



# ASSURANCE OF SUSTAINABILITY REPORTING FRC MARKET STUDY

Issued 19 July 2024

ICAEW welcomes the opportunity to comment on the Assurance of Sustainability Reporting Market Study published by the Financial Reporting Council (FRC) on 21 March 2024, a copy of which is available from this [link](#).

This response of 19 July 2024 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has over 25,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

For questions on this submission please contact the Audit and Assurance Faculty at [tdaf@icaew.com](mailto:tdaf@icaew.com) quoting REP 60/24.

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## ICAEW

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## KEY POINTS

### SUPPORT FOR THE MARKET STUDY

1. Sustainability lies at the heart of ICAEW's Strategy. We are committed to contributing to the success of sustainability management, reporting, and assurance, as a leading voice where policy, sustainability and accountancy meet. Accordingly, we welcome the FRC's examination of the UK market for sustainability assurance services. It has the potential to provide much needed insights to inform policy making and planning in relation to the UK's sustainability reporting and assurance environment. It is critical that the UK has a sustainability assurance market that functions effectively and provides assurance to support efforts to ensure that companies' sustainability information is high quality and of value to its users.
2. Recognising the importance of this study, we have consulted widely with our members and hosted two roundtable discussions at Chartered Accountants' Hall to provide them with the opportunity to engage with the FRC market study team and input directly into the study. ICAEW also attended and contributed to one of the FRC's roundtable events. Our discussions over the future of UK sustainability reporting and assurance were wide ranging and we have summarised in this submission all of the views we heard for future reference.
3. We welcome the FRC's decision to undertake analysis of the FTSE350 to identify the nature and extent of sustainability assurance being obtained by this segment of the market. There is currently little visibility of the market beyond the FTSE100, and we have repeatedly heard that the UK market is not homogenous.
4. We would be pleased to continue to engage with the FRC as it progresses with the study and stand ready to continue to engage with our members for feedback and to convene further discussions.

### THE CURRENT MARKET

5. UK sustainability assurance is relatively nascent but is evolving quickly. Without mandatory assurance requirements – and, importantly, appropriate regulatory oversight – there will continue to be a diverse, unregulated and fragmented voluntary assurance market. Meanwhile, the UK is impacted by mandatory requirements imposed on companies by other jurisdictions with extra-territorial reach, notably the European Union's Corporate Sustainability Reporting Directive (CSRD).
6. We are also in a period of uncertainty while we await adoption of sustainability reporting standards in the UK and globally. A decision on the UK adoption of ISSB reporting standards is expected by the end of H1 2025. The IAASB's ISSA 5000 sustainability assurance standard is expected to be published in September 2024, but there is at present no certainty over UK adoption.
7. How the market develops will depend on whether and how quickly the UK implements reporting and assurance requirements for UK companies. It will be very important for companies to have certainty to allow informed investment decisions, and to get ready for any step change from voluntary to mandatory sustainability reporting, and any change in assurance requirements should be implemented on a phased basis, which would also be consistent with the approaches of other jurisdictions. It would initially involve limited assurance and then a move to reasonable assurance over time as internal systems, processes and controls within businesses are implemented and embedded.

### CHOICE & COMPETITION

8. Sustainability assurance has, up to now, been voluntary in the UK, although this is changing, with many UK entities within the scope of the mandatory assurance requirements of CSRD through adoption at group level. Assurance is supplied by a variety of audit and non-audit firms, with reference to a range of standards. As such, it is difficult to compare the quality of assurance provided, and cost is considered to be a key driver.

9. It is important that the benefit and purpose of new reporting and assurance requirements is clearly articulated and communicated, so their implementation is not seen as a mere compliance exercise. This is key to the mitigation of the risk of an emerging culture of non-compliance and other unintended consequences that may impact on companies' ability to make and demonstrate progress towards achieving their sustainability ambitions and objectives.
10. We also heard loud and clear that, while competition is welcome, and a broader range of expertise is needed for sustainability assurance, there should be a level-playing field for market participants. The same high bar should apply to all with respect to quality, application of professional standards, ethics, training, monitoring, and oversight.

### **CAPACITY, OPPORTUNITIES & BARRIERS**

11. With the demand for sustainability assurance expected to continue to increase as requirements evolve, there is a concern that there will be insufficient capacity to meet demand. The UK statutory audit and sustainability assurance markets are distinct, with sustainability assurance classified as a non-audit assurance activity, but there are clear synergies between the reporting and assurance of financial and sustainability information. Current financial audit staff need to upskill on sustainability assurance but can apply and build on their existing technical and practical skills, and understand the importance of ethics, independence, and professional scepticism, which are also important for sustainability assurance engagements. At the same time, it is important not to reduce capacity or the quality of staff carrying out statutory audit engagements. How successfully the profession attracts and retains new talent in the coming years will be key in this regard.
12. With significant investment needed across technology, data, recruitment and training by both corporates and assurance providers, it is critically important that the UK is provided with clarity and certainty on what will be required and when, giving companies the confidence needed to act and make the necessary investment decisions over the short, medium, and long-term.

### **REGULATORY FRAMEWORK**

13. The global regulatory landscape continues to evolve quickly, and it is expected that the sustainability reporting and assurance landscape and market will look very different in five years' time, if not sooner, pending, among other things, a UK government decision on the use of sustainability standards. We encourage the FRC to reassess the market within a relatively short timeframe to understand the changing dynamics.
14. It is important that the regulatory focus remains on the objective of sustainability reporting to provide comparable and decision-useful sustainability information, that drives action across companies and sectors in support of the transition to net zero and a more sustainable economy. Obtaining high quality assurance over this information is essential to help ensure it is of high quality, reliable and comparable. In turn this allows investors and other users to assess a company's preparedness and progress and builds trust and confidence.
15. In this connection, we would encourage a continued focus on recommendations made for an Audit and Assurance Policy (AAP), which could have a positive impact on how this market develops. We believe that the AAP can provide an effective mechanism for companies to identify and assess their assurance needs in a clear and robust manner, ensuring that assurance obtained is of value and focused on sustainability information and metrics that matter.

## ANSWERS TO SPECIFIC QUESTIONS

**Q1. How well is the UK sustainability assurance market currently functioning? To what extent does it help support economic growth or create burdens and costs on business?****UK sustainability assurance market**

16. While sustainability reporting has taken place for over 20 years, the UK sustainability assurance market is relatively nascent and largely predicated on a voluntary assurance regime. It is also a relatively fragmented market, with a variety of audit and non-audit (regulated and unregulated) firms providing a range of sustainability assurance services by reference to different frameworks and different professional, ethical, and quality standards.
17. Sustainability assurance encompasses a range of assurance levels – including agreed upon procedures, limited assurance, and reasonable assurance. It also covers a very broad range of activities, including assurance over specific technical and scientific data points and metrics; assurance over specific disclosures and external commitments (in the annual report or elsewhere); end-to-end process and control reviews; continuous assurance and real-time monitoring; programme and transformation assurance; benchmarking progress and readiness.
18. It can also be provided at various points in time in respect of specific metrics, transactions, and particular circumstances (in relation, for example, to GHG emissions, water usage, gender pay reporting, the green bonds market, sustainability-linked loans, due diligence, and listing requirements) through to assurance over a suite of sustainability information disclosed in a standalone sustainability report or as part of a company's annual report.
19. There is limited information on the level of sustainability assurance obtained at present by corporates, who is providing the assurance, and on what basis. Due to this lack of transparency, it is difficult to compare the nature, extent and quality of sustainability assurance services. We therefore welcome the FRC's plans to undertake data analysis in relation to the FTSE350 to understand the provision of sustainability assurance across this cohort of companies and provide information and insight into the market.
20. The market is evolving at pace, largely due to growing demand from a range of stakeholders for assurance of sustainability information, and a rapidly developing international sustainability reporting and assurance landscape. The introduction of mandatory limited assurance under CSRD, which has an extra-territorial reach, will impact UK entities and is driving activity in this area, alongside potential third-country impacts of the adoption of SEC rules (albeit currently paused) and ISSB standards across other jurisdictions.
21. We have heard that larger firms tend to be well advanced with methodologies and expanding staffing capabilities, but other firms, some of whom handle a small number of PIE audits and larger private company audits, less so. Some mid-size firms we spoke with do have the technical expertise, but it is currently concentrated in a small number of staff. There is a need for clarity in reporting and assurance requirements to enable all firms to invest with certainty and address any gaps in capacity and expertise. It is important that there is capability and capacity across all tiers of firms to address risks of market concentration, improve competition and choice and strengthen the resilience of the fledgling assurance market.
22. In the financial services sector, progress has largely been driven by regulation focused on climate risks, with the Prudential Regulation Authority (PRA) publishing its supervisory statement in April 2019 on *Enhancing banks' and insurers' approaches to managing the financial risks from climate change (SS3/19<sup>1</sup>)*. This explains that the PRA expects firms to consider engaging with the Taskforce for Climate-related Financial Disclosures (TCFD) framework and other initiatives in developing their approach to climate-related financial disclosures and that by doing so, they would benefit from greater disclosure in the wider

<sup>1</sup> PRA Supervisory Statement SS 3/19 ([bankofengland.co.uk](https://www.bankofengland.co.uk))

economy and be in a strong position to encourage it through their ownership of financial assets.

23. While UK regulation has focused on climate, the principles could be applied to a broader spectrum of environmental and societal issues. This approach of considering climate first is consistent with that taken by many standard-setters, regulators and companies. There are lessons to be learnt from climate that can be applied and adopted as progress is made with understanding and assessing other sustainability topics growing in prominence, including the market-led initiative focusing on nature and bio-diversity – the Taskforce on Nature-related Financial Disclosures (TNFD).
24. As a result of this focus, financial services firms have been engaged with the sustainability assurance market and view it as key to the credibility of their climate reporting and disclosures and in building trust among investors and other stakeholders. Banks may well prove to be important agents in this process as they are required to perform climate stress tests, and as they gather sustainability data from borrowers (or require their borrowers to populate non-financial information data portals). We also heard that the verification and assurance of sustainability data when making financing decisions and providing capital is becoming increasingly important, and reflects a growing area of activity that involves a number of providers and frameworks. This may drive behaviour of many corporates, lest banks apply differential pricing.
25. Private equity (PE) firms in the UK also have a substantial influence on sustainability reporting of private equity backed companies. One member we heard from, for example, learnt that a large PE house they were speaking with was applying the ESG Data Convergence Initiative<sup>2</sup> across their portfolios but through a pragmatic lens. PE firms own a considerable tranche of corporate UK, especially across the mid-market.
26. An effective and efficient market, across all sectors and sizes of corporates and assurance providers, will require greater clarity and a shared understanding of what sustainability assurance services are, and how reports are prepared - in terms of assurance requirements and professional, ethical and quality standards – and, importantly, how the opinions should be interpreted and viewed by users and a range of stakeholders. Without this clarity, and especially in the current context of a voluntary regime in the UK, there is a risk that sustainability assurance is seen as an unnecessary burden and cost to business, that does not add value.

## Economic growth

27. That said, this growing market represents a very significant opportunity for UK economic growth. Not only in terms of fees generated for sustainability assurance providers, but in the value it can add to corporates and stakeholders across the economy, providing trust and confidence in sustainability related information to inform decision-making and in driving capital allocation.
28. Sustainability information is inherently forward-looking, and as assurance providers are, overall, more familiar with addressing historical information, audit and assurance activities will need to evolve and be ever more forward looking and support real-time decision-making. This represents a substantial opportunity to unlock value and positively impact the attractiveness of the profession.
29. Sustainability reporting is also increasingly viewed by companies and stakeholders as a powerful way to help set strategy, promote investment, and enable growth, and expectations around it continue to increase. Internationally, and in the UK, there has been a growing market for voluntary assurance of all, or part of, publicly reported sustainability related information, covering both public and private sectors<sup>3</sup>. We consider assurance over a

<sup>2</sup> [Home - EDCI \(esgdc.org\)](https://www.edci.org/)

<sup>3</sup> According to the [Latest IFAC State of Play Report](#) – based on 2022 reporting of market practice by 1,400 companies across 22 jurisdictions.

company's sustainability reporting to be essential to help ensure it is of high quality, reliable and comparable. This allows investors and other users to assess a company's preparedness for operational changes and market trends that could have a material impact.

30. Nearer term value will likely come from supply chain integration, with larger European companies now asking for sustainability-related information from businesses in their supply chains, and the debt markets, focused on the sustainability trajectory of issuers.
31. There is also the potential to unlock economic growth and value by developing the market over time to meet increasing expectations for real-time monitoring and assurance activities that support companies and investors to make more informed decisions.

### **Costs and challenges**

32. With the UK's current voluntary assurance regime and lack of mandatory reporting standards, there is varying practice across the market. On one hand there are companies that see voluntary assurance over sustainability reporting as an unnecessary burden and are therefore not yet engaging with the market. Others are looking at assurance providers who can cover the whole spectrum of sustainability assurance services when considering voluntary provision, in the hope of greater efficiency and minimising cost. We understand that in some cases, following the significant number of net zero pledges and sustainability commitments made, the reality of reporting progress against those commitments, and the need to have them assured, has resulted in the scaling back of commitments, or the willingness at least to publicly disclose them.
33. For both preparers and assurance providers, significant investment is needed across technology, data and training. This extends to education, as there is a huge variance in understanding of the nature and extent of assurance required. We would urge the FRC, along with the new government, to provide greater clarity and certainty on the direction of travel for sustainability reporting and assurance across the UK, including arrangements for regulatory monitoring and oversight. Increased certainty on timelines for sustainability reporting and assurance in the UK is needed to help all participants better plan in the current dynamic environment and provide confidence to act and make the necessary investment in resources, skills, systems, technology and data. Companies are already incurring increased costs, including on recruitment of in-house sustainability professionals, training, IT systems, data, and reporting, without a clear understanding of what the eventual UK requirements will be.
34. It is important to recognise this lack of maturity in the market, with underlying processes and controls still to be fully developed. Assurance providers we spoke to, and participants at our roundtables, were clear that the FRC will need to be mindful of how it uses hindsight. Companies and providers are on a journey in developing sustainability reporting and assurance capabilities and in moving to limited and then reasonable assurance. Monitoring the early stages of that journey should not be judged on practice developed or issues identified later.

### **Q2. What, if any, interplays exist between the UK sustainability assurance and UK audit markets?**

35. It is in the public interest to have an effective and efficient sustainability reporting and assurance market. This includes assurance that is well understood by the broad range of stakeholders increasingly interested in the sustainability credentials and performance of companies, and how this relates to financial performance. While the UK statutory audit and sustainability assurance markets are distinct, with sustainability assurance classified as a non-audit assurance activity, it will be important for all stakeholders to be able to reconcile sustainability and financial performance, as the intersection is coming under increasing scrutiny. Recent examples have included widespread media coverage of water companies that are responsible for pollution and sewage leakages into the UK waterways.

36. Given the connectivity between sustainability information and financial reporting, firms will need to get the right balance in assembling and managing multi-disciplinary teams to ensure sustainability specialists understand assurance and vice versa. Assurance practitioners and subject matter experts will need to work together as one team to make full use of their differing skill sets. The use of experts will also become ever more important.
37. The reporting and assurance environment in the UK should be such that it helps focus on metrics that matter and sustainability information that is decision useful. We heard that too much sustainability information is provided in unnecessarily long documents, sometimes in an incongruent manner. There is not enough comparability yet to allow for meaningful analysis. This might include comparisons to peers, to industry or sector averages, on a per £ revenue basis, or on a per employee basis. As a result, consumers of sustainability information and reports are often left with the "So what?" question.
38. Auditors will be able to take advantage of synergy from understanding the entity and environment as part of the statutory audit. Understanding the subject matter and the complexity of the industries in which the entity is operating allows a holistic overview. It also allows the assessment of audit risks to be informed by the sustainability assurance work at a time when there is continuing interest in the statutory auditor considering the impact of sustainability issues on a company's business model, resilience, and accounting estimates.
39. Auditors already have a strong skill set that can be applied to sustainability information. This includes understanding the business and understanding how to quantify the financial impacts of sustainability risks and challenges, and understanding user needs for the information, and any connectivity between the two (for example, linking scope 3 – category 15 (financed emissions) to the balance sheet).
40. Auditors also have relevant competencies in understanding and testing underlying systems and controls. This is subject to increased focus following the FRC's revised Corporate Governance Code. The need to evolve will increase as sustainability reporting processes and controls mature to enable the quantification of financial impacts that need to be reflected in the financial statements, with materiality and fiduciary duty being important considerations.
41. High quality data, and the technology that supports it, are key to underpinning robust sustainability metrics and disclosures. Financial auditors are experienced in working with data specialists, analytics specialists and other IT specialists.
42. Preparers and assurers are key to preventing or mitigating 'greenwashing' by exhibiting professional and ethical behaviour to ensure that corporate sustainability disclosures are transparent, relevant, and trustworthy. Accountants can leverage their skills in measuring, reporting and assurance to build trust and confidence in the credibility and integrity of sustainability information. Additionally, auditors are well versed in considering bias in reporting and in assessing fraud risks.
43. Education is also needed for investors and other stakeholders around what assurance reports cover. This extends to what different opinions mean - especially with multiple CSRD opinions - and to provide an understanding of the implications of qualified opinions with respect to sustainability assurance and actions required by management.
44. It is expected that professional bodies, business schools, and other providers of finance and accounting skills or qualifications will train their students and members to minimise knowledge gaps and to ensure they are adequately prepared and equipped to meet the needs of the market. This is recognised by a recent International Federation of Accountants (IFAC) proposal to update its International Education Standards<sup>4</sup>. However, those skillsets will need to be replicated across the market to avoid market concentration.

<sup>4</sup> [Equipping Accountants for Sustainability Reporting: IFAC Proposes Enhancements to International Education Standards | IFAC](#)

45. There is a need for consistent training and education. This will also help improve how organisations evaluate, capture, assess, and report material sustainability information - and that in turn will help assurance providers deliver high quality assurance.
46. We recognise that ICAEW has a significant role to play in providing support, education, and oversight in relation to sustainability assurance for our members and across the profession. We see professional accountants as partners in driving the transition to a more sustainable economy through their skills in developing decision-useful information for management and boards, and externally to the providers of capital and other stakeholders, as well as the provision of assurance services.
47. ICAEW has taken steps to address this need for training and education. We have embedded sustainability into the ACA qualification and developed the ICAEW Sustainability Certificate alongside other resources and guidance for members. We stand ready to collaborate with the FRC and the Department of Business & Trade (DBT) to support the profession with further education on sustainability assurance.
48. The FRC has invested considerable time in the culture of audit firms. 'Gen Z' has a different outlook on life to previous generations, prioritising social responsibility, diversity, work-life balance and sustainability. Just 2% of firms surveyed in ICAEW's 2024 Practice Survey described the culture of their firm as 'environmentally conscious', despite 38% of firms stating that ESG considerations did impact decision-making at board level. This disconnect may be contributing to the retention challenge within firms, as Gen Z seek employers that resonate with their beliefs and values, and could impact on the number and quality of qualified staff wanting to be involved in sustainability assurance

**Q3. To what extent do UK companies have sufficient choice of sustainability assurance provider? What factors, such as quality, influence their choice? How might this change?**

49. While the sustainability assurance landscape differs across size of firms and sectors, there may be sufficient choice for companies who want to obtain sustainability assurance, with larger corporates typically seeking assurance and engaging services from the larger audit and assurance firms. This however is not considered to be the same for SMEs, who do not appear to be widely engaged in the sustainability assurance market, which is still largely voluntary in the UK. There is also a sense that sustainability assurance services are often chosen on cost rather than quality, but again this can vary across companies and sectors.
50. The expected increase in sustainability-related reporting, including in relation to an entity's value-chain, will increasingly impact SMEs, which in turn will drive an increase in demand for sustainability assurance services across a broader range of organisations. We heard through our outreach that smaller companies are being asked to provide sustainability information to their larger customers as a condition of continuing to do business.
51. We understand that requests for increased disclosure and sustainability information are being made for a variety of purposes, with investors increasingly asking more questions about sustainability-related performance and credentials. This also includes information specified in listing rules and requested by venture capital firms and transition finance providers.
52. ICAEW's recent research on the [Evolution of mid-tier accountancy firms](#), outlines what the managing partners of mid-tier firms consider to be the main risks and opportunities in areas such as sustainability, technology and assurance more widely, and may be useful to help inform the FRC and contextualise the market.
53. Specifically, the research found that while close to one-quarter of those surveyed thought that ESG knowledge and skills would be demanded by clients in three years' time, no respondent selected 'ESG knowledge' as a top three skill for their future leadership. As the ESG demands from clients evolve, firms will need to consider how they adapt and structure their



teams to deliver this service line. Firms also recognise the growing demand to provide support to their clients, but less than half of the firms surveyed are taking ESG considerations into account in their own decision-making processes and none see this as a key cultural component of their firm.” While many respondents can see opportunities in ESG, one respondent described “forward planning (with regards to) ESG” as a challenge.

54. Furthermore, close to one quarter of those surveyed (24%) suggested that, in the next three years, more focus on sustainability and ESG reporting would be required by their clients. Service line offerings must develop to meet this demand, and this needs to be reflected in the current or near future offering of mid-tier firms. Perhaps surprisingly, when considering the macro trends driving change in the accountancy profession itself, ESG ranked lowest, with just 5% of respondents selecting it.

**Q4. How does competition work in the UK sustainability assurance market? How might this change?**

55. Competition across the UK sustainability assurance market is to be welcomed and is key to a well-functioning market. Currently, cost is considered a key driver when assurance providers are appointed. This reflects the largely voluntary nature of the assurance regime in the UK. The importance of an organization's attitude towards sustainability and how seriously it takes that also influences the choice of provider. However, due to the lack of standardised reporting requirements, the variety of reporting and assurance products used, and the range of providers, it is difficult to compare sustainability assurance services. One consequence of this is a risk of a growing knowledge and expectation gaps between user and assurance provider. These gaps need to be bridged through training and education across a potentially broad range of stakeholders, including the wider group of likely users of sustainability reports, who need to be able to understand from the assurance opinion what work has been done, what conclusions have been reached, and why.
56. A competitive market that provides adequate choice requires the availability of sufficient capacity and capability and sufficient oversight and monitoring to maintain the quality and integrity of the sustainability assurance provided. To achieve this, clarity in reporting and assurance requirements, and investment will be needed in people, technology and data to prepare for and provide sustainability assurance. It also involves an increasingly important role for the use of experts, a particular issue for mid-tier and smaller practices, which may have limited in-house expertise.
57. Given the skills and education gaps in this area, and issues around capacity and the availability of relevant experts, larger firms more progressed with methodologies may have a role in helping educate the wider market. ICAEW also has a key role in developing and disseminating good practice. However, the upskilling challenge across all key actors cannot be underestimated. There is not enough knowledge of and experience in assessing materiality, and the quantitative and qualitative implications of material issues. Internal systems in many organisations are still evolving and need to develop further to adequately capture and assess relevant and material sustainability data.
58. ICAEW’s recent publication on [Shaping Sustainability Standard-setting](#) conveyed a number of insights relevant to the sustainability assurance market. Like financial reporting, a critical aspect of good sustainability reporting is robust assurance and enforcement. Without these, there will be no certainty that information reported will be reliable or comparable. Similarly, like accounting standard-setters, sustainability standard-setters must produce standards that are of sufficient quality and clarity to allow for effective assurance and enforcement. The report highlighted that:
- Robust assurance and enforcement are critical aspects of good financial reporting, helping to provide certainty that information reported is reliable and comparable.
  - Assurance over sustainability information plays a crucial role in the evolving corporate landscape and is increasingly becoming a prominent part of corporate reporting. High

quality and independent assurance can provide trust and credibility to sustainability disclosures, support decision-making and help management with risk mitigation by identifying and assessing gaps and risks in sustainability reporting. This includes assessing the effectiveness of underlying internal processes and controls.

- Assurance will form a critical part of the reporting process. If the assurance process is ineffective, there is a risk that it could undermine the whole purpose of sustainability reporting.

59. In addition, as part of outreach carried out in developing this report, we heard a number of concerns about assurance services in relation to sustainability reporting. These include:

- Demand for assurance potentially outstripping the available supply of suitably skilled and experienced assurance practitioners in the short term.
- Lack of understanding and associated expectation gaps about the different levels of assurance provided, be it limited assurance and reasonable assurance, in addition to a lack of understanding of the increased potential for qualified opinions or key audit matters in this area.
- Inconsistent methodologies being used to provide such assurance, potentially resulting in inconsistent outcomes.

60. Finally, and importantly, we have supported the profession agnostic approach proposed by IAASB and IESBA, whilst also highlighting the need for a level playing field, with all sustainability assurance providers held to the same high bar of regulatory oversight, transparency, independence, ethics and quality management. This is important to maintain the integrity of sustainability assurance as a service to provide trust and confidence to a range of stakeholders and underpin high-quality and consistent sustainability reporting made by companies around the world.

**Q5. What, if any, capacity issues exist in the UK sustainability assurance market? How might these change?**

61. With the demand for sustainability assurance expected to continue to increase, there is a concern there will not be sufficient capacity to meet the increasing demand. This relates to the ability to upskill existing staff in the audit firms on sustainability assurance, but also making sure there remains sufficient focus and capacity for statutory audit engagements, and how the profession attracts new joiners.

62. There is a synergy between statutory audit and sustainability assurance, and we understand that the larger firms have been able to re-deploy staff between audit and sustainability engagements due to the transferable nature of core skills that can be developed to incorporate specific sustainability capabilities. They also have the resources to hire staff with the broader range of sustainability assurance skills required. Small and mid-tier firms will also need to invest in specialists, and crucial to that is having enough clarity in the reporting and assurance environment to enable investment.

63. In this context, we urge the FRC to discuss the Non-Audit Services Fee-Cap with the UK government and whether it should be revised. Prohibition on certain auditors delivering the services may restrict choice and competition, and impact on quality of assurance and statutory audit. We note that in the EU, the fee-cap explicitly excluded CSRD sustainability assurance, and this may be an appropriate way forward in the UK.

64. There are also issues around regulatory capacity, to ensure that there are adequate resources and skills in place when overseeing a market that spans professional accountants and non-accountants and different reporting and assurance frameworks.

**Q6. What are the opportunities for firms in the UK sustainability assurance market? To what extent are there any barriers to entry/expansion?**

65. There are considerable opportunities for firms willing and sufficiently well-informed to invest. But this in itself is a barrier until capabilities ‘catch up’. For both preparers and providers of assurance, significant investment is needed across technology, data, and training. As such, it is important that the UK is provided with clarity on what will be required and when, to provide confidence for companies to act and make the necessary investment decisions.
66. There is a balance to be achieved with respect to barriers to entry. It is in the public interest to ensure that the market for sustainability assurance engagements is competitive. However, there should be a minimum bar in terms of professional, ethical, independence and quality standards so that all sustainability assurance providers are competent, capable and objective.
67. As we move towards capabilities where companies can use data to make disclosures at any time - not just on an annual, biannual or quarterly cycle - it may be that specialist providers will focus on assuring such data disclosures. Also, with the development of technology, including artificial intelligence, and further developments and broader use of block-chain technology, it appears possible that different, automated methods of assurance will emerge for data disclosures.
68. Finally, we note that a challenge for all preparers, and consequently for assurance providers, is the difficulty in determining specific metrics for reporting on sustainability factors, such as human rights issues, and nature and biodiversity, including through supply-chains.

**Q7. How might international regulatory developments affect the UK sustainability assurance market?**

69. Internationally, the sustainability reporting and assurance landscape continues to evolve rapidly. Particularly, over the last 12 months, there have been significant developments that have included the launch of the ISSB’s sustainability reporting standards in July 2023. Across Europe, the Corporate Sustainability Reporting Directive (CSRD), effective for many entities in 2024, includes mandatory limited assurance, with extraterritorial reach.
70. In addition, recent consultations from the International Audit and Assurance Standards Board (IAASB), and the International Ethics Standards Board for Accountants (IESBA) on a new international sustainability assurance standard (ISSA 5000) and new ethical standards for sustainability assurance and using the work of an external expert respectively are expected to impact the UK sustainability assurance market.
71. We recognise that it is in the public interest to ensure that the international market for sustainability assurance engagements is competitive, and that any proposals by IAASB and IESBA do not inadvertently distort competition or create unintended barriers to entry. As such, ICAEW continues to encourage IAASB and IESBA to engage with other standard-setters, regulators, and a broad range of Sustainability Assurance Providers to ensure that the proposed assurance and ethical and independence provisions are accessible and capable of uniform interpretation, implementation and enforcement.
72. The ISSB has recently reported that jurisdictions representing almost 55% of the global economy by GDP have announced steps to use or align themselves with its standards. While countries are encouraged to adopt the IFRS S1 and S2 standards without amendment, it is expected that amendments will be made depending on the profile of their economies, and on national priorities.
73. This will have implications for how assurance providers undertake their work for multinational clients, including the level of assurance required (limited versus reasonable), who provides the assurance, how material issues and internal controls are to be assessed, and how they integrate different reporting requirements. It may be important for example to understand

material implications of sustainability-related issues on local populations or on local biodiversity when applying the concept of ‘double materiality’.

74. While we await a decision from the UK Government, the UK will continue to be impacted by the extraterritorial reach of mandatory assurance under CSRD which will increase as the number of companies in scope of CSRD increases, in line with the European Union’s implementation timeline. The costs of compliance with CSRD alone are not expected to be insignificant.

**Q8. What, if anything, would you like to see change in the UK market? (For example, any regulatory /policy changes and/or any specific actions taken by FRC, Government, firms, companies or others).**

#### **Clarity and certainty needed on UK direction of travel**

75. We would like to see greater clarity and certainty in the UK on the expectations and requirements for sustainability reporting and assurance, including in relation to regulatory monitoring and oversight arrangements. Clear messaging is also needed on timelines, to help all participants navigate the evolving landscape and provide the confidence required for corporates, assurance providers and a broad range of stakeholders, including investors, to act and make the necessary investment decisions over the short, medium, and long-term to ensure that the needs of the market are met.
76. Moreover, leadership is needed from government to develop long-term policy decisions on how the UK will transition to net zero, decisions that are needed to provide businesses with greater clarity on expected transition pathways and government expectations across sectors and in terms of transition finance.
77. We strongly encourage the FRC to help establish a more strategic and longer-term UK view and implementation roadmap for sustainability reporting and assurance standards and requirements. We call for close alignment with international standards, and for the FRC to seek consistency across a market that involves several different types of provider, including professional accountants and non-accountants.
78. The UK government is expected to decide its approach to ISSB standards by mid- 2025. We believe that using ISSB standards will provide a golden opportunity to streamline the existing, and sometimes confusing, sustainability-related requirements within the UK reporting framework. The UK government has stated that UK-endorsed standards will only diverge from the standards published by the ISSB if necessary to address UK specific matters. While supporting a rigorous endorsement process, we are in favour of bringing the ISSB standards into the UK reporting framework without substantive amendment. Amending or carving out parts of the standards risks contributing to divergence in international practice and has the potential to disrupt the ISSB’s ‘global baseline’ ambition of consistent and comparable reporting.
79. We are aware of the progress being made across jurisdictions globally to clarify expectations in relation to assurance requirements, including training and accreditation. This is largely driven by regulation, most notably the CSRD requirement for Member States to require the company’s statutory auditor, another auditor or an independent assurance services provider (IASP) to provide limited assurance around reported sustainability information. EU Member States are currently setting out equivalent requirements for IASPs around quality, independence, and oversight in line with the Audit Directive. Certain UK companies will be impacted by these and other jurisdictional requirements with extra-territorial reach, adding to the urgency of clarifying the UK’s own regulatory framework.

#### **Transition arrangements**

80. As this market continues to evolve, the FRC and other policy makers need to ensure that there is an effective transition period for implementation of new requirements by corporates and assurance firms. Without sufficient time there is a serious risk that quality could be

compromised, and the value and integrity of the assurance market undermined. It will be important to acknowledge that adoption of sustainability reporting and assurance will involve a steep learning curve for many. Shared understanding of areas of difficulty will grow in the regulatory community as well as across the broader eco-system through the early years of implementation. Clarity will also be important in respect of how internal and external assurance can interact and work collaboratively to minimise duplication and maximise the value that both can provide.

81. We would, accordingly, encourage a supportive and pragmatic approach to enforcement in the first years of application, while avoiding the possible emergence of a culture of non-compliance and other unintended consequences that impact on companies making progress towards and achieving sustainability ambitions and objectives. The FRC may also wish to consider introducing a regulatory sandbox concept for sustainability reporting and assurance. This could act as a valuable educational tool to help increase understanding, including how sustainability information and assurance interacts with and relates to financial information and statutory audit, and inform future activity.
82. We would encourage the FRC to continue to engage with a broad range of stakeholders and consult widely on proposed changes. There are opportunities for collaboration and knowledge sharing across companies and assurance providers, and to learn from jurisdictions further ahead with implementing reporting and assurance requirements. We also recognise that the sustainability reporting and assurance landscape and market is expected to change at pace, and therefore we would encourage the FRC to revisit and assess the market in a relatively short timeframe to better understand the changing dynamics.

### **Education and communication**

83. Through our outreach we heard that managing expectations and effective communication will be critically important as the market develops. This should involve engagement and communication across all stakeholders, including:
  - Clarity on the need for sustainability reporting to be forward-looking and anchored in strategy to support organisations, rather than being seen as a compliance exercise.
  - The need for both preparers and assurance providers to think about articulating the exceptional circumstances associated with the first-time implementation of a new framework, accompanied by transparency and honesty on the journey, the current limitations, and the progress that is needed.
84. To enhance transparency and enable effective transition, more engagement and dialogue is needed on the different forms of assurance, the nature and extent of procedures being performed and what level of assurance this will provide. It is also important that assurance opinions are understood, recognising that qualifications in the early years are to be expected. Qualifications or key matters will likely arise due to inherent limitations from a preparers perspective due to availability of data, or lack of embedded systems and controls. Similarly, there may be limitations from an assurer's perspective in terms of the scope of the engagement and the level of assurance that can be provided. Investors and other users will need to take a pragmatic view as the framework matures.
85. The education and upskilling challenge across all key actors cannot be underestimated. This is a key focus for ICAEW. The emergence of a potential expectation gap needs to be tackled, bearing in mind the wider group of likely users of sustainability reports. Ultimately, stakeholders want relevant and reliable information on companies' targets, action plans and ambitions. They will need to be able to understand from the assurance opinion what work has been done, what conclusions have been reached and why.
86. During our outreach, members also emphasised the importance of accounting and accountability in the public interest. Sustainability information is both of a public interest nature, and of interest to the public.

## Holistic review

87. It is important that developments in sustainability reporting and assurance are considered as part of, and keep pace with, broader developments. This should include fundamental components such as effective internal controls (reiterated in the recently revised UK Corporate Governance Code) and in prevailing and emerging regulation.
88. We recommend a holistic review of related regulatory developments is considered to ensure the consistency and alignment needed to support an efficient and effective regulatory regime. We have responded to the following recent consultations where verification activity and / or assurance over sustainability-related information has featured as a consideration, demonstrating the broad range of activity and scenarios where sustainability assurance skills and expertise are needed:
- [Consultation on the introduction of a UK carbon border adjustment mechanism](#) from 1 January 2027 on imports of certain carbon intensive imported goods from a number of sectors, requiring the independent verification and reporting of emissions data. [[ICAEW Response](#)]
  - [Transition Finance Market Review](#), which is looking at how to support companies in the UK and abroad to continue to access the capital they need to decarbonise and deliver net zero ambitions. Assurance over “transition” finance products is an important consideration for companies. [[ICAEW Response](#)]
  - [UK greenhouse gas emissions reporting: Scope 3 emissions](#), which explores the costs, benefits and practicalities of Scope 3 greenhouse gas emissions reporting in the UK. [[ICAEW Response](#)]
89. There are also lessons that could be learnt from other markets that may be relevant to and help inform plans for sustainability assurance. This may include the [Raising Standards in the Tax Advice market](#) where the government have consulted on ways to strengthen the regulatory framework recognising the market consists of regulated and unregulated tax advisors. The importance of acting in the public interest and establishing a level playing field are common themes. [[ICAEW Response](#)]

## Connectivity

90. We expect collective understanding of the connectivity between financial and sustainability information to increase as the sustainability reporting and assurance markets develop further, and are supported by improvements in underlying data, systems, and controls. With this increased understanding and appreciation of the relationship between financial and sustainability information, we expect the user and business case for integrated reporting to grow. It will be important that the progress made to date with integrated reporting is maintained.