anchored the discussion in the concepts and principles of the global assurance standards and framework of the International Auditing and Assurance Standards Board (IAASB), rather than other assurance standards such as ISO, AA1000. The guide is not a technical document and should not be used as a substitute for ISAE 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, other IAASB assurance standards, or assurance guidance developed by other standard setters.
Part 1: The concept of assurance
The basics of assurance

In this chapter, we set out the basics of assurance including: what does assurance mean; who might want or require it; and when and why might it be beneficial?
WHAT IS ASSURANCE?

We all use information to help us make our daily decisions, from a customer deciding what to choose from a restaurant menu to a CEO deciding whether to buy a company.

Generally, we assume the information we use to make our decisions is broadly free of errors and can be relied upon. Sometimes, it may be prudent to obtain a third-party, independent opinion to help us decide to what extent the information is reliable. This may especially be the case when information is critical to the decision-making process, and when the credibility of the information is unknown.

For example, a customer may want to look up a restaurant hygiene rating before booking a table. A holidaymaker may search out third-party reviews before choosing their holiday destination. And an investor might want to confirm an organization’s sustainability credentials before deciding to invest.

In each case, the more independent the review and the more expert the reviewer, the more likely the user of the information is to have confidence in the information. A food hygiene rating provided by a government inspector is more likely to give the customer confidence than a handful of anonymous reviews on social media.

Assurance of public information is one of many examples of third-party assessment. It has been described as “the comfort that can be derived from credible information or the level of confidence that can be placed in business information”. An independent assurance opinion can support trust and build confidence in information to support decision-making purposes.

Simply put, the process of providing assurance involves asking an expert to give an independent opinion on a subject, in exchange for a fee. A homebuyer might, for example, pay a surveyor to provide an opinion on the structural integrity of a house before they buy it. In giving this opinion, the surveyor is providing assurance to the homebuyer. Similarly, in the context of this report, an investor may recommend that an organization seeks a third-party opinion (assurance) on the integrity of its externally-reported environmental metrics and targets.

What is common to all forms of assurance is that the expert has undertaken a process and exercised their skills, experience and judgment to arrive at the conclusions they report back to the user of the information.

For the purpose of this guide, we explore assurance in the context of non-financial information. Our focus is on assurance provided by professional assurance providers in accordance with recognized standards, with appropriate quality control procedures to ensure a high-quality assurance process.

Obtaining this assurance can add credibility to the non-financial information and raise the level of confidence the user has in it. It is important to note that the degree of confidence that might be obtained from the assurance provider depends on two inter-related factors: their skills and experience in assurance, and their understanding of the subject matter.

Simple illustration of an assurance engagement on non-financial information

Every year, Organization X publishes a sustainability report explaining how it is performing against a series of sustainability targets, introduced three years ago.

To enhance stakeholder confidence (including among investors, customers and employees) in the information contained in the report, Organization X decides to engage an assurance provider to assure selected information disclosed in the report.

Organization X is aware that energy efficiency and health and safety are the issues that matter most to the users of the report. It therefore requests assurance for its disclosed performance in those areas, including selected KPIs, as opposed to obtaining assurance of the entirety of information disclosed in the report.

The assurance provider performs a range of procedures on the information related to the selected KPIs and forms a conclusion about the reliability of the disclosed performance.

This conclusion is communicated to the users of the report in writing.
**Myth-busting: Assurance is not insurance**

There are misconceptions about assurance being a form of ‘insurance’ – that the assurance provider is offering some ‘guarantee’ of the information that has been assured. This is not the case. The responsibility for ensuring reported information is relevant and reliable rests solely with management of the organization procuring the assurance. Obtaining assurance does not shift management’s responsibilities on to the assurance provider. In the first instance, management should be able to demonstrate to the board that it has confidence in the information being reported.

**WHY MIGHT ASSURANCE BE NEEDED?**

There are many reasons why an organization may want or need to provide assurance on its non-financial information. Some common reasons are outlined below.

**A legal requirement**

There may be a legal requirement to have non-financial information assured. For example, under EU Directive (2014/95/EU), large public-interest entities are required to prepare a non-financial information statement and to report on various matters, including: the impact of their operations and policies on employees, the environment and human rights; boardroom diversity; and action taken to tackle bribery and corruption. While the Directive does not currently mandate assurance, some countries have opted to make it compulsory; in Italy, France and Germany, for example, assurance of the non-financial information statement is a legal requirement.

**A regulatory requirement**

Regulatory bodies may have specifically defined reporting requirements for certain industries. For example, regulators of financial services and utilities companies sometimes require those organizations to obtain assurance on the information included in certain returns made to them.

**For management decision-making and compensation**

Assurance may be valuable to an organization for internal purposes. Understanding the extent to which information can be relied on can help to inform management-decision making, for example, assessing the risk of error in selected information – such as due diligence on an acquisition or investment or a review of the ethical standards and internal controls of a subsidiary of an organization. Some organizations link a component of compensation for senior executives (such as the CEO) to specific non-financial KPIs. Boards will typically seek assurance of those metrics before awarding compensation to minimize the risk of manipulation by management.

**Investor and stakeholder demand**

Investors want and need to be able to rely on good quality non-financial information. This is crucial in order for them to effectively analyze the business, its management, strategy and performance. Depending on the investment approach, information may inform decisions by the investor over whether to sell, hold or increase their investment, or whether they choose to engage with the organization over a particular issue. Investors may wish to know whether the information presented to them is accurate, complete and comparable with previous years, and drawn from the same source.

“[Investors] want to know if a company is identifying and addressing risks, whether it has effective governance and internal controls, if the methodology behind the metrics is appropriate and has been applied consistently... and whether its scenarios and estimates are reliable.”

Other stakeholder groups - including customers, suppliers and prospective employees - may also rely on an organization’s non-financial information to make their decisions. For example, information on an organization’s gender equality, diversity or ethical behavior in the supply chain may determine whether a customer buys a product or a prospective employee applies for a job. As with investors, these stakeholders can look for assurance to assess the credibility of information and inform decisions such as whether to buy from, sell to or work for a particular organization. A breach of trust can call into question an organization’s license to operate, as has been evident in the number of corporate scandals in recent years.
The basics of assurance

ADDITIONAL BENEFITS: THE HIDDEN VALUE OF ASSURANCE

Having set out the circumstances under which assurance might be required, demanded or desirable, it is worth noting that assurance may benefit an organization’s investors and other stakeholders, even when they have not specifically requested it.

WBCSD’s report Enhancing the credibility of non-financial information – the investor perspective identifies a common misconception among investors that if management or the board of directors have signed off the information presented in an external report, it must be reliable. This is not necessarily the case, as is explored below. Assurance from an independent party can add credibility to data, particularly when the information is deemed useful to investors and other stakeholders.

The benefits of assurance do not just impact the user. Management may also benefit from the feedback and advice that comes with having an independent perspective on their non-financial reporting and associated processes.

Companies communicate non-financial information to investors and stakeholders through a variety of communications, as illustrated in the diagram below. Common misconceptions can arise in relation to each of these channels as explored in the myth-busting illustration on page 13.

Figure 1: An organization’s communication channels

<table>
<thead>
<tr>
<th>Audited financial statements (including notes)</th>
<th>‘Front half’ of annual report (including governance information)</th>
<th>Sustainability report</th>
<th>Analyst presentations</th>
<th>Company website</th>
</tr>
</thead>
</table>

Organization’s communications
External assurance providers can meet a range of assurance needs by offering:

- Assurance over different aspects of a topic: e.g. accuracy of a description, the design and effectiveness of controls and methodologies and their application, and the published data including narrative;
- Assurance over a period of time, e.g. during the last year, or at a point in time such as at the year-end;
- Assurance for publication or for private use by the board or a specified third party;
- Assurance against frameworks and standards (e.g. ISO, AA1000 or the provider’s in-house ‘standards’); and
- Different types of assurance, e.g. reasonable and limited (see chapter 4).

**Summary**

Assurance can be valuable to any organization looking to increase the credibility of its non-financial information. However, external assurance is only worth undertaking if the information itself is useful and will enhance the user’s ability to be confident in relying on the information. When making decisions about whether to obtain external assurance, it is important to engage with the intended users of reports to determine their priorities and information needs. These practicalities are discussed in more detail in Chapters 6 and 7.
Key features of an assurance engagement

In this chapter, we provide an overview of the key features of an assurance engagement as established by the International Auditing and Assurance Standards Board (IAASB).
This Chapter highlights what an organization should be aware of before entering into an assurance engagement. This includes considerations from the perspective of the organization and the assurance provider.

A RATIONAL PURPOSE

A key premise of any assurance engagement is to clearly establish the reason and motivation for having certain information assured, otherwise known as the ‘rational purpose’.

It is unlikely that a rational purpose will exist, for example, if an organization has excluded from the engagement key information that is needed by the intended user. A rational purpose is also unlikely when assurance is being sought on a subset of information and does not include other, more relevant information covered in the report, as this may be misleading to the intended users.

In such cases where there is not a rational purpose, the assurance provider should decline the engagement.

FIVE ELEMENTS OF AN ASSURANCE ENGAGEMENT

In accordance with the International Framework for Assurance Engagements, there are five required elements to an assurance engagement. They are:

1. Three-party relationship
2. Subject matter
3. Criteria
4. Evidence
5. An assurance report

2) Three parties

An assurance engagement involves three parties. It is worth noting the official definition of assurance, as set out in the International Framework for Assurance Engagements (the Framework)\(^\text{12}\):

‘An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.’

In the context of non-financial information, the intended user may be an investor, employee, customer or other stakeholder that uses non-financial information supplied by the organization for decision-making purposes. Management supply this information and are therefore the ‘responsible party’.

A relationship of trust exists between management and the user; the user wants to know the extent to which they can rely on the information provided by management.

In order to add credibility to the information, a third-party assurance provider (referred to in the Framework as the practitioner) can be engaged to evaluate the non-financial information (the subject matter) on behalf of the intended user. Note there may be other users of the information, but the principal focus of the assurance provider will be on what is relevant to the intended user.

In the remainder of this guide, we refer to the practitioner as the assurance provider to avoid mixing terminology. However, for completeness of information, we set out the definition of a practitioner as follows:

A practitioner, according to the IAASB, is defined as “the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm).” Practitioners or engagement partners are subject to a Code of Ethics for Professional Accountants\(^\text{13}\) as well as standards of quality control,\(^\text{14}\) requirements of independence, working in the public interest and performing high-quality engagements.

Figure 2: The relationships within an assurance engagement

![Diagram of relationships within an assurance engagement](attachment:image.png)
The need for independence and ethical standards

Independence of the responsible party is essential to ensure the assurance provider gives an unbiased opinion. For example, a close relationship between the assurance provider and management (the responsible party) may create a familiarity threat. There is a risk that the assurance provider may put the interests of management over that of intended users due to their personal relationship with management.

Independence derives from professional codes that regulate behavior and impose standards of conduct for members of a profession. Accordingly, assurance providers applying International Assurance Standards issued by the IAASB must comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board of Accountants, or an equivalent that is at least as demanding. Compliance with the principles of professional codes is critical to retaining independence and ensuring the credibility of the assurance report.\(^{15}\)

System of quality control

As noted above, ‘assurance’ as detailed in this paper refers to services provided by an assurance provider who applies standards issued by the IAASB. An important feature of those standards is that the assurance provider is required to have in place a quality control system of checks and balances to ensure the assurance engagement is carried out with rigor and consistency.

2) Subject matter

An assurance engagement requires clearly identified subject matter that is going to be evaluated. For example, an organization may want assurance on a report that contains subject matters such as its non-financial KPIs on greenhouse gas (GHG) emissions, water use or accident frequency.

In each case, it will be necessary to confirm exactly which KPIs are to be assured, including whether assurance is required on the entire report or a selection of the topics and aspects covered within the report.

The subject of an assurance engagement is not always published information. Assurance may be requested on the effectiveness of a process, a control or whether a methodology has been applied appropriately. In these cases, it will be necessary to confirm whether assurance is required on the whole process or control system or just certain elements of the system.

3) Criteria

The assurance provider must evaluate the subject matter against a specific set of criteria that provide a frame of reference. This may be a set of regulations, a reputable framework (e.g. GRI or SASB standards,\(^{16}\) COSO guidance\(^{17}\)) or criteria developed by management. Without this, the assurance provider’s conclusion is open to individual interpretation and misunderstanding. For example, if the subject matter is ‘accidents’, then criteria must be applied to define and measure ‘accidents’ or there is no clear basis against which the assurance provider can assure information on ‘accidents’.

It is also important for such criteria to be ‘suitable’ for engagement circumstances – industry-specific criteria developed for accidents in the oil and gas sector are unlikely to be suitable for a financial services company because of the fundamentally different nature of their business activities. In accordance with the IAASB’s International Framework for Assurance Engagements, a criteria is deemed suitable if it is relevant, complete, reliable, neutral and understandable.

The criteria must be available to the user. In the case of a set of criteria that has been developed by management, it must also be disclosed and published. It is helpful to the user (who may not be a subject matter expert) if the criteria are explained in non-technical terms.

Myth-busting: Assurance providers can assure anything

Establishing whether suitable criteria exist is one of the pre-conditions to accepting an assurance engagement. In other words, if the criteria aren’t robust enough to distinguish between good and bad quality information, assurance will simply not be possible and the assurance provider will be unable to accept the assurance engagement.
Further information on the topic of criteria can be found in ICAEW’s online assurance resources.18

4) Evidence

In order to form an opinion, the assurance provider will need to carry out procedures to obtain ‘sufficient and appropriate’ evidence to support their conclusion.

For example, in order to provide assurance on a gender diversity KPI (e.g. the ratio of males to females employed within the organization), the assurance provider will perform a variety of assessment procedures. These might include inspecting human resource records to assess the total number of employees and the split between male and female employees, and testing the controls the organization has put in place to ensure this data is captured accurately and completely. More information about the types of procedures used by assurance providers can be found in Chapter 4.

5) A written conclusion

Once the assurance provider has formed a conclusion, it must be communicated in writing to the intended user. The report must clearly state the assurance provider’s conclusion, the subject that was evaluated, the criteria against which the subject was evaluated, the work that was performed and how the assurance provider formed their conclusion.

It is good practice for the report to be written in language which the user can understand. Whether the assurance report is made publicly available or not depends on the requirements of the user.

It is also worth noting that, during the engagement, the assurance provider may come across matters that are not sufficiently significant to affect the assurance conclusion but which may be useful for management. These matters will be communicated to those charged with governance (the audit committee and/or the board) outside of the assurance report. Depending on the terms of the engagement, the assurance provider might also provide a separate letter (known as a management letter) outlining some of these additional matters in more detail. The insights that can be gained from management letters are often viewed by organizations as an important additional benefit of assurance. Some observations may also be included in the assurance report to draw users’ attention to other key issues, but without undermining the conclusion.

Figure 3: Five elements of assurance

The example below sets out a simple example of an assurance engagement and identifies the five elements of that engagement.

Three parties

The management of ABC, a manufacturing company, has appointed XZY to provide assurance to their stakeholders in relation to disclosures in ABC’s sustainability report. Two key performance metrics will be evaluated as follows:

1. Water use per liter of product packaged
2. Total volume of waste sent to landfill (tonnes)

XZY will evaluate ABC’s disclosed targets against the GRI Standards in order to form an opinion. XZY will conduct procedures including making inquiries of management and inspecting ‘waste’ records on a selective basis at 10 of ABC’s locations. Their conclusions will be presented in a formal report.

Clearly defined subject matter in reporting year

Criteria

Procedure to obtain evidence

Written conclusions
Myth-busting: The assurance provider can provide absolute assurance

In forming an opinion, the assurance provider cannot provide absolute assurance of information. In other words, the risk of error (misstatements and omissions) cannot be reduced to nil. Instead the assurance provider will perform work in order to detect material misstatements and omissions. See the example assurance conclusion below.

"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 selected information for the year ended 30 June 2018 has not been prepared, in all material respects, in accordance with the Reporting Criteria." (This is a reference to limited assurance which is explained in Chapter 4).

But what does this mean? Misstatements or omissions are considered to be material if they, either individually or in the aggregate, could influence decisions made by the intended user.

Deciding what is and isn’t material to the intended user is not a straightforward task. The assurance provider will have to use their professional judgment in order to consider the relative importance of both quantitative and qualitative factors in assessing materiality.

Materiality is often simpler to understand in the context of financial reporting because a monetary value can be set to represent what is considered to be material. For example, a financial statement auditor may determine that misstatements or omissions that equate to 5% of profit or above will be deemed important enough to inform the user about (and therefore material).

However, materiality of both financial and non-financial information is also based on qualitative factors. The assurance provider needs to establish whether the decisions of the user would be influenced by the misstatement. Examples of qualitative considerations might include whether there has been:

- An omission of significant facts. For example, where weakness in the business performance or plans are not referred to in the report.
- Bias in description of position or facts. For example, a management report may focus on two or three case studies that demonstrate good work but make no comment on the weaknesses in a policy or its application that would damage or diminish the message in the case studies.
- Unsubstantiated claims. These are claims that would be regarded as important to, and which could be relied upon by users, but which are not substantiated by facts. For example, a statement such as, ‘We are the leading ethical bank in the retail banking sector,’ without independent evidence and a lack of suitable criteria to support this claim.

Further information about the topic of materiality can be found in the ICAEW publication, Materiality in assuring narrative reporting.

Summary

In this Chapter, we have highlighted the key elements of an assurance engagement. It is important for an organization considering assurance to understand what these elements are in order to assess whether assurance is the most appropriate service for their organization. The assurance provider will also want to be satisfied that these key elements are in place before entering into an assurance engagement.
The process of assurance

This Chapter provides a overview of the process undertaken by the organization (the buyer) and the assurance provider in order to form a conclusion on non-financial information. It assumes that the organization has taken the decision to enter into an assurance engagement. Chapters 6 and 7 of this guide expand on the more practical aspects of entering an assurance engagement and includes questions for consideration and helpful tips.
The process of assurance

The table below considers the assurance process from both the organization and assurance provider’s perspective.

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<thead>
<tr>
<th>The organization's process</th>
<th>The assurance provider’s process</th>
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<tbody>
<tr>
<td>Establish the organization’s assurance needs</td>
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<tr>
<td>Before entering into an assurance engagement, the organization should determine what is needed from the engagement. A good starting point would be to consider:</td>
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<tr>
<td>• Who are the intended users?</td>
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<td>• What information do the users want/need assured?</td>
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<tr>
<td>• What risks related to the subject matter does the user want managed?</td>
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<tr>
<td>• Are there any deadlines?</td>
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<tr>
<td>• What criteria will be used to assess the subject matter (if known)?</td>
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<tr>
<td>At this stage, it may be helpful to have a conversation with a number of assurance providers to establish what is possible and to understand what knowledge and expertise will be needed to undertake the assurance engagement. The engagement should then be put out to tender to a range of assurance providers.</td>
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Consider the invitation to tender

Before deciding whether to submit a proposal in response to an invitation to tender, assurance providers may request a call or meeting with the organization to discuss the potential engagement and clarify the scope.

At this stage, the assurance provider will follow preliminary internal risk management procedures to assess whether they would be willing to accept the engagement, should they be formally selected. Factors the assurance provider will consider include whether:

• the criteria are clearly identified and robust;
• there is sufficient time to complete the engagement;
• they have other relationships with the organization that might be perceived to affect their independence; and
• whether they have the appropriate knowledge and skills to complete the work.

On the basis that the assurance provider would be prepared to take on the engagement, they will prepare and submit a proposal outlining how they would complete the work, what the outputs would be and how much they would charge for their services.
The organization’s process

Evaluate the proposals

When evaluating proposals submitted by potential assurance providers, the organization should give consideration to factors that will affect the quality of the assurance engagement. These include the skill set of the assurance provider, their industry knowledge and experience of assuring the non-financial subject matter within the scope of the engagement.

Other factors such as the availability and location of the assurance provider in relation to the organization’s operations will also need consideration.

The fee will, of course, influence the decision about which assurance provider is selected. This must be considered carefully against the factors affecting the quality of the engagement, as outlined above.

Select an assurance provider

On the basis of the evaluation outlined above, the organization will select the preferred assurance provider and arrange a meeting to discuss the terms of engagement.

Meeting between the buyer and the assurance provider to discuss the terms of the engagement

During this first meeting the following would normally be confirmed:

- the elements of non-financial information to be assured (e.g. KPIs) and which aspects (e.g. whether assurance is required on the data and/or on the process of producing the data);
- the criteria to be used for the engagement and, if the criteria are developed by management, whether they will be published in the same place as the non-financial information;
- the type of assurance required: whether it is to be a reasonable or limited assurance engagement;
- how the organization will use the assurance provider’s conclusion (e.g. for internal use or publication);
- key deadlines;
- key contacts including the assurance manager and team;
- the work and processes that will be carried out by the assurance provider;
- which assurance standard will be applied. Assurance standards are expected to be applied in their totality and not in part or combined with other standards;
- how much time/resources the organization will need to provide to support the assurance provider in their work;
- the documentation and schedules that the organization will need to provide to the assurance provider during the engagement; and
- the amount and basis of the fee and billing processes.

Note that the assurance provider will need to complete their own internal risk management processes before accepting the engagement.
Draw up a contract including terms and conditions

Once the assurance provider and the organization have agreed to enter into an assurance engagement, a contract will be drawn up. The contract will be signed by the buyer and the assurance provider.

The organization may want to use one of its own service contract forms. However, the nature of assurance differs significantly from outsourced services and the assurance provider may request extensive changes for a range of professional and technical reasons. With this in mind, most assurance providers prepare the contract, known as an engagement letter. This letter will include:

- the objective and scope of the engagement;
- the type of assurance;
- the responsibilities of management and the assurance provider;
- applicable standards to be followed by assurance provider;
- the criteria against which the subject matter is to be assessed;
- key information relating to the scope of the engagement e.g. the number and locations of site visits that will take place;
- the typical form and content of the assurance report;
- timelines and deadlines;
- fees, including number of hours or days required to complete the engagement, and by whom;
- expected expenses; and
- any other requirements set by the organization or assurance provider, e.g. the need for confidentiality and restrictions on use of the report.

Planning

After the engagement letter has been signed and before the engagement commences, the organization and the assurance provider will plan the engagement to ensure it runs efficiently. Each party will have their own considerations as outlined below.

Planning by the organization

This will include:

- confirming exact timelines with the assurance provider, for example, when field work will begin and when the engagement will be signed off;
- confirming points of contact and how the organization and the assurance team will communicate during the engagement; and
- confirming which sites the assurance provider will visit (head office and operations), which systems and data they require access to, which people they would like to interview, and the documentation to be provided.

Planning by the assurance provider

This will include the following:

- understanding the risks associated with the engagement;
- determining materiality levels (see Chapter 2);
- confirming exact timelines including when the field work for the engagement will begin and by when the engagement needs to be signed off;
- selecting samples of transactions to be tested;
- deciding which sites to visit and people to interview; and
- confirming points of contact and ways of communication between the organization and the assurance team.
# The process of assurance

## The organization's process

### Meeting

A meeting between the assurance provider and the organization before fieldwork commences is advisable. This gives both parties the chance to discuss and confirm their understanding of the planned fieldwork. It is also an opportunity for the assurance team to meet the people they will be liaising with during the engagement.

It would also be appropriate to set up regular progress meetings at this stage to ensure that any issues that arise during the engagement are resolved in a timely manner.

### Field work commences

The assurance provider will begin the process of obtaining the evidence needed to support their conclusion. During this time, the organization's points of contact will need to support the assurance provider by:

- providing relevant information to the assurance providers (e.g. the actual figures for each KPI to be assured);
- coordinating site visits and interviews; and
- introducing the assurance providers to data owners (the relevant personnel who own and prepare the data).

Data owners will need to assist the assurance provider during the interviews by:

- providing data and supporting evidence of calculations;
- providing information about internal controls and assumptions made; and
- addressing any follow up questions after the initial interview.

## The assurance provider's process

### Fieldwork commences - obtaining evidence

The assurance provider will need to obtain sufficient and appropriate evidence on which to base their conclusion about the subject matter information. This can be achieved in a variety of different ways including:

- head office and operational site visits;
- assessment and testing of control systems;
- discussions with management (enquiry); and
- other procedures such as analytical review, inspection of documents and processes, reperforming calculations, extracting company data from systems and subjecting it to automated testing.

A simple illustration of procedures is set out in Chapter 4.

If the subject matter (KPIs) will be disclosed in an annual or sustainability report, the assurance provider will read the full report. They need to consider whether the text and the figures do not contradict each other and provide a fair (complete and balanced) representation of the performance of the organization.

### Meetings

During and after the field work is completed, there are usually meetings between the assurance provider and the main contacts in the organization to provide feedback and resolve any outstanding issues related to the engagement in a timely manner.

If there are any changes to the information being assured during the engagement, the organization will provide an updated version so that the assurance provider can sign-off on the final version of the assured information.

### Form a conclusion

Based on the evidence collected, the assurance provider will form a conclusion about the subject matter information against the agreed criteria.
The process of assurance

Closing meeting
Key individuals of the organization will attend a closing meeting during which the assurance provider shares their findings and opportunities for improvement.

It may be appropriate for the assurance provider to share the proposed conclusion with the organization’s audit and risk committees. This will often be combined with a short presentation of the key findings to assist the committee in making its recommendation to the board as to the adoption of the assurance report.

Sign a representation letter
The company representatives sign a representation letter. This letter will state, among other things:
• that the organization is responsible for the fair representation of the assured non-financial information;
• that all significant information was provided to the assurance provider; and
• that there were no irregularities.
The letter may be signed at a board meeting. The assurance provider may be present.

Report
Once the representation letter and the final version of the non-financial information has been received from the organization, the assurance provider will express their conclusion in a written report.

If the assurance provider attends the board meeting at which the representation letter is signed, they may sign their assurance report at the same meeting. The report can also be signed remotely.

The report does not have to be in print form. A digital or interactive report can be provided, depending on what was agreed with the organization in the engagement letter.

Management letter
The assurance provider prepares a “management letter” for management, setting out findings and recommendations for improvement.

Note that the number of meetings between the organization and assurance provider will vary depending on the size and complexity of the organization and the assurance arrangements.
4

Types of assurance

In this Chapter, we explain the key differences between two types of assurance that are commonly used - reasonable and limited assurance.
WHAT ARE REASONABLE AND LIMITED ASSURANCE AND HOW DO THEY DIFFER?

The IAASB Framework on assurance engagements sets out two types of assurance that can be applied to financial and non-financial information. These are reasonable and limited assurance. There are many similarities between the two types of assurance. The key elements of an assurance engagement (as discussed in Chapter 2) are required for both. For example, there must be clearly defined subject matter criteria against which the subject matter will be evaluated, and a written conclusion. The assurance provider will use the same risk basis for planning their work and will define levels of materiality to use in evaluating the outcome of tests for both reasonable and limited assurance engagements.

<table>
<thead>
<tr>
<th>Type of assurance obtained</th>
<th>Reasonable assurance</th>
<th>Limited assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>This type of assurance is achieved when the risk of a material misstatement of the subject matter has been reduced to a low level.</td>
<td>This type of assurance is achieved when the risk of a material misstatement of the subject matter has been reduced through the collection of evidence, but not to the low level required by reasonable assurance.</td>
<td></td>
</tr>
<tr>
<td>To achieve this, the assurance provider must conduct extensive procedures.</td>
<td>To achieve this, the assurance provider performs different or fewer tests than those required for reasonable assurance or uses smaller sample sizes for the tests performed.</td>
<td></td>
</tr>
<tr>
<td>An illustration of procedures performed on a reasonable assurance engagement is provided on page 28.</td>
<td>An illustration of procedures performed on a limited assurance engagement is provided on page 28.</td>
<td></td>
</tr>
<tr>
<td>The assurance provider obtains sufficient evidence to confirm whether the subject conforms to the criteria.</td>
<td>The assurance provider’s conclusion provides comfort over whether the subject is plausible against the criteria.</td>
<td></td>
</tr>
<tr>
<td>This is essentially the same type of assurance as is required in an audit of financial statements where the auditor confirms if the financial statements are fairly presented.</td>
<td>The opinion provided on a half-year review of financial statements is an example of a limited assurance conclusion albeit over financial information and under a specific assurance standard for reviews over financial information.</td>
<td></td>
</tr>
</tbody>
</table>

Conclusion

Reasonable assurance conclusions are framed in a positive manner. For example, ‘based on the procedures performed, in our opinion, the management assertion on [subject matter] is properly prepared’.

Limited assurance conclusions are framed in a negative manner. For example, ‘based on the testing performed, nothing has come to our attention to indicate that the management assertion on [subject matter] was not properly prepared’.

This form of reporting requires a double negative which is intended to alert the reader to the lower level of assurance being provided.
Myth-busting: ‘If the assurance provider is unable to give reasonable assurance, can the buyer just ask for, or change to, limited assurance instead?’

No.

In order for an assurance engagement to take place, the assurance provider has to be satisfied that there is a clearly defined subject matter and suitable criteria. This applies to both reasonable and limited assurance. The differentiation between the two is the scope of the assurance provider’s work (and therefore the cost) but management must provide the same level of disclosures and criteria regardless. To understand how the scope of work varies between a reasonable and limited assurance engagement, see the example below.

WHICH TYPE OF ASSURANCE SHOULD AN ORGANIZATION GO FOR?

Broadly speaking, unless there is a legal or regulatory requirement to have specific information assured or to have a certain type of assurance, an organization has flexibility in their assurance choices.

For example:

- an organization may choose between reasonable or limited assurance, although this will depend on the assurance provider’s assessment; and
- an organization can choose to have all non-financial information assured, or just a selection of indicators.

- Reasonable assurance may be chosen on performance against a selection of strategic KPIs and limited assurance on others or on the rest of the report. However, it must be clear to the user what has and has not been assured, and what type of assurance is being given to different indicators.

Note that when assurance is being given on a selection of indicators, it will be necessary to demonstrate to the assurance provider that there is a rational purpose for the engagement (see Chapter 2).

More practical guidance on choosing the type of assurance most appropriate to your organization is provided in Chapters 6 and 7.
An illustration of the evidence required for a reasonable and limited assurance engagement

Reasonable assurance

Organization X has asked for reasonable assurance on a set of KPIs disclosed in its annual report. The set of KPIs includes the average spend on training per employee.

Once the engagement has been accepted, the assurance provider will need to conduct procedures and tests to obtain the evidence they need to support their conclusion. As a result, they may request the following relating to the average spend on training per employee:

1. **A draft of the report containing the KPI**
   - To determine how and where the KPI will be displayed in the report

2. **A discussion with management/employee responsible for preparing the information**
   - To ask how the KPI is calculated and identify what sources of information are used for the calculation. The objective of this is to ascertain whether a sensible method has been used and to confirm the sources of data.
   - To discuss the reasons for any movement in the KPI year-on-year.
   - To ask how attendance at training sessions is documented and evidenced, to assess the likelihood that the information used in the calculation is accurate and complete.
   - To ask about the systems that are in place to capture the data used in the calculation e.g. training costs and employee numbers.

These discussions help the assurance provider to evaluate the potential for misstatement in the disclosed KPI.

3. **A copy of the calculation**
   - To understand how the KPI has been calculated e.g. total spend on training divided by total number of employees and confirm that it is consistent with management’s explanation.
   - To recalculate the KPI (total spend on training divided by number of employees) to ensure it is mathematically accurate.
   - To compare the calculation method to previous years to ascertain whether it is consistent and therefore that the user is not being misled.

4. **To test the systems that capture the cost of training and the number of staff**
   - To evaluate the quality (design and operating effectiveness) of controls in operation for the year/period.
   - To collect evidence on the completeness and accuracy of the data used in the calculation, for example, agreeing total spend on training to accounting records and total number of employees to human resource records.

Limited assurance

If Organization X had opted for a limited assurance engagement, instead of a reasonable assurance engagement, fewer procedures would be performed overall.

Steps 1 to 3 (as outlined above) would be broadly the same. However, the extent of testing in step 4 would likely be restricted to smaller samples and might exclude certain checks such as between training and human resource records. As a result the likelihood of an error in the calculation will be reduced, but not to the low level that would be achieved through a reasonable assurance engagement.
The assurance report

Assurance providers will express their conclusion in writing in the form of an assurance report. The quality of this communication is crucial to ensure it is valuable to the user. This assurance report should set out for users, in clear language, what has been done and the assurance they can take from the assurance report.

This Chapter includes an example of a reasonable and a limited assurance report. The key components of both reports are highlighted and explained.
Figure 4: Example of a reasonable assurance report

Independent reasonable assurance report of [Assurance provider] to ABC organization.

We were engaged by ABC to report on the sustainability metrics ("the Metrics"), marked with a symbol D, and the related qualitative disclosures that constitute ABC's Sustainability Report ("the Report") for the year ended 31 March 20XX, in the form of a reasonable assurance conclusion about whether the Report is properly prepared, in all material respects, in accordance with ABC’s own Sustainability Methodology for reporting ("the Methodology").

This independent assurance report is made solely to ABC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to ABC those matters that we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than ABC for our work, for this independent assurance report, or for the conclusions we have reached.

Responsibilities of the directors

The directors of ABC are responsible for the proper preparation of the Report, and the Metrics, information and statements contained therein, in accordance with the Methodology.

The directors are responsible for developing the Methodology. The directors have summarized the Methodology and their responsibilities on page x, and on ABC’s website. The summary provides further information on: specific definitions; how data has been selected; and the calculation methodology.

It is the directors’ responsibility to develop, operate and maintain internal systems and processes, relevant to the proper preparation of a Report that is free from material misstatement, whether due to fraud or error.

Responsibilities of [assurance provider]

Our responsibility is to independently express a conclusion to ABC, based on the procedures performed and evidence obtained, as to whether the Report is properly prepared, in all material respects, in accordance with the Methodology.
We conducted our work in accordance with International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

We comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and we apply International Standard on Quality Control (UK and Ireland) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements and professional standards (including independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior) as well as applicable legal and regulatory requirements.

Scope of work

A reasonable assurance engagement involves planning and performing procedures to obtain sufficient appropriate evidence to give reasonable assurance over the Report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Report whether due to fraud or error.

In making those risk assessments, we considered internal control relevant to the preparation and presentation of the Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of ABC’s internal control over the preparation and presentation of the Report. Our engagement also included: assessing the suitability of the Methodology in the circumstances of the engagement; evaluating the appropriateness of the methods, policies and procedures, and models used in the preparation of the Report; the reasonableness of estimates made by the directors; and evaluating the overall presentation of the Report.
The procedures performed included, but were not limited to:

- Conducting interviews with management to obtain an understanding of the systems and controls used to generate, aggregate and report the Metrics;
- Examining and testing of the systems and processes in place to generate, aggregate and report the Metrics;
- Assessing the completeness and accuracy of the Metrics by:
  - testing the operating effectiveness of systems and controls;
  - assessing relevant supporting documentation used to aggregate and report the Metrics;
  - assessing the significant assumptions and judgments made by the directors in the preparation of the Metrics;
  - testing the documentation which supports the measurement, calculation and estimation of the Metrics; and
  - assessing and testing the source information used to generate the Metrics.

**Key assumptions and inherent limitations**

**Conclusion**

Based on the procedures performed, in our opinion the Report for the year ended 31 March 20XX is properly prepared, in all material respects, in accordance with the Methodology.

**Assurance provider**

Chartered Accountants

[Address]

[Date]
Figure 5: Example of a limited assurance report

Independent limited assurance report of [Assurance provider] to ABC organization

We were engaged by ABC to report on the sustainability metrics (“the Metrics”) marked with a symbol D on pages X to Y of ABC’s Sustainability Report (“the Report”) for the year ended 31 March 20XX in the form of a limited assurance conclusion about proper preparation of the metrics, in all material respects, in accordance with ABC’s own Sustainability Methodology for reporting (“the Methodology”).

This independent assurance report is made solely to ABC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to ABC those matters that we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than ABC for our work, for this independent assurance report, or for the conclusions we have reached.

Responsibilities of the directors

The directors of ABC are responsible for the proper preparation of the Report, and the Metrics, information and statements contained therein, in accordance with the Methodology.

The Directors are responsible for developing the Methodology. The directors have summarized the Methodology and their responsibilities on page x, and on ABC’s website. The summary provides further information on: specific definitions; how metrics has been selected; and, the calculation methodology.

It is the directors’ responsibility to develop, operate and maintain internal systems and processes relevant to the proper preparation of a Report that is free from material misstatement, whether due to fraud or error.

Responsibilities of [assurance provider]

Our responsibility is to independently express a limited assurance conclusion to ABC, based on the procedures performed and evidence obtained, as to the proper preparation of the Report, in all material respects, in accordance with the Methodology.
We conducted our work in accordance with International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

We comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and we apply International Standard on Quality Control (UK and Ireland) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements and professional standards (including independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior) as well as applicable legal and regulatory requirements.

Scope of work

A limited assurance engagement involves planning and performing procedures to obtain sufficient appropriate evidence to obtain a meaningful level of assurance over the Data as a basis for our limited assurance conclusion. The procedures selected depend on our judgment, on our understanding of the Report and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

The procedures performed included:

• Examining the Methodology and understanding key assumptions and limitations;

• Conducting interviews with management and other personnel at ABC and its contractors, to understand the processes in place during the year ended 31 March 20XX;

• Examining and testing of the systems and process in place to generate, aggregate and report the Report, and assessing compliance with the Methodology;

• For samples of the Metrics selected statistically, recalculation using the methods of calculation within the Methodology; and

• For samples of the Metrics selected statistically, vouching of the base data to supporting documentation.
The procedures performed in a limited assurance engagement 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 that would have been obtained had a reasonable assurance engagement been performed.

[Key assumptions and inherent limitations]

Conclusion

Based on the procedures performed and evidence obtained, and subject to the key assumptions and inherent limitations set out above, nothing has come to our attention that causes us to believe that that the Metrics on pages X to Y of the Report for the year ended 31 March 20XX is not properly prepared, in all material respects, in accordance with the Methodology.

Assurance provider

Chartered Accountants

[Address]

[Date]
Part 2: Practical guidance
Is assurance the right solution for your organization?

Having explored much of the theory behind assurance, this Chapter covers the practical matters to be considered before committing to an assurance engagement.
In this chapter we help you decide:

- whether assurance is the most appropriate service to meet your organization’s objectives and, if so;
- how to ascertain whether your organization is prepared for assurance.

To assist you, we outline key questions that your organization should address to guide the decision-making process.

Please note that, while it is possible to summarize high-level questions, the precise detail of the questions will inevitably vary depending on the unique circumstances of each business.

**IS ASSURANCE THE MOST APPROPRIATE SERVICE TO MEET YOUR ORGANIZATION’S OBJECTIVES?**

Before entering into discussions with assurance providers, it is useful to gauge whether assurance is the right product for your organization, it is important to ask:

**Why is your organization considering assurance? What does it want to achieve?**

Organizations publish a wide range of non-financial information. It is important for management to have a very clear idea about which non-financial information they, or the intended users, want to have validated, and why.

It is of course possible for management to self-determine what they wish to have assured. However, this can result in assurance of items that are not needed by intended users or too little assurance over topics that are important to users.

It will also be important to establish whether a rational purpose (see Chapter 2) for the assurance engagement exists. Without one, assurance providers should not accept the engagement.

**Questions to consider:**

1. What is the business objective for publishing the non-financial information?
2. Is the non-financial information material to internal or external decision-making?
3. Who are the (primary) intended users and are they internal or external? Who do you regard as secondary users?
4. What information do the intended users need and for what?
5. What do the intended users need to see in the published report?
6. What is the objective for obtaining assurance over the non-financial information? What risks in the information might the intended users want to manage?

**Do the intended users know what they want to have assured and why?**

In some cases, the intended users may have specifically requested assurance. In such situations, it is useful to establish their needs and expectations. For example, they may want assurance over the method used to compile the non-financial information, the absolute values of data or performance against corporate goals and targets.

**Questions to consider:**

1. What elements of the non-financial information do the intended users want or need to have assured e.g. in accordance with GRI standards?
2. What aspects of those elements do they want assurance on e.g. assurance over progress against stated commitments published by the organization?
3. Have management or the intended users specified any publicly available standards or criteria that will, or should, be used as the basis for reporting and assurance?
4. Have the intended users specified what level of accuracy in reporting they will tolerate?
5. Have the intended users specified the type of assurance required?

The final question is particularly important, as the type of assurance will influence the amount of evidence the assurance provider is required to collect. This will, in turn, affect the cost of the engagement.

**TIP**

Undertaking a suitable consultation process with the intended user can help to establish where assurance is wanted or required.
Is your organization being realistic about costs?

Conducting a cost-benefit analysis may be necessary to establish whether assurance is appropriate and realistic. In certain situations, the expectations of intended users may have to be managed. For example, the assurance provider will need to perform more extensive procedures to support reasonable assurance, compared to limited assurance. The cost of performing the procedures will be reflected in the assurance provider’s fee. If the expected fee far exceeds the budget available, the focus of assurance may need to be tailored, based on the priorities of the intended users. Whilst this guide focuses on assurance services, it may also be appropriate to consider alternative services such as agreed-upon procedures or internal audit services that add credibility to non-financial information.

Are your governance arrangements and control systems in good order?

The audit committee and board will need to give consideration to the state of your organization’s policies and processes in relation to non-financial data. These arrangements, discussed in further detail below, include governance and board-level involvement, internal control and evidence of its curation.

Assurance providers will be interested in such matters to the extent that the more robust the organization’s systems and processes are, the more efficiently the assurance provider will be able to conduct the assurance engagement. This, in turn, should help to manage the cost and budget of the engagement.

Governance and board-level involvement

While middle management may take operational responsibility for designing and preparing non-financial information, it is important for the board to demonstrate it also has responsibility for and oversight of the non-financial information.

Questions to consider (which the assurance provider is also likely to ask):

1. Is there a clear line of accountability and set of procedures to ensure the board and audit and risk committee are involved in non-financial reporting as they are for the financial statements?
2. Are those lines of accountability and procedures defined and documented?

Note that the assurance provider will be looking for evidence to support the existence of governance structures and procedures. The assurance provider will primarily do this by inspecting the terms of reference of relevant committees and job descriptions to ensure the information within them is consistent with the explanations they have been given by management. They may also inspect relevant committee papers and minutes of meetings to identify any operational issues, particularly those that are not resolved in a timely manner, to help assess the effectiveness of governance procedures.

Internal control

While a general assessment of the control environment will sit under the high-level governance arrangements as outlined above, there are likely to be specific elements of the internal control system that are relevant to the reporting of non-financial information that need to be evaluated.

For example, if assurance is being sought on an organization’s carbon footprint disclosure, the assurance provider would want to consider the organization’s controls over capturing complete and accurate energy use data. It is unlikely that this system would have been assessed as part of the external audit and it is therefore specific to this engagement.

Management should be able to make an initial evaluation of its own state of maturity from a review of internal control arrangements and evidence gathered from specific internal control testing. The work of internal audit and subject matter experts may be useful here.
In June 2019, WBCSD, in collaboration with FSR – Danish Auditor, launched a publication “Guidance on Improving the quality of ESG information for decision-making” designed to help companies improve the quality of, and confidence in, their ESG information through internal controls. The guidance provides a framework to help organizations understand how to review their own status and identify areas for improvement.

Questions to consider (which the assurance provider is likely to ask):

1. How mature are your organization’s non-financial processes, controls and documentation?
2. What is the state of development of internal control systems around non-financial information?
3. Are there clear information trails that show how data and information have been collated from source to the report?
4. Is the source data and evidence accessible and available to a potential assurance provider?
5. Have the internal controls been tested, e.g. by internal audit? If so, what was the outcome?
6. Are there any other self-assessment systems or mechanisms in place to confirm the effective operation of systems?

Have you considered getting an assurance provider’s view?

Even if your organization has robust systems of internal control and has conducted evaluations of them, the board may still have reservations about moving directly to assurance. The possibility of any qualifications over the information selected for assurance, for whatever reason, could prove to be unacceptable. These concerns often arise when assurance is sought over data and information for the first time.

The scope of a pre-assurance assessment may include such activities as:

- Reviewing definitions and internal reporting guidance for operations.
- Reviewing basis for calculations such as unit and emission factors.
- Evaluating internal controls and providing recommendations for change.
- Conducting selected tests on internal controls.
- Evaluating the availability of evidence.
- Challenging management on their methodologies and chosen criteria.

The end report from such an assessment may be compared with internal control management letters that are written part-way through an audit of financial statements. It will set out the risks associated with undertaking assurance at that point in time. If assurance is not possible, management and the board can set out a plan for getting their house in order. This report will not be available to any third party and it is for the sole use of the organization’s management.

If an assurance engagement goes ahead, it will often be possible to use the work performed during the pre-assurance readiness assessment and thereby manage the cost of the engagement.

Pre-assurance readiness assessments

Pre-assurance assessments are offered by most assurance providers and can help your organization prepare for assurance. From the perspective of the assurance provider, the assessment creates an opportunity to understand the subject matter in more detail, including the associated assurance risks.

Consider seeking the views of internal audit regarding the state of internal controls prior to entering into an assurance engagement.
A final thought on getting ready for assurance

Many organizations develop their non-financial information and reports by setting out on a journey, but with an intended end date and plan in mind. Accordingly, while the broad purpose may remain the same, the detail of what is prepared and reported, and what parts of the report need to be assured, may well vary from year-to-year.

An illustration of how this journey might work in practice is provided below.

The first stage of a journey towards assurance may be reported and assured as a part of a longer-term plan. Being transparent about this plan ensures users understand the nature of the journey and creates an expectation of assurance over key information at a future date.

To conclude, it is important that management should:
- Be clear as to how and why assurance of non-financial information will contribute to the business strategy.
- Focus the assurance effort on their analysis of users’ wants and needs.
- Take stock of the state of their arrangements as honestly as they can before committing to assurance.
- If in doubt, take comfort by undertaking a pre-assurance readiness assessment and be open about any journey the business may be on regarding publication and assurance.

Figure 6: Non-financial information assurance journey
The next steps: how to commission an assurance engagement

Having explored whether assurance is the right solution for your organization, this section provides practical guidance on how to enter into an assurance engagement, including how to find the right assurance provider for your organization. It builds on the outlined assurance process covered in Chapter 3.
STEP 1. ADOPT A PROJECT MINDSET

The road to assurance should be viewed as a journey; a process that will develop over time as the organization matures and users’ expectations change. Understanding where your organization is on its assurance journey, and where it wants to go in the future, will be central to managing users’ expectations and ensuring their needs, and the organization’s needs, are met. It requires commitment to continuous improvement, active planning and a ‘project mindset’.

Having already assessed whether assurance is suitable to meet your organization’s needs, you should have a clear view of who the intended users are, what subject matter they want/need assured, and the possible criteria to be used in the engagement.

At the planning stage, your organization should consider factors that will determine the possible scope of the engagement. This can include whether:

- there are any insights gained from internal reviews and any pre-assurance readiness assessments that might indicate any limitations to the scope of the engagement;
- there is information that will need to be removed from the scope of the engagement. For example, where the underlying data used to calculate KPI is subject to some uncertainty. An organization might disclose KPIs related to employee development, including the percentage of staff who received training during the year. If the organization is unable to capture attendance at training courses accurately, it might choose to exclude that particular KPI from the scope of the engagement until it implements a new system that captures the information more completely. Until this time, the KPI will not be assured but it can still be disclosed with an explanation about the data uncertainty;
- the scope of the assurance engagement would result in a meaningful assurance report. For example, assurance may not be as meaningful if sought over a few minor indicators instead of a group of major indicators. Similarly, assurance over the compilation of non-financial information may not be meaningful when most of the evaluated risks are known to be in the source of the data itself;

STEP 2. HAVE A PLAN

As well as thinking about your organization’s long-term assurance journey, it is important to have a plan in the short to medium term.

Communicating initial plans to users, including any subsequent updates, will be helpful in managing expectations.

When selecting which information is to be assured, it may be best to focus on what is material for internal and external decision-making purposes.

- how the outcome of the assurance would be made available to the users, for example through an assurance report attached to the report containing the non-financial information;
- the criteria selected to be used during the engagement are fit for purpose, particularly if your organization has developed the criteria. Assurance providers are not able to accept an assurance engagement unless there are suitable criteria in place against which they can assess the subject matter. According to the IAASB’s Framework for assurance engagements, the criteria should be relevant, complete, reliable, neutral and understandable. More information on the characteristics of criteria including examples can be found on ICAEW’s assurance webpages.21
STEP 3. DISCUSS ALL ASSURANCE OPTIONS WITH A RANGE OF ASSURANCE PROVIDERS

Inviting a range of assurance providers to tender for the assurance engagement is a useful way to compare different options and the level of service being offered by the different providers. However, dialogue with potential providers can happen before the formal tender process and this can be highly valuable in shaping the scope of the engagement.

While your organization may have a preferred type of assurance in mind, it will be important to weigh up the benefits of higher levels of assurance against the needs of the users and available budget; the higher the level of assurance, the higher the cost is likely to be.

At this stage, it would be useful to explore which assurance standard each of the assurance providers would apply during the engagement, particularly if your organization has a strong preference for one over another. In this guide, we have made specific reference to ISAE 3000 but there are other standards. In some circumstances, your organization might want more than one assurance standard to be applied. If this is the case, it will be important to explore whether the standards are consistent and compatible with one another. The assurance provider will be able to provide advice on this matter.

STEP 4. DOCUMENT YOUR PLAN AND APPROACH

Once a plan for the scope of the engagement has been formed, it is good practice and discipline to document the rationale for the decision for later reference when reflecting on the value of the assurance obtained.

Questions to consider include:

• Does the provider have the specialist skills required to understand and evaluate the organization’s non-financial information?

• Do they provide assurance for other companies in the same sector as yours? If so, this would indicate they have the industry experience to undertake the engagement. Note this would need to be considered against any potential conflict of interest should the assurance provider conduct work for a competitor organization.

• Does the provider belong to an accredited body? If so, this would indicate that the work performed would be done to a suitably high standard.

• Does the provider have extensive experience of conducting assurance engagements on non-financial information?

• Does the assurance provider conduct the statutory audit of your financial statements or other auditing services, such as ISO certification or regulatory GHG emissions verification, and therefore have in-depth knowledge of your organization already? This may make the engagement more efficient and reduce the cost as the provider will need less time to familiarize themselves with the organization, the risks involved and to plan their work.

STEP 5. FIND THE RIGHT ASSURANCE PROVIDER

Finding the right assurance provider is key and is unique to each organization and its assurance needs. However, there are some broad factors that all organizations should consider when selecting an assurance provider. These factors will affect the cost of the engagement and quality of the assurance obtained. They include:

Knowledge and expertise

Firstly, organizations will want to know whether the assurance provider has the right skills and experience to perform the assurance engagement. The provider will need to have, or obtain, specialist knowledge of the subject matter being assured, combined with knowledge and experience of conducting assurance engagements.
Standards and reputation

It will be important to establish the standard of work to be performed as this will affect the quality of the assurance obtained. Questions to consider include:

• Which assurance standards will the assurance provider apply during the engagement?
• What quality control systems does the assurance provider have in place?
• Does the assurance provider have a good reputation in the assurance market?

Independence

As explored in Chapter 2, the assurance provider will need to be independent of your organization to ensure they are unbiased in forming their conclusion. While the assurance provider will assess their own independence prior to accepting the engagement, they will require information from your organization to complete their assessment. Your organization will also want to be satisfied that the assurance provider is independent. Questions to consider include:

• Are there any family or close connections between the assurance provider and management of your organization?
• Do any of the assurance provider’s team own shares or have any other financial relationship with the organization?
• If the assurance provider conducts the statutory audit of your organization’s financial statements, will the same staff be used on the assurance engagement?

• Does the assurance provider supply advisory or consulting services to your organization? If so, are these connected with the subject matter of the assurance engagement?

Answering yes to any of these questions does not necessarily mean that the assurance provider in question is unsuitable, but it would indicate that further investigation is necessary. It may be that the threat to independence can be mitigated to an acceptable level or removed.

Coverage and cultural fit

In addition to considering whether the assurance provider has the skills and experience to meet your organization’s assurance needs, it will also be necessary to assess whether they can meet your needs in practical terms, and whether there would be a good working relationship. Questions to consider include:

• Where is the assurance provider located? Do they have offices in the geographical locations where your key sites are located? If not, how do they intend to conduct their work in those locations?
• How does the size of your organization compare to the size of the assurance provider? Consider whether the assurance provider will have the necessary time and resources to match the needs of your organization.
• Is the assurance provider available to conduct the engagement in line with your organization’s timetable and deadlines?
• Have you met the key members of the assurance team that would conduct the engagement? Do you think your organization could work well with these people? Does the proposed team reflect your organization’s commitments to diversity and inclusion, if any?

Fee

The fee will, of course, influence the decision about which assurance provider is selected. This must be considered carefully against the factors affecting the quality of the engagement such as the experience of the assurance provider, the scope of work and the type of assurance to be delivered. Questions to consider include:

• Is the fee fixed or is it an estimate?
• What work does the fee cover?
• Are there any secondary benefits included, such as obtaining recommendations on reporting systems and internal controls?

Note that reasonable assurance might be preferred as it offers the user a high level of confidence in the information being assured. However, providing this type of assurance requires extensive procedures to be performed on the subject matter to achieve a low risk of material misstatement. As a result, reasonable assurance can be costly. Limited assurance may be more attractive as it will be less expensive given that fewer procedures (and on smaller sample sizes) are performed by the assurance provider.
When evaluating different assurance providers for a limited assurance engagement, it can be beneficial to compare each assurance provider’s proposed scope of work. For example, assurance provider A might propose a fee that is half that of assurance provider B, as they will be performing considerably less procedures than B. This, in turn, may increase the risk that a material misstatement goes undetected. It is important to consider the balance between keeping the cost of the engagement down against the confidence that the assurance engagement will give to the user (see figure 7).

**Figure 7: Example of the scope of work performed by an assurance provider**

<table>
<thead>
<tr>
<th>User confidence in the information being assured</th>
<th>Suggested scope of work to be performed by assurance provider</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIGHER</strong></td>
<td>Site visits to seven of ten locations. Detailed tests performed at all four of the major sites and a review of information at the other locations.</td>
</tr>
<tr>
<td></td>
<td>Site visits to five of ten locations. Detailed tests performed at two of the major sites and a review of information at the other locations.</td>
</tr>
<tr>
<td><strong>LOWER</strong></td>
<td>Site visits to head office only. No detailed tests to be performed, only reviews.</td>
</tr>
</tbody>
</table>

**Summary**

Adopting a project mindset and careful planning in the short, medium and long-term are essential prerequisites to entering an assurance engagement. Comparing a range of different assurance providers is key to finding the right assurance provider to meet the assurance needs of your organization and the intended users. Central to this decision is understanding what the assurance provider can bring in terms of knowledge, skills and experience, as well as the level of comfort that will be obtained from the proposed scope of work which will vary from provider to provider.
Technical glossary

**AA1000 Assurance Standard**

Assurance standard issued by AccountAbility, a global consulting and standards firm that works with business, government and multi-lateral organizations to advance responsible business practice. This standard and its supporting 2018 addendum was developed to assure the credibility and quality of sustainability performance and reporting.

[https://www.accountability.org/standards/](https://www.accountability.org/standards/)

**Audit committee**

A committee set up to help the board of directors fulfill its responsibilities. The audit committee is tasked with monitoring the integrity of the financial reporting process, reviewing the company’s control and risk management systems and overseeing the organization’s relationship with the external auditor.

The committee should be comprised of a minimum of three independent non-executive directors (two for small companies).

**Assurance**

Assurance is the word for the comfort that somebody can take from an assurance engagement. It is a level of confidence in the subject matter of that assurance engagement.

**Assurance provider**

The individual(s) conducting the assurance engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Also known as the practitioner.

**Assurance report**

When undertaking an assurance engagement, an assurance provider is required to form a conclusion about whether a specified subject matter has conformed to specified criteria. Once finalized, this conclusion must be communicated to the users in writing, in the form of an assurance report.

**Expectation gap**

The role of assurance providers is often misunderstood. The ‘expectation gap’ is a term used to describe the difference between the comfort expressed by the assurance provider in the assurance report and the comfort the stakeholders take from that report. In part, this derives from a difference in what stakeholders expect the assurance provider to do and what assurance providers actually do.

**International Auditing and Assurance Standards Board (IAASB)**

The International Auditing and Assurance Standards Board is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, assurance, and other related areas, and by facilitating their adoption and implementation. In doing so, the IAASB enhances the quality and consistency of practice throughout the world and strengthens public confidence in the global auditing and assurance profession.

[https://www.iaasb.org/](https://www.iaasb.org/)

**International Standard on Assurance Engagements 3000 - ISAE 3000 (revised)**

This is a standard for assurance providers that provides requirements and guidance on assurance engagements, other than audit or reviews of historical financial information. It is a principles-based standard that is capable of being applied effectively to a broad range of underlying subject matters and provides a basis for current and future subject-specific ISAEs.

**Internal control**

The system of policies and procedures implemented by an organization to ensure its operations run effectively and that it complies with the law and all relevant regulations.
Limited assurance
This type of assurance provides the user of the report with a lower level of comfort (comparative to reasonable assurance) that the subject matter is not materially misstated. In the event that limited assurance is to be provided, then the level of assurance must be at least meaningful.

Management assertion
In the context of assurance on non-financial information, assertions refer to implicit or explicit claims and representations made by the management responsible for preparing the non-financial information.

Management letter
During an assurance engagement, assurance providers may come across matters that may not be sufficiently significant to affect the assurance conclusion, but may nevertheless be useful to management. Such matters may include immaterial errors, deficiencies and risks related to the subject matter. Matters for communication to management are not a qualification of the assurance conclusion. These matters are therefore communicated in a separate management letter rather than in the assurance report.

Materiality
Materiality is a technical assurance term for the point at which something matters to the user of a report or information. If something is immaterial, it is quantitatively too small and/or qualitatively too insignificant to change the decisions a user might make with reference to that report.

Material misstatement
A misstatement in assurance terms is the difference between what should be reported, in accordance with the applicable criteria (e.g. relevant regulations, principles or guidance, and what is actually reported. A material misstatement in one that is deemed significant to the user (see definition of materiality).

Practitioner
See definition of assurance provider.

Qualification of opinion/conclusion
During the engagement, the assurance provider may become aware that the evidence they have gathered is insufficient to issue the agreed type of assurance conclusion, for example if the responsible party does not provide access to all the necessary evidence. This may also happen due to circumstances beyond the control of the organization, for example if the assurance provider is unable to observe certain procedures because they happened before the commencement of the engagement.

If the assurance provider is unable to obtain sufficient appropriate evidence from other alternative procedures to reach an assurance conclusion, the practitioner considers whether to qualify their conclusion.

Reasonable assurance
Reasonable assurance is a type of assurance that provides the user of the report with as high a degree of comfort as is possible for an assurance provider to provide that the subject matter is not materially misstated.

Management representations
Before finalizing the assurance opinion or conclusion, the assurance provider will ask the company’s management to confirm certain matters in writing in relation to the engagement and the subject matter being assured. These letters are often referred to as management representations.

Subject matter
A subject matter is the information of interest to the users for whose benefit an assurance engagement is conducted. For example, in the audit of financial statements, the financial statements are the subject matter of interest to shareholders, who are the primary users of the financial statement audit.

Sufficient and appropriate evidence
An assurance provider will need to obtain evidence during the engagement in order to form their conclusion. This evidence will be obtained in a variety of ways including inspecting documents, observing and testing processes and reperforming calculations.

Terms of reference
Terms of reference set out the purpose and structures of a group working towards a common goal.

Preparer
In the context of an assurance engagement of non-financial information, the preparer is the individual(s) responsible for preparing the non-financial information that will be the subject of assurance.
References and resources


4. The International Auditing and Assurance Standards Board is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, assurance, and other related areas, and by facilitating their adoption and implementation. In doing so, the IAASB enhances the quality and consistency of practice throughout the world and strengthens public confidence in the global auditing and assurance profession. https://www.iaasb.org/


10. The financial statements include the Statement of Financial Position, Statement of Profit and Loss, Cash flow Statement and Notes to the Financial Statements.

11. This is not assurance as defined in this document and under the standards issued by the IAASB and similar standards issued by national standard setters.


16. GRI is the Global Reporting Initiative, https://www.globalreporting.org/Pages/default.aspx, responsible for issuing global standards for sustainability reporting and SASB is the Sustainability Accounting Standards Board, https://www.sasb.org/, which also sets global standards for reporting on sustainability specifically to providers of capital (such as investors)

17. The Committee of Sponsoring Organizations of the Treadway Commissions, responsible for issue frameworks and thought leadership on risk management, internal control and fraud deterrence, https://www.coso.org/Pages/default.aspx


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