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Assurance Insights

Understanding Modified Assurance Conclusions

Board Leadership Center

New regulations, such as the EU's Corporate Sustainability Reporting Directive (CSRD) and the International Sustainability Standards Board (ISSB) first two IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2), aim to enhance the consistency and transparency of sustainability-related information.

As companies adjust to these new reporting requirements, it is expected that there will be an initial increase in **modified conclusions being issued by assurers when they report on a company's data**. This could be due to challenges in obtaining the necessary data, accuracy of estimates being made or the availability of evidence to support disclosures. This trend is currently observed across all industries and geographies. While some regions, such as the EU, are more advanced in this regard compared to others, it remains difficult for most global companies to gather consistent, high-quality data across their entire value chain. As a company's reporting processes become more mature, it is expected that the frequency of modified conclusions in assurance reports will decrease. Until then, it is important to understand the types of modified conclusions, what's driving them and how to communicate them to your customers, investors, employees and other key stakeholders.

Types of Conclusions

An **unmodified conclusion** is referred to as either a positive opinion (Reasonable), where the assurance practitioner concludes that the subject matter information (SMI) is prepared or fairly presented, in all material respects, in accordance with the applicable criteria. Or, Limited, where the assurance provider concludes that based on the procedures performed and the evidence obtained, nothing has come to their attention that causes them to believe the SMI is not prepared, in all material respects.

In contrast, **modified conclusions** are issued when non-financial information is not presented fairly in all material respects or when sufficient appropriate evidence cannot be obtained to form a conclusion. These conclusions are given in cases of misstatements, which occur when there is a discrepancy between the provided (or omitted) disclosure and the requirements of the reporting framework. Misstatements can be either quantitative or qualitative and may include omitted information or errors. There are three types of modified conclusions:

1. **Qualified:** Issued when the assurance provider concludes that an unqualified conclusion cannot be expressed, but the issues identified are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion.
2. **Adverse:** Issued when the assurance provider, having obtained sufficient appropriate evidence, concludes that misstatements are both material and pervasive to the non-financial information.
3. **Disclaimer of conclusion:** Issued when the assurance provider is unable to obtain sufficient appropriate evidence to base a conclusion, and the potential effects of undetected misstatements could be both material and pervasive.

Circumstances that could lead to the issuance of a Modified Conclusion

The issuance of a modified conclusion for non-financial information typically arises because of several key circumstances, including material misstatements, a limitation of scope, or disagreements with management.

In the case of **material misstatements** of SMIs, when the assurance provider identifies significant inaccuracies, omissions, or non-compliance with the relevant reporting framework that are not corrected, a qualified or adverse conclusion is likely to be issued based on how material or pervasive the misstatements are.

For example, if a company inaccurately reports a 50 percent reduction in carbon emissions when the actual reduction is only 25 percent and refuses to amend this, a modified conclusion will need to be issued to alert the company's stakeholders of the inaccuracy.

Similarly, if a company claims compliance with a particular sustainability framework, but omits key disclosures required by these standards that are material to their business, for example water usage, a modified conclusion would be issued to alert their stakeholders to the deficiencies in the report.

Another common scenario is a **limitation of scope**. This occurs when the assurance provider cannot obtain sufficient appropriate evidence to form a conclusion, including the possible effects on the SMI of undetected misstatements, if any, that could be material. Such limitations might be due to conditions beyond the company's control, or constraints related to the assurance provider's work. For example, if the assurance provider cannot verify a company's claims about improved working conditions in overseas factories due to restricted access to these locations, they might issue a disclaimer of conclusion — meaning the scope limitation is both material and pervasive.

If there are **disagreements with management** regarding the application of the applicable criteria, the facts or the interpretation of facts, the scope of the engagement, or the language of the assurance report, and these disagreements are material but not pervasive, a qualified conclusion may be issued.

These examples highlight the complexities and challenges in assuring sustainability-related information.

Additional challenges driving the increase in Modified Conclusions

Data Verification: Verifying the data in sustainability reports can be challenging due to the qualitative nature of some sustainability-related information and the lack of reliable data sources. Additionally, the inclusion of Scope 3 emissions under CSRD is expected to increase the complexity as companies struggle to obtain precise data from their suppliers and other third parties, leading to a higher incidence of modified conclusions.

Boards driving continuous improvement

A modified conclusion can inform strategic decision-making and risk management. By identifying the reasons behind the modification, the Board can prioritize initiatives to enhance sustainability performance and improve data collection processes. This understanding fosters a culture of continuous improvement and encourages engagement with assurance providers, ultimately leading to better reporting practices. Addressing the issues highlighted in a modified conclusion not only strengthens sustainability efforts but also protects the company's reputation and enhances overall performance.

Questions Boards may consider

1. Are we fully aware of the current sustainability reporting landscape and our requirements?
2. What strategies do we have in place to communicate a modified conclusion to our stakeholders to ensure understanding and transparency?
3. How does management assess the impact of sustainability findings on our long-term business strategy and performance?
4. What governance structures do we need to have in place to oversee sustainability practices, and do we have the necessary expertise on the board to address sustainability issues effectively?
5. How do we leverage modified conclusions as opportunities for continuous improvement in our sustainability practices?
6. In what ways are our sustainability objectives aligned with our overall business strategy, and how do we ensure that they are compatible with our financial goals?
7. Has management conducted an assessment of potential conflicting Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) between our financial and ESG performance, and how do we address these conflicts?
8. How do we manage potential conflicts of interest that may arise from board members?

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