



BATS-NEWSLETTER

**Sustainability
Focus**

BATS Strategy
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The Road to Sustainable Practices:

SUSTAINABILITY ASSURANCE, CHALLENGES AND STANDARDS

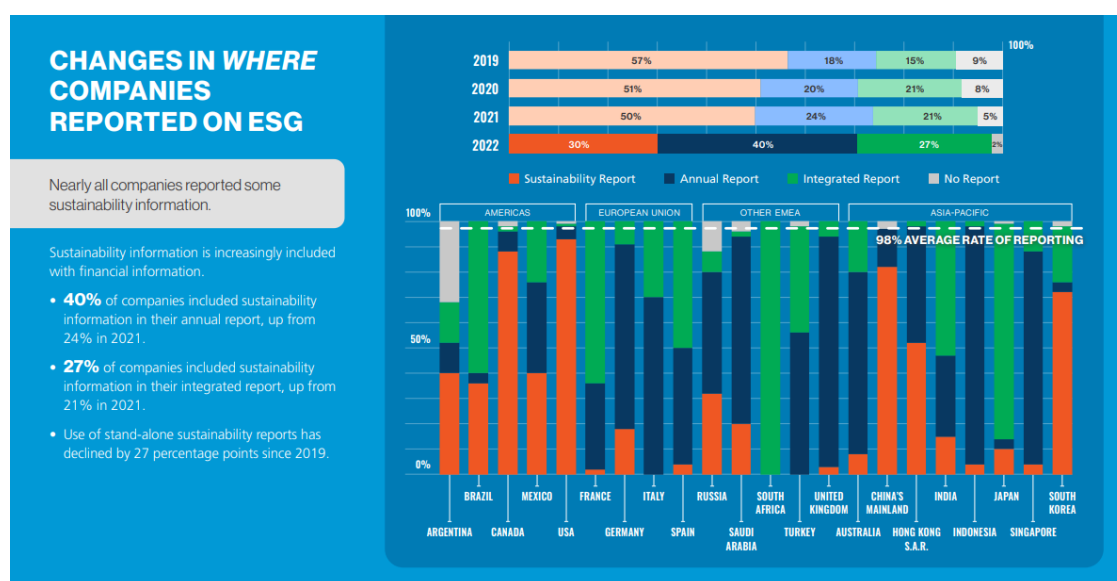


Sustainability Assurance: Challenges and Standards



Current Landscape on Sustainability Report

In today's business environment, sustainability has emerged as a key determinant of a company's value and reputation. Sustainability reporting has reached a pivotal point, with a notable surge in its adoption across the global business landscape. The “State of Play Sustainability Disclosure and Assurance Trends and Analysis” report by the International Federation of Accountants (IFAC) and AICPA & CIMA for 2022, unveils that an average 98% of companies have used sustainability reporting. These reports are presented in various forms with 30% stated in a standalone sustainability report, 40% in annual report, 27% in its integrated report, and 2% choose not to report.

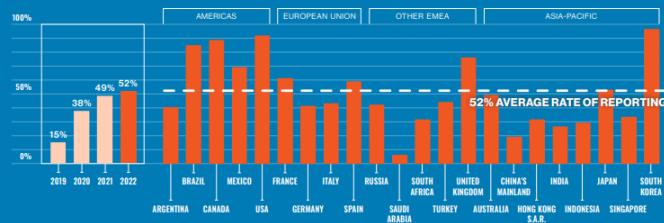


STANDARDS AND FRAMEWORKS

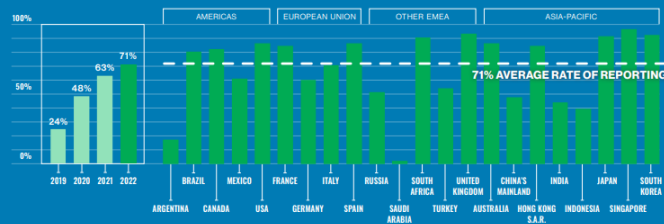
The citation of SASB Standards and the TCFD Framework continued to increase in advance of the 2024 effectiveness of the ISSB's standards.

- Moderate increases in the use of SASB were seen in some Asian jurisdictions, driving SASB use up from 49% in 2021 to 52% in 2022.
- The use of the TCFD framework increased from 63% in 2021 to 71% in 2022, especially in Asian jurisdictions, as well as Brazil, Russia, South Africa and Spain.

SASB Standards – Jurisdictions reference or use of SASB Standards during 2022



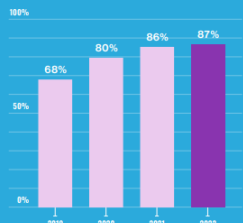
TCFD Framework – Jurisdictions reference or use of TCFD Framework during 2022



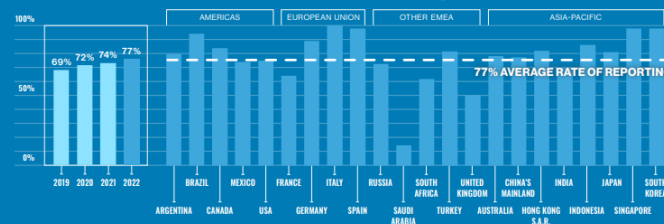
STANDARDS AND FRAMEWORKS (continued)

Most companies continued to use a variety of standards and frameworks to report sustainability information.

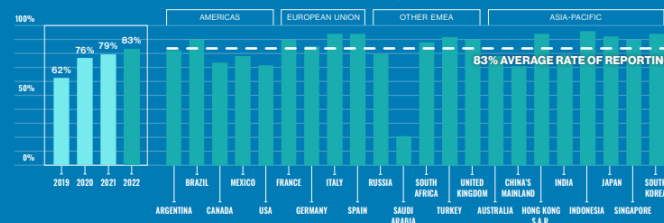
Multiple Standards



GRI Standards – Jurisdictions reference or use of GRI Standards during 2022



SDG Goals – Jurisdictions reference or use of SDG Goals during 2022



There is a need for consolidation and harmonization between these voluntary frameworks, guidance, standards that are still in development. Such as, the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and Task-Force on Climate-Related Financial Disclosures (TCFD), and the Integrated Reporting Framework (<IR>). According to IFAC analysis, there is a 52% average use of SASB Standards, 71% for TCFD Framework, 77% for GRI Standards, and 83% referenced the use of SDG Goals in its report. This consolidation is important in order to lower the divergence in reporting standards and to turn sustainability reporting into a more consistent and commonly understood approach landscape.

**TCFD**TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES**INTEGRATED
REPORTING** <IR>

Demand for Sustainability Assurance

As the demand for sustainability grows and has finally become mandatory, especially in Indonesia, the demand for assurance over information stated in the company's sustainability reporting also increased. This happens because regulators, investors, and stakeholders will seek to understand the company performance regarding its Environmental, Social, and Governance. By assuring, the confidence of these information will be enhanced to the same level as an audit provides over financial information. Based on IFAC Analysis for Assurance in 2022:

- 69% of companies obtained assurance on at least some of their sustainability disclosures
- 58% of assurance report were signed by audit firms
- 72% of assurance standards are using ISAE 3000 (revised)
- 42% of assurance are provided by Statutory audit firms, 16% by non-statutory audit firms, and 42% are by other service providers
- 217 assurance reports assured GHG Protocol Calculation
- 92% assurance reports provided by Audit Firms uses the ISAE 3000 (revised) standard and 38% are provided by other service providers

In Indonesia, there are only 20 assurance reports during the year 2022. Out of these 20 reports, 40% used AA1000 for its assurance, 50% used ISAE 3000, 5% used ISAE 3410 (Assurance on Greenhouse Gas Statement). This is considered low, especially if compared to its fellow Asia-Pacific neighbors. Korea has 113 assurance reports, Japan with 97

assurance reports, India with 67 assurance reports, China with 45 assurance reports, Australia with 37 assurance reports, Singapore with 29 assurance reports, and Hong-Kong with 28 assurance reports.



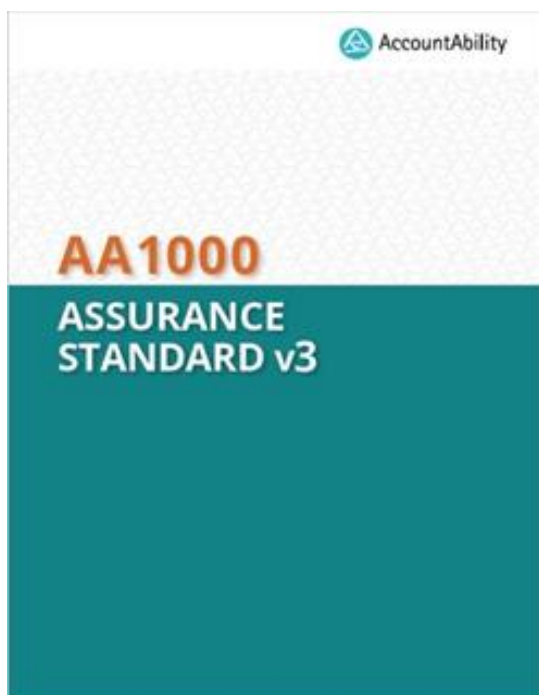
“Unsubstantiated claims can be deeply damaging for companies and investors, which is why auditing of sustainability disclosure needs to become standard practice, just as it is for financial data. GRI continues to call for mandatory assurance as a key driver for businesses to build trust with their stakeholders, prove their sustainability credentials and tackle head-on any suggestions of greenwashing. We also support the IAASB’s work to create an overarching sustainability assurance standard which, as the patchy global picture in this report illustrates, is much needed.”

- Eelco van der Enden, CEO of GRI

Sustainability Assurance Standards: AA1000 and ISAE 3000

Standards that can be used to assure a sustainability report, includes the AccountAbility’s AA1000 Series of Standards (Accountability 2023) and the International Standard on Assurance Engagements (ISAE) 3000 (Revised).

AA1000 is developed by AccountAbility, a non-profit organization. This standard focuses on the quality of the information disclosed by the reporting company. This standard emphasized the core principles of inclusivity, materiality, responsiveness, and impact. These principles are used to ensure that the sustainability information disclosed are aligned with the entity’s actual sustainability performance. Due to its prioritization on the use of the core principles, it allows for flexibility and a holistic approach for a genuine sustainability effort beyond compliance.



ISAE 3000 (Revised) is issued by the International Auditing and Assurance Standards Board (IAASB). This standard provides a framework for the assurance of non-financial information, including sustainability disclosure. The design of ISAE 3000 (Revised) also allowed the use of supplemental standards, such as ISAE 3410 “Assurance Engagements on Greenhouse Gas Statements”. The specific purpose of this standard is to enhance confidence of intended users with the goal of expressing an assurance conclusion on reported information. The ISAE 3000 (Revised) is more procedural focus and aligns more closely with traditional financial

audits. Its broad applicability and the way it is aligned with traditional financial audits makes it a perfect choice for a company that approach its sustainability in a rigorous and structured way for its assurance.

*International Standard on Assurance
Engagements*

**ISAE 3000 (Revised),
Assurance Engagements Other
than Audits or Reviews of
Historical Financial Information**

**International Framework for
Assurance Engagements**

and

**Related Conforming
Amendments**



Based on the study by IFAC for the year of 2022, In France, all 55 of its assurance reports used ISAE 3000 standards. In Spain, 85% of its assurance reports use ISAE 3000 and only 8% use AA1000. In the United Kingdom, 68% of the assurance reports use ISAE 3000 and 4% use AA1000. In Korea, only 13% use ISAE 3000 and 35% use AA1000. In Brazil, 79% uses ISAE 3000 and only 2% use AA1000. This shows how there is a clear preference globally for using ISAE 3000. This preference is potentially due to its alignment with established financial audit methodologies rather than the flexible approach in AA1000.

Standards in Sustainability Assurance: Newest Standard, ISSA 5000

There is a new standard proposed by the International Auditing and Assurance Standards Board (IAASB) titled International Standard of Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. This standard will address how to conduct an assurance engagement in its entirety with the goal to enhance the trust and confidence investors, regulators, and other stakeholders have in sustainability information. The proposed ISSA 5000 standard will serve as a comprehensive standalone standard suitable for any sustainability assurance engagements and applied to sustainability information across any topic and under multiple frameworks (Ex: IFRS S1-S2, GRI).

The proposed ISSA 5000 was aimed to make sure the information disclosed is accurate and trustworthy. The assurance practitioner designs and performs procedures to obtain evidence about whether the sustainability information is free from material misstatements. Assurance practitioners' goals is to ensure that the sustainability information is reliable, which helps everyone understand the entity's impacts on environmental, social, and governance matters. ISSA 5000 can be applied regardless of what sustainability information is disclosed, including climate, biodiversity, human rights, labor practices, along with aspects of those topics. These aspects including risk and opportunities, governance, metrics, and key performance indicator. The objective of this proposed standard is to be:

- Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements;
- Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks
- Implementable by all assurance practitioners

Meanwhile the following points are the priority areas that are considered during the development of the ISSA 5000 Standards:

- The difference in work effort between limited and reasonable assurance, including sufficiency of evidence.
- The suitability of the reporting criteria, including addressing concepts such as double materiality.
- The scope of the assurance engagement.

- Evidence, including the reliability of information and what comprises sufficient appropriate evidence.
- The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence, including the reliability of the information to be used as evidence.
- Materiality in the context of the assurance engagement, including materiality in the context of narrative and qualitative information'

The ISSA 5000 standards are to be adopted and implemented at the jurisdictional level. This means that each jurisdiction and regulatory body must make its own decision on whether sustainability reporting and assurance are mandatory and, if so, for what size or type of entity. The United Kingdom, Australia, and Singapore have announced plans to require listed companies and large private companies to report its climate-related disclosure. The UK has announced its intention to require listed companies to report according to ISSB Standards beginning 1 January 2025.

ISAE 3000 (Revised) will continue to be used for assurance engagements, for other than audits or reviews of historical financial information or assurance engagements on sustainability information. ISAE 3410 will also still be relevant for assurance regarding Greenhouse Gas Statements. The ISSA 5000 is waiting for its final approval for September 2024



Exposure Draft
August 2023
Comments due: December 1, 2023

International Standard on Sustainability Assurance

Proposed International Standard on Sustainability Assurance 5000

General Requirements for Sustainability Assurance Engagements

and

Proposed Conforming and Consequential Amendments to Other IAASB Standards

*This Exposure Draft is intended to be read
along with the separate Explanatory
Memorandum.*



Levels of Assurance in Sustainability Assurance Engagement

There are primarily two primary levels of assurance, which is limited assurance and reasonable assurance. The differentiation is due to the different depth of examination provided by the assurance providers and the different confidence level conveyed by their conclusions. An assurance practitioner aims to obtain sufficient appropriate evidence to express a conclusion to enhance the degree of confidence of the intended users other than the responsible party.

A limited assurance engagement is when the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement. The result is used as a basis for expressing a conclusion in a form that conveys, based on the procedures and evidence obtained, if there is any information/-s that is materially misstated.

A reasonable assurance engagement is when a practitioner reduces its engagement risk to an acceptably low level in circumstances of the engagement as the basis for the practitioner's conclusion. This assurance involves more extensive inquiry and analysis. The practitioner must examine evidence more thoroughly, assessing the risk of material misstatement in the sustainability information, whether due to fraud or error. This level of assurance gives stakeholders a higher degree of confidence.

Sustainability Assurance Engagement: Materiality

As in a financial statements audit, in a sustainability assurance engagement, the assurance conclusion is stated in terms of whether the subject matter has been prepared “in all material aspects” in accordance with the applicable criteria. This is why during the assurance engagement, a practitioner is required to make a judgment as to whether the misstatement is material. Materiality is a concept affected by perception of the information needs of the intended users of the sustainability information. Unless the sustainability framework defines it differently, the concept of materiality ordinary includes the following principles:

1. Judgements about matter that are material to intended users of the sustainability information are based on a consideration of the common information needed by the intended users as a group
2. Misstatements, including omissions, are considered material if they, individually or in the aggregate, could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information

In sustainability reporting frameworks, there will be requirements for the entity to disclose information about sustainability matters when such information is material, based on the entity's facts and requirements. This included judgments to determine specific topics (climate, biodiversity, labor, human rights) and aspects of those specific topics (risk and opportunities, governance, targets, metrics, and key performance indicators).

An assurance practitioner determines materiality in developing the approach for obtaining evidence and when evaluating identified misstatements of the sustainability information. As a result, qualitative factors are considered by the entity and the practitioner and entity will not necessarily arrive at the same materiality threshold. Materiality is applied in planning and

performing a sustainability assurance engagement, including when performing risk procedures, determining the nature, timing and extent of further procedures, and evaluating its misstatements.

Challenges in Sustainability Assurance

There are several challenges in a report by the Association of Chartered Certified Accountants (ACCA) titled “Sustainability Assurance – Rising to the Challenge”. In this study, there are five challenges identified through virtual roundtables with global sustainability assurance practitioners. These challenges are:

1. Limited versus Reasonable Assurance.

There are several misconceptions about the different effort and depth between these two levels of assurance. The practitioners cautioned against using limited assurance as a way to not use reasonable assurance. This is done to avoid higher engagement risk due to unreliable information. Based on the study by IFAC, during 2022, 82% of assurance reports used limited assurance, 9% used reasonable assurance, 6% used moderate assurance, and 3% are other types of assurance. This shows that companies are still not willing to let an in-depth examination to be done towards its sustainability disclosure. Because of the lack of specification regarding these levels of assurance, there are certain expectation gaps concerning how users perceive the depth of examination and the level of confidence conveyed by the conclusions.

2. Estimates in Sustainability Reporting

In a sustainability report, there are several estimations that can be made. For example, in IFRS S2, an entity shall use climate-related scenarios or an alternative method to assess its climate resilience. In these analysis, historical information is not necessarily the base of these analysis but based on hypothetical scenarios. These estimates made it difficult to develop an assurer's point estimates or range.

3. Use of Experts

Sustainability report is comprised of specific information that required reliance on subject matter experts. The use of experts is more prevalent in sustainability assurance engagements than in financial audit statements. This creates a significant challenge for

assurance engagement partners undertaking sustainability engagements, as they have to manage a combined competence in assurance engagement and expertise regarding the specific subject matter.

4. Greenwashing

Greenwashing is defined by IOSCO as “practices that involve misleading intended users of the information, or intentionally giving them a false impression about how well an organization or an investment is aligned with its sustainability goals”. Due to the lack of address from IAASB regarding this, there is growing concern over greenwashing risk. This should be one of the key areas of focus of the IAASB’s standard

5. Assurance Report and Communication

Assurance report as the end product of an assurance engagement, needs more necessary attention to ensure that the work performed is communicated effectively to the users of the report. There is a need for guidance regarding the structure, format, presentation of the assurance report, how to describe any material inconsistencies found, and on modified and unmodified conclusions. Guidance is also needed about whether there is any difference between different levels of assurance regarding its assurance report.

As we navigate the growing call for sustainability transparency and responsibility, join us in championing a sustainable future. Specializing in comprehensive sustainability services, including Greenhouse Gas Calculation, Sustainability Reporting, Decarbonization Strategies, and Assurance, our firm is poised to guide you through the intricacies of sustainable business practices. With proficiency in key standards such as AA1000 and ISAE 3000 (Revised), and led by industry experts Dr. Nadhirah Nagu, Brian Pramudita, and Wilda Farah, we offer unparalleled expertise to ensure your sustainability endeavors are both impactful and acknowledged.

“Collaborate with us to forge a sustainable future and ensure your initiatives resonate and inspire”

OUR PARTNER



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