



Supported by:

Deloitte.



PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET

A simple guide to natural capital
management for internal and external auditors

About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

Find out more about us at www.accaglobal.com



PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET: **A SIMPLE GUIDE TO NATURAL CAPITAL MANAGEMENT FOR INTERNAL AND EXTERNAL AUDITORS**

This guide has been developed by ACCA with the support of Deloitte and the European Confederation of Institutes of Internal Auditing (ECIIA). Our insights and guidance have been gleaned from desk-based research and from our contributors, who have participated in a number of roundtables and interviews.

We have provided examples and links to other organisations with natural capital management, audit and assurance expertise to support the appreciation of the issues and provoke further thinking. The examples reflect real-world sustainability issues, which are often complex. For reasons of clarity, we provide simplified samples of the cited organisations' sustainability management approaches and the work auditors could undertake within the audit or assurance sustainability assignment. Therefore, the examples should be appreciated in this context. Further, in providing this content, we do not endorse any commercial activities associated with these organisations.

The policy support recommendations made here represent the agreed-upon views of ACCA, Deloitte and ECIIA. Each organisation has its own policy positions that are likely to evolve over time as the business, regulatory, reporting and assurance landscape evolves.



AUTHOR

Sharon Machado

Head of Business Reporting

Foreword



Julien Rivals, Deloitte
France Sustainability
Practice Co-Lead,
Vice-Chair of Accountancy
Europe's sustainability
Working Group

Information related to natural capital management and more widely to environmental, social and governance (ESG) matters have become as important as financial information for companies and their stakeholders, therefore raising the question on how to ensure its reliability and give confidence to decision makers, including those in charge with governance within companies, and other users of this information. External assurance is part of the answer, but we need to ask ourselves:

- **Why do we want assurance?** To comply with regulation, support value creation, mitigate greenwashing assertions or demonstrate credibility of an organisation's strategy?
- **What do we want to assure?** The subject matter of the assurance report must be clear. ESG matters are broad and sometimes future oriented. We must consider capability and capacity, processes, controls as well as progress made to achieve the strategy.
- **How do we want to provide assurance so that we avoid an expectation gap?** Specifically, limited or reasonable assurance. In both options, we need strong standards, process and robust norms and protocols.
- **Who will provide the assurance?** The profession needs skills on climate, biodiversity, circular economy etc. This is not about a new profession, but a natural evolution of the statutory audit. We already have strong independence rules and will need amendments to existing reporting, audit and assurance standards. As corporate reporting evolves, so will statutory audit work.



Thierry Thouvenot,
President, European
Confederation of Institutes
on Internal Auditing (ECIIA)

Organisations are operating with ever more stakeholders and diverse interests. The governing body is responsible for the success of the organisation in managing and protecting all assets.

Internal auditors are accountable to the governing body, giving independent assurance and advice related to how the front line and the different functions across the organisation in charge of risks, internal controls and governance, are aligned to accomplish the objectives of the organisation.

Sustainability is a key risk in organisations, as stated in our recent Risk in Focus survey and it is important for internal auditors to embed this new risk in their work, enhance their skills and coordinate the efforts with the other assurance providers, on the sustainable trust journey.

Quote from ECIIA, Risk in Focus 2021:

'22% of Chief Audit Executives (CAE) cited climate change and environmental sustainability as one of their organisation's top five risks. Moreover, 41% of CAEs are anticipating it being a top five risk in three years' time. No other risk area is expected to gain more in priority over this period, and there is a strong need for attention.'

Source: ECIIA 2020

Contents

| | |
|---------------------------------------------------------------------------------------|-----------|
| Executive summary | 6 |
| 1. Introduction | 8 |
| 2. The audit profession's purpose and role | 11 |
| 2.1 The role of internal and external auditors on sustainability assignments | 12 |
| 2.2 Why the audit profession has a crucial role in sustainability audit and assurance | 13 |
| Trust and confidence | 13 |
| Expertise | 14 |
| Networks for learning and influence | 14 |
| 3. The assignment approach | 16 |
| 3.1 Setting the scope of the assignment | 16 |
| Types of assurance | 17 |
| Considerations when deciding on the assignment and type of assurance | 18 |
| 3.2 Opportunity for internal and external auditor collaboration | 21 |
| 3.3 Integrate the standards and frameworks with your risk-based methodology | 22 |
| Take a case-by-case approach | 23 |
| Consider what a 'good outcome' is for the subject matter | 23 |
| Reflect materiality | 25 |
| Understand the control environment | 25 |
| Adopt natural capital assurance mapping | 26 |
| Form your opinion and report | 27 |
| 4. The support required | 28 |
| 4.1 The role of governance | 28 |
| 4.2 The role of policy makers | 28 |
| Regulation and guidance | 28 |
| Access to data | 29 |
| Financial and training support | 29 |
| 4.3 The internal and external auditors' skills | 30 |
| Appendix: Links to sources of relevant audit and assurance guidance | 32 |
| References | 34 |

Executive summary

Serving the public interest is the fundamental purpose of the audit profession, both internal and external auditors.¹ This purpose, when discharged ethically, relevantly and reliably, underpins credible business, engendering trust and confidence in business operations and their reporting.

Why is this? Importantly, those within the profession are bound by codes of conduct and ethics that define the professional's behaviours, skills, and attributes, including independence, objectivity and expertise. It rests also upon the auditor's collaboration with internal and external experts, unfettered access to the organisation's processes and information for which others are accountable, plus a lifelong commitment to broad and relevant learning beyond obtaining the relevant qualification.

Driving trustworthy and credible business is arguably more important now than ever. Industrial revolutions have propelled greater interconnectedness of intellectual capital, underpinning innovation, with financial, human, social and relationship, and manufactured capitals relevant to commercial activity and global economic prosperity. Further, with more complex investment arrangements, business models, and supply and value chains, natural capital has become a material issue for business and society.

While these interconnected capitals can damage nature, they are also the answer to solving the problem. **The other guides within this series** outline the role of accountancy professionals. And in this guide, we discuss the auditors' imperative of discharging their public interest remit, through natural capital management advisory work, audit or assurance.

As either an internal or external auditor, you can support natural capital assignments in much the same way you do most other audit and assurance assignments.² The experts we spoke to advised *'take a risk-based audit approach incorporating the relevant reporting, audit and assurance standards'*, because often sustainability issues,³ and therefore assurance assignments, are complex and dynamic.

In this guide, we distil the key principles that should govern the natural capital audit or assurance assignment:

- take a case-by-case approach
- reflect materiality
- understand the control environment
- appreciate the value of assurance mappings
- recognise and mitigate the common challenges of non-financial information or sustainability reporting and assurance, such as those related to future-oriented information
- consider the opportunities to collaborate, especially with natural capital experts, and internal auditors with external auditors and vice versa
- form and communicate your assignment opinion, accounting for the wider stakeholder interest in sustainability matters.

Finally, there are other important elements to consider.

- Policymakers have a crucial role in supporting the organisation and your role with investment and guidance for sustainable strategy setting and implementation, governance, accounting, reporting and assurance.
- The organisation needs governance that empowers your role is needed, from facilitating unfettered access to business functions to ensuring your voice is heard and acted upon.
- You must adapt your mindset and skills to meet the broad and exciting challenges of sustainability assignments, which this guide will help you to do.

1 The audit profession comprises internal and external auditors who conduct audit, advisory and/or assurance assignments in accordance with accounting, audit and assurance standards set by national and international authorities. Internal and external auditors are governed by regulations, standards and frameworks of accountancy and/or audit professional bodies, such as ACCA and IIA. The term 'auditor' is used to describe both internal and external auditors, except for where a distinction is necessary.

2 The use of the term 'assignment' should be taken to mean internal audit assignment and/or external assurance engagement.

3 Natural capital management is one of many sustainability issues addressed in both sustainability and other non-financial reports. The auditing and assurance principles in this guide focus on natural capital management and its reporting within sustainability and other non-financial reports.

**WITH MORE COMPLEX
INVESTMENT ARRANGEMENTS,
BUSINESS MODELS, AND SUPPLY
AND VALUE CHAINS, NATURAL
CAPITAL HAS BECOME A MATERIAL
ISSUE FOR BUSINESS AND SOCIETY.**

”

1. Introduction

Key messages

- Nature is an increasingly material risk for business, the environment and society. There are calls for credible business activity to manage natural capital impact better, and produce relevant and reliable reporting suitable for a wide range of stakeholders.
- The audit profession’s purpose is to serve the public interest, through independent, ethical, and expert assessment and assurance of business activity and reporting.
- Auditors are impelled to evolve their role dynamically as the business and reporting landscape changes.

The core purpose of the audit profession, through its public interest remit, is to support the creation, protection and communication of value (see Figure 1.1).

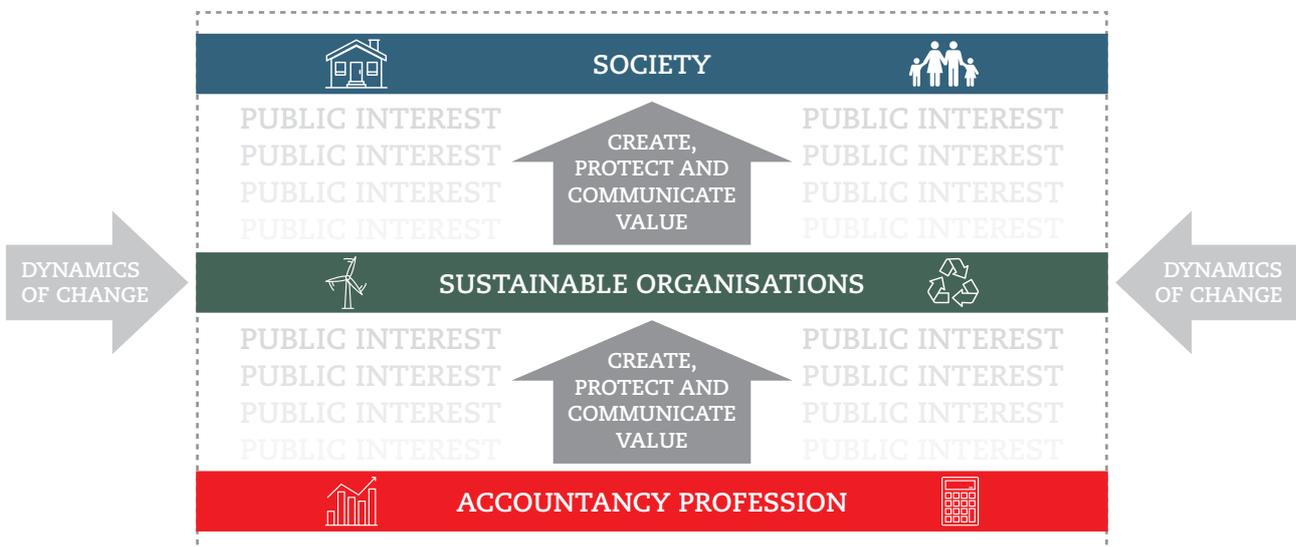
Auditors contribute to that purpose by influencing credible business that engenders trust and confidence in its operations. In fact, it is a purpose that can be traced back to the days of ancient Egyptians, Romans and Greeks. Then the purpose was achieved through an audit system of whole populations, with substantive checks

and balances to maintain and verify public accounts (Lee and Ali 2008). Fast-forward to today, and you’ll notice the purpose probably has not changed much but the way the role is deployed certainly has.

Industrial revolutions have led to exponential growth of commercial activity and global economic prosperity as well as complex business models, supply and value chains. Businesses draw on an increasingly wide range of investment sources. These phenomena have culminated in

FIGURE 1.1: The purpose of the audit profession

The profession has a public interest role in the creation of sustainable organisations and, more broadly, a duty to society.



Source: ACCA 2020a: 8

greater dependency and impact on the environment and society. As summarised in the introduction to this [series of guides for professional accountants](#), the result is that now natural capital is likely to be a material issue for business, the environment and society. Therefore, organisations are increasingly subject to regulation, standards and frameworks providing incentives, penalties and guidance for natural capital management, reporting and assurance.

Now, more than ever, the business imperative is to ensure the implementation of credible strategies that support sustainable value creation while engendering trust and confidence in the business. Organisations are at different stages of the journey to fulfilling this imperative, some struggling, perhaps owing to deficiencies in organisational purpose, strategic focus and implementation, and capability. As a result, their reporting does not fairly reflect the use of and impact on all the material capitals that are central to generating sustainable value (see Figure 1.2). A business that focuses mostly on financial and manufactured capital may miss the impact on the business and its stakeholders that a change in quality or availability of the natural capital it relies on may have.

The independent and objective perspective of auditors is central to enabling the credibility of business. Internal auditors have a mandatory obligation to follow the guidance of the International Professional Standards (IIA 2017a) and external auditors are regulated and monitored by professional bodies, which themselves are regulated and monitored. Today, as a member of the audit profession, you can provide a holistic impartial view, serving the public interest, through evaluation of business activity and reporting, and then sharing insights for continual improvement (see Box 2.1).

Box 2.1: Quote from Pascale Vandebussche of ECIIA and Marion Chaboud of Deloitte

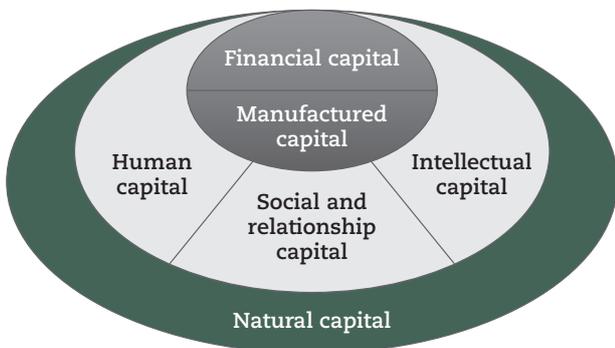
In many organisations, natural capital management strategy and its reporting is more advanced than other non-financial aspects, driven in part by the external discussion of climate change mitigation and availability of data from external resources like TCFD, GHG protocol and others.

The top three areas of focus beyond climate relate to water usage, CO2 and waste emissions, and while this is great, care must be taken to focus on what is material for the organisation and society, in such a way that the interconnections of all material capitals are appreciated [Integrated Reporting n.d.] if it is to be a sustainable business.

The auditor provides independent and objective insight on business activity, whether risk management, sustainability, finance, sales and marketing. The auditor's role has a disciplining and focusing effect [ECIIA 2020] on the organisation. It is this that ensures credibility, trust and confidence in all areas impacted by sustainability from strategy, implementation and risk management to reporting.

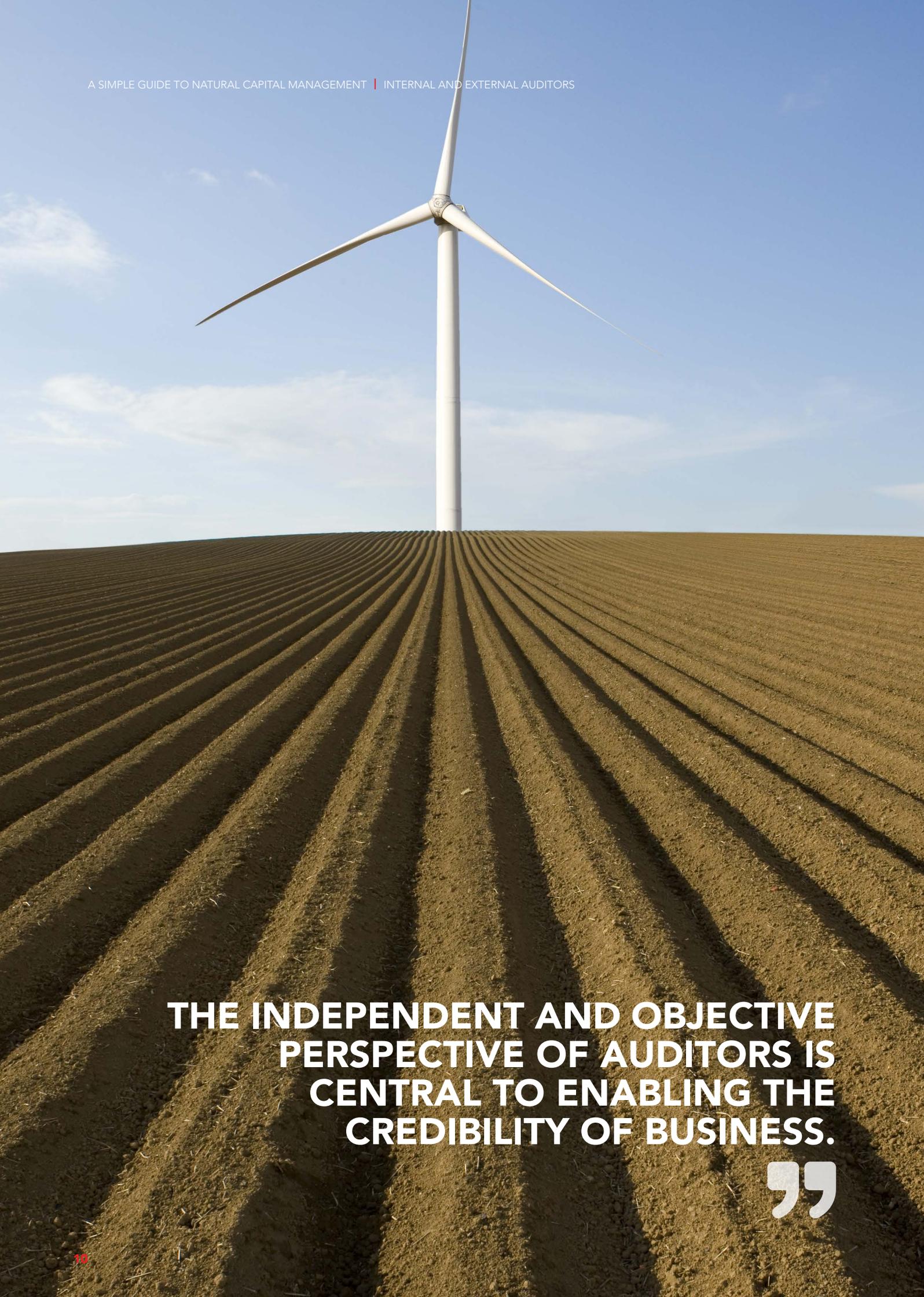
In this guide, we first outline your role objectives in the context of natural capital management and its reporting. We then highlight the core principles governing the approach that you should take. Finally, we set out the required policy support and the role of the organisation, and highlight the importance of role, mindset and skills.

FIGURE 1.2: The interconnected multi-capitals



Source: Incite 'Sustainability 2.0: A Guide to Competing in a Changing World'

This is one of many ways to depict the capitals. Typically, financial and manufactured capitals are the ones organisations most commonly report on. The IIRC takes a broader view by also considering intellectual, social and relationship, and human capitals and natural capital, which provides the environment in which the other capitals sit.



**THE INDEPENDENT AND OBJECTIVE
PERSPECTIVE OF AUDITORS IS
CENTRAL TO ENABLING THE
CREDIBILITY OF BUSINESS.**

”

2. The audit profession's purpose and role

Key messages

- The 'three lines model' and external assurance aids a complete and rounded view of how the organisation manages risks.
- The audit professional is best placed to serve the public interest because the purpose of the role is to:
 - enable trust and confidence
 - develop and share expertise end-to-end across the business; and
 - influence ethical decision-making.

There are two major factors escalating the importance of the dynamic role that auditors perform.

Firstly, the increasingly material interconnected capitals and the trade-offs arising between them create business (strategic, managerial and operational) risks and opportunities, that necessitate effort to anticipate and manage their implications.

Secondly, we now have a growing range of stakeholders, including internal parties, from business leaders to governance bodies covering audit, sustainability and risk, and external stakeholders, such as investors, policymakers, regulators, consumers and wider society. They bring with them a diverse set of expectations:

- **content**, for example the balance and types of capitals being reported are tending towards wider enterprise and societal value creation
- **approach to reporting**, for example a mix of continuous and periodic reporting, available in various levels of detail and formats, from annual reports, specific business reports and data releases in paper and digital media.

This reporting must continue to comply with the tenets of good corporate reporting (ACCA 2018) (see Box 2.1).

The common demand among these stakeholders is for trust and confidence that business activity can credibly achieve its stated purpose, and that it is reliably reported (see Box 2.2)

In this chapter, we consider your role as an auditor and why you are best placed to undertake audit and assurance assignments related to natural capital management and reporting.



Box 2.1: The tenets of good corporate reporting



Relevance and materiality: The report should provide information that is capable of making a difference to decisions made by its users.



Completeness: The report should contain all relevant information necessary for a user to understand the position, performance and, where appropriate, the prospects of the reporting entity.



Reliability – neutral and free from error: The report should be unbiased in its presentation. Estimates should be based on the best evidence available at the time. Significant estimation uncertainties should be disclosed.



Comparability: The report should allow the user to understand the similarities and differences between reporting entities, and to compare one entity's performance from one reporting period with that from the next.



Verifiability: Information should, as far as possible, be objective and open to testing. Knowledgeable and independent observers should be able to reach a reasonable consensus on that information.



Timeliness: The more up to date information is, the more useful it is.



Understandability: Reports should aim to communicate complex matters clearly.

Source: ACCA (2020/2021)

Box 2.2: The purposes of internal audit and external assurance

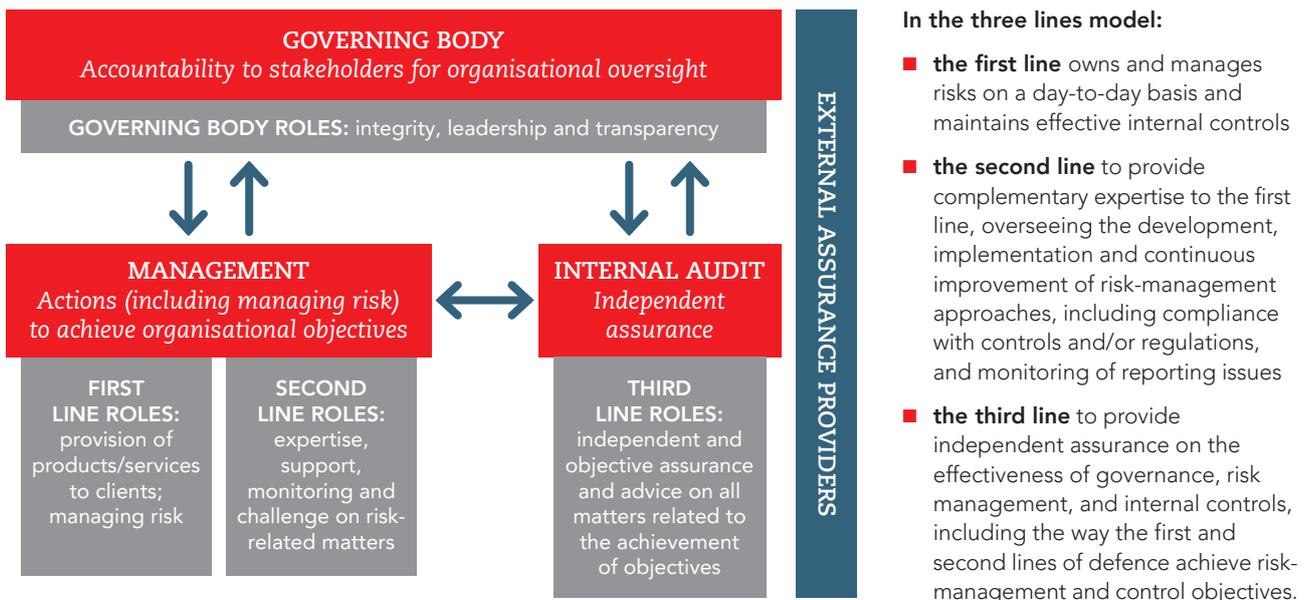
| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Internal audit</p> <p>To enhance and protect organisational assets (financial and non-financial) by providing risk-based and objective assurance, advice, and insight.</p> <p>Source: IIA 2017b</p> | <p>External assurance</p> <p>To fulfil the trust and confidence needs of preparers, users and other stakeholders about environmental, social and governance (ESG) factors and related information, while enhancing the accountability of management and those charged with governance, and providing them with insights and recommendations on the reporting process, related controls and risks.</p> <p>Source: Laurence Rivat, Deloitte EU Corporate Reporting Public Policy Leader and former board member of EFRAG</p> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

2.1 The role of internal and external auditors on sustainability assignments

Internal auditors provide the ‘third line’ of risk management (see Figure 2.1). External auditors support the three lines model by giving assurance to the organisation’s shareholders, including its governing body and senior management (Deloitte 2016). Further, the role of internal audit may be outsourced or co-sourced, for instance when the organisation’s size does not support an internal audit function.

Your assignments, as applicable to internal and external auditors, whether audit, advisory or assurance, are likely to be wide ranging, for example assessing the integration of sustainability topics into end-to-end processes; supporting other departments to develop sustainability programmes that promote practices in line with the organisation’s purpose; assisting management to structure an efficient and consistent process for preparing reliable sustainability reports; and assessing sustainability report compliance with the tenets of good corporate reporting. Section 3.1 explores the assignment types in more detail.

FIGURE 2.1: The three lines model



KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication, coordination, collaboration

Source: adapted from IIA 2020

External assurance serves a legislative and regulatory purpose, and the governing body, as well as other stakeholder, expectations for defined assignments.

2.2 Why the audit profession has a crucial role in sustainability audit and assurance

Natural capital management calls for specialist skills, for example those related to scientific literacy, which are not part of the traditional accountancy professional's skills domain. So, why should this profession play an important role in the audit, assurance and, as applicable, advisory services relating to natural capital management and its reporting? The answer lies in the outcomes, for which the profession's ability is renowned:

- engendering **trust and confidence**
- relevant **expertise**
- creating and participating in networks for **learning and influence** (ACCA 2020c).

Trust and confidence

Auditors are expected to be trusted advisers. Consider your expertise, which has been gained through unfettered access to business information. This access and the auditor and assurer's code of ethics and conduct (see Box 2.3) drive your behaviours and skills, meaning that you are independent; can objectively develop insights and recommendations; provide assurance; and challenge the business on a variety of issues from the effectiveness of risk identification and management, through opportunity realisation to relevance and reliability of reporting.

AUDITORS ARE EXPECTED TO BE TRUSTED ADVISERS. CONSIDER YOUR EXPERTISE, WHICH HAS BEEN GAINED THROUGH UNFETTERED ACCESS TO BUSINESS INFORMATION.



Box 2.3: Summary of common code of ethics and conduct principles

Trust and confidence established through the following skills and values.

Integrity

- Honesty in all engagements
- Acting with diligence
- Taking responsibility
- Compliance with laws and regulations
- Not engaging in acts discreditable to the profession
- Supporting the legitimate and ethical practices of their organisations

Objectivity

- Avoiding engagements that may lead to bias or impair judgement
- Disclosing issues material to reporting and decision making

Confidentiality

- Prudently using and protecting information
- Not using information for personal gain or contrary to law

Competency

- Engaging only in services where the auditor has relevant knowledge, skills and experience
- Applying the relevant standards and frameworks
- Continually improving proficiency, effectiveness and quality of services

Acting in the public interest

- Having regard to the interests of a reasonably informed public

Note and Source: The summary has been adapted from guidance from (Chartered Institute of Internal Auditors (IIA) and International Ethics Standards Board for Accountants (IESBA). You should review the detail of each guidance: IESBA 2020a, IIA 2021 and IAASB 2013a.

Expertise

The interconnectedness and dynamic behaviour of natural capital issues mean that they may very well have an impact on the financial statements, for instance on the organisation’s cost structures, because when natural capital availability and quality become an issue, or external stakeholders take action, this reduces the organisation’s viability and hence leads to asset impairments (see Figure 2.2).

You possess a comprehensive expertise in financial and business issues, and so can appreciate the dynamic interconnected capitals. This arises from your:

- **access to all business functions**, operational, managerial and business leaders, affording you a whole-business view and ability to map risks and opportunities holistically, then assess monitoring of systems and processes to mitigate the risks and realise opportunities
- **not being responsible or accountable for any specific business function**, supporting your independence, and importantly providing thinking space for objective appreciation of the need for changing business priorities

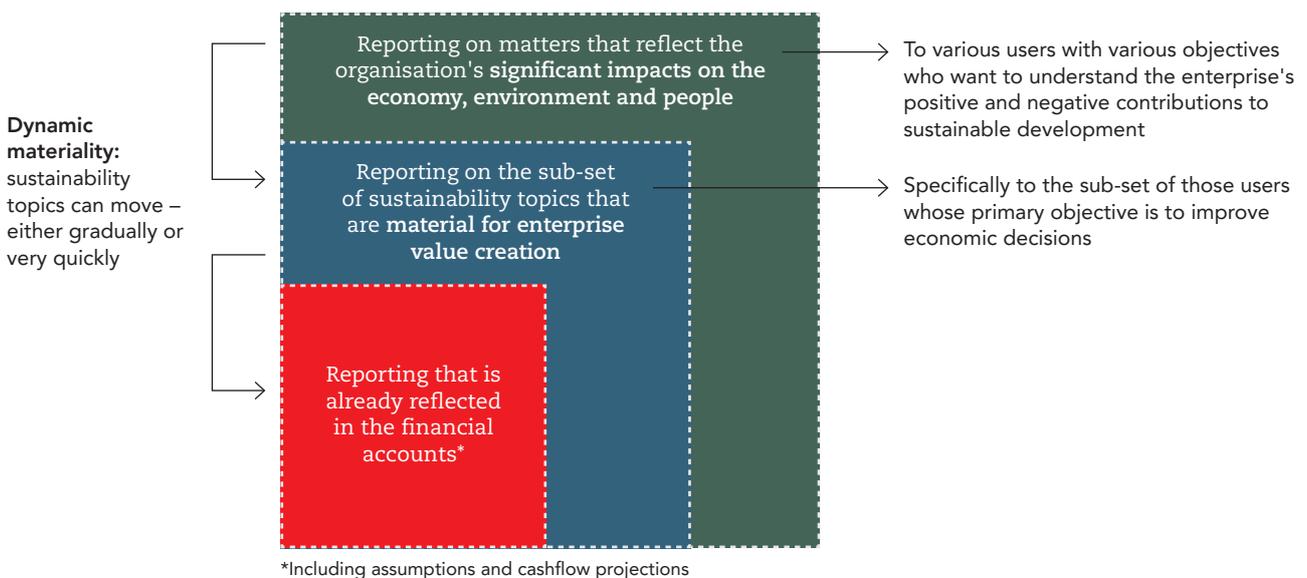
- **being expected to challenge** by applying professional scepticism, making you curious and probing, which is fundamental to learning and innovation
- **being part of an evolving regulated and monitored profession**, where the generally accepted accountancy and assurance standards, frameworks and guidance used are frequently updated to reflect emerging business, environment and societal issues.

Furthermore, your expertise is sustained because you are required to remain relevant through continual professional development beyond qualification.

Networks for learning and influence

Your auditor’s role demands collaboration, whether with IT, actuaries, or sustainability, valuation, capital market and tax specialists. Further, there are numerous collaboration opportunities between internal and external auditors (see section 3.2). This places you in the unique position of being able to connect specialist knowledge and develop insights to assess the appropriateness of strategy, governance, risk and opportunities management and control. With this collaboration and knowledge connectivity, you are also uniquely placed to influence continual improvement.

FIGURE 2.2: The interconnections of the various approaches to materiality



Source: Adapted from CDP et al. 2020: 5

YOUR AUDITOR'S ROLE DEMANDS COLLABORATION, WHETHER WITH IT, ACTUARIES, OR SUSTAINABILITY, VALUATION, CAPITAL MARKET AND TAX SPECIALISTS.



3. The assignment approach

Key messages

- Scope the assignment to add-value to user decision-making. Assignment feasibility and assurance risk, especially related to future-oriented information, are important considerations.
- Complete agreed-upon assignments taking a case-by-case risk-based approach that integrates the relevant accounting, reporting and assurance standards; reflects materiality; and assesses the control environment using assurance mappings.
- Deliver your opinion and, as applicable, your recommendations, against a clear and mutually agreed scope, minimising assignment and assurance risk.



Adding value, through inputting relevant and reliable information to the stakeholders' decision-making processes, is fundamentally what should drive the scope of the audit or assurance assignment and how you perform it. Of course, much of what 'adding value' means will depend on the stakeholders' needs, the organisation's strategy, and the maturity of its governance, systems and processes, risk and control management, reporting environment and internal audit function.

INTERNAL AND EXTERNAL AUDITORS SHOULD CONSIDER THE EXTENT TO WHICH NATURAL CAPITAL IS AND NEEDS TO BE SINGLED OUT AS AN ISSUE OR COMPONENT OF A STRATEGY. A GREAT PLACE TO START IS BY ASSESSING THE ORGANISATION'S MATERIALITY MATRIX.

Bryan Foss, non-executive director, risk and audit chair, visiting professor and board readiness coach

The good news is that the assignment, whether internal or external, can follow the standard process outlined below.

- **Plan the assignment and set the scope, reflecting the risks.** This includes the nature of the assignment, for example audit, assurance or advisory. For external auditors, the decision about whether you will accept the assignment is especially important.
- **Conduct the assignment,** embedding a risk-based approach into your audit methodology that:

- incorporates the relevant reporting, audit and assurance standards
- takes a case-by-case approach
- reflects materiality
- considers the control environment, taking account of the value of assurance mappings, and
- addresses specific non-financial information or sustainability reporting and assurance risks, such as those related to future-oriented information.

The methodology may include a preliminary audit stage and collaboration between internal and external auditors.

- **Form and communicate your assignment opinion and recommendations,** detailing the work performed to reach your findings.

3.1 Setting the scope of the assignment

At present, the core element of an external assurance engagement in this area will probably focus on ensuring the consistency of non-financial information with the financial statements, typically as part of the financial statement audit in accordance with audit standard ISA 720 of the International Auditing and Assurance Standards Board (IAASB). The auditor's responsibility for other information (IAASB 2015). Beyond this, though, there are many assignments for internal and external auditors linked to the end-to-end business process (see Box 3.1).



Box 3.1: Examples of assignment type relating to the end-to-end business process

The aim is to provide insight to the following aspects of the business.

- **The sustainability strategy:**
 - Adequacy of the sustainability decision-making process, including challenging the materiality matrix that drives the strategic priorities and commitments linked to objectives and targets.
 - Likelihood of achieving the strategy.
- **Governance:** Assessing the quality of the sustainability strategy’s integration into the governance structure, objectives and targets, processes and controls.
- **Process and systems:** economy, effectiveness and efficiency of processes and systems, including IT, for achieving the organisation’s objectives.
- **Culture:** Effectiveness of policies and their deployment in shaping the organisation’s culture to execute the strategy.
- **Risk:** Effectiveness and adequacy of risk-management controls, focusing on the maturity level of the monitoring system in place, and on identifying potential emerging risks.
- **Compliance:** Alignment between practices in place and internal sustainability policies, procedures and frameworks, together with the organisation’s responsiveness to the introduction of new sustainability external regulations, certifications and/or green investment requirements.
- **Reporting:** Accuracy and completeness of the information included in the sustainability and other non-financial reports, also assessing the process for collecting and analysing data.

Types of assurance

The type of assurance on sustainability and non-financial reporting assignments should be a consideration for you, as it has a bearing on the nature and level of audit and assurance work that must be completed. External auditors are specifically required to indicate the type of assurance provided, specifically ‘limited’ or ‘reasonable’, in accordance with ISAE3000 (see Figure 3.1). While this is not a requirement for many internal auditors, it is for some. This assurance can be provided:

- as a **whole** for example, on the entire sustainability report, or
- on **components** of business activity or its reporting, where each component has a separate assurance, for example compliance with relevant laws and policies and selection of metrics for measuring strategic progress are reasonable but the adequacy of governance for successful execution of strategy is limited.

FIGURE 3.1: Limited and reasonable assurance defined

| ASSURANCE TYPE | DEFINITION RELATIVE TO THE ASSIGNMENT (IAASB 2013A) | EXAMPLE OF STATEMENT |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| | | <i>‘On the basis of procedures performed to [purpose of assignment] and detailed in section YY’</i> |
| Limited | Negative confirmation, ie more than an inconsequential view, and usually indicating that there was no reason found to believe there was an issue. | <i>‘Nothing came to our attention to indicate a material failure of [subject matter of the assignment].’</i> |
| Reasonable | Positive confirmation, ie stating there aren’t any material issues. | <i>‘We believe that [subject matter of the assignment] is reasonable/has been materially served.’</i> |

Note:

- The subject matter is the assignment topic, for example, the controls.
- The purpose of the assessment is the objective, for example, quality.

The assignment examples cited in this guide reflect the real-world sustainability issues facing organisations, which are complex. They are included to provoke thinking on the audit and assurance issues and the work required. The type of external assurance for many of the examples is likely to be limited, owing to many factors including:

- organisational readiness (eg governance, processes and systems, risk management) or users’ expectation of sustainability assurance assignments
- availability of cohesive and coherent generally accepted non-financial reporting and assurance standards
- inherent uncertainty, for example associated with future-oriented information, which is often pertinent to natural capital related assignments.

Source: adapted from IAASB 2013a: paras 10 and 12

Considerations when deciding on the assignment and type of assurance

Sustainability and non-financial reporting assignments are often of interest to many more stakeholders and cover a broader range of issues than financial statement reporting. This can raise concerns of how to fulfil the assignment reliably and/or to manage potential expectations of stakeholders.

Elements of the Extended External Reporting (EER) guidance can, in fact, be relevant to both internal and external assurance assignment (IAASB 2020a). The guidance provides support in conducting an assurance assignment, starting with the key questions you should answer when agreeing and shaping the assignment, including type of assurance (see Box 3.2).

- **Will the assignment address the material issues of the business, the environment and/or the stakeholder?** Materiality matrices depicting the relative significance of issues to stakeholders and the business will help identify the most important issues. Extending this concept to how the materiality issues may change over time or in relation to specific events will provide a sense of the dynamic nature of the issue (see Figure 2.2).
- **Who is the assurance user and what are their needs?** Consider, what does the user want to do with the opinion you provide and can you realistically fulfil that need? What level of knowledge are you assuming users have and, given that, what are your reporting requirements?
- **What is the likelihood that you will be able to provide a reliable opinion?** Consider the feasibility of conducting the assignment, relative to the risks involved. This is affected by several factors.

 - **Nature of the assignment**, recognising parameters of size, uncertainty, subjectivity and complexity, hence the associated assurance risk, for example, an opinion on the likely success of the organisation's future business strategy is at the demanding end of these parameters whereas an assessment of the process for establishing the future strategy or compliance with a specific regulation or policy is more straightforward.
 - **Maturity of the organisation in dealing with sustainability issues**, specifically pertaining to integrated thinking connecting sustainability issues to business and finance across governance, processes and systems, risk management, data collection, measurement and documentation.
- **Data requirements**, such as access to data and its quality, which are underpinned by investment by the business in processes and systems for collecting, connecting and controlling the quality of the interconnected capitals information sources. The better the system, the easier will the assurance assignment potentially be.
- **Support of the organisation** is required in its many forms, not just from business leaders, who should allocate reasonable time and resource for the assignment, but also management and operations functions. Collectively, they will provide access to resources and information enabling you to set and complete the task, support the creation of assurance maps (outlined in section 3.3), and, of course, they must be willing to consider your recommendations fairly, even those that may not reflect entirely favourably on their current practises.
- **Commensurate remuneration**, specifically the willingness and ability of the organisation to pay external assurance fees commensurate with the work and skill required.
- **What guidance and support from reporting, audit and assurance standards or frameworks exist to help you?** Audit and assurance guidance exist in the form of ISAE3000 (IAASB 2020b) for external auditors, and the IIA Framework and its Performance Standards 2120 and 2130 (IIA 2017) for internal auditors. This guidance is principles based and to be applied in conjunction with policies and standards used by the organisation, for example those related to performance management and corporate reporting. Cited within the corporate reporting guide within this ACCA series (ACCA 2020/21), there are over 700 mandatory reporting requirements related to environmental issues across 70 jurisdictions, creating potential for variability in reporting, and hence assurance risk. Therefore, the moves towards harmonisation and consolidation are welcomed. These include the development of the Non-Financial Reporting Directive (NFRD) (EC 2014), which covers the role of assurance. Similarly, via its proposed Sustainability Standards Board (IFRS 2021), the International Financial Reporting Standards (IFRS) Foundation, and the IAASB with the EER (IAASB 2020b) are supporting the assurance standard ISAE3000 (IAASB 2013a). These will drive the relevance, reliability, consistency and comparability of your work.



Box 3.2: Worked examples illustrating considerations when deciding on the assignment

The examples below highlight some of the considerations when setting the scope of the assignment, including the type of assurance and potential limitations.

Ferrero International (Ferrero)

Ferrero manufactures branded chocolate and confectionery products and is the second biggest company in this sector in the world. Key ingredients in the production of its products are cacao and hazelnuts.

Ferrero has conducted a double materiality impact assessment,⁴ identifying climate change and air quality, sustainable packaging, natural capital preservation and biodiversity as the most significant issues in driving business strategy, its implementation and associated reporting.

Focusing on potential ‘natural capital preservation’ assignments, the considerations for the internal audit team to manage could include the following, shown in the table on the next page.



MATERIALITY MATRIX



4 Double materiality should be taken to mean:

- in the broad sense of affecting the value of the company
- the impact of the organisation's activities on the environment and society. The terms ‘external impact’ and ‘value creation’ are used in the corporate reporter and performance manager guides to this series (ACCA 2020/2021) and should be taken together to reflect double materiality.



Box 3.2: Worked examples illustrating considerations when deciding on the assignment (continued...)

| ASSIGNMENT | INTERNAL AUDIT CONSIDERATIONS IN SHAPING THE ASSIGNMENT |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accuracy of the materiality matrix | The high level of audit judgement required on the completeness, reliability and relevance of the matrix. |
| Compliance by the supply chain with sustainability requirements to mitigate negative natural capital impact | <p>Identifying and putting in place mitigations for challenges associated with risks connected with the responsible sourcing of key raw materials.</p> <ul style="list-style-type: none"> ■ Ferrero has many suppliers, therefore necessitating rotational sample testing. The heterogeneity of supplier maturity and approach to data collection and recording may result in inconsistencies in compliance, adding complexity to sampling. ■ Some suppliers operate in geographies where natural capital compromise is regarded as an acceptable trade-off for another capital, such as managing employment opportunities (human and social) and is therefore beyond Ferrero’s control and compliance system. The auditor will need to consider how Ferrero handles such situations as part of an evaluation of broader compliance, primarily with law and regulations, and with overall natural capital objectives. |
| Success of the waste minimisation policy, where raw materials not meeting the standard for premium brands are redirected to other suitable uses | While waste policy, process and metrics for measuring progress exist, other policies might be connected, for example those related to the efficiency of production. The audit assignment will need to cater for the confidence associated with an assignment that is not discrete. |

Source: Ferrero Rocher 2017a; 2017b and unpublished interview with Massimiliano Turconi, head of Group Internal Audit, Ferrero.

Bookings Holdings

Through its numerous online travel agency services, Bookings Holdings facilitates travel opportunities for its customers. The firm’s statement of commitment to the environment declares:

‘There is only one earth. As a company that encourages people to experience the unique places the world has to offer, we are acutely aware that we must model environmental stewardship and responsibility at every turn, starting with our own business. As an internet company that provides online travel and related services in more than 230 countries and territories around the world, which is powered by 17 major data centres, we focus on mitigating the environmental impact of our business through decreasing energy use and emissions’.

Providing assurance on the achievability of the underlined components of the environmental strategy – modelling behaviours and environmental impact, will have many considerations such as:

- whether to limit the scope of the assignment to the direct impact of Bookings Holdings’ own activities, such as the energy used by data centres
- whether to focus on the completeness and accuracy of the information disclosed externally or, in addition, to challenge the scope of data collected and metrics used internally for decision-making
- the choice of standards that should be applied to assurance activities
- whether the same scrutiny is required for internal controls as for financial reporting.

Source: extract from Bookings Holdings 2020 and unpublished interview with Marco Rozenberg, senior vice president and chief audit officer, Bookings Holdings.

3.2 Opportunity for internal and external auditor collaboration

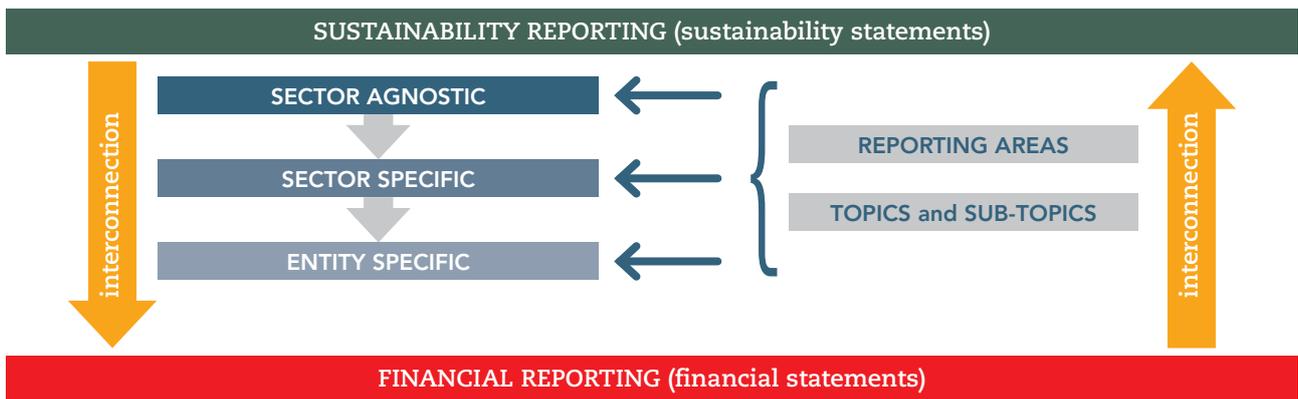
Collaboration is much more than a ‘nice to have’ feature in discharging your role and is promoted by the three lines model. You will glean greater insight through collaboration than by operating in isolation, and that means the users benefit from more complete integrated capitals assurance insight. Well-planned collaboration, conducted in line with the relevant frameworks, standards, codes of ethics and conduct, is effective because it enables upskilling through knowledge sharing and is also efficient because work duplication is reduced. The net outcome is increased likelihood of relevant, reliable and timely opinions.

Subject to the relevant permissions, scope and independence, internal and external auditors can work together on many assignments (see Box 3.1). One such example is the development and assessment of assurance mappings (explored in section 3.3), that provide a sense of where controls and risks are being managed well, or where duplication, gaps or, worse, conflicts exist across the controls of the different business functions.

As mentioned earlier, across various jurisdictions and at an international level, considerable activity is shaping cohesive, coherent sustainability reporting and governance and, with them, assurance. At the time of writing, EFRAG proposals for the NFRD include requirements for reporting across three categories, at entity level, sector-agnostic and specific (EFRAG 2020) (see Figure 3.2) in such a way as to connect financial and sustainability reporting. The guidance could create an opportunity for collaborative working between internal and external auditors that maximises the benefits from their relative areas of expertise. Knowledge sharing between internal auditors who have in-depth knowledge and external auditors who possess breadth at the entity and sector level, could be useful for the organisations and auditors alike: it will help boost the quality of reporting and assurance.

Finally, even more so than for a financial statement audit, owing to the breadth and subjectivity of sustainability issues, external auditors should consider relying on the work of internal auditors, following the guidance of ISA 200, Overall objectives of the independent auditor and the conduct of an audit (IAASB 2009) and 610, Using the work of internal auditors (IAASB 2013b).

FIGURE 3.2: European Financial Reporting Advisory Group (EFRAG) task force proposals for the Non-Financial Reporting Directive (NFRD)



The Sustainability Standards Architecture combines three layers.

- The **sector-agnostic** layer encompasses disclosures and data points that will be mandatory requirements to be followed by all reporting entities in the scope of the NFRD. This would also include the design of the sustainability reporting structure and format within corporate reporting, together with the related Reporting Taxonomy referred to as the classification of sustainability information in a way that will allow from day one a digital taxonomy).
- The **sector-specific** layer encompasses disclosures and datapoints that will be mandatory requirements to be followed by all reporting entities of each sector. This would address risks and impacts not covered, or insufficiently covered, by sector agnostic sustainability information, as a complement to sector agnostic sustainability reporting.
- The **entity-specific** layer encompasses disclosures and data points appearing material following an entity double materiality assessment process and that are not covered, or insufficiently covered, by the requirements of the above layers. The full materiality assessment process at entity level will be conducted following a standard inspired by the standard setting guidelines.

Source: EFRAG 2020: 25 and 40

3.3 Integrate the standards and frameworks with your risk-based methodology

With the scope agreed, you are now ready to begin work on either the internal audit or external assurance sustainability-related assignment. Guidance in the form of audit and assurance standards and frameworks⁵ must be considered in conjunction with the sustainability accounting and reporting guidance that both ACCA's performance manager and corporate reporter guides explain (ACCA 2020/2021). (See the appendix for links to sources of relevant audit and assurance guidance.)

Furthermore, both internal and external audit experts recommend embedding a risk-based approach into the

audit and assurance methodology. This approach, as applicable for internal and external auditors, involves consideration and action for:

- different types of business risk and their management, reflected in the assurance approach (Chartered Institute of Internal Auditors 2014), whether financial, operational, strategic, reputational and compliance as relevant to the assignment subject matter (see Box 3.3).
- the assurance risks, together with their mitigation strategies (accept, transfer, reduce, avoid or segregate), at each stage of the audit or assurance assignment, including planning, fieldwork, forming and reporting the opinion, for which Box 3.2 provides an example of the risks at the planning stage.



Box 3.3: A risk-based approach example for an assignment

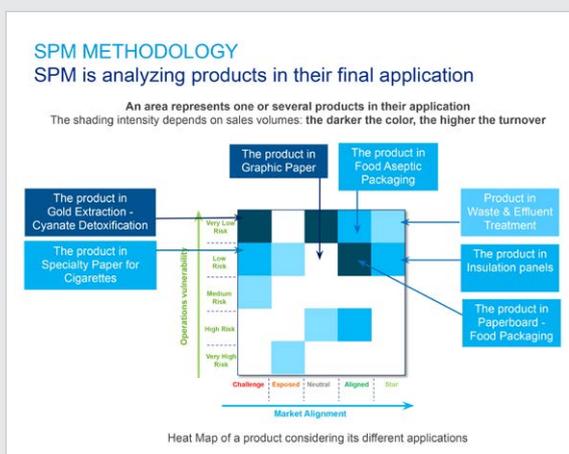
ASSIGNMENT: Assess the quality of a product life cycle assessment (LCA) for effective natural capital strategic decision-making.⁶

BACKGROUND: The performance manager and business leaders' guides (ACCA 2020/2021) cite product life cycle assessments as a mechanism for identifying the natural capital dependencies and impacts for integration into decision-making tools, like that of the operations vulnerability vs. stakeholder alignment matrix developed by Solvay, the science-based materials and chemicals producer (Solvay 2016).

For each external use of a product, in this case paper, the matrix presents the environmental risk profile and alignment to the market (stakeholder needs). This vulnerability vs. stakeholder alignment assessment is used:

- in strategic decision-making about which products to make, and
- to influence customer behaviours towards more sustainable product uses.

It forms part of Solvay's corporate reporting.



Source: Solvay 2016

The steps of an integrated performance management product LCA⁷ are:

1. Determine stakeholder needs for natural capital integrated LCA performance management information.
2. Determine the products on which to conduct the LCA.
3. Determine the scope of the product LCA, the natural capital dependency and the impact to be measured, using modifications as required to reflect the organisation's product LCA skills and capacity.
4. Collect the data for the product LCA, for inclusion in dependency and impact measures.
5. Prepare the product LCA measures for inclusion in business management and reporting activities.
6. Prepare the reporting required for decision-making by the stakeholders identified in step 1.

5 The audit and assurance standards and frameworks include those from Committee of Sponsoring Organizations of the Treadway Commission (COSO), IIA, relevant ISAs, ISAE3000, ISRS4400 and EER.

6 As an assignment for external auditors this would be a limited assurance assignment.

7 The product lifecycle assessment used by Solvay is particularly sophisticated and more detailed than the one presented here and in the performance managers' guide.



Box 3.3: A risk-based approach example for an assignment (continued...)

Risk-based approach

To support assessing or assuring the quality of the product LCA to inform decision-making, we have provided a sample of the risks for each step of the LCA, together with a suggested audit/assurance approach.⁸

| STEP | BUSINESS RISK TO BE ASSESSED | AUDIT/ASSURANCE APPROACH TO ASSESS THE BUSINESS RISK |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Not all stakeholders' or reporting needs identified, therefore risk of poor-quality performance management reporting, which will impair business decision-making. | Review materiality matrix for issues and stakeholders identified, then compare these to the internal governance groups' agenda of topics and minutes, to identify gaps. |
| 2. | Inappropriate selection criteria for identifying products for the LCA, so that higher-priority natural capital management strategies are not identified. | Compare the products identified for the LCA against what other organisations who publish LCAs, or natural capital non-governmental organisations (NGOs), have identified as being products material to natural capital management. |
| 3. | Scope decisions unfairly weighted towards introducing modifications to drive greater product LCA feasibility, therefore LCA results irrelevant and unreliable. | Through engagement with the sustainability function identify the modifications and the rationale for them. |
| 4 | Information systems and process for collecting data are insufficient and so the outputs from the LCA are, eg too incomplete and/or otherwise unreliable. | <ul style="list-style-type: none"> Assess strategic commitment and investment in information systems vs. the view of teams that use the systems and their outputs. Speak to the business functions to identify data failings. |
| 5 and 6 | Rates of conversion of natural capital dependencies and impacts, eg monetisation rates used for CO2 emissions are not suitable for the decision-making purpose, ie for inclusion in the vulnerability matrix. | Validate with the performance management function how the LCA information is to be used in decision-making. For example, if it will be used to compare two potential uses of the paper then the conversion rate only needs to be consistent in the comparison exercise, but if the intention is to repair damage from the end use of the paper then the end use rate is relevant. |

In the context relevant to your internal or external audit role, the techniques of inspection, observation, confirmation, interview and inquiry, re-performance, recalculation and analytical review should be applied to the assignment, also considering materiality and the control environment. Examples of audit evidence approaches are provided throughout this guide, for instance in Boxes 3.3 and 3.4.

Take a case-by-case approach

Sustainability assignments are diverse in subject matter and purpose. A further consideration for external auditors, who may conduct similar assignments but for different

organisations, is that no two organisations have the same dependency and impact on the environment because operating environment, strategy, governance, systems and processes, risk and controls will be different.

Consider what a 'good outcome' is for the subject matter

You should consider and compare your findings with what would be considered a 'good outcome', given the assignment's focus, in other words the subject matter, which for sustainability assignments can be extremely broad. Using the example within Box 3.3, this would be a product LCA that has correctly identified the dependencies

⁸ The assignment is complex and is there to provoke thinking on the issues, hence the risk-based approach required. An indicative sample of the business risks and associated audit approach is provided, so should not be considered complete or to reflect the actual issues faced by Solvay or their auditors.

and impacts, then used them in a meaningful way in performance management activity. A good outcome for a sustainability report, or other non-financial information assignment, is that it fulfils the guidance of the selected reporting standard or framework and meets the criteria of the tenets of good corporate reporting (see Box 2.1). These reports often contain future-oriented subject matter, for instance about the organisation’s strategic commitment to the environment (see Box 3.4), here ISAE3000 (IAASB 2013a) and Performance Standards 2120 and 2130 (IIA 2017) provide guidance. ISAE3000’s pre-conditions for the assurance engagement guides that the criteria used by the organisation to prepare the assignment information are suitable and have the following characteristics:

- **relevant** – will aid user decision-making
- **complete** – do not omit relevant factors that may affect decision-making by the intended users
- **reliable** – reasonably consistent measurements or evaluations
- **neutral** – free from bias
- **comprehensible** – able to be understood by the intended users.

These characteristics are equally relevant when conducting the assignment, and when determining and communicating your findings.

 **Box 3.4: Good outcome for a future-oriented assignment**

An organisation makes a claim that *‘it will be carbon neutral in 10 years’*, providing details of its plans, assumptions and the conditions that need to be in place to achieve this.

The level of inherent uncertainty, among other factors, means that it is unlikely that you will be able to substantiate this claim entirely, therefore for external assurance it is likely to be a limited assurance engagement. Here is a sample of the procedures to be undertaken in obtaining some comfort on the underlined statement above.

| CRITERIA | GOOD OUTCOME | PROCEDURES TO BE UNDERTAKEN |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Relevant | Strategy represents genuine intentions of meeting stakeholder expectations | <ul style="list-style-type: none"> • Investigate the strategy development process. • What consideration has been made for internal and external stakeholders and their issues? How does this compare with other organisations that have similar strategies? • How are risks and opportunities identified and managed? |
| Complete | All material assumptions and conditions have been considered | <ul style="list-style-type: none"> • Capability assessment – how is this being financed? What transformation is needed? What resources are in place? • Commitment – how committed is the business to making the transformations required? • What calculations exist to support the plan? • Were several scenarios developed to identify and test the assumptions and conditions? And what sensitivity analysis was conducted? • How complete and effective are the risk-management controls? |
| Reliable and credible | The strategy is underpinned by evidence to suggest its achievability | |
| Neutral | There is no bias internally and externally | What means of communication were used? What expectations are being set among stakeholders? |
| Comprehensible | The user understands the strategy, including its scope; for example, has the organisation made clear the extent to which carbon neutrality applies – just to the organisation or to its supply and customer chain too? | What supporting information was provided to aid various stakeholders understand and engage with the strategy? |

Source: Adapted from IIA Netherlands and Deloitte’s contribution to the NFRD

Reflect materiality

Where natural capital is concerned, material issues are likely to be those with a significant external impact or that affect enterprise value creation, or both (double materiality). These issues should be reflected within the leadership, management and operational functions, and therefore be identified, measured, managed and reported. For many assignments, it will be important to understand and assess the organisation's materiality process, including evidence of integrated thinking to identify material issues. For example, you will need to consider how, across the organisation (leaders, managers to operational functions), those responsible individually and collectively:

- identify natural capital issues
- consider the relationship between these issues and their impact on the other interconnected capitals
- appreciate the perspectives of different stakeholder interests in the context of the issue.

The EER guidance, applicable to external engagements, could also be applied to a variety of internal reporting sustainability assignments, especially those that also have external reporting implications (see Box 3.5).

Understand the control environment

For many organisations, the natural capital control environment is likely to be less well developed than the financial and manufactured capital one, yet it is crucial for effective, efficient and economic achievement of

many strategies. The appropriateness and effectiveness of the organisation's system of governance is central to all successful control environments. Internal auditors are familiar with the control environment, and external auditors, especially for reasonable assurance engagements, should devote sufficient time and resource to gaining an understanding of the control environment pertaining to preparation of the assignment's subject-matter information including:

■ Governance structures for making and implementing decisions throughout the organisation

- Who in the business is accountable for sustainability issues?
- Where and how are sustainability risks, issues and opportunities discussed within the organisation?
- Is there buy-in across all organisation functions for sustainability initiatives?
- What recognition is given to those who achieve sustainability strategic success? For example, is it part of the remuneration reward system?

■ Processes and systems in gathering, analysing and evaluating data

- What are the systems for identifying, measuring and reporting sustainability issues? Are they consistently applied? How is sustainability information integrated with information relating to the other capitals, particularly financial?



Box 3.5: Internal and external auditors' perspectives on EER materiality assessment guidance

Deloitte's approach to applying EER guidance

'In our view, the double materiality concept should not be presented as two different materiality lenses that apply separately to non-financial information and financial information but rather as two aspects to be taken into consideration in determining an overall materiality for the interconnected financial and non-financial reporting.'

'There is indeed a circularity as the impact that a company has externally may translate into opportunities/risks that are material as they affect its ability to create long-term value.'

ECIIA perspective on the role of internal auditors

'Internal auditors could form part of the multidisciplinary team typically required for an EER engagement. They are independent experts on matters on risk and control, and fully conversant in providing assurance and advice on non-financial information. This means not only efficient use of resources, but also capacity to reduce external assurance risk, for example associated with the EER fulfilling the tenets of corporate reporting [see Box 2.1] which demands an assessment of the organisation's process to identify and report on material issues.'

'In shaping the EER assurance engagement, external auditors should identify the work performed by internal auditors, assess its findings, including how it affects external assurance risk.'

- How adaptable are data collection and compliance functions to forthcoming laws and regulations?
- How is IT used to collect and connect data?
- **Sufficiency of monitoring and risk controls in place to detect, prevent and correct, or even identify opportunities**
 - If the organisation takes no action, is its relevance under threat from adverse action that might be taken by its stakeholders, policymakers, consumers, media etc?
 - How have sustainability goals been incorporated into targets and how are they monitored and acted upon?
 - Are the findings from the audit and assurance process implemented? If so, are they sufficiently prioritised and how successfully are they addressed?
- **Approach taken to future proofing the above processes and systems, governance and controls**
 - What processes exist to assess emerging issues?
 - What activity happens to drive continual improvement? For example, are lessons learned?

Adopt natural capital assurance mapping

When the control environment is presented as an assurance map (ACCA 2021; ACCA 2011) the main users, such as the audit committee, assurance providers and operational management, will be able to understand:

- the assurance activity that is being undertaken across the organisation (quantum not quality)
- any gaps in that assurance (risks and controls not covered) that need to be either filled or accepted
- any conflicts in assurance, specifically instances where the controls relevant for one business function result in risk or conflicts in another
- any overlaps in assurance, where efficiency gains can be made (see Figure 3.3).

The map can also be used to define the internal audit or focus the external assurance assignment plan, for example to review assurance provider skills and competency requirements, rather than controls, or consider a group of controls together. It is here that integrated assurance is possible, in other words providing holistic insight that considers the assurance across the various organisation functions together and/or for groups of stakeholders (Deloitte 2018).

FIGURE 3.3: Example assurance map

In this example, there are six assurance providers (listed on the top row of the table), each with controls to manage the strategic and operational risks (outlined in the first column of the table).

| EXAMPLES OF KEY RISK AREAS | INDEPENDENT MONITORING | | | | | | |
|----------------------------|------------------------|-----------------|-----------|------------|----------------|---------|--------------------------------------------------------------------------------------------------------|
| | Management monitoring | Risk management | Insurance | Compliance | Internal Audit | Quality | |
| Strategic risks | | | | | | | |
| Market development | ● | ● | ● | ● | ● | n/a | Example of duplication |
| Customer needs | ● | ● | ● | ● | ● | ● | Strategy, Risk Management and IA functions perform independent assessments of market development risks |
| Political and regulatory | ● | ● | ● | ● | ● | ● | |
| Economic environment | ● | ● | ● | ● | ● | ● | |
| Operational risks | | | | | | | |
| Supply chain | ● | ● | ● | ● | ● | ● | Example of gap |
| Legal and compliance | ● | ● | ● | ● | ● | ● | Incomplete analysis of supply chain risks across the business |
| Health and safety | ● | ● | ● | ● | ● | ● | |
| Financial control | ● | ● | ● | ● | ● | n/a | Example of duplication |
| Information technology | ● | ● | ● | ● | ● | n/a | Multiple financial control risk assessment languages and methodologies |

Source: ACCA 2011

Form your opinion and report

In forming your opinion, consider the materiality, business and assurance risks throughout the process from the assignment inception to evidence gathering and assessment that all lead to your conclusions.

If you are an external auditor, in reporting your opinion you will need to comply with the requirements of ISAE3000. Whether you are an internal or external auditor, you should make sure your communication complies with the principles of report quality, akin to the tenets of good corporate reporting and ISAE3000 criteria characteristics outlined earlier, and mitigate assurance risk by:

- articulating the precise scope of the assignment including the type of assurance that was being sought
- clearly identifying the intended audience
- setting out the respective responsibilities of the organisational function commissioning the assignment and the auditor
- detailing the work performed in arriving at the insight including:
 - assumptions required to perform the assignment
 - limitations associated with any aspect of the assignment, from making assumptions, and performing the work, to arriving at and reporting findings
 - standards and frameworks governing the assignment, for example reporting, audit and assurance
 - resources used
- expressing your opinion and indicating, where applicable, connectivity to other assurance assignments. For example, this assignment may relate to key performance indicators (KPIs) subject to reasonable assurance, where the KPIs are included in a sustainability report for which limited assurance is relevant.



4. The support required

Key messages

- Those responsible for the organisation's governance, its policymakers and the auditor must work together to ensure a successful sustainability assurance assignment.
- Policymakers should consider governance, accounting, reporting and assurance policy development as an interrelated set to ensure relevant applicability to the natural capital issues and the organisation.
- Financial and training support is needed for organisations and auditors.



Behind a successful internal audit and external assurance assignment is a governance structure and organisational culture that support the work of the auditor and assurer. In addition, you must take responsibility for being suitably skilled. Policymakers have a pivotal role in aiding the development of these skills, just as they do in shaping the assignment through issuing cohesive, coherent guidance and regulations applicable to both the organisation and the profession.

4.1 The role of governance

The commitment and action of business leaders and others in senior roles within the governance structure filters through the organisation and out to the supply and value chain. As we have seen, Ferrero pursue the sustainable sourcing of cacao and hazelnuts and Solvay influence the onward use of its materials and chemicals.

Governance should also support the auditor and assurer, as this underpins a more meaningful assurance assignment (see section 3.1, the subsection on considerations when deciding on the assurance assignment) by:

- **facilitating unchallenged access to all relevant business functions**, including their information systems
- **setting a culture of willingness to collaborate**, specifically sharing cross-functional and specialist knowledge that is fundamental to integrated thinking; collaboration makes it easier to influence any required change

- **ensuring financial and operational support** for the assignment in forms of:

- engagement, for example setting out the assignment to encourage stakeholder buy-in internally and as needed externally, ie with employees or across the supply and value chain
- provision of budgetary and relevant IT resources, such as data analytic software
- access to data required, such as that of sustainability experts, for which out and co-sourcing may be good options if they do not exist within the organisation.

4.2 The role of policy makers

We are seeing the action of policymakers around the globe, in various ways influencing the behaviour of business and society, and shaping what good-quality governance, accounting, reporting and assurance entail. While the action to date is very much welcomed, in this section we share our recommendations on the approach required to give better support to the success of policy, including support for the audit profession in fulfilling sustainability assignments.

Regulation and guidance

Through better appreciation of the distinctive journeys and challenges faced by different organisations, reporters and the audit profession, policymakers will drive better and quicker compliance with their policies. To support the audit profession, we make the following recommendations for policymakers.

- **Fully appreciate the interrelationships** that exist between governance, accounting, reporting and assurance. For instance, guidance related to non-financial reporting will have specific implications for organisational data requirements, and the work and assignment risk for auditors.
- **Consider how policy is relevant and applicable to different organisations**, say public interest entities versus small and medium-sized enterprises (SMEs), or its impact on different industry sectors.
- Develop regulation and guidance that is ambitious and fair, allowing those affected to transition at the right pace for them and their supply chain, but with milestones to ensure that these organisations have a 'line of sight' to what they need to achieve. That may mean taking a pragmatic and balanced approach, for example with:
 - a clearly communicated, consistent core and more global approach for both reporting and assurance, critical in driving comparability, especially for stakeholders with interests in organisations across different jurisdictions
 - providing guidance to improve mitigation of the assurance risk associated with a failure to meet stakeholder expectations, which is higher than for a financial statement audit owing to the very nature of the assignment and to the greater interest stakeholders are likely to have in sustainability issues.

For external auditors, policymakers could extend the remit of the financial statement audit to consider the consistency of specified sustainability information, or go further by specifying to reporters the content of supplementary commentary and including it as a part of the financial statements that requires reasonable assurance. To help preparers, internal and external auditors, we recommend that an incremental journey is taken, starting from 'limited assurance' and ending with 'reasonable assurance' on non-financial information. As explored in section 3.2 above, for all organisations, the journey to reasonable assurance provides a great opportunity for collaboration.

- **Recognise that sustainability issues are both complicated and complex**, and much like the debate by IESBA on technology (IESBA 2020b) a similar one is potentially required for sustainability matters, as this may drive the need for amendments to the codes of conduct and ethics.

Access to data

For many organisations, access to data is a limiting factor in developing, executing and reporting on sustainability strategies, and this is also a problem for auditors. National and internal data recording systems that hold both reported financial and non-financial information will facilitate:

- greater understanding, through examples of how other organisations have reported and assured
- access to proxy information from other reporting organisations for those starting the journey
- access to environmental data for the sector (EC 2020).

In turn, policymakers benefit because the data collected can be used to model the impact of proposed policies and regulations.

Financial and training support

Sustainability issues are not limited to large entities with resources and skills; therefore, effort must be made by policymakers to bring all organisations, reporters and assurers on-board through:

- **training** that starts with engagement, from awareness campaigns to highlight why natural capital is an issue to the provision of step-by-step guidance supported by best practice examples
- **financial support** for developing the required systems for accounting, reporting and assurance
- **access to specialist advice**, for example, that of sustainability experts.

TO HELP PREPARERS, INTERNAL AND EXTERNAL AUDITORS, WE RECOMMEND THAT AN INCREMENTAL JOURNEY IS TAKEN, STARTING FROM 'LIMITED ASSURANCE' AND ENDING WITH 'REASONABLE ASSURANCE' ON NON-FINANCIAL INFORMATION.



4.3 The internal and external auditors' skills

If the profession's remit is to serve the public interest, with outcomes for the public of trust and confidence in credible business, then to produce the best sustainability and non-financial reporting assignments you must be suitably equipped in mindset and skills including technical competency, professional scepticism, vision, confidence, mental agility and adaptability. These qualities are explored below.

- **Technical competency** includes being aware of the guidance in existence today and that being developed at an increasingly rapid pace. You must be able to connect the end-to-end business processes, which means being informed about the guidance for sustainable governance, product LCAs, accounting and reporting, as well as audit and assurance. Nonetheless, you needn't be a sustainability expert (specifically, as far as this guide is concerned, in natural capital), but should be sufficiently scientifically literate to appreciate the outputs, outcomes and key messages from the experts. From here you will need to employ integrated thinking to connect these factors to the implications for the organisation's end-to-end processes and the other interconnected capitals.

- **Professional scepticism** requires an investigative, hence probing and curious, open, creative and innovative mindset. This will aid identification of the data needs, analysis and evaluation in reaching conclusions, for example about the choices of business leaders when selecting and deploying a natural capital management strategy. It will also help you to develop recommendations for continual improvement. Equally, the mindset described is required when assessing choices about how to report on the organisation's sustainability-driven activities, such as on the selection of and compliance with standards. There are many of these and where compliance is voluntary there can be potential for management bias. In many respects, you are there to be the challenge partner to the organisation, on behalf of society.
- **Vision and confidence** are needed when dealing with uncertainty, and mental **agility and adaptability** are vital as the assignment progresses. The methodology of an assurance assignment is a principles-based one underpinned by a risk-based approach, and this will need to be tailored for issues that may arise.

Many aspects of these mindset and skills are already within the auditor and assurers' toolkit, and that is why you are best placed to extend them to sustainability assignments.

**VISION AND CONFIDENCE ARE
NEEDED WHEN DEALING WITH
UNCERTAINTY, AND MENTAL AGILITY
AND ADAPTABILITY ARE VITAL AS
THE ASSIGNMENT PROGRESSES.**



Appendix:

Links to sources of relevant audit and assurance guidance

The role of internal audit in non-financial reporting

IIA (Chartered Institute of Internal Auditors) (2015), *The Role of Internal Audit in Non-Financial and Integrated Reporting*. Downloadable from <<https://www.iaa.org.uk/resources/integrated-reporting/research-report-the-role-of-internal-audit-in-non-financial-and-integrated-reporting/>>, accessed 30 March 2020.

IPPF (2010), *Evaluating Corporate Social Responsibility/ Sustainable Development* <https://www.iaa.nl/SiteFiles/10038_PRO-Corporate_Social_Responsibility_PG-FNL%5b1%5d.pdf>, accessed 30 March 2020.

IAA *Global perspectives and Insights: Beyond the Numbers – Internal Audit’s Role in Nonfinancial Reporting* <<https://na.theiiaa.org/periodicals/Public%20Documents/2015-Oct-GPI-English.pdf>>, accessed 30 March 2020.

Developing and delivering the plan

Deloitte (2018), *Integrated Risk Assurance: Get a Clearer Understanding of the Risks Affecting Business Value* <<https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/risk/ca-integrated-risk-management-report-aoda-pov-en.pdf>>, accessed 30 March 2020.

WBCSD and ICAEW (2019), *A Buyer’s Guide to Assurance on Non-Financial Information* <https://docs.wbcsd.org/2019/11/WBCSD_ICAEW_A_buyers_guide_to_assurance_on_non-financial_information.pdf>, accessed 30 March 2020.

Internal auditors – technical guidance

Internal audit standards and framework

IAA (n.d.) ‘The IPPF: The Framework for Internal Audit Effectiveness’ [webpage] <<https://global.theiiaa.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>>, accessed 30 March 2020.

Internal control and enterprise risk management

COSO and WBCSD (2018), *Enterprise Risk Management* <<https://www.coso.org/Documents/COSO-WBCSD-ESGEM-Guidance-Full.pdf>>, accessed 30 March 2020.

Understanding the business and its control environment; developing assurance maps

IPPF (2010), *Evaluating Corporate Social Responsibility/ Sustainable Development* <https://www.iaa.nl/SiteFiles/10038_PRO-Corporate_Social_Responsibility_PG-FNL%5b1%5d.pdf>, accessed 30 March 2020.

IIA (n.d.), ‘Insights to Quality: Quality Assurance Mapping’ [website] <https://na.theiiaa.org/services/quality/Public_Documents/Quality-Assurance-Mapping.pdf>, accessed 30 March 2020.

IAA (n.d.), *Practice Guide: Coordination and Reliance: Developing an Assurance Map*. Downloadable from <<https://global.theiiaa.org/standards-guidance/recommended-guidance/practice-guides/Pages/coordination-and-reliance-developing-an-assurance-map.aspx>>, accessed 30 March 2020.

External auditors and assurers – technical guidance

IAASB (2013), *International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information* <<https://www.iaasb.org/publications/international-standard-assurance-engagements-isa-3000-revised-assurance-engagements-other-audits-or-0>>, accessed 30 March 2020.

IAASB (2012), *At a Glance: International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements* <https://www.ifac.org/system/files/publications/files/At_a_Glance-ISA%203410%20Final.pdf>, accessed 30 March 2020.

IAASB (2020), *Final Pronouncement: International Standard on Related Services 4400* <<https://www.ifac.org/system/files/publications/files/ISRS-4400-Revised-Agreed-Upon-Procedures-final.pdf>>, accessed 30 March 2020.

Sustainability issues as part of financial statement audits

Other information

IAASB (2015), *International Standard on Auditing (Isa) 720 (Revised), the Auditor’s Responsibilities Relating to other Information*. Downloadable from <<https://www.iaasb.org/publications/international-standard-auditing-isa-720-revised-auditor-s-responsibilities-relating-other-8>>, accessed 30 March 2020.

IAASB (2020) *The Consideration of Climate-Related Risks in an Audit of Financial Statement* <<https://www.ifac.org/system/files/publications/files/IAASB-Climate-Audit-Practice-Alert.pdf>>, accessed 30 March 2020.

Review of assurance issues for integrated reports and other non-financial information

ACCA (2015) *The Challenges of Assuring Integrated Report: Views from the South African Auditing Community* <<https://www.accaglobal.com/ca/en/technical-activities/technical-resources-search/2015/november/assuring-integrated-reports.html>>, accessed 30 March 2020.



References

- ACCA (2011), *The Big Assurance Picture* <https://www.accaglobal.com/content/dam/accaglobal/PFD-memberscpd/InternalAudit/The_Big_Assurance_Picture_-_25_Oct_11.pdf>, accessed 26 March 2021.
- ACCA (2018), *Tenets of Good Corporate Reporting* <<https://www.accaglobal.com/gb/en/professional-insights/global-profession/Tenets-of-good-corporate-reporting.html>>, accessed 25 March 2021.
- ACCA (2020/2021), *Corporate reporters' and performance managers' guides* (Five available). Downloadable from <https://www.accaglobal.com/an/en/professional-insights/global-profession/Professional_accountants_changing_business_planet.html#:~:text=The%20role%20of%20the%20professional,and%20on%20behalf%20of%20society>, accessed 26 March 2021.
- ACCA (2020a), *Accountants, Purpose and Sustainable Organisations* <https://www.accaglobal.com/pk/en/professional-insights/pro-accountants-the-future/Accountants_Purpose_Sustainable-Organisations.htm>, accessed 27 March 2021
- ACCA (2020b), *Professional Accountants Changing Business for the Planet: A Simple Guide to Natural Capital Management for Business Leaders* <https://www.accaglobal.com/an/en/professional-insights/global-profession/Professional_accountants_changing_business_planet.html>, accessed 25 March 2021.
- ACCA (2020c), *Accountants, Purpose and Sustainable Organisations* <https://www.accaglobal.com/wales/en/professional-insights/pro-accountants-the-future/Accountants_Purpose_Sustainable-Organisations.html>, accessed 28 March 2021.
- ACCA (2021) 'Integrated Assurance Provides Synergistic Benefits to Stakeholders' [Recorded webinar], <<https://www.accaglobal.com/pk/en/member/discover/events/global/e-learning/audit-and-assurance/integrated-assurance-provides-synergistic-benefits-to-the-stakeholders.html>>, accessed 26 March 2021.
- Bookings Holdings (2020), *Sustainability Report* <<https://www.bookingholdings.com/wp-content/uploads/2021/03/BKNG-Sustainability-Report-2020-.pdf>>, accessed 29 March 2021.
- CDP, CDSB, GRI, <IR>, and SASB (2020), *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* <<https://29kjbw3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>>, accessed 26 March 2021.
- Chartered Institute of Internal Auditors (2014), *Risk Based Internal Auditing* <<https://global.theiia.org/standards-guidance/topics/documents/201501guidetorbia.pdf>>, accessed 26 March 2021.
- Deloitte (2016), *Project Risk Management: Applying the Three Lines of Defence Model to Project Risk Management* <<https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/risk/deloitte-au-rs-project-risk-management-310117.pdf>>, accessed 26 March 2021.
- Deloitte (2018), *Integrated Risk Assurance: Get a Clearer Understanding of the Risks Affecting Business Value* <<https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/risk/ca-integrated-risk-management-report-aoda-pov-en.pdf>>, accessed 26 March 2021
- EC (European Commission) (2014), 'Non-Financial Reporting Directive' [webpage] <<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN>>, accessed 26 March 2021.
- EC (2020), 'Capital Markets Union: Commission to Boost Europe's Capital Markets' [webpage] <https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1677>, accessed 26 March 2021.
- ECIIA (2020), *Risk in Focus 2021: Practical Guidance on Climate Change and Environmental Sustainability* <<https://www.eciia.eu/2021/01/risk-in-focus-2021-practical-guidance-on-climate-change-and-environmental-sustainability/>>, accessed 27 March 2021.
- EFRAG (2020), *Project Taskforce Non-Financial Reporting Standards: Outreach Meeting: European Standard Setting* <<https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/Meeting%20Documents/2012211533546478/Outreach%20document.pdf>>, accessed 26 March 2021.
- Ferrero Group (2017a), 'Materiality Analysis' in *Corporate Social Responsibility Summary* <<https://s3-eu-west-1.amazonaws.com/ferrero-static/globalcms/documenti/3537.pdf>>, accessed 29 March 2021.
- Ferrero Group (2017b), 'Stakeholder Mapping' in *Corporate Social Responsibility Summary* <<https://s3-eu-west-1.amazonaws.com/ferrero-static/globalcms/documenti/3536.pdf>>, accessed 29 March 2021.
- IAASB (2009), 'International Standard on Auditing 200', <<https://www.ifac.org/system/files/downloads/a008-2010-iaasb-handbook-isa-200.pdf>>, accessed 26 March 2021.
- IAASB (2013a), *International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information* <<https://www.iaasb.org/publications/international-standard-assurance-engagements-isa-3000-revised-assurance-engagements-other-audits-or-0>>, accessed 26 March 2021.
- IAASB (2013b), 'ISA 610 (Revised 2013): Using the Work of Internal Auditors' <[https://www.ifac.org/system/files/publications/files/ISA-610-\(Revised-2013\).pdf](https://www.ifac.org/system/files/publications/files/ISA-610-(Revised-2013).pdf)>, accessed 26 March 2021.
- IAASB (2015), ISA 720 (Revised): 'The Auditor's Responsibilities Relating to other Information' <<https://www.iaasb.org/publications/international-standard-auditing-isa-720-revised-auditor-s-responsibilities-relating-other-8>>, accessed 26 March 2021.
- IAASB (2020a), 'Proposed Guidance: Extended External Reporting (EER) Assurance Webinar Recording' [Recorded webinar] <<https://www.iaasb.org/publications/proposed-guidance-extended-external-reporting-eer-assurance-webinar-recording>>, accessed 29 March 2021.

IAASB (2020b), Public Consultation on Proposed Guidance: Extended External Reporting (EER) Assurance (March 2020) <<https://www.iaasb.org/publications/public-consultation-proposed-guidance-extended-external-reporting-eer-assurance-march-2020>>, accessed 26 March 2021.

IESBA (2020a), *Handbook of the International Code of Ethics for Professional Accountants* <https://www.ifac.org/system/files/publications/files/IESBA-English-2020-IESBA-Handbook_Web-LOCKED.pdf><<https://www.ethicsboard.org/projects/reviced-code-ethics-completed>>, accessed 27 March 2021.

IESBA (2020b). 'Technology' [webpage] <<https://www.ethicsboard.org/consultations-projects/technology>>, accessed 30 March 2021.

IFRS (2021), 'Sustainability Reporting' [website] <<https://www.ifrs.org/projects/work-plan/sustainability-reporting/?>>, accessed 26 March 2021.

IIA (Institute of Internal Auditors) (2017a), *International Standards for the Professional Practice of Internal Auditing* <<https://na.theiia.org/standards-guidance/mandatory-guidance/pages/standards.aspx>>, accessed 28 March 2021.

IIA (2017b), *International Professional Practices Framework*, available from <<https://bookstore.theiia.org/international-professional-practices-framework-ippf-2017-edition>>, accessed 26 March 2021.

IIA (2020), *The IIA's Three Lines Model: An Update of the Three Lines of Defense* <<https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Three-Lines-Model-Updated.pdf>>, accessed 25 March 2021.

IIA Netherlands and KPMG (2015), *Discussion Paper: Strategy-Related Auditing* <<https://global.theiia.org/knowledge/Public%20Documents/IIANL-Strategy-Related-Auditing.pdf>>, accessed 26 March 2021.

IIA 2021, Code of Ethics <<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>>, accessed 26 March 2021.

Integrated Reporting (n.d.), 'Get to Grips with the Six Capitals' <<https://integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/>>, accessed 28 March 2021.

Lee, T.-H. and Ali, A.M. (2008), 'The Evolution of Auditing: An Analysis of the Historical Development', ResearchGate <https://www.researchgate.net/publication/339251518_The_evolution_of_auditing_An_analysis_of_the_historical_development/link/5e45ec9f458515072d9a7bfb/download>, accessed 27 March 2021.

Solvay (2016), *Sustainable Portfolio Management Guide* <<https://www.solvay.com/sites/g/files/srpend221/files/2021-01/SolvaySPM-v10.pdf>>, accessed 29 March 2021.

