



# Investor Decision-Making:

Why CPAs are the Preferred Practitioners for Sustainability Assurance Services

June 2024



## About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

## About the Association of International Certified Professional Accountants, and AICPA & CIMA

The Association of International Certified Professional Accountants (the Association), representing AICPA & CIMA, advances the global accounting and finance profession through its work on behalf of 689,000 AICPA and CIMA members, students and engaged professionals in 196 countries and territories. Together, we are the worldwide leader on public and management accounting issues through advocacy, support for the CPA license and specialized credentials, professional education and thought leadership. We build trust by empowering our members and engaged professionals with the knowledge and opportunities to be leaders in broadening prosperity for a more inclusive, sustainable and resilient future.

The American Institute of CPAs (AICPA), the world's largest member association representing the CPA profession, sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organizations, and federal, state and local governments. It also develops and grades the Uniform CPA Examination and builds the pipeline of future talent for the public accounting profession.

The Chartered Institute of Management Accountants (CIMA) is the world's leading and largest professional body of management accountants. CIMA works closely with employers and sponsors leading-edge research, constantly updating its professional qualification and professional experience requirements to ensure it remains the employer's choice when recruiting financially trained business leaders.

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# Sustainability Reporting and Assurance Landscape



As companies increasingly report sustainability-related information, investors are seeking third-party assurance to boost confidence in this reporting. Studies show that investors are demanding information that is assured.<sup>1,2,3</sup> In a study done by the Center for Audit Quality (CAQ), 94% of investors responded that public companies should have their climate-related disclosures assured by a third party.<sup>4</sup> CPAs are well qualified to provide this assurance, meeting stakeholder expectations and regulatory requirements.

In 2022, 98% of S&P 500 companies reported sustainability information.<sup>5</sup> Around the world, the voluntary reporting landscape and various mandatory reporting regulations and proposals continue to shape the breadth of sustainability-related disclosures.

**Mandatory reporting** | In the U.S., different levels of government are developing various sustainability reporting requirements for both public and private companies, often including third-party assurance requirements.

Internationally, the European Commission adopted the European Sustainability Reporting Standards, which provide the reporting framework for companies required to report on sustainability matters under the European Union Corporate Sustainability Reporting Directive (CSRD). The CSRD also requires third-party assurance over reported sustainability information.

**Voluntary reporting** | Companies have aligned with voluntary sustainability reporting frameworks like the SASB Standards,<sup>6</sup> Greenhouse Gas Protocol, and the Global Reporting Initiative standards, among others. This reporting may be driven by multiple factors, such as customer demand and contractual requirements.

With growing investor interest in high-quality sustainability-related information, companies worldwide, especially publicly listed ones, are seeking third-party assurance on sustainability-related information, including climate, health and safety, diversity, equity and inclusion, risk management policies, and others. Sustainability assurance by a CPA involves an independent practitioner assessing risks, performing procedures to respond to those risks, obtaining evidence, and issuing a report expressing an opinion or conclusion.<sup>7</sup> Third-party assurance enhances investor confidence in sustainability disclosures by providing insight into the reliability of the information. Globally, CPA firms deliver the majority of all assurance reports on sustainability information, according to an AICPA study with the International Federation of Accountants (IFAC). The study covered the Americas, Europe, Middle East and Africa and Asia Pacific. Of the 1,400 companies studied, 69% obtained assurance over some of their 2022 reporting, and 58% of those assurance reports were issued by CPA firms.<sup>8</sup> When a company chose an accountancy firm for a sustainability assurance engagement, it was more likely to be the same firm as their statutory auditor.

1 Ryan J. Casey and Jonathan H. Grenier, "Understanding and Contributing to the Enigma of Corporate Social Responsibility (CSR) Assurance in the United States," *Auditing: A Journal of Practice & Theory* 34, no. 1, (February 2015): 97–130.

2 "ESG and the cost of capital," *MSCI Blog*, February 2020.

3 Brian Ballou, Po-Chang Chen, Jonathan H. Grenier, and Dan L. Heitger, "Corporate Social Responsibility Assurance and Reporting Quality: Evidence from Restatements," *Journal of Accounting and Public Policy* (2019).

4 "Institutional Investor Survey" by the CAQ, April 2024

5 "S&P 500 ESG Reporting and Assurance Analysis," by the CAQ, June 2024

6 As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation assumed responsibility for the SASB® Standards and has committed to maintain, enhance and evolve them. The SASB® Standards are [important guidance](#) in fulfilling the requirements of IFRS Sustainability Disclosure Standards, and the ISSB encourages their continued use.

7 AICPA & CIMA ESG Assurance Brochure

8 Global Benchmarking Study State of Play in Sustainability Assurance

# Considerations for institutional investors



Trust is an important factor in investor decision-making. According to a global accounting firm's Global Investor Survey, 87% of investors suspect that corporate sustainability disclosures contain some greenwashing. Three-quarters of investors polled said that their confidence in sustainability reporting would receive the biggest boost if it were assured at the same level as companies' financial statements (i.e., reasonable assurance).<sup>9</sup>

Independent assurance can build investor confidence and trust in sustainability reporting. Equity and fixed income investors should determine if companies engage a practitioner to obtain assurance over their sustainability disclosures, and if so, who performs that assurance engagement. An assurance practitioner's<sup>10</sup> independence, expertise in the subject matter, and adherence to professional requirements contribute to consistent, comparable, and reliable assurance reports.

# Considerations for investors in the private sector



Private investee companies, including family-owned businesses, not-for-profit organizations, and companies having no intention of going public may signal the importance of sustainability reporting to their various stakeholders by obtaining assurance

over sustainability information. For example, assured reporting can enhance the view and reputation of the company by employees, the community, its supply chain partners, customers, lenders, credit raters, and insurers, which can lead to reduced cost of capital.

<sup>9</sup> PwC's Global Investor Survey 2022

<sup>10</sup> For purposes of this document "assurance practitioner" encompasses CPAs and non-CPAs.

# Why a CPA for sustainability assurance?

There are numerous benefits of obtaining third-party assurance of sustainability information from a CPA:

**Knowledge of a company's business and business processes:** CPAs understand specific industries, market forces, and why certain sustainability-related information is important financially as well as from a risk perspective. They have extensive experience in gaining an understanding of the company's business processes and assessing and responding to risk, and they have expertise in evaluating the company's internal systems and processes for collecting, measuring, analyzing, and reporting information. Additionally, CPAs are well-practiced in interpreting codified reporting frameworks, such as those of the Task Force on Climate-related Financial Disclosures, the Sustainability Accounting Standards Board, and the Global Reporting Initiative. The assurance process can prompt management to think more deeply about the reported sustainability information as they are preparing it, which can result in more contextual decision-useful information and disclosures for investors.

**Adherence to recognized standards:** The public accounting profession has decades of experience in developing methodologies that enable them to apply the auditing and attestation standards of the AICPA, Public Company Accounting Oversight Board, and International Auditing and Assurance Standards Board.<sup>11</sup> Each of these standards have been subjected to due process, which is a transparent, public, and reasoned process. They are publicly available at no cost, which allows investors and other report users to evaluate the practitioner's report against the standards.

CPAs are required to adhere to professional standards when executing engagements. Professional standard-setting bodies monitor adherence to the performance of engagements

that apply their standards for assurance. This system and structure bring consistency and rigor to engagement performance. Use of proprietary verification methodologies, or less familiar verification standards by other assurance practitioners may not be available to or understood by companies and investors.<sup>12</sup>

**Commitment to quality control, professional and ethical standards:** CPAs comply with rigorous and widely recognized requirements for independence, firm systems of quality management, and subject matter<sup>13</sup> competency. The independence and competency of the assurance practitioner, along with quality management and oversight, are crucial to the integrity of the reported information and to the value of that information to the marketplace. As evidenced in the IFAC State of Play study, non-CPA practitioners do not always disclose adherence to assurance and ethical standards.<sup>14</sup> Non-CPAs are not subject to the rigorous requirements of licensure which include uniform examination, continued education, systems of quality management, adherence to professional standards, adherence to a code of conduct covering ethics and independence requirements, oversight, and enforcement.

**Use of specialists:** Public accounting firms and practicing CPAs are also required under the standards to have access to specialists, if necessary, with expertise in a wide variety of sustainability and other non-financial topics. These specialists work together with CPAs, who are experts in bringing trust and confidence to reported information through meaningful assurance processes. CPAs have proven experience incorporating those specialists as part of the engagement planning and execution of sustainability assurance (e.g., climate scientists or energy transition specialists) and financial statement audit engagements (e.g., actuarial services or fair value specialists). Additionally, public accounting

<sup>11</sup> The IAASB is developing a new overarching standard for assurance on sustainability reporting. [Proposed International Standard on Sustainability Assurance \(ISSA\) 5000, General Requirements for Sustainability Assurance Engagements \(ISSA 5000\)](#).

<sup>12</sup> [Global Benchmarking Study State of Play in Sustainability Assurance](#)

<sup>13</sup> The AICPA's clarified attestation standards, which are codified in *Professional Standards*, define *underlying subject matter* as, in an examination or review engagement, the phenomenon that is measured or evaluated by applying criteria.

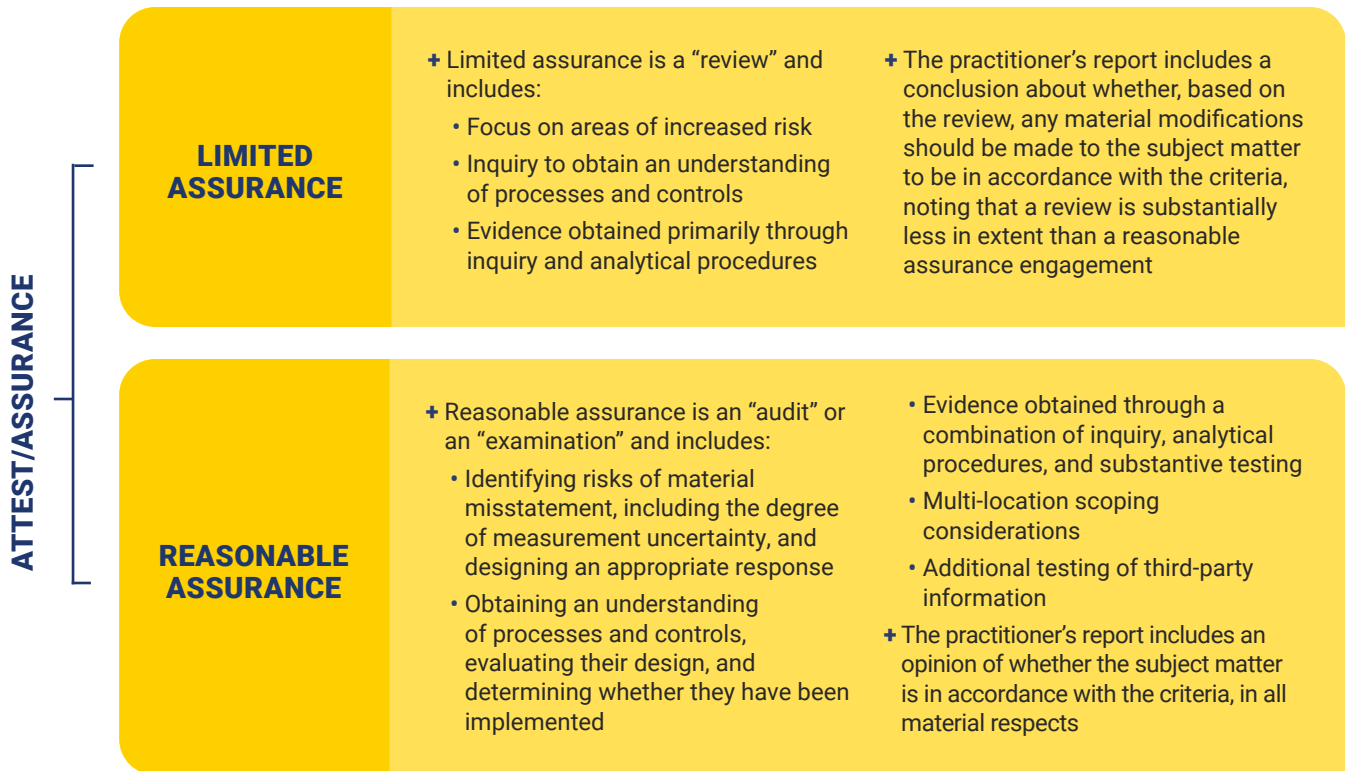
<sup>14</sup> [Global Benchmarking Study State of Play in Sustainability Assurance, Page 21](#)

firms often have a network of other practitioners, including their respective member firms, that can support multinational reporting requirements.

CPA firms can provide a range of assurance services:

The level of assurance to be obtained is based on the company’s objectives (e.g., limited assurance over Scope 1 and Scope 2 GHG emissions, as required by regulation vs. reasonable assurance over a green bond use-of-proceeds report), the needs of the intended users, and can also be determined by regulators, debt

service agreements, contractual arrangements, etc. There are two levels of assurance services performed by CPAs on sustainability information. A reasonable assurance engagement results in an opinion as to whether the sustainability information is free from material misstatement (or presented fairly), in all material respects. A limited assurance engagement results in a lower level of assurance and a conclusion that no matters came to the assurance practitioner’s attention that the sustainability information was materially misstated. The following exhibit illustrates the assurance services that can be provided by a CPA to enhance confidence in information.



Points to consider when relying on sustainability information:

- + Is sustainability assurance already being obtained? Will it be sought voluntarily? Will it become required (e.g., by current and prospective investees or as a result of regulation)?
  - If so, understand the type of sustainability assurance being obtained and the credentials of the assurance practitioner being used.
  - If not, discuss the plans for assurance and the potential value assurance brings in capital allocation decisions.

- + If the sustainability assurance practitioner is not a CPA firm, understand the qualifications of the non-CPA assurance practitioner, including the standards used and whether those standards were subject to due process, its system of quality management, source and level of regulation, professional ethics requirements (including independence), and competence and skillsets.
- + Understand the scope of assurance necessary to meet the needs of investors and other key stakeholders.

# Suggested reference materials



The Association of International Certified Professional Accountants, the unified voice of AICPA and CIMA, and the CAQ have developed several sustainability-related resources which investors may find helpful.

For more information please visit <https://www.aicpa-cima.com/topic/sustainability-esg> and <https://www.thecaq.org/collections/auditors-and-esg/>.



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