

CHAPTER 2

Assurance on sustainability information

This article aims to:

Discuss the key provisions of SSAE 3000, *Assurance Engagements on Sustainability Information* and related considerations for management and practitioners.

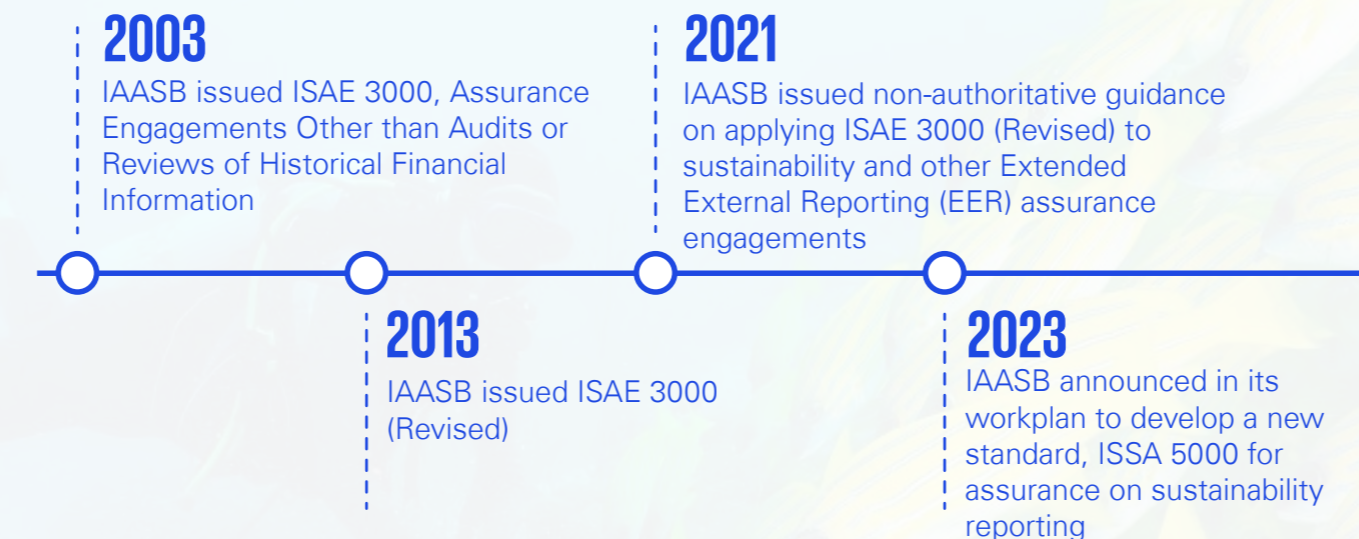
Introduction

Over the years, sustainability reporting has emerged as an important theme of discussion among the investors, regulators and other stakeholders in the business and capital markets ecosystem. With increasing focus towards non-financial information by the stakeholders, companies in India are making enhanced sustainability disclosures. These disclosures are centered around the ESG (Environment, Social and Governance) pillars of value creation, inclusive growth and sustainable development. Globally, many standards and frameworks on sustainability exist today such as the Global Reporting Initiative (GRI), Task Force on Climate-Related Financial disclosures (TCFD), United Nations Sustainable Development Goals (SDGs), etc. These standards help companies to measure their sustainability performance against the defined benchmarks and metrics and make the required disclosures on non-financial information.

This space is continuously evolving around the world. Sustainability reporting is still at a nascent stage worldwide, measuring and reporting the same can be challenging for the companies. Thus, it is crucial that such information is accurate, complete, reliable and relevant. In this regard, there has been an increased focus towards assurance on sustainability information and regulators around the world are working towards bringing reforms in the sustainability assurance space. The International

Auditing and Assurance Standards Board (IAASB) has been proactively issuing standard of assurance engagements other than audits or reviews of historical financial information (ISAE 3000). Additionally, in 2021, the IAASB also issued non-authoritative guidance on applying ISAE 3000 to sustainability assurance engagements.

The diagram below depicts the developments which have taken place at the (IAASB) relating to sustainability assurance.



(Source: KPMG in India's analysis, 2023)

In India, there was no authoritative guidance regarding assurance engagements on sustainability information and many practitioners were applying the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* to provide assurance on sustainability information.

In this regard, the Institute of Chartered Accountants of India (ICAI), through the

Sustainability Reporting Standards Board (SRSB) issued the Standard on Sustainability Assurance Engagements (SSAE) 3000, *Assurance Engagements on Sustainability Information* (the standard). SSAE 3000 is an umbrella standard applicable to all assurance engagements on sustainability information. In case there is subject matter information to which a specific assurance standard applies (e.g. GHG emissions), SSAE 3000 will apply in addition to the subject matter specific standard (e.g. SAE 3410).

The standard would be effective on:

- A voluntary basis for assurance reports covering periods ending on 31 March 2023, and
- Mandatory basis for assurance reports covering periods ending on or after 31 March 2024.

In this article, we aim to summarise the key aspects of SSAE 3000 and discuss the related considerations for management as well as practitioners.



SSAE 3000: An overview

SSAE 3000 draws reference from ISAE 3000, issued by the IAASB. The standard provides guidance with regard to both limited assurance as well as reasonable assurance (depending on the type of engagement) and explains the overall requirements regarding assurance on sustainability information to be followed by practitioners. The diagram below illustrates the key aspects of SSAE 3000:



(Source: KPMG in India's analysis, 2023 read with the ICAI notification dated 10 January 2023)

- **Parties involved:** All assurance engagements must have at least three parties:
 - A responsible party, i.e., the management of a company,
 - A practitioner, i.e., a professional accountant in public practice¹ conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the

- firm) and
 - Intended users, i.e., shareholders, investors, regulators, etc.

The standard provides that in many attestation engagements, the responsible party may also be the measurer or evaluator, and the engaging party.

- **Scope:** The standard provides that there are two types of assurance engagements – attestation engagements² and direct reporting engagements³. SSAE 3000 is applicable only to the attestation engagements. Direct reporting engagements are not included within the scope of SSAE 3000⁴. Additionally, the below are not considered as assurance engagements in terms of SSAE 3000:

- Engagements covered by Standards on Related Services (SRS), such as agreed-upon procedure and compilation engagements,
- Consulting (or advisory) engagements, such as management consulting, and
- Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:

- Those opinions, views or wording are merely incidental to the overall engagement,
- Any written report issued is expressly restricted for use by only the intended users specified in the report,
- Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement, and
- The engagement is not represented as an assurance engagement in the professional accountant's report.

1. As per the ICAI's Code of Ethics, the term 'professional accountant in public practice' refers to the member of the ICAI who is in practice, in terms of Section 2 of The Chartered Accountants Act, 1949. The term is also used to refer to a firm of professional accountants in public practice

2. An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. Such party also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. In an attestation engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The practitioner's conclusion may be phrased in terms of:

- The underlying subject matter and the applicable criteria,
- The subject matter information and the applicable criteria, or
- A statement made by the appropriate party.

3. An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct reporting engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

4. ISAE 3000 is applicable to attestation as well as direct reporting assurance engagements

• Understanding the underlying

subject matter: Reporting on non-financial information is based on a blend of both quantitative and qualitative factors. In this regard, the standard provides that the underlying subject matter, as identified by the management must have the following two characteristics:

- **It can be measured or evaluated against the relevant criteria** (for example – measuring a company’s waste generation and disposal (subject matter) against the criteria of total waste disposed off and recycled, and
- **It can be subject to procedures to gather information required for supporting the necessary assurance conclusion** (for example – verification of systems and procedures used for quantification and collation of waste disposal data by having discussions with personnel regarding the method of waste disposal).

Further, the practitioner should make inquiries to the relevant parties, such as the functional or department heads, supervisors etc. regarding:

- Whether they have knowledge of any actual, suspected or alleged intentional misstatement affecting the subject matter information,
- Whether there is an internal audit function and, if so, further inquiries must be made to obtain an understanding of the activities and main findings of the internal audit function

with respect to the subject matter information, and

- Whether the responsible party has used any experts in the preparation of the subject matter information.

• **Materiality:** The standard states that the practitioner should consider the appropriate materiality threshold for planning and performing the assurance engagement, determining the nature, timing and extent of procedures, as well as evaluating that the subject matter information is free from material misstatement. Some quantitative and qualitative factors that can be considered for determining the materiality threshold include:

- Number of persons or entities affected by the underlying subject matter,
- Characteristics of the presentation adopted for the subject matter information, when the applicable criteria allows for variations in that presentation,
- When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value, etc.

• **Using the work of subject matter experts/another practitioner/ internal auditor:** The practitioner, while using the work of any subject matter expert, another practitioner or the internal auditor, should

evaluate their competence, capabilities and objectivity and perform procedures to determine the adequacy of the work performed.

However, the standard clarifies that the practitioner would be responsible for the overall conclusion reached and opinion expressed in the assurance report.

• **Documentation:** The practitioner must prepare on a timely basis engagement documentation, thereby providing a record of the basis for the assurance report, the nature, timing and extent of the procedures performed, evidence obtained, significant matters arising during the engagement, if any, conclusions reached, and the significant professional judgements made in reaching those conclusions.

Engagement documentation should be assembled in an engagement file on a timely basis, i.e., within 60 days after the date of the assurance report and should be retained for a period of not less than five years from the date of the assurance report.

• **Reporting:** Based on the evaluation of the evidence obtained and conclusion reached, an assurance report in writing should be prepared by the practitioner. The assurance report should clearly express the practitioner’s conclusion about the subject matter information. In this regard, SSAE 3000 has specified a list of basic elements, such as the underlying subject matter and the applicable criteria, procedures

performed, description of inherent limitations associated with the engagement etc. that must be included in the assurance report. The standard has also provided an illustrative format of the assurance reports (both limited as well as reasonable assurance) for reference purpose.

The standard further states that, the assurance report should not be dated earlier than the date on which the practitioner has obtained the evidence on which his/her conclusion is based.



Important considerations for management of a company

SSAE 3000 explains some important considerations and takeaways for the responsible party (i.e., the management), while supporting the practitioner with the required information and evidence regarding sustainability information. These are discussed below:

- **Identification and determination of subject matter:**

Management would be responsible for identifying and determining the relevant subject matter. Based on the subject matter so identified, subject matter information is prepared in accordance with the applicable criteria.

- **Disclosure of applicable criteria:**

Management should disclose the applicable criteria that has been used for preparing the subject matter information in the relevant report/statement.

- **Internal control system:**

Similar to a financial audit, management would be responsible for designing, implementing and maintaining such internal controls system, which the entity determines is necessary to enable the preparation of a subject matter information that is free from material misstatement, whether due to fraud or error.

- **Written representation:** Management should submit a written representation to the practitioner and state that it has provided all the information, of which it is aware and which is relevant to the assurance engagement. Such representation should also confirm the measurement or evaluation of the underlying subject matter against the applicable criteria, including the fact that all the relevant matters are reflected in the subject matter information.

In cases where the practitioner determines it necessary to obtain one or more written representations for supporting such other evidence as is obtained, the management must duly issue the same to the practitioner⁵.

5. The date of such written representation should be as near as is practicable, but not after, the date of the assurance report



Next step

Companies in India are providing sustainability disclosures under various formats such as integrating sustainability disclosures as part of the annual report, creating a separate sustainability report, etc. Securities and Exchange Board of India (SEBI) under the SEBI LODR Regulations mandates the top 1,000 listed entities in India to prepare the Business Responsibility and Sustainability Reporting (BRSR) which has become mandatory from Financial Year 2022-23. Further, on 29 March 2023, SEBI has approved the regulatory framework for ESG disclosures, ratings and investing. Corresponding amendments would be made in the SEBI regulations. The BRSR Core would be introduced, which contains a limited set of Key Performance Indicators (KPIs), for which listed entities would need to obtain reasonable assurance. The assurance requirement would be applicable for the top 150 listed entities (by market capitalisation) from FY 2023-24 and gradually applicability will be extended to the top 1,000 listed entities by FY 2026-27.

On the global front, IAASB, in its work plan for 2022-23 announced the development of a new standard - International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements.

Issuance of SSAE 3000 is a step in the right direction and will be of great value for the gradual transition towards mandatory assurance

on sustainability reporting in India. However, since measurement and evaluation of non-financial information entails a lot of emphasis towards qualitative factors and value creation metrics, companies should evaluate their existing

systems, processes and internal controls around sustainability performance and build the necessary resources for providing credible, reliable and accurate sustainability disclosures.

