Sustainability Reporting and Assurance:

Key Considerations for Legislators and Regulators

January 2025

AICPA & CIMA

CAQ

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.

Contents

Introduction

Having transparency and accountability in reporting helps companies build stakeholder trust, attract investment, more effectively manage risks, and drive long-term growth. In addition, stakeholders continue to demand high-quality, accurate, and comprehensive data about sustainability-related information, including Greenhouse Gas (GHG) emissions, which affect climate risks.

As legislators and regulators respond to the evolving needs of the market by contemplating laws and regulations requiring companies to report sustainability information, they should consider incorporating the following into legislation or regulations to achieve the objective of providing high quality, consistent and comparable information to users of the information:

- Recognized sustainability reporting standards
- Assurance practitioner qualifications, including
  - Ethics, independence, and oversight
  - Competency
  - System of quality management
- Recognized assurance standards
- Specified levels of assurance (limited or reasonable assurance)

Sustainability Reporting Standards

Laws and regulations should require the use of recognized reporting standards that have been subject to due process as the criteria for sustainability reporting. This would support consistency and comparability in disclosures from company to company, streamline the reporting process for companies complying with existing and proposed laws and regulations, and increase transparency, which would enhance the degree of confidence decision-makers have in the integrity and reliability of the information being reported.

Recognized sustainability reporting standards include, among others:

- GHG Protocol
- IFRS Sustainability Disclosure Standards, which incorporate:
  - Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations
  - Sustainability Accounting Standards Board (SASB) Standards
- Global Reporting Initiative (GRI) Standards
- European Sustainability Reporting Standards (ESRS), as required by the Corporate Sustainability Reporting Directive (CSRD)

Assurance Practitioner Qualifications

Independent[1] third-party assurance over sustainability-related information could enhance confidence in a company's reporting. To help maximize the impact of sustainability reporting and assurance-related laws and regulations, there should be minimum requirements for third-party assurance practitioners related to independence, competency, ethics, oversight, and quality management. These requirements need to be specifically defined and should be at least as demanding as those in the professional standards that CPAs are required to follow when assuring financial information, to promote consistency, comparability, and reliability of the assurance on the reporting. Because CPAs are experts in assurance, they have been called upon to broaden their assurance services beyond audits of financial statements and to bring confidence to information relied upon by decision makers across a wide range of subject matters. The paragraphs below outline some of the qualifications that CPAs are required to have and could help inform the legislative or regulatory drafting process.

Independent assurance obtained by a CPA firm is a process whereby the independent CPA, who acts with integrity and exercises objectivity and professional skepticism, performs procedures to obtain evidence to express an opinion or conclusion about the subject matter (for example, sustainability information) in the assurance report, which enhances the degree of confidence for users of the information. Independent assurance services performed by CPAs can vary in levels of assurance (reasonable or limited, see section below) and are performed according to standards that are set by accredited bodies, developed and maintained through a transparent and public process. Independent assurance provides an objective and impartial opinion or conclusion on the reported information.

In the US, CPAs are licensed by state boards of accountancy after completing rigorous education, passing a comprehensive exam, and gaining practical experience under the supervision of an experienced CPA. They must also follow comprehensive independence rules, a professional code of conduct, and maintain their knowledge, skills and experience, including staying updated on complex laws, standards, and industry trends through required continuing professional education, helping to ensure their work can be trusted by the public.

Independent assurance boosts stakeholder confidence in companies' sustainability reporting. 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.[2] CPAs are well qualified to perform these assurance services because they bring a high level of credibility and trust, given their comprehensive training and adherence to ethical standards. In addition, as experienced providers of financial audit, advisory, and assurance services, CPAs are well equipped to be the preferred providers of sustainability assurance services. Their deep understanding of business and processes, combined with their expertise in applying auditing and attestation standards to financial and non-financial information, makes them ideal for this role. Many CPA firms have in-depth knowledge of sustainability-related rules and regulations, a globally recognized sustainability practice that has access to subject matter expertise, and an existing methodology that complies with the American Institute of Certified Public Accountants (AICPA) attestation standards. These factors contribute to the effective and efficient execution of the sustainability assurance engagement, resulting in consistent, comparable, and reliable assurance reporting.

1 A party is independent from an entity if it complies with an independence standard that:
  a.) provides a framework to evaluate and address the significant threats to objectivity and impartiality that may reasonably arise in the conduct of the engagement; and
  b.) is issued by a nationally recognized professional or standard-setting body or applicable regulator. The American Institute of Certified Public Accountants (AICPA) professional standards discuss independence in both fact and appearance.

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

CPAs are subject to ongoing monitoring and quality control measures to protect the public interest. CPAs are required to establish a system of quality management, which enables firms and personnel to fulfill their responsibilities in accordance with professional standards while emphasizing quality. They must participate in a peer review monitoring program, which is an oversight inspection program that promotes and enhances quality in accounting and assurance services. In contrast, market practice with respect to this oversight among non-CPAs is less formalized and may vary or may be non-existent.

Assurance Standards

Requiring assurance practitioners to perform engagements in accordance with recognized assurance standards, such as the AICPA's attestation standards, together with the other concepts presented in this paper, will increase the quality of the assurance engagements. Recognized assurance standards can act as a baseline for practitioners, resulting in greater consistency in how sustainability assurance engagements are performed. The AICPA's standards, for example, are developed through a transparent due process, which includes public input.

In the US, only CPAs are permitted to use the AICPA standards to perform assurance engagements, which are subject to ongoing monitoring and quality control measures. The International Auditing and Assurance Standards Board (IAASB), a promulgator of international assurance standards, allows CPAs and non-CPAs to use their standards. While assurance practitioners using IAASB standards are subject to ethics and oversight requirements similar to those required by the AICPA standards, accountability and oversight of practitioners is outside the purview of the IAASB, although law or regulation may impose incremental requirements.

Also, market practice among non-CPA firms includes the use of varying standards, or the performance of engagements "based on" standards, implying that such standards may be used as a guideline or reference point and the engagements may not be performed to the same level or with the same consistency and transparency.[3] This inconsistency or potential reliance on insufficient and inadequate evidence could result in assurance report users making decisions based on inaccurate or incomplete information. CPAs perform sustainability assurance engagements "in accordance with" standards, meaning the engagement is performed by following all the applicable prescribed requirements, procedures, and principles of the standards.

Levels of Assurance

Recognized assurance standards provide for services with different levels of assurance. For example, under the AICPA's *Statements on Standards for Attestation Engagements*, practitioners may conduct a review (limited assurance) or examination (reasonable assurance) engagement, each of which lead to the issuance of an independent assurance report. In an examination, the practitioner obtains reasonable assurance (the same level of assurance as a financial statement audit) that the information is free from material misstatement and in accordance with the reporting standards in all

3 Global State of Play Disclosure and Assurance Study – assessed largest companies across 22 jurisdictions. 99% of audit firms applied the International Auditing and Assurance Standards Board's (IAASB) International Standard on Assurance Engagements (ISAE) ISAE 3000 (Revised), or corresponding national standards (for example, AICPA Attestation Standards), in 2022 while only 38% of other service providers used IAASB standards. 91% of audit firms applied the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants, or other recognized ethics standards, while only 33% of other assurance providers applied recognized ethics standards. 94% of audit firms applied the International Standards on Quality Control (ISQC) 1 or other recognized quality control standards, compared to only 43% of other providers.

material respects. On the other hand, in a review, the practitioner obtains limited assurance (the same level of assurance as a financial statement interim or annual review) about whether the practitioner is aware of any material modifications that should be made for the information to be in accordance with the reporting standards. The procedures performed in a review may vary in nature and timing from, and are substantially less in scope than, an examination. Establishing requirements for the level and type of assurance, together with requiring that assurance reports be "in accordance with" robust assurance standards, will help drive a consistent approach across all assurance practitioners. Many legislators and regulators across the globe have instituted a phased approach to the level of assurance required over companies' reported sustainability information. This phased approach often requires limited assurance for a period of time and then moves towards reasonable assurance in the future.

The term *assurance* may be interpreted in various ways. For example, existing and proposed laws and regulations may use the term *verified* as a proxy for assurance; however, it is not a term found in recognized assurance standards. A requirement to *verify* information may not have a sufficiently precise meaning, or the same consistency in execution related to the procedures performed, the evidence gathered, and the type of analysis provided in an assurance engagement performed in accordance with recognized standards to, for example, obtain reasonable assurance that the information is presented in accordance with the criteria. Therefore, a *verification* requirement is generally not suitable when the applicable term for the desired objective is *independent assurance*. Recognized assurance standards define concepts and terms that are well understood by CPAs and assurance report users. Concepts or terms introduced in proposed legislation that do not align with this recognized language could cause confusion and challenges for practitioners when applying recognized assurance standards, for preparers seeking to engage appropriate professionals to provide the required service, and for report users. Instead, legislators should use language grounded in recognized assurance standards to promote consistency, comparability, and reliability in assurance engagements and reporting.

Looking Ahead

Given their unique set of skills, deep knowledge of a company's business, adherence to recognized assurance standards, subject matter expertise, and commitment to quality control, professional and ethical standards, CPA firms are well positioned to be the preferred providers of high-quality sustainability assurance services. The AICPA remains committed to collaborating with policymakers, government agencies, regulatory bodies, and the public to shape policies that advance the public interest and to help ensure that sustainability information is reliable, consistent, and valuable to users. As a standard setter, we understand the natural tension between the costs and benefits of regulation. We know that some US jurisdictions have worked to align their laws with existing sustainability reporting standards and federal guidelines (for example, California Senate Bill 261 permits reports prepared in accordance with IFRS Sustainability Standards to be used to satisfy the requirements of the law), and we encourage minimizing fragmentation in sustainability reporting requirements for companies. While incremental regulation typically increases compliance costs, alignment and interoperability with existing laws and regulations may help companies streamline their reporting processes, help ensure consistency, comparability and reliability in the disclosed information, and may result in potential cost savings.

CAQ

www.thecaq.org

AICPA® & CIMA®

www.aicpa-cima.com

We welcome your feedback!

Please send your comments or questions to hello@thecaq.org