

# Limited assurance on sustainability reporting

## Presentation of the CEAOB guidelines

**EFRAG FRB & EFRAG SRB JOINT MEETING**

Brussels, 11 December 2024

*Disclaimer : the views expressed are those of the presenter and do not necessarily represent the views of the CEAOB and/or the views of its members*

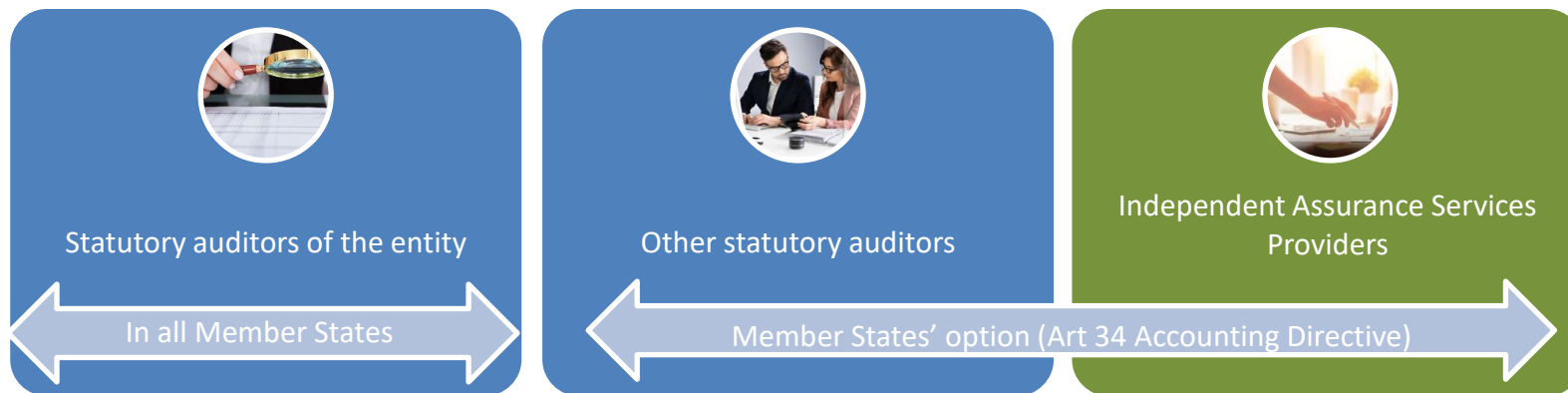


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# I. ASSURANCE ON SUSTAINABILITY REPORTING INTRODUCED BY CSRD

# Assurance on sustainability statements

- CSRD provisions: as from financial years starting on or after 1 January 2024, companies in scope shall draw up sustainability statements in accordance with the ESRS
- Sustainability statements need to be subject to an **assurance engagement** by **statutory auditors** or other **independent assurance services providers**, depending on Member States option
- Those « practitioners » are subject to independence, training, examination (expertise), oversight provisions as described in the Audit Directive and Regulation, as amended by the CSRD



# Assurance on sustainability statements

- The CSRD requires the adoption of **limited assurance standards** by the European Commission
  - to clarify what is expected from “practitioners” when carrying out a limited assurance engagement regarding the sustainability information reported
  - by 1 October 2026 at the latest
- Until the adoption of (a) standard(s) by the Commission, there will be a gap period
  - The CSRD states that Member States can adopt national standards (or pronouncements etc.) as long as the European Commission has not adopted standards at EU level
- The European Commission has invited the CEAOB to develop non-binding guidelines regarding limited assurance on sustainability reporting with the aim to avoid fragmentation and to ensure that practices are as consistent as possible in this gap period

## II. PRESENTATION - CEAOB GUIDELINES

Internet access [Link](#)

# Objectives of the CEAOB guidelines

- The CEAOB guidelines
  - facilitate a common understanding of some of the key aspects of the limited assurance engagement requirements introduced by the CSRD
  - do not override or replace national pronouncements that might be in force at national level in EU Member States
  - do not constitute a standard and should be read in conjunction with any national rules applicable to assurance on sustainability reporting
- Member States, through their competent authorities or otherwise, may recommend or require the use of the CEAOB guidelines either alone or in addition to national pronouncements applicable at national level for limited assurance engagements required by the CSRD
- The CEAOB guidelines may be used for “voluntary” limited assurance engagements performed at the request of entities outside CSRD scope

# Ethics, engagement acceptance and quality control

- The guidelines are not intended to be exhaustive.
- They do not, in particular, address ethical provisions - that are applicable to practitioners
- All practitioners are required to comply with the relevant ethical provisions which are described in the Audit Directive and Audit Regulation, and with any relevant national provisions
  - the provisions of the Audit Directive regarding independence, as transposed in national laws, apply to (limited) assurance engagements
- The provisions governing acceptance of the engagement are not covered by the guidelines either
- The practical organisation of the engagement is not specified in the guidelines
- Practitioners are required to put in place a system of quality control covering limited assurance engagements

# General principles and approach to the limited assurance engagement

## Objective of the limited assurance engagement

- In a limited assurance engagement, practitioners perform less extensive procedures than in a reasonable assurance engagement: the amount of work is expected to be less than for a reasonable assurance engagement that would be performed in the same circumstances
- Practitioners shall obtain limited assurance that the information reported by the entity is free from material misstatement(s). Appropriate procedures are to be designed and performed to obtain this limited assurance

## Material misstatement(s) for practitioners in the context of a limited assurance engagement

- Misstatement is a difference between a disclosure provided (or omitted) and the appropriate disclosure required by ESRS or Article 8 taxonomy reference framework. Misstatements can be quantitative or qualitative and include omitted information. Misstatements can arise from error or fraud.
- Misstatements, individually or in aggregate, are not material, if, according to the practitioners' professional judgement, they would reasonably be expected not to influence the decisions taken by the intended users of the sustainability statements
- The "materiality" of misstatement(s) in disclosures is linked but is not the same as the "double materiality" used to determine the matters to be reported on



# General principles and approach to the limited assurance engagement

## Fraud and non-compliance with laws or regulations

- Throughout the limited assurance engagement, practitioners should **remain alert** to the risk of fraud and to instances of non-compliance with laws and regulations.
- **In the absence of non-compliance with laws and regulations suspected or identified** through remaining alert during the engagement, the practitioners are not required to perform specific procedures regarding the entity's compliance with laws and regulations outside those applicable to the sustainability statements' preparation.
- Practitioners should communicate irregularities detected during the course of assurance engagements performed for public interest entities to the entity and, if the entity does not investigate the matter, to **authorities** designated by the Member State as responsible for investigating such irregularities. Non-compliance with laws and regulations detected during the sustainability assurance engagement falls within this category.

# General principles and approach to the limited assurance engagement

## Procedures targeted at risk identification and assessment

- Practitioners should obtain an understanding of the entity, its environment, and its system of internal control relevant to the preparation of the sustainability statements. This understanding should be sufficient to provide the practitioners with the ability to **identify and assess the risks of material misstatements at disclosures level**, thus providing a foundation for determination of further procedures to be designed and performed to respond to the risks
  - In identifying the risks of material misstatements, specific attention should be placed on disclosures that are likely to be most important to the information needs of intended users and on whether the disclosures meet the qualitative characteristics of information defined by the ESRS, including relevance and faithful representation.

**TRANSITIONAL PROVISION** -> **For the first year**, due to time constraints, practitioners may perform, as an alternative, an identification of disclosures where material misstatements are likely to arise

# Entity's « double materiality » assessment process

**On the process put in place by the entity to determine material matters for disclosure** practitioners should

- assess whether the description of the process is consistent with the process implemented, and
- design and perform procedures to determine whether the process is meeting the ESRS prescriptions
  - meaning (amongst others) that it allows to identify appropriately the information which enables users to understand the entity's material impacts on people and environment and the material effects of sustainability matters on the development, performance and position of the entity
- In designing those procedures, practitioners should take into account the qualitative characteristics of the information defined by the ESRS
  - that require that the information (under the double materiality principle) shall be relevant and shall faithfully represent the substance of the phenomena, being complete, neutral and accurate
- If, based on the procedures performed and evidence obtained, a matter has come to the practitioners' attention to cause the practitioners to believe that **the outcome of the process** has not resulted in the disclosure of all material sustainability-related impacts, risks and opportunities in accordance with ESRS:
  - the **conclusion in the limited assurance report** should reflect this situation

# General principles and approach to the limited assurance engagement

## Responding to risks

- Based on the procedures performed for **risk identification and assessment**, practitioners should design and perform **further procedures** to respond to those risks, and/or on the disclosures where material misstatements are likely to arise.
- Procedures to respond to risk of material misstatements due to fraud and to suspected or identified instances of non-compliance with laws and regulations should also be performed.
  - Examples : inspection, observation, confirmation, recalculation, reperformance, analytical procedures and/or inquiry
  - Tests of details (so called substantive procedures) and/or tests of controls are not required but may be performed if deemed effective by the practitioners to collect evidence
  - The nature, timing and extent of procedures should allow to conclude with limited assurance regarding whether sustainability statements are free from material misstatements

# General principles and approach to the limited assurance engagement

## Forward-looking information

- Practitioners should focus on whether the information provides the existing policies, targets and plans of the entity when those are in place.
- Practitioners are not expected to provide a guarantee that the forward-looking information will play out as disclosed by the entity, but they should remain critical with regards to information provided,
  - including whether the underlying methods used for developing forward looking information are appropriate and have been applied consistently.
- If forward-looking information seem unreasonable, practitioners should further assess whether the information meets the qualitative characteristics of the information
  - *e.g. ESRS 1 Appendix B QC 7 "any aspirational sustainability information, for example targets and plans, shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction."*

## Estimates

- If estimates seem unreasonable, practitioners should further assess whether the information meets the qualitative characteristics of the information
  - *e.g. ESRS 1 Appendix B QC 9 – "clear emphasis on possible limitations and associated uncertainty"*
- Practitioners are not required to perform tests of details (so called substantive procedures) on the estimates but should remain critical with regards to estimates including underlying methods used.

# Communication between practitioners and with other professionals

- **Communication between the practitioners and the statutory auditors**
  - to inform each other about the **risks and misstatements** identified on **matters of connectivity** between the financial statements and the sustainability statements.
    - to evaluate the consistency of the information provided in the sustainability statements with the information relating to relevant matters disclosed in the financial statements.
  - communication between **key partners/leaders** if the same audit firm performs both engagements.
- **Communication in group situation** between **the practitioner and other practitioner(s)** engaged to perform assurance work on material information for the consolidated sustainability statements
  - (or between team leaders involved in various entities in the same group)
- **Other assurance work** on some parts of the sustainability information: the practitioners should consider using this work to avoid duplication
- When **two or more practitioners are engaged for the assurance engagement**, they should communicate and share the work (details in appendix 3 of the guidelines)
- Noting that practitioners should in all instances comply with the **applicable confidentiality and professional secrecy rules in force** when communicating with others

# Disclosures provided to address Taxonomy Regulation Article 8

## Obtaining an understanding of the processes for determining eligible and aligned activities

- As per their understanding of the entity, practitioners should obtain **an understanding of processes** that the entity has implemented to identify its activities, their nature (eligible/aligned) and prepare the disclosures required by Article 8.
- In particular, practitioners should:
  - assess whether these processes **cover all of the economic activities**, including the economic activities of the entity and those entities included within the scope of consolidation,
  - evaluate whether these processes are appropriate to comply with the requirements of the taxonomy reference framework in terms of preparation and formal presentation, and
  - evaluate whether these processes provide that the data used to prepare the key performance indicators (KPIs) reconcile with the accounting information underlying these disclosures.

## Presentation

- Practitioners should evaluate whether the disclosures are presented in accordance with the requirements of both the ESRS and of the taxonomy reference framework, namely:
  - disclosures are provided for each of the environmental objectives defined in the taxonomy reference framework,
  - disclosures are included in a clearly identifiable part of the environmental section of the sustainability statements, and
  - disclosures comply with the rules set out in the taxonomy reference framework.

# Disclosures provided to address Taxonomy Regulation Article 8

## Procedures on Article 8 disclosures

- Practitioners should identify and assess the risks of material misstatements in Article 8 disclosures (or, for the first year, identify where material misstatements are likely to arise) and perform appropriate further procedures on selected disclosures.
- For each Article 8 disclosure selected, the practitioners should:
  - assess whether the disclosure meets the requirements of the taxonomy reference framework, including the format in which these activities are presented,
  - assess whether the eligible economic activities meet the cumulative conditions set out in the taxonomy reference framework to qualify as aligned and, in particular, whether the technical criteria defined in the taxonomy reference framework are met,
  - assess whether the selected key performance indicators and the accompanying disclosures have been defined and calculated in accordance with the taxonomy reference framework,
  - reconcile the accounting data underlying the information selected to the financial statements and, where necessary, communicate with the statutory auditors in this regard, and
  - evaluate whether the disclosures are consistent or coherent with the other information reported according to the ESRS (E1, E2, E3, E4 and E5).



# Digitalisation of the information

- The EU digitalisation rules for the sustainability statements (for the tagging / mark-up) are not adopted (by the European Commission) at the date of issuance of the CEAOB guidelines in September 2024
- **Until the adoption** of the digitalisation rules by delegated act, **no conclusion on the mark-up is expected in the limited assurance report**

# Limited Assurance Report - Content

## Content expected from the practitioners' limited assurance report is described

- To be written clearly and understandable by the intended users

## Conclusion in the limited assurance report

*Reference Q70 - FAQ on the implementation of the EU corporate sustainability reporting rules – 7 August 2024 - EC*

- Mentions that practitioners are expected to conclude
  - that no matter has come to their attention to cause them to believe that the information included in the sustainability statement is not fairly presented, in all material respects, in accordance with ESRS and that it is not compliant with the legal requirements of Article 8 of the Taxonomy Regulation
- The expression of the conclusion should:
  - take into consideration the statements made by the entity, and
  - be adapted to the situation, **where material misstatements are identified**
- **ie. unqualified – qualified – adverse – disclaimer of conclusion**

**OPTIONAL** - If deemed relevant by the practitioners, the report may include:

- (an) **emphasis of matters paragraph(s)** where practitioners wish to draw the attention of the users to a matter described in the sustainability statements
- a description of **key assurance matters** addressed during the limited assurance engagement, on which practitioners placed specific attention

# Limited assurance report

## Adapting the conclusion in the limited assurance report

- The conclusion should reflect the outcomes of the assurance engagement
- When the sustainability statements contain one or more material misstatement(s), the practitioners should express:
  - a qualified conclusion if the extent of the misstatement(s) is not pervasive, or
  - or an adverse conclusion otherwise.
- Practitioners should describe the material misstatement(s) in the report.
- When, in exceptional circumstances, practitioners face a limitation in the scope of their work and are not able to determine whether or not a material misstatement may have been discovered had this limitation not occurred, practitioners should express:
  - a qualified conclusion if the potential extent of the misstatement(s) is not pervasive, or
  - a disclaimer of conclusion otherwise.

# Limited assurance report

- The limited assurance report should include a **summary of the procedures** performed by the practitioners

**OPTIONAL** - If deemed relevant by the practitioners :

- the limited assurance report may include (an) **emphasis of matters paragraph(s) (optional)**
  - Emphasis of matters paragraphs may be used where practitioners wish to **draw the attention** of the users of the report to a matter described in the sustainability statements (e.g. clarification provided by the entity, or otherwise) and which is key for their understanding of the information.
- the limited assurance report may include a description of **key (assurance) matters** addressed by the practitioners during the limited assurance engagement (**optional**)
  - The matters or disclosures on which practitioners placed **specific attention** during the engagement may be described in the report, with a reference to the related location of the disclosures in the sustainability statements and a **description of the work** performed by the practitioners

# Other overarching provisions

- Practitioners should request a **representation letter** from management
- When practitioners intend to **use the work of an expert**, they should evaluate whether the expert possesses the necessary competence, capability and objectivity before considering the outcomes of the work and/or the conclusions described in the expert's report
- Practitioners should prepare and maintain **documentation** that provides a record of the basis for report
- Practitioners should consider the effect of **subsequent events** occurring between the end of the reporting period and the date of the limited assurance report
- **TRANSITIONAL For the first year**, there is no requirement that practitioners perform procedures on **comparative information**
  - if comparative information is provided in the sustainability statements on a voluntary basis, practitioners should make clear in the assurance report that the scope of the limited assurance engagement does not encompass comparative information

# Other overarching provisions

- Practitioners should read the **financial statements and the management report** with a view to identifying material inconsistencies with the sustainability statements, including disclosures provided pursuant to Article 8 of the Taxonomy Regulation
- When information is **incorporated by reference** practitioners should **communicate** with the provider(s) of the assurance report covering the information **to avoid duplication of procedures** or deal with it according to the **same approach** and procedures as the information included in the sustainability statements without incorporation by reference
- **Group information:** practitioners should check in particular that the entity has carried out the assessment of material impacts, risks and opportunities **for the entire scope of consolidated entities** and has provided information **at the consolidated level**

# Other overarching provisions

## Value chain information

- Depending on the specific circumstances and on **the risk of material misstatements**, practitioners should design and perform further procedures where appropriate
- Similarly to what is the case for entity-related information, practitioners may evaluate the **systems put in place by the entity to obtain and report value chain information**, which includes information about value chain and information collected from actors in the value chain, when appropriate, and their **reliability**
  - Obtaining external evidence or assurance reports is not necessarily required for all value chain information: the level and extent of procedures to be designed and performed on value chain information depends on the circumstances of the engagement and the practitioners' assessment of the risks of material misstatements
- **TRANSITIONAL** Various transitional provisions are embedded in the ESRS regarding value chain information, which may mean that limited value chain information is required to be reported in the first years of implementation of the ESRS

# III. NEXT STEPS



# Next steps – towards an EU standard on limited assurance

- CEAOB commented in December 2023 on the IAASB exposure draft of the International Standard on Sustainability Assurance (ISSA 5000)
  - Dialogue with IAASB task force was organised in the course of the development of the ISSA
- Dedicated CEAOB workstream in progress to examine final ISSA5000
  - Consider add-ons / carve-outs if needed
    - For items not or not appropriately covered by ISSA5000
    - For items which would be contradictory with EU legal provisions
- The European Commission asked technical advice from the CEAOB to be used for the preparation of the Delegated Act adopting limited assurance sustainability standards

# Questions ?

## Thank you for your attention

Internet access – link

[CEAOB guidelines on limited assurance on sustainability reporting](#)

# Appendixes



# What is covered in the CEAOB guidelines?

1. Context
2. Objectives of the CEAOB guidelines
3. Ethics, engagement acceptance and quality control

## I. General principles and approach to the limited assurance engagement

4. Objective of the limited assurance engagement
5. Material misstatement for practitioners in the context of a limited assurance engagement
6. Fraud and non-compliance with laws or regulations
7. Procedures targeted at risk identification and assessment
8. Process carried out and described by the entity
9. Responding to risks
10. Forward-looking information
11. Estimates
12. Communication between practitioners and with other professionals
13. Accumulation and consideration of identified misstatement(s)

## II - Disclosures provided to address Taxonomy Regulation Article 8

17. Obtaining an understanding of the processes for determining eligible and aligned activities
18. Presentation
19. Procedures on Article 8 disclosures

## III - Digitalisation of the information

Not required in 2025 - until adoption of the rules for digitalisation)

## IV - Limited assurance report

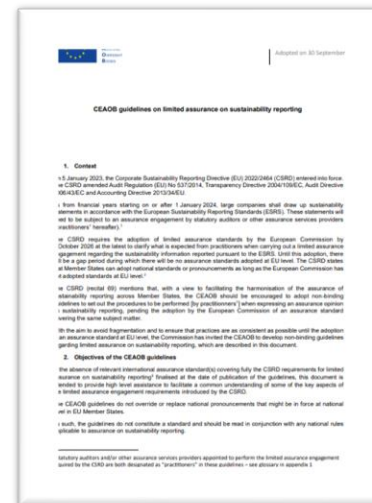
17. Format and content
18. Adapting the conclusion in the limited assurance report

## V - Other overarching provisions for the limited assurance engagement

19. Representation letter
20. Use of expert's work
21. Documentation
22. Subsequent events
23. Information accompanying the sustainability statements in financial statements and management reports
24. Specific provisions – information incorporated by reference
25. Specific provisions – group / consolidated information
26. Specific provisions – comparative information in the first year
27. Specific provisions – value chain information

## Appendix

1. Glossary of terms used in the guidelines with specific meanings
2. References to EU law - Reference to Delegated act on ESRS
3. Performance of the limited assurance engagement by several practitioners



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