Growing demand for external assurance on sustainability reports in Switzerland

What can board members do to steer the company toward successful assurance on the next sustainability report? As assurance becomes more relevant, we explore the options available to companies and look at what they can do to prepare.

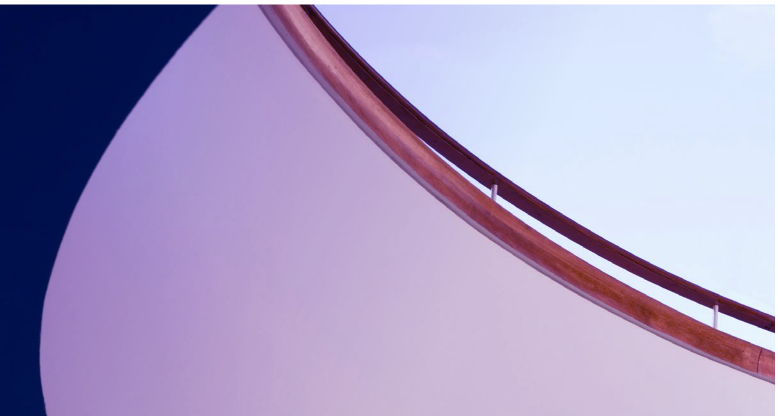
Based on the EU's Corporate Sustainability Reporting Directive (CSRD) requirements, external limited assurance will – because of their European Subsidiaries – become a topicy for many Swiss groups as early as for the financial year 2025. On 26 June 2024, the Swiss Federal Council issued a proposal to tighten the current requirements on sustainability reporting in Switzerland, including the introduction of assurance requirements similar to those in the EU. Around 3,500 Swiss companies would be impacted by the proposed amendments.[1]

Apart from these regulatory impacts, other stakeholders are also putting companies under increasing pressure to obtain external assurance over their sustainability information/report:

A) Companies increasingly demand assured data from their suppliers based on regulations but also to gain a better view of their supply chain
B) Investors and banks want high-quality and assured data from a risk and regulatory perspective
C) Consumers and NGOs put pressure on companies which do not disclose and/or assure sustainability data

The Lucerne University of Applied Sciences and Arts (HSLU) carried out a study[2] on ESG reporting in 2024. The survey of 101 Swiss companies found that 27.7% obtained some level of external assurance over at least parts of their sustainability reports in 2023.

[1] https://www.newsd.admin.ch/newsd/message/attachments/88435.pdf
[2] ESG Reporting Survey 2024



External assurance on sustainability reporting

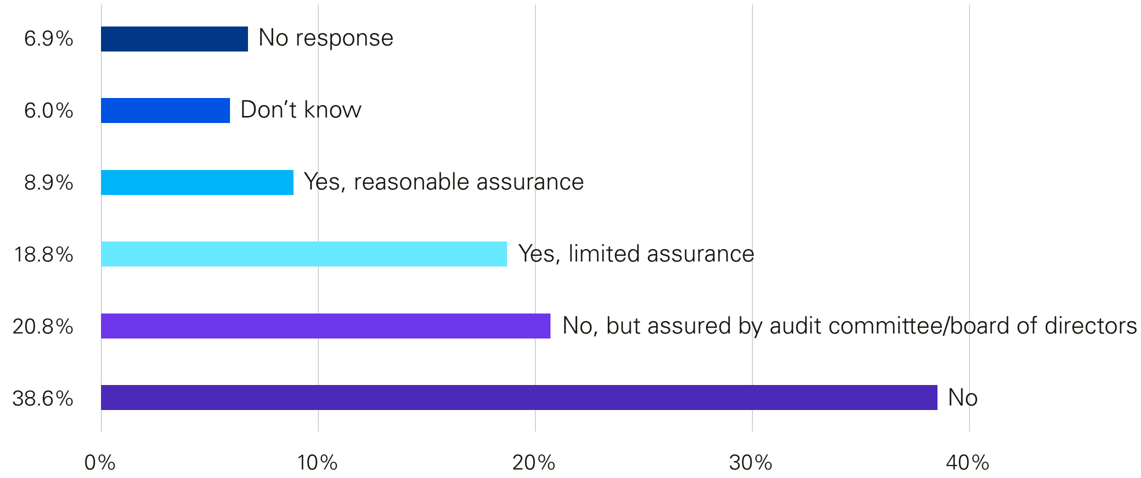


Figure 1: External assurance on sustainability reporting (n=101 companies)

According to a global KPMG study – Road to readiness – KPMG ESG assurance maturity Index 2023,[3] only 25% of companies feel they have the ESG policies, skills, and systems in place to be ready for ESG assurance. Against this background, we want to shed some light on how companies can prepare – and avoid surprises.

What does assurance mean?

The most widely used external assurance standard for non-financial information is ISAE 3000 and, to a lesser extent, ISAE 3410 (for greenhouse gas key performance indicators (KPIs). The standards describe the key conditions which need to be met to provide assurance. However, ISAE 3000 applies to all kinds of assurance, not just that relating to ESG. Therefore, the International Auditing and Assurance Standards Board (IAASB) is currently developing the Proposed International Standard on Sustainability Assurance (ISSA 5000). This standard will set the new baseline on how to perform ESG assurance in the future. It will be applicable for all sustainability topics and all sustainability reporting frameworks, standards or suitable criteria. Based on the current draft, it will also prescribe in more detail the procedures to be performed by the external assurance provider. Leaving less room for professional judgment and interpretation, the standard increases harmonization among assurance providers.

Sustainability reporting: Obligation and scope of assurance

Mandatory versus optional assurance: In preparation for the upcoming mandatory assurance, several companies opted for a dry run in financial year 2024 or before. Generally, there are two options for those taking this path – engaging an external assurance provider to deliver either a “readiness assessment” or “limited assurance” over parts of or the entire sustainability report. Either way, companies should receive a management letter providing observations and recommendations to consider for future periods.

Selected KPIs versus full report: As long as an assurance over the whole report is not mandatory, companies have the option to obtain assurance over selected KPIs or disclosures only. Several companies started with this approach and built up the assurance scope over time. The advantages are that this limits internal effort and cost in the first year but still develops some internal knowhow on the assurance process and requirements. Most of the data and disclosures in a sustainability report are provided by departments which have not yet experienced an external assurance process. Therefore, a dry run can provide relevant lessons on what is required, from established policies to documentation.

[3] https://thoughtlabgroup.com/wp-content/uploads/2024/01/esg-maturity-report-2023.pdf

Experience with assurance in accordance with Swiss Company Law

In 2024 a few listed Swiss companies obtained a limited assurance over their full report on non-financial information in accordance with Article 964b Swiss Code of Obligations (in force since 1 January 2023). Listed companies exceeding certain thresholds required board and AGM approval of their reporting on their non-financial matters (sustainability) for the first time this year, marking a meaningful step forward in terms of good corporate governance. These reports were issued without limitations.

Sustainability reports: Level of assurance

Current regulations require limited assurance and provide for reasonable assurance in the future. The EU standard-setter indicated a reasonable assurance requirement for 2028 at the earliest. As part of a dry run (as discussed above), companies can also obtain a readiness assessment. These three levels of assurance are described in the following:

- A readiness assessment is an important first step in establishing whether your company is ready for assurance and in identifying improvement potential. An external assurance provider performs procedures on selected parts of your sustainability report. Rather than issuing an assurance statement, the provider delivers an improvement letter that sets out key findings of the assessment and recommendations to close existing gaps.
- In a limited assurance engagement, the nature, timing and extent of procedures is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in our professional judgment, meaningful. Upcoming regulations currently require limited assurance. It is also the most commonly used assurance option. Limited assurance is already provided, for example, on a half-year reviews of financial statements by some publicly listed companies.
- In a reasonable assurance engagement, the aim is to reduce engagement risk to an acceptably low level in the circumstances of the engagement as the basis for conclusion. Extensive procedures are required, specifically significantly more sample testing and an assessment of the control environment. This would result in the same level of assurance as an audit opinion on financial statements.

Steps toward ESG assurance readiness

Determine applicable ESG reporting standards: Based on the current regulatory environment in the EU and Switzerland, the most commonly used reporting standard among large groups in Switzerland will be the European Sustainability Reporting Standards (ESRS), which is required by the CSRD. Smaller, out-of-scope companies will still have the possibility to opt for a less comprehensive standard such as the Global Reporting Initiative (GRI), currently the most commonly applied framework.

Build robust ESG governance and develop the right skills: Certain standards, such as ESRS, provide clear guidance and require disclosures on governance, board responsibilities as well as capabilities of individual board members who are responsible for topics. Many Swiss groups are therefore currently assessing and defining responsibilities for ESG topics within the board and committees.

Identify the applicable ESG disclosures and data requirements across functions: ESG is a cross-functional task requiring involvement from Legal, HR, Communications, Procurement, Finance, ESHA and other functions. Management needs to ensure sufficient resources are allocated and trained to provide the required data and disclosure input. Policies and processes need to be established and documented. Claims within sustainability statements need to be supported by appropriate evidence and KPIs need to be backed up by source documents such as invoices, contracts or signed off reports.

Digitalize ESG data processes and ensure high quality data: ESRS can require companies to disclose over 1,000 data points. Additional regulations (like the Carbon Border Adjustment Mechanism (CBAM) or the Corporate Sustainability Due Diligence Directive (CSDDD)) are set to become mandatory, and demand even more data points and disclosures. To manage these additional requirements, ensure consistency (one single source of truth) and provide high-quality data, companies will have to evaluate digital options.

Work with the value chain to collect ESG information: For companies to show progress and achieve their targets, an increased focus on the value chain will be required. In a first instance, large external data providers can be considered for additional risk assessment and data collection. However, to effectively manage risks and targets companies will need to increase visibility on their value chain and engage with their upstream and downstream partners.

Recommendations for the board

Board: It is of paramount importance that the governance structure at board level be clearly defined. This includes determining whether the audit committee, the sustainability committee or the entire board is accountable for the sustainability report and the associated assurance, or if the responsibility is divided. It is recommended that sustainability, particularly in terms of reporting and compliance, should be a consistent item on every board agenda.

Board and management: It is crucial for the board, in collaboration with management, to establish their sustainability aspirations as a company and define a corresponding strategy to achieve their objectives.

Board members: The new regulations are complex and highly dynamic. Given that the board is accountable for compliance, we advise board members to enhance their skills in this area.

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