



Global Analysis on Sustainability Reporting and Assurance

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The global discussion around sustainability reporting is evolving and organizations are increasingly reporting on their broader performance and impact. A broad range of stakeholders seek higher quality, increasingly standardized reporting on companies' performance on non-financial measure. While historically voluntary, this type of reporting and assurance is increasingly mandated by law or regulation.

Issuance of International Sustainability Disclosure Standards

With the establishment of International Sustainability Standards Board (ISSB) of the IFRS Foundation, the ISSB has been mandated to develop global set of standards for corporate sustainability reporting. On 26 June 2023, the ISSB has issued its two global baseline sustainability reporting

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standards IFRS S1, General Requirements for Disclosure of Sustainability-Related Financial Information, and IFRS S2, Climate-Related Disclosures. These standards aim to improve trust and confidence of the company's investor's about sustainability of the company.

IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related risks and opportunities. Both the standards fully incorporate the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

These standards have ushered in a new era of sustainability-related financial disclosures globally. The endorsement of International Organization of Securities Commissions (IOSCO) on these two standards shows a strong sign to the world that the ISSB Standards are fit for purpose for capital market use, enabling pricing in of sustainability-related risks and opportunities, and facilitate enhanced data collection and analysis.

The ISSB is working to support effective implementation of IFRS S1 and IFRS S2 globally, including improving capacity building and monitoring progress towards the broad use of high-quality disclosures.

Updates on the development of New Sustainability Assurance Standards

As the reporting standards become increasingly refined and enhanced, there is a corresponding increase in demand of stakeholders for assurance engagements on sustainability reporting.

Keeping in view of the stakeholder's need and demand, the International Auditing and Assurance Standards Board's (IAASB) has issued the Exposure Draft of its landmark International Standard Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, on August 02, 2023, for public comments. Comments are requested by December 01, 2023.

The proposed sustainability assurance standard is a framework-agnostic and principles-based, that is responsive to the public interest need for a timely standard, suitable across all sustainability topics, prepared in accordance with any internal sustainability reporting framework/ standard like, European Union, the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), and others). The proposed standard can be used by all assurance practitioners (both professional accountant and non-accountant assurance practitioners).

ICAP role in adoption and implementation of IFRS Sustainability Disclosure Standards in Pakistan

In Pakistan, neither sustainability reporting nor assurance thereon, is a mandatory requirement for enterprises. Out of 550 listed companies in Pakistan, around 100 companies are disclosing sustainability related information in their annual reports in accordance with any of the internationally recognized framework like, GRI/IIRC/UN SDGs etc. Very few companies are obtaining assurance from audit or other practitioners on sustainability.

The Institute of Chartered Accountants of Pakistan (ICAP) is cognizant of international developments in sustainability reporting and its significance. ICAP is aware of its role and is also committed to serve the public interest by working collectively with all the relevant stakeholders to enhance awareness and improve capacity building of stakeholders on the emerging topic of sustainability.

The relevant working group of the Accounting Standards Board (ASB) of ICAP is looking into the sustainability reporting matter in Pakistan and has taken various steps to promote awareness, adoption and implementation of aforementioned IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) in Pakistan including organising seminars/ webinars/ consultative sessions with various stakeholders and issuance of resource material for member's reference.

Global Research on Sustainability Reporting and Assurance

The study covers the regions, EU, USA, UK, Australia, China, Hong Kong, Japan, Indonesia and Singapore, Pakistan, India, Bangladesh, Sri Lanka and Nepal.

The study, as given in the table below, shows that the frequency of reporting ESG information is high in regions like, EU countries (like Italy, France, Spain and Germany), USA, UK, Australia, China, Hong Kong, Japan, and Singapore. GRI is the most used reporting framework followed by TCFD and United Nations Sustainable Development Goals (UN SDGs).

The assurance of sustainability reporting is showing increasing trend. In USA, UK, EU countries the rate of assurance is around 80%. In most of the cases, audit firms are providing limited assurance on the sustainability reporting in accordance with ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. However, in some cases, other service providers are also providing assurance on sustainability.

In addition, other assurance frameworks that are being followed are, AA1000 Assurance Standard (AA1000AS) (a leading methodology used for sustainability-related assurance engagements to assess the nature and extent to which an organization adheres to the AA 1000, AccountAbility Principles), ISAE 3410 'Assurance Engagements on Greenhouse Gas Statements' and ISO 14064-3, 'Greenhouse gases - Part 3: Specification with guidance for the verification and validation of greenhouse gas statements'.

Quick Facts:

Out of the companies reviewed - 95% report some level of sustainability information.

64% obtained assurance on sustainability reporting

57% of these assurance engagements are conducted by audit firms

95% audit firms used ISAE 3000 (Revised) for assurance

95% firms applied limited assurance

S. No.	Region	Sustainability Reporting Regulatory Requirements	Assurance on Sustainability Reporting
1.	European Union (EU) countries (Italy, France, Spain and Germany)	<p>In the EU, the Corporate Sustainability Reporting Directive (CSRD) is the new European directive proposal on reporting sustainability performance and will be transposed into local law in each member state from December 2022.</p> <p>CSRD requires companies to report material information on sustainability related risks and opportunities in accordance with the European Sustainability Reporting Standards (ESRS) which will be adopted through specific delegated acts of the European Commission between 2023 and 2024.</p> <p>It requires all large companies (with >250 employees, >€40m net annual revenues or >€20m assets on their balance sheet) and listed SMEs, to publish regular reports on their environmental and social impacts. There will be a phased implementation timeline for reporting as follows:</p> <ul style="list-style-type: none"> From the start of 2025 organizations currently reporting under the Non-Financial Reporting Directive will need to comply and report on their 2024 ESG performance data. From the start of 2026 all large companies will be required to report their 2025 sustainability impacts. From the start of 2027 listed small and medium-sized organizations (SMEs) will have to report 2026 sustainability impact information unless they choose to opt-out for one more year. By 2028 all non-EU companies with significant activities (>€150m revenues within the EU) and remaining listed SMEs will be reporting 2027 impact data. <p>Around 98% EU companies are reporting some ESG information.</p>	<ul style="list-style-type: none"> On average, around 80% EU companies are obtaining assurance. France 98% followed by Spain and Italy around 95-96% and Germany 74% are obtaining assurance. ISAE 3000 (Revised) is majorly being used for the assurance of ESG.
2.	United Kingdom	<ul style="list-style-type: none"> In UK, quoted companies are mandated to provide a report disclosing annual greenhouse gas emissions, diversity, and human rights under the Companies Act 2006 (Strategic and Director's Report) Regulations, 2013. The TCFD recommendations are applicable to UK listed companies in the financial and non-financial sectors from 2022. Large asset owners must also disclose in line with TCFD. Over 99% of top 100 UK companies are reporting on ESG. UK is committed to bring all greenhouse gas emissions to net zero by 2050. Companies are expected to report on their own contribution and progress to net zero. 	<ul style="list-style-type: none"> Of those 99% companies, around 82% are seeking assurance (in most cases limited assurance as per ISAE 3000). Other frameworks are ISO 14064-3 and ISAE 3410.

S. No.	Region	Sustainability Reporting Regulatory Requirements	Assurance on Sustainability Reporting
3.	United States	<ul style="list-style-type: none"> According to the US Securities and Exchange Commission (SEC) Regulation, all listed companies are required to disclose environmental compliance expenses. Companies use a variety of sustainability reporting frameworks/standards, including GRI Standards, SASB and the TCFD recommendations. 99% companies are reporting some ESG data. 	<ul style="list-style-type: none"> 82% companies are receiving assurance on ESG reporting. Third-party assurance from an independent accounting firm is required. The third-party assurance ranged from review or examination level attestation (from an independent accounting firm) to verification or certification services (from engineering and consulting firms).
4.	South Africa	<ul style="list-style-type: none"> 96% are reporting some ESG information, whereas, 90% are using SDG and 52% are using GRI framework. 	<ul style="list-style-type: none"> More than 65% sustainability reports are obtaining assurance in accordance with ISAE 3000 (in most of the cases limited assurance).
5.	Hong Kong	<ul style="list-style-type: none"> Hong Kong Stock Exchange's (HKEX) requires all listed companies to issue an ESG report in accordance with 'Environmental, Social and Governance Reporting Guide' (ESG Reporting Guide), as required under the Listing Rules (Appendix 27 of Main Board Listing Rules and Appendix 20 of the GEM Listing Rules). The ESG Guide comprises two levels of disclosure obligations, mandatory disclosure requirements (part B); and "comply or explain" provisions (part C) 100% are reporting some ESG information. 88% companies issue sustainability report. 	<ul style="list-style-type: none"> ESG assurance is not mandatory for Hong Kong listed companies, however, companies are encouraged. Practically small percentage of the listed companies opt to obtain any form of external assurance. Around 52% listed companies have opted to obtain external assurance, mostly from other service providers.
6.	Japan	<ul style="list-style-type: none"> Almost 99% companies report ESG data; 93% companies use SDGs, 87% TCFD, 62% GRI and 90% multiple frameworks; Japan is making the transition from 'comply or explain' to mandatory reporting. The use of the revised GRI Universal Standards has been mandatory since January 2023; The Financial Services Agency is discussing proposals for mandatory climate reporting and disclosure guidelines on sustainability and 	<ul style="list-style-type: none"> 70% undertaking external assurance of their reports.

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3.	United States	governance-related factors; • Companies are required to report on climate-related risks at the financial year ending 31 March 2022.	
4.	Australia	• 100% companies report ESG data. The most used frameworks are GRI, TCFD, SDGs	• Of the companies that disclosed ESG data, 69% obtained assurance with 100% Limited Assurance Report using ISAE 3000/ASAE 3000/ ISAE 3410.
4.	China	• In 2022, 61% of China's N100 companies adopted the ESG reporting guidelines issued by the Hong Kong, Shenzhen and Shanghai stock exchanges; • China aims to become carbon neutral by 2060. The leading listed companies of China has set a trend for adopting the SDG framework.	• Assurance is on increasing trend and more than 50 percent companies who prepare sustainability report also get it assured from the audit firm in accordance with ISAE 3000.
5.	Singapore	• Entities listed on the SGX are required to prepare an annual sustainability report. For this, the SGX has issued Sustainability Reporting listing rules and the Sustainability Reporting Guide (the SGX Guide) in June 2016. • 100% are reporting some ESG information. • With the effects of climate change becoming increasingly pronounced, the SGX has introduced a phased approach to implement 'Singapore Green Plan 2030' to mandatory climate reporting based on the recommendations of the TCFD.	• As per SGX listing rules, independent assurance on sustainability reports of listed entities is not mandatory, however, encouraged. • Entities are encouraged to use SSAE 3000 (as it provides guidance on the conduct of assurance engagements) instead of AA1000 AS (that focuses on the quality of reporting processes). • 38% listed companies have opted to obtain external assurance.
6.	Malaysia and Indonesia	Large listed companies are required to provide mandatory ESG disclosures.	
7.	Pakistan	• SECP's Corporate Social Responsibility Voluntary Guidelines, 2013 is currently being followed by public companies primarily along with other global sustainability reporting frameworks like GRI, SASB Standard UN SDGs etc.	

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		<ul style="list-style-type: none"> • The SECP's 'Position Paper on ESG Regulatory Roadmap' shows SECP plan to issue ESG Guide and Disclosure for investors. • SBP has launched 'Environmental & Social Risk Management' (ESRM) manual for banks and DFIs which provides comprehensive Environmental & Social Management System for systematic guidance to banks/DFIs on assessing and managing environmental and social risks. • Pakistan Stock Exchange has joined the Sustainable Stock Exchanges Initiative. • ICAP's Accounting Standards Board has formed a multi-stakeholder working group on sustainability reporting to consider the adoption of ISSB's sustainability reporting disclosure standards (IFRS S1 and S2) in Pakistan and also seeking member's feedback on the adoption. • ICAP is also organizing consultative/ awareness sessions for various stakeholder's awareness, mostly with SECP. • ICAP has also issued few publications to members on Sustainability reporting. • ICAP also regularly coordinate with ISSB's on sustainability reporting and to get hold of ISSB's various initiatives. • ICAP organizes 'Best Corporate and Sustainability Report Awards' each year to promote financial reporting and sustainability reporting in Pakistan. 	<ul style="list-style-type: none"> • Assurance is optional and very few companies are obtaining assurance from audit firms and independent consultant. • ISAE 3000 (Revised) is the most used assurance framework in Pakistan for sustainability reporting.
5.	India	<ul style="list-style-type: none"> • The Securities Exchange Board of India (SEBI) has mandated the filing of Business Responsibility and Sustainability Report (BRSR) for the top 1000 listed companies (by market capitalization). BRSR reporting was voluntary for the year 2021-22 but has become mandatory from 022-23. The BRSR has been developed keeping in mind the global ESG and sustainability frameworks (GRI, IIRF, SASB, the UN SDGs). • 100% companies are reporting some ESG information (GRI, SDGs and multiple frameworks) 	<ul style="list-style-type: none"> • External assurance is not mandatory. • Assurance frameworks used include ISAE 3000 (Revised), ISAE 3410, AA1000AS.
6.	Sri Lanka	<ul style="list-style-type: none"> • There is no statutory requirement for sustainability reporting. • Voluntary Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the CA Sri Lanka requires disclosures on sustainability. 	<ul style="list-style-type: none"> • External assurance is not mandatory.
6.	Bangladesh	<ul style="list-style-type: none"> • Listed companies are required to include ESG reporting as per, 'Guidance on Sustainability Reporting for Listed Companies in Bangladesh, 2020' in the annual reports. • Guidelines have been issued by central bank/NBFI regulator like, Guidelines for Environmental and Social Risk Management (ESRM), Green Banking Guidelines 2011, Sustainable Finance Policy 2020, CSR Policy Guidelines 2022. 	<ul style="list-style-type: none"> • Assurance on Sustainability Reports is not mandatory.

Source: The IFAC-AICPA-CIMA study 'The State of Play - Sustainability Disclosure and Assurance' (Feb 2023) <https://www.ifac.org/system/files/publications/files/IFAC-State-of-Play-Sustainability-Assurance-Disclosures.pdf>



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