SUSTAINABILITY ASSURANCE – A CALL TO ACTION, QUALITY AND COLLABORATION

Investors and other stakeholders are increasingly calling on entities to issue high-quality, transparent, reliable and comparable reports on the impact of climate change and other environmental, social and governance (ESG) matters. These calls for sustainability reporting are becoming louder and more urgent as the rapid pace at which the world is advancing to meet today's needs is threatening to compromise future generations.

Globally, studies show that more companies are heeding this call, as the number of those that are incorporating sustainability reporting into their processes continues to grow. While this is commendable in as far as how companies are taking responsibility for the impact of their operations on the environment, conversations on the assurance of this sustainability information have also become crucial. Mainly, this is because the assurance of sustainability information, unlike financial information, is not the responsibility of just the accountancy practitioners.

"About 40% of sustainability assurance was provided by consultants, engineers or other professional service organisations outside of the accountancy profession," according to David Madon, Director of Sustainability Policy and Regulatory Affairs at the International Federation of Accountants (IFAC). He revealed this data, which is from a study conducted globally over a four-year period (2019-2022), while speaking at a webinar themed Sustainability: The Big Picture that the Independent Regulatory Board for Auditors hosted in November 2024.

"The assurance we found was consistently around 80% limited in nature, not reasonable assurance like for financial information. I believe we need regulation to drive the evolution to reasonable assurance, if sustainability information is to be as decision-useful and trusted as financial information," he noted. "The data tells us that in voluntary assurance jurisdictions, the use of other service providers leads to an increase in standard fragmentation."

The event brought together experts and stakeholders from various fields, including regulators, academia and audit firms. The topics under discussion comprised an overview of the regulatory sustainability landscape; the preparation of a sustainability report, with a focus on the role of technology, controls and data; ethics standards for sustainability assurance; ethical conduct with regard to greenwashing and greenhushing; and the future of sustainability reporting and assurance.

On the regulatory front, the South African Reserve Bank's Prudential Authority has paid particular attention to climate-related disclosures, with some guidance released in May 2024 in that regard. As Sarah McPhail, Lead Policy Analyst for Sustainable Finance at the Prudential Authority, pointed out, this was partly driven by feedback from banks and insurers that indicated that climate risk could be material to their businesses, as well as requests for regulatory guidance to provide comparative transparency and coherence across the industry, among others. "Climate risk has some distinct characteristics that warrant an additional focus from a regulatory perspective, one being the longer time horizons on the decisions that we make today, specifically around climate tipping points and their implications for the future," she said.

In the meantime, research shows that investor demand for quality sustainability-related information is not being met adequately, due to a number of complicating factors along the value chain. Some of these complications are due to a lack of commonly-accepted definitions, inconsistent metrics or methodologies and inconsistencies in disclosures, as Kershia Singh from the Financial Sector Conduct Authority observed.

Further complicating the field for assurance providers is that there is no single definition for the term sustainability. In fact, there are definitional challenges, as Peter Brodrick from Nelson Mandela University highlighted when presenting on the research they have conducted to arrive at a proposed definition. In essence, a common definition is significant for aligning action behind sustainability, understanding the responsibility to report consistently against it and making informed decisions for resource allocation, among others. The study has proposed the following as a definition:

> *Sustainability, in an organisational reporting context, is the practice of ethically managing impacts and preserving resources and relationships over time across a balance of environmental, social and economic dimensions to produce long-term, equitable value for identified current and future stakeholders.*

As he indicated, the notable driver for the differences in sustainability definitions is the audience or the stakeholder concept, which becomes the key determinant of the other definitional components of purpose, dimensions and application.

Ethics and Sustainability

Across the globe, investors, consumers, regulators and other stakeholders rely heavily on business disclosures to make decisions that align with their goals for sustainable growth and responsible business practices. Basically, sustainability reporting has become essential for organisations that aim to demonstrate their commitment to long-term responsible practices. "However, without a solid ethical foundation, the information reported can easily be distorted by inaccurate assumptions and misleading practices," Gabriella Figueiredo Dias, International Ethics Standards Board for Accountants (IESBA) Chair, stated.

While it must be acknowledged that a decisive change is already underway in terms of sustainability reporting and assurance, the sustainability agenda has not yet delivered – and it may not do so without more efforts and commitments. Also, standards and regulations, which are fundamental parts of the overall strategy, should not been seen as the magic wands that will accelerate this evolution. An adjustment in mindsets and decisive business transformation, among others, will be critical in bringing about change.

"All the efforts being done – setting ambitious net-zero targets, reducing carbon emissions, improving respect for human rights along the supply chain, and reporting on the progress made – may allow for an unintended result, if the information provided is not accurate and reliable," she cautioned. Ethics, therefore, need to be at the core of assuring the credibility of sustainability information; and this is not just about adhering to standards, but upholding the fundamental principles that foster integrity and trust.

> All the available standards will not deliver on their value without a proper ethical framework. This is because it is important that those preparing the information or providing assurance should have enough competence and no conflicts of interest that could undermine the integrity of their work and trust.

It should also be remembered that the quality of information will always depend on the quality of the conduct and behaviours of the people using and applying the reporting and assurance standards, which then elevates the risk of greenwashing, if the underlying issues are not addressed in an appropriate manner. "At the origin of every greenwashing situation you have a behavioural issue, a bad choice that was made by human beings, somewhere along the process, working in organisations that do not always have the necessary frameworks and culture to shape behaviours appropriately," she noted.

With sustainability disclosures, there is more space for judgement for the preparers of sustainability reports and the providers of sustainability assurance – way more than with financial information. That then heightens the importance of ethics even more when it comes to sustainability reporting and assurance, requiring an awareness from practitioners of the factors that could create an ethical dilemma. These include pressure from clients and/or management; conflicts of interest; and wrong incentives.

Therefore, ethics have to be prioritised in sustainability reporting and assurance. The IESBA, in fact, has developed standards that are professional agnostic, framework neutral and designed to address the ethical complexities that are inherent in sustainability assurance. "We believe that with the right tools, practitioners and regulators can confidently apply these ethics standards to support credible, transparent and objective sustainability information," she pointed out. "Ethics is not simply a nice-to-have or an optional extra… it is foundational. It is the bedrock of trust in non-financial information... It is a transformative force and a catalyst for the power of reporting and assurance standards."

Expanding on the topic of ethics in sustainability, Sarah Lane from the Association of Chartered Certified Accountants (ACCA), touched on some global incidents that have been as a result of ethical lapses, greenwashing and greenhushing. Greenwashing is where companies make their environmental practices seem more sustainable than they really are, which means they mislead the public, consumers and investors. Greenhushing, on the other hand, is when companies remain silent about their environmental efforts, whether these are good or bad.

Through research it recently completed, ACCA surveyed its members to get an understanding of the ethical challenges that practitioners have been facing over the past three years. Some of the top themes the study revealed are ethical leadership (citing

Practical Insights on Preparing a Sustainability Report

Coherence, transparency and an accurate reflection of the sustainability journey should be the basis on which sustainability reports are prepared. Due to how broad the topic is, though, collaborations across various specialist fields are critical, as Zniko Nhlapho, Principal Specialist on Environment from Vodacom, mentioned.

Below are some of the key learnings from how Vodacom is navigating the sustainability reporting landscape.

- Build strong and accountable networks for support within the organisation, and this includes the custodians of the data, the owners of certain policies and the individuals that are responsible for implementing some of the relevant strategic actions.
- Establish ownership across all departments and functions.
- Recognise that data collection is a critical component of the process, as it helps to tell the story transparently and accurately.
- Interrogate the data, and for this it is important to pull in various functions for better analysis.
- Leverage technology to streamline processes.
- Understand the trends, anomalies and areas of improvement through analysis, focusing on relevance, accuracy, completeness, transparency and consistency.
- Allow for an objective assessment of the accuracy and completeness of the information, and that could mean exploring a combined assurance approach.
- Embed governance and accountability at all levels of the organisation.
- Continuously train, build capacity and raise awareness among the various functions, for a broader understanding of the organisation's sustainability goals.

concerns about the potential prevalence of dishonesty and unethical behaviour in society); ethical culture; sustainability (noting the challenges of operating sustainably, reducing the environmental impact, honest reporting on sustainability practices and balancing profitability with sustainability); use of artificial intelligence (unaccountable use and misuse); and technology.

Sustainability Assurance

As indicated earlier, it is clearly that users' expectations are higher and there is a greater need for assurance. Users' decisions are also driving investment and supply chain decisions, among others, which is further intensifying their expectations, Neil Morris, a board member of the International Auditing and Assurance Standards Board (IAASB), pointed out.

To respond to this evolving environment and the fast-moving subject of sustainability, the IAASB has timeously approved the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance*, in an accelerated period and without undermining any of its processes. The launch and final publication of the standard is set for January 2025, while an implementation guide is being developed. With the enormous input received in formulated this standard, this now means that the first global baseline for sustainability assurance has been approved and that will limit the extent of fragmentation from an assurance perspective. The significant features of ISSA 5000 include noting that the standard:

- Applies to sustainability information prepared under any suitable reporting framework;
- Is underpinned by ethics and quality management;
- Has clearly distinguished limited and reasonable assurance paragraphs;
- Is available to all assurance practitioners; and
- Encompasses assurance on any sustainability information, including greenhouse gas emissions.

Furthermore, the key matters that stakeholders raised during the consultation process have been addressed in ISSA 5000 and these include having ensured that it has the following characteristics:

- Profession agnostic, as it has to be usable to all professionals; therefore, it uses plain language, in as far as possible, for understandability, application and ease of translating;
- "At least as demanding" for ethics and quality management, through clarifying certain requirements;
- Materiality includes an emphasis on that of practitioners and the entities' double materiality processes and levels;
- Approach to estimates and forward-looking information is streamlined, with combined requirements;
- Risk assessment and understanding controls for limited assurance;
- Connectivity with the financial statement auditor and increased requirements, especially for non-auditors; and
- Engagement team versus using the work of other practitioners.

Once the standard is published, additional resources will be made available, including Frequently Asked Questions as well as guidance on scope and applicability. The effective date will be 15 December 2026, with early adoption permitted.

Future-Proofing – "Be Comfortable with being Uncomfortable"

It is evident that doing sustainability assurance work is going to require a mindset shift for accountancy professionals. "It's important to acknowledge where some of the differences are between this type of reporting and financial reporting. One of those is that so much of this information is forward-looking, and it comes with uncertainty; it's hard to measure," Bruce Vivian from IFAC remarked while presenting on what the future looks for sustainability assurance.

In essence, reporting boundaries are extending in terms of data collection and the variety of professionals that the accountancy practitioners will now have to work with – and this calls for openness to more collaborations. To summarise the discussion on the outlook, the following pointers from ACCA's Sharon Machado and EY's Mohsin Yahya Nana should be noted:

- Think differently with regard to business acumen – have a business partnering mindset.
- Develop an appreciation for societal issues and how they affect business strategies and models.
- Improve behavioural competence, or soft skills, especially when it comes to interacting with multidisciplinary teams and communicating with other professionals.
- Invest in upskilling programmes and get practical experience through engagements with others.
- Develop proficiency in data analytic tools and techniques, to skilfully handle the amount of data.
- Use technology as a support and an enabler, not a replacement for the human element.
- Invest in any other emerging technologies, for efficiency and quality assurance processes.

Undoubtably, this is a long journey that has immense challenges and it will require continuous learning and development along the way. However, with the right understanding, tools and approach, all parties will play significant roles in driving sustainability and climate reporting. Accountancy practitioners will have to "be comfortable with being uncomfortable", as they navigate this ever-changing landscape along with non-auditors and other service providers. Ultimately, the main focus should be on ensuring that investors and all users of sustainability information benefit the most from a level regulatory playing field that delivers high-quality outcomes, irrespective of which practitioner provides assurance, as assurance becomes mandatory.

A full video recording of the webinar is available on the IRBA website.

Quick Takeaways for Practitioners to Note

- No additional accreditation is required in South Africa for registered auditors (RAs) to perform sustainability assurance work.
- Those RAs, though, are expected to have a distinct ESG need identified in their Continuing Professional Development (CPD) plans.
- Competent and suitable sustainability skills are required, and RAs should take responsibility in terms of their CPD requirements and how those are linked to building advanced knowledge and an understanding of sustainability.
- An RA will need to be registered as an "RA Assurance" to sign off on assurance engagements.
- Be aware, however, that some countries, especially in Europe, have specific accreditation requirements.

RESOURCES

- ACCA Global: Ethical Sustainability Reporting
- ACCA Global: Making Information Connections for Sustainable Value Creation
- ACCA Global: Sustainability Reporting Hub
- ACCA Global: The New Era of Ethical Challenges for Professional Accountants
- Ethics Board: Sustainability Reporting and Assurance
- IAESB: Sustainability Reporting Project
- IFAC: A Deep Dive Into Sustainability Assurance Engagements
- IFAC: Educating Accountants for a Sustainable Future
- Vodacom Reporting Centre
- Wits University: Global Change Institute