



FRC SUSTAINABILITY ASSURANCE MARKET STUDY - EMERGING FINDINGS CONSULTATION

Issued 29 November 2024

ICAEW welcomes the opportunity to comment on the FRC Sustainability Assurance Market Study - Emerging Findings published by the Financial Reporting Council (FRC) on 15 October 2024, a copy of which is available from this [link](#).

ICAEW welcomes the FRC's continued focus on the UK sustainability assurance market, and the publication of emerging findings and FTSE 350 analysis to inform further discussion and the important next steps, recognising sustainability assurance as a valuable service in the audit and assurance market.

We are in broad agreement with the emerging findings. We do, however, place a greater emphasis on the urgency of providing regulatory clarity, and the importance of education and training across the broad range of stakeholders involved in preparing, assuring and using sustainability information and reports.

In our [initial response](#) we comment that competition is to be welcomed, and recognise that a broad range of expertise is needed for sustainability assurance. We mention the need for a level-playing field of regulation across market participants to ensure consistent quality. We also emphasise the need for clarity on the UK's regulatory requirements and timeline, with a call for phased implementation to enable audit firms, and other assurance providers, to invest with certainty and address any gaps in capacity and expertise.

We stress the importance of capability and capacity across all tiers of firms to address risks of market concentration, improve competition and choice, and strengthen the resilience of the growing sustainability assurance market. We also include several recommendations for future regulatory and policy changes and advocate for a strategic and holistic approach to developing the sustainability assurance market. This includes the UK adoption of ISSB standards and revisiting the introduction of an Audit and Assurance Policy, previously recommended in 2019 under the [Brydon Review](#).

We continue to be of the view that developments in sustainability reporting and assurance should be considered as part of - and keep pace with - prevailing and emerging regulation and related activity, including [Audit and corporate governance reform](#), the recently published [Transition Finance Market Review](#), and the corporate reporting review planned by the Department for Business and Trade (DBT) for 2025.

This response of 29 November 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 25,500 members drawn from practising firms and organisations of all sizes in the private and public sectors.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 208,000 chartered accountant members and students in over 149 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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KEY POINTS

SUPPORT FOR THE FRC'S MARKET STUDY

1. Sustainability is central to ICAEW's strategy, and we are pleased to continue our engagement with the FRC and ICAEW members on this important study as it progresses further. It remains critical that the UK has a sustainability assurance market that functions effectively, encourages competition and ensures that companies' sustainability information is of high quality and of value to its users. We were therefore pleased to host a roundtable with the FRC and ICAEW members on this topic on 21 November 2024.
2. Our **initial market study response**, which includes several recommendations for future regulatory and policy changes, and advocates a strategic and holistic approach, is also relevant to this phase of the market study, with a number of points made in that response revisited below.

VIEWS ON EMERGING FINDINGS

3. We broadly agree with the emerging findings and support the need for a regulated and high-quality sustainability assurance market. We particularly want to reiterate the need for clarity on the UK's regulatory framework and approach to sustainability reporting and assurance.
4. In addition to the emerging findings, we would like to highlight the importance of education and training across the sustainability reporting and assurance eco-system. And the potential for economic growth and value creation that an effective and robust sustainability assurance market can provide.
5. Data gathered on sustainability assurance obtained by FTSE 350 companies provided valuable insight, confirming that demand for sustainability assurance is growing amongst the largest listed companies. Across the FTSE 100, there has been an increase in the proportion of auditors providing sustainability assurance reports to companies, from 25% in 2019 to 33% in 2022. We would encourage the FRC to reassess the market within a relatively short timeframe to understand the changing dynamics considering how quickly the market is developing.
6. While the emerging findings focused on the potential dominance of the Big Four audit firms, we consider that this may reflect the relatively nascent market and largely voluntary nature of assurance in the UK. Furthermore, larger companies are increasingly recognising the connected nature of sustainability reporting and financial reporting and may have a preference of choosing their financial statement auditor – which will often be a Big Four firm - to provide sustainability assurance services.
7. We continue to hear from ICAEW members that, while competition is to be welcomed, and a broad range of expertise is needed for sustainability assurance, there should be a level-playing field for market participants, across all tiers of firms. The same high standards should apply to all assurance providers with respect to application of professional standards, quality management, monitoring and oversight, ethics, and training. We refer to this issue again below.

SUGGESTED PRIORITY ACTIONS

8. We understand that action needed across the UK sustainability assurance market will require input and commitment from multiple stakeholders, including government, regulators, standard-setters, preparers, assurance providers, users of sustainability assurance for decision-making purposes, and professional bodies including ICAEW.

9. Notwithstanding the extent of action and stakeholder involvement required, we believe a holistic approach is needed to develop and improve the sustainability reporting and assurance eco-system. We would therefore highlight the following areas we believe should be addressed as a priority:
10. **Regulatory Framework:** Clarity is needed on the UK's regulatory position, which should be addressed as a matter of urgency. It is important that the UK has a robust regulatory framework consisting of high-quality and consistent reporting, robust assurance standards, ethical and independence requirements, and oversight by an empowered regulatory authority. This includes addressing the pressing matter of how UK firms are registered to perform a sustainability assurance engagement in line with the European Union's Corporate Sustainability Reporting Directive (CSRD) and ensuring that the UK is able to effectively engage with discussions and developments across Europe and globally. An effective regulatory regime with clear and consistent requirements is essential for market confidence, and to drive investment decisions needed in technology, data, people and training.
11. **Alignment with international reporting and assurance standards:** A decision on the UK adoption of ISSB reporting standards, expected in H1 2025, will provide much needed direction to the UK. We believe that full alignment with international standards and adoption of S1 and S2 in the UK is imperative, to ensure consistency and comparability in sustainability reporting. It is in the public interest that the UK market works well in a global context and avoids unnecessary fragmentation. To this end we also call for UK adoption of IAASB's ISSA 5000 sustainability assurance standard across all engagements that meet the criteria for intended use by the IAASB. ISSA 5000 has now been **finalised by the IAASB and certified for use by the Public Interest Oversight Board**, following extensive consultation and due process. We believe that the standard should be adopted for use in the UK without delay.
12. **Transition arrangements and timeline:** A clear implementation timetable, with transitional arrangements for the phasing-in of sustainability reporting and assurance requirements, should be established and consulted on with a wide range of stakeholders. This would allow companies and assurance providers to adapt to new requirements, minimising disruption and ensuring a smoother transition. There should be sufficient time allowed for preparers to implement reporting requirements and have in place the necessary pre-conditions for assurance before mandating assurance.
13. **Regulatory approach:** Following implementation of any new mandatory sustainability reporting and assurance requirements we encourage a supportive and pragmatic approach to enforcement in the first years of application. It will also be important to avoid the possible emergence of a culture of non-compliance and other unintended consequences that impact on companies making progress towards achieving sustainability ambitions and objectives. There will need to be careful consideration, and consultation, on how to regulate across a diverse market of audit and non-audit firms. It is critical that there is a level-playing field, with the same high standards applied to all with respect to application of professional standards, quality management, monitoring and oversight, ethics, and training. There are examples emerging in other jurisdictions of such a regulatory framework being put in place (e.g. in France).
14. **Education and communication:** To support further development of the market there is a need for high quality education and clear communication to bridge gaps in knowledge and understanding across a broad range of stakeholders involved in the sustainability reporting and assurance eco-system. This will likely include a wider group of stakeholders beyond

those typically involved in financial reporting, who need to understand the nature and extent of assurance work performed, conclusions reached, and why. It is also important that there is capability and capacity across all tiers of firms to address risks of market concentration, improve competition and choice and to strengthen resilience of the market.

FURTHER RECOMMENDATIONS AND NEXT STEPS

15. We have provided further recommendations and comments below that aim to create a more effective and robust sustainability assurance market, ultimately enhancing the credibility and usefulness of sustainability reports for stakeholders.
16. We understand ICAEW also has a role to play, and we would welcome the opportunity to continue to engage with the FRC and convene further discussions with our members to help inform next steps.

ANSWERS TO SPECIFIC QUESTIONS

Question 1 – Do you agree with the emerging findings?

17. Yes, we broadly agree with the emerging findings, and recognise many if not all the findings and challenges highlighted in the report. We unequivocally support the need for a regulated and high-quality sustainability assurance market. We particularly wish to reiterate the need for clarity on the UK's regulatory framework and approach to sustainability reporting and assurance. The current lack of standardisation poses cost challenges and burdens for businesses. It also hinders competition across the sustainability assurance market.
18. We agree the UK sustainability assurance market is relatively nascent and is being impacted by mandatory requirements in other jurisdictions with extra-territorial reach, notably the CSRD.
19. We reiterate that competition is welcome and recognise that a broad range of expertise is needed for sustainability assurance. We support the phased implementation of mandatory sustainability reporting and assurance to enable firms to invest with certainty and address any gaps in capacity and expertise in a timely manner and adequately meet rising demand.
20. 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 market. We recognise the need for multi-disciplinary teams and the role of auditors in ensuring the credibility of sustainability disclosures, noting synergies between statutory audit and sustainability assurance.
21. We understand that current financial audit staff can apply and build on their existing technical and practical skills, and understanding 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.
22. In addition to points included in the emerging findings report, we would like to highlight the importance of education and training across the reporting and assurance eco-system. The importance of ensuring a consistent and collective understanding of what sustainability assurance is and what it can provide cannot be underestimated. It is essential for a well-functioning and effective market.

23. We also believe that timely and clear communication is needed with all relevant stakeholders. This will play a vital role in managing expectations and to ensure the evolution of the sustainability assurance market is orderly, and as effective and as efficient as possible. We would also encourage communication to effectively share examples of good practice, and to help promote the value of sustainability reporting and assurance and the potential for economic growth and value creation that an effective and robust sustainability assurance market can provide across companies, sectors and economies.

Question 2 - Do you have any views or suggestions on any actions that should be taken considering the emerging findings?

24. Yes, in our **initial market study response** we made several suggestions for consideration. In addition to the points already made above we would like to highlight the following:
25. **Identifying and applying lessons from other jurisdictions:** The UK should look to learn from jurisdictions further ahead with implementing reporting and assurance requirements. This could include from EU member states and other authorities globally on approaches to implementing assurance requirements, including training, accreditation and monitoring.
26. **Regulatory sandbox:** The FRC may want to establish a regulatory sandbox 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. This could prove particularly helpful in addressing the following areas that represent particular challenges faced by sustainability reporting and assurance that will require careful consideration and communication.
27. **Addressing restatements and modified assurance conclusions:** Sustainability information is a diverse and varied subject matter that continues to evolve, in terms of understanding, systems, processes, controls and data. This in turn, and together with high levels of uncertainty, poses several challenges to reporting and assurance that should be considered and addressed by any regulatory regime and framework:
28. Restatements: Due to the distinct and evolving nature of sustainability information, there will naturally be a higher incidence of restatements due to changes in methodology, estimates, and data enhancements, as well as those potentially due to error. Restatements by in-scope companies are similarly likely as a result of the broad nature of the mandatory CSRD reporting regime and the ambitious implementation timetables. This represents a significant departure from the world of financial reporting where restatements are comparatively rare. According to analysis carried out by Deloitte almost half of companies (46) in the FTSE 100 made prior year adjustments to their previously reported climate and sustainability metrics in FY 2023. (Source: **Deloitte news September 2024**).
29. Treatment of modified assurance conclusions: Similarly, due to the relative immaturity of sustainability information and new reporting requirements, there is expected to be an increase in modified assurance conclusions, emphasis of matter paragraphs, and remedial action required by management, in the short to medium term following implementation of any new mandatory sustainability reporting and assurance requirements. This also marks a change to what is commonplace across financial reporting, and voluntary sustainability assurance engagements, and as such there will need to be clarity on how a broad range of stakeholders, not least / including regulators and investors, interpret and respond to this.
30. **Integration with financial audit:** 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 also expect user demand and the business case for more integrated reporting to grow. It will be important that the progress made to date with integrated reporting is maintained.

31. **Introduction of an Audit & Assurance Policy (AAP):** We strongly recommend the introduction of an AAP to help companies identify and meet their assurance needs effectively, ensuring assurance is focused on metrics that matter and decision-useful information that drives action and informs capital allocation.
32. **Non-Audit Services Fee-Cap:** We urge the FRC to discuss the Non-Audit Services Fee-Cap with the UK government and consider whether it should be revised to address current inconsistencies with other jurisdictions. Prohibition on financial statement auditors delivering the services may restrict choice and competition and impact the 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.

Question 3 - How might future developments such as mandatory application of the International Sustainability Standards Board's (ISSB) sustainability disclosure standards impact the UK sustainability assurance market, including choice of provider and capacity?

33. We expect the mandatory application of the ISSB's sustainability disclosure standards to profoundly impact the UK sustainability assurance market.
34. We believe that adopting the ISSB standards will help streamline the existing sustainability reporting requirements in the UK, reducing complexity and enhancing consistency. This alignment is expected to make it easier for companies to comply with sustainability reporting obligations.
35. The introduction of mandatory ISSB standards is likely to increase the demand for sustainability assurance services. We have highlighted the need for the assurance market to expand its capacity to meet this demand. This includes developing the necessary skills and expertise among professionals to handle the increased workload.
36. Enhancing the skills and training of professionals involved in sustainability reporting and assurance will be key, with targeted training programs and continuous professional development essential to meet the growing demand and complexity of sustainability reporting.
37. With the increased demand, we anticipate a more competitive market for sustainability assurance providers and suggest fostering a diverse market with multiple providers will be crucial to avoid over-reliance on a few large firms. This competition can drive innovation and improve the quality of assurance services.
38. There is, however, 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 minimum standards in terms of professional, ethical, independence and quality standards so that all sustainability assurance providers are competent, capable and objective.
39. As previously stated, we recommend a phased approach to implementing these standards to allow companies and assurance providers to adapt gradually and should be supported by education and training. This would help mitigate potential disruptions and ensure a smoother transition to the new requirements.

40. Overall, we view the mandatory application of ISSB standards as a positive development that will bring greater clarity, consistency, and reliability to sustainability reporting and assurance in the UK (ICAEW on ISSB standards).

Question 4 - What should be the future regulatory and policy approach to sustainability assurance in the UK to ensure a well-functioning market that delivers high-quality assurance?

41. As previously outlined, we strongly advocate for a strategic and holistic approach to developing the sustainability assurance market.
42. The UK sustainability assurance market should be regulated and follow international standards, with phased implementation to enable companies and assurance providers to adequately prepare. There should also be consideration of the cascading impact of any requirements to avoid unintended consequences and ensure alignment with broader sustainability goals, and wider corporate reporting objectives.
43. 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, how reports are prepared - in terms of assurance requirements and professional, ethical and quality standards - and, importantly, how the conclusions reached should be interpreted and viewed by users and a range of stakeholders.
44. It is therefore important that there is clarity on the objective(s) of the market, and consistency in the definitions and terminology used, that are well understood across the broad range of relevant stakeholders.
45. This should include highlighting the importance and value of sustainability reporting and assurance, particularly in the context of finance and capital markets. While the environmental benefits are well-known, the financial implications are sometimes harder to grasp. Balancing the push for increased disclosure with budget constraints and other pressures is essential to avoid negative sentiment that could undermine progress and help motivate businesses to proactively engage with the market.
46. Focusing on decision-useful metrics and information is also important and there should be flexibility in the regulatory framework to accommodate different reporting and assurance needs, while maintaining quality and professional standards. Learning from other jurisdictions, such as France, can provide valuable insights, as they have gone through CSRD implementation.
47. We also encourage the FRC to continue engaging with a broad range of stakeholders, including companies, investors, and assurance providers, as their work progresses. This collaborative approach will be key in setting up a regulatory framework that is relevant, effective and respected.
48. We recognise that ICAEW also has a role to play in providing support, education, and oversight in relation to sustainability assurance for our members and across the profession. We look forward to working with the FRC and others as the market develops.