Assurance Insights

Limited vs. Reasonable Assurance

Board Leadership Center

Assurance in the context of ESG matters is crucial for organizations. It enables investors, customers, and other users of sustainability reports to make informed decisions with a degree of confidence, while ensuring a level of transparency and credibility more broadly in ESG reporting.

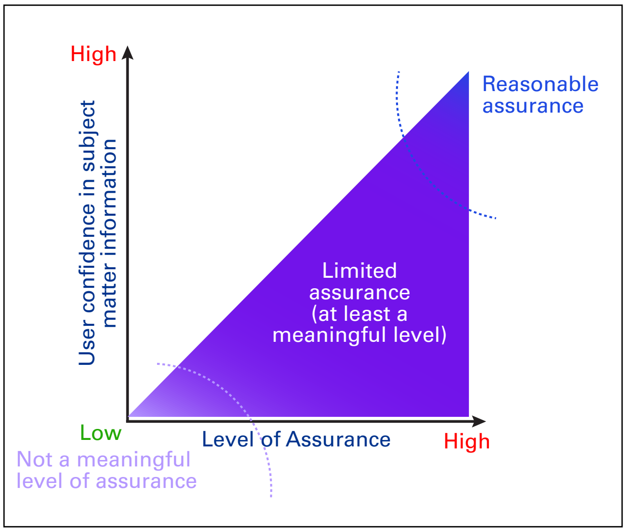
Even for companies already reporting on a voluntary basis, the evolution to mandatory sustainability reporting will take time. Companies need to develop governance structures and rigorous processes, systems, and controls over sustainability reporting that will pass the rigor of regulatory requirements and external Assurance.

Levels of Assurance

There are two levels of Assurance, Limited and Reasonable, with the key difference being the level of confidence the reader can take from the report. In Limited Assurance less evidence is collected, and procedures vary in nature, timing, and are less in extent. As a result, a lower degree of confidence is provided to the user of the sustainability report.

- **Reasonable Assurance (Reasonable)** is equivalent to an audit opinion over financial information, ensuring non-financial disclosures are prepared correctly and are materially accurate. It is the gold standard for Assurance, providing users of sustainability information with the highest level of confidence.
- **Limited Assurance (Limited)** provides a range of confidence that is less than Reasonable, but more than inconsequential or trivial, as illustrated in Figure 1. It follows the same methods as in Reasonable, however it is not as comprehensive in the nature, timing, and extent of procedures. With Limited, it is critical to clearly articulate the procedures performed and evidence underlying the opinion so that the user of the information can determine the level of confidence to ascribe to the report.

Figure 1: Levels of Assurance and range of user confidence



The choice between levels of Assurance is guided by the needs of the user as determined by the company (preparer) and what is materially important to their business (in the case of voluntary reporting) or is directed by regulatory requirements. For example, in the case of CSRD, Assurance is being phased in — reflecting the readiness of preparers to apply new sustainability reporting standards, resulting in the majority being subject to Limited Assurance in the early years.

Market Considerations

In the first years of new mandatory reporting, we expect the initial work effort to increase. For many companies ESG reporting is new, and therefore they may not have all the necessary processes, data, systems and controls that they require resulting in the need to rely on manual processes and potentially reporting of less accurate information.

This level of change creates inherent risk assessment factors, as companies shift from voluntary to mandatory reporting. For example, the absence of data from previous reporting to reference can lead to a sense of uncertainty, prompting a more cautious approach and requiring significant effort in establishing and documenting processes. We anticipate that this initial investment is essential for creating a robust framework that can withstand scrutiny and provide a solid foundation for the future.

Questions Boards should consider

1. What level of assurance is appropriate for our sustainability disclosures?
2. What are the implications of transition from voluntary to mandatory sustainability reporting and assurance for our business?
3. Are our governance structures, processes and internal controls robust enough to support mandatory sustainability reporting and assurance?
4. Should we consider a readiness assessment to evaluate our preparedness for third party assurance?
5. How can we effectively manage the initial investment in processes, systems and controls for sustainability reporting and assurance?
6. What specific procedures should we articulate to provide confidence in our Limited Assurance reports?
7. How do we address the potential expectation gap?
8. What risks do we face in the early years of mandatory reporting, and how can we mitigate them?

Additional resources

ESG Guide for Audit Committees

Are your portfolio companies Assuring their ESG promises? Insights from the International Corporate Governance Network (ICGN) conference, London July 2024

Future of Audit podcast series - KPMG Global

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