Deloitte.

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 1198
www.deloitte.co.uk

Direct phone +44 20 7303 5304
pstephenson@deloitte.co.uk

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By email to: competition@frc.org.uk

To whom it may concern,

Response to market study on assurance of sustainability reporting

Deloitte LLP welcomes the opportunity to respond to the invitation to comment on the Assurance of Sustainability Reporting Market Study ("the market study") issued by the Financial Reporting Council (FRC).

The climate crisis alongside wider environmental and societal concerns are driving global efforts to decarbonize and transition towards a 'green' and sustainable economy. Sustainability-related risks and opportunities are increasingly affecting companies' prospects, including their cash flows, access to finance and cost of capital. As a result, capital participants and other stakeholders require consistent, comparable, reliable and high-quality sustainability-related information which is decision-useful for the efficient allocation of capital and the promotion of long-term business success. The assurance of sustainability information plays a vital role, helping to build trust that sustainability information disclosed by companies is reliable and of a high quality and providing robust challenge to green washing.

The FRC's market study provides a timely opportunity to stand back and critically assess the current sustainability assurance market, identify areas where change is needed, make proposals for solutions, and ensure that the appropriate infrastructure and support is in place to enable a competitive UK market for sustainability assurance with consistent high-quality assurance at its core. Our key recommendations of matters we believe should be considered by FRC as it develops policy proposals or plans in response to this market study include:

- The need to develop an **overarching supervisory framework for sustainability assurance** comprised of a professional framework and ethical code for sustainability assurance providers, and a regulatory framework which provides oversight and monitoring by the FRC or another appropriate body.

- For the supervisory framework to **establish a baseline for quality for sustainability assurance across** the UK market. While this may present a barrier for some existing and new market participants, we believe that establishing minimum requirements for consistent high quality sustainability assurance is critical for a well-functioning market.

- The importance of **ensuring a regulatory landscape where competition and choice are not pursued at the expense of quality and where appropriately skilled capacity is able to develop to meet growing demand,** including the increasing demand for sustainability assurance to be integrated with the provision of the statutory audit. This would require, amongst other things, addressing the current non-audit service fee cap.

- To embrace the significant opportunity to **bring together international standards for reporting, assurance, ethics and quality management** into a cohesive, integrated and harmonized ecosystem for sustainability reporting and assurance. UK endorsement of the International Sustainability Standards Board (ISSB) IFRS Sustainability Disclosure Standards and the proposed International Auditing and Assurance Standards Board (IAASB) assurance standard for use in sustainability assurance engagements are key steps towards the implementation of a global baseline in sustainability reporting and the consistent application of assurance standards to sustainability information.

- The importance of **developing a roadmap setting out plans** for the UK sustainability assurance market. Providing transparency including on key milestones will give clarity on the direction of travel, allow stakeholders to make plans and investments with confidence, and enable a proportionate and structured transition to a new regime.

We believe that the FRC has a pivotal role in the areas outlined above. However, we recognise that delivering change across the UK sustainability assurance market will require the concerted and coordinated effort of all stakeholders. We have outlined further actions we believe are necessary for both the FRC and other stakeholders across the market within our detailed comments included in the appendix to this letter.

With over 20 years of experience in delivering sustainability assurance, Deloitte is building sustainability skills into our audit and assurance offering and providing an integrated service. We are continually upskilling audit and assurance staff by building and improving understanding of sustainability topics and, where necessary, bringing in specialist expertise. We strongly support efforts to ensure the delivery of consistent high-quality assurance across the UK market and look forward to engaging with the FRC on this important matter.

If you have any questions, please contact Charlotte Drain cdrain@deloitte.co.uk or Sarah Dunn sarahdunn@deloitte.co.uk. .

Yours sincerely

Paul R. Stephenson

Paul Stephenson
Managing Partner - UK Audit & Assurance
Deloitte LLP

Deloitte.

Appendix: Responses to detailed questions

General questions

1. **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?**

We believe the functioning of the UK sustainability assurance market should be assessed by the extent to which it supports the provision of consistent high-quality, comparable, and decision-useful sustainability information. High-quality assurance plays a vital role within the sustainability reporting ecosystem, helping to build trust that sustainability information disclosed by companies is reliable and of a high quality, providing robust challenge to green washing, and supporting the efficient allocation of capital and the promotion of long-term business success.

The CERES report *Closing the Gap: Investor Insights into Decision-Useful Climate Data Assurance* ("the CERES report") highlights that at present there is a general lack of trust in sustainability information with concerns from investors that assurance is 'not being applied sufficiently or appropriately to address greenwashing'[1]. The CERES report also outlines how 'investors do not currently have access to consistent, comparable, decision-useful climate data'[2] and points to various reasons for this, including inconsistent assurance quality. The provision of consistent high-quality assurance is essential to address these concerns and ensure a well-functioning UK market. We consider key features of the UK market in the following paragraphs.

The UK market for sustainability assurance is undergoing rapid and continued growth. The IFAC report *Sustainability Disclosure and Assurance: 2019 -2022 Trends and Analysis* ("the 2024 IFAC report") highlights how UK companies are increasingly obtaining assurance on a voluntary basis over sustainability information with 84% of the companies reviewed in 2022 obtaining assurance on at least some of their ESG disclosures, an increase from 82% in 2021, 68% in 2020, and 55% in 2019[3].

In addition to an increase in voluntary assurance, new international requirements, such as the EU's Corporate Sustainability Reporting Directive (CSRD), Californian climate legislation and the SEC climate rule (all of which have extra-territorial reach and are therefore relevant to many UK companies) include mandatory reporting and assurance requirements. We have also observed an increase in market-led mandatory assurance requirements linked to financial services products, for example, requirements for mandatory assurance in relation to sustainable financial products, such as green bonds.

This UK market for sustainability assurance is comprised of a diverse range of providers including accounting and auditing firms, engineering firms, climate consultancies and boutique assurance providers. This is evidenced in the 2024 IFAC report which shows a mix of statutory audit firms, non-statutory audit firms, and other providers currently providing sustainability assurance in the UK. In our experience, when selecting an assurance provider, businesses often run competitive tender processes in which the existing statutory audit firm will be included alongside other providers across the market.

[1] CERES, Closing the Gap: Investor Insights into Decision-Useful Climate Data Assurance, page 3
[2] CERES, Closing the Gap: Investor Insights into Decision-Useful Climate Data Assurance, page 5
[3] IFAC, Sustainability Disclosure and Assurance: 2019 -2022 Trends and Analysis, page 43

This diverse and fragmented market can result in confusion for companies as it may not always be clear if and how different assurance services differ. In some cases, this can result in companies seeking assurance on a variety of matters from different providers, potentially with overlap in the work performed.

There is currently no professional framework which establishes a baseline for the quality of sustainability assurance service or a regulatory framework to oversee and monitor the work of all sustainability assurance providers across the market. This means there is variation in the application of assurance standards and quality management frameworks by assurance service providers. Audit firms operate within an existing supervisory framework, which requires, amongst other things the application of international standards for systems of quality management (ISQM(UK)1), and ethics including, but not limited to, independence. These standards are built into audit firms' internal systems, processes and methodologies. However, these requirements do not apply to non-audit firm assurance providers, resulting in a lack of consistency in quality across the UK market.

Consistent with observations by the International Organization for Securities Commissions (IOSCO) and International Federation of Accountants (IFAC), we also see further diversity across the market arising from:

- The lack of a clear rationale for the scope of assurance engagements, which in most cases is not set out in standards or regulation. This has allowed preparers to make choices on scope and the basis for selecting what information will be assured is not always guided by risk, materiality or stakeholder interest, but rather guided by cost or 'ease'. This contrasts with a statutory audit where the scope is clearly defined and applied consistently by all providers.
- The absence of uniformity in the assurance standards applied for sustainability assurance engagements. While ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* is the most commonly used assurance standard, it is not universally applied in the UK market, and in some cases, it is not clear whether any assurance standard has been used at all.
- The absence of a common set of sustainability reporting standards to ensure consistent and comparable disclosure of sustainability information. This creates difficulties for assurance providers in establishing the criteria against which sustainability information is assured.

This diversity within the market can have a direct impact on quality and, combined with a lack of understanding of assurance services more generally, widens the existing expectation gap for sustainability assurance, particularly in relation to understanding the difference between limited and reasonable assurance.

As an evolving market, some aspects of the current diversity will be addressed by ongoing international and UK developments. The planned UK endorsement of the ISSB's IFRS Sustainability Disclosure Standards will mean UK companies can report against global sustainability reporting standards and will provide clear criteria against which sustainability information can be assured. The UK market for corporate reporting is already advanced, with long standing sustainability reporting requirements integrated into the Strategic Report, s172 statement, the Corporate Governance Code, Taskforce on Climate-related Financial Disclosures (TCFD) reporting for listed companies, and the climate-related financial disclosures required by a broad range of UK companies. There is a significant degree of overlap between the current UK sustainability reporting requirements and the ISSB's IFRS Sustainability Disclosure Standards. As a result, the application of UK-endorsed IFRS Sustainability Disclosure Standards will be a natural step for many companies and we welcome UK Government's commitment to adopt the ISSB standards to promote greater comparability and consistency in reporting which will help reduce some elements of diversity in assurance practices as noted above.

To ensure that the information disclosed under UK-endorsed IFRS Sustainability Disclosure Standards is 'assurance ready', companies will need to develop governance structures, processes and controls for accumulating, analysing, and reporting sustainability information. These structures, processes and controls will differ from those that companies are familiar with for financial reporting purposes. Sustainability reporting typically involves a more extensive narrative component, more forward-looking information, and more reliance on information pertaining to the value chain, often outside a company's internal controls, for example in the reporting of scope 3 emissions. There are also important questions to consider around setting boundaries, applying criteria, and data collection and collation.

Developing these governance structures, processes and controls for sustainability information requires time and will be a step up for many UK companies, even for those already required to provide mandatory disclosures (for example, within their strategic report) or those who report with reference to existing voluntary standards. Companies will need sufficient time to put in place structures, processes and controls to fulfil their legal responsibility to report on their governance and controls in line with the UK's revised Corporate Governance Code, and to recognise the need for Those Charged With Governance to understand when and how to provide robust challenge.

The UK assurance market is also likely to be impacted by the introduction of mandatory assurance required by the CSRD and other mandatory sustainability reporting and assurance requirements coming into force across many jurisdictions. This will bring a greater degree of consistency in the scope and nature of assurance. While the requirements of the CSRD differ from the ISSB's standards, encompassing a significant number of disclosures that are designed to address compliance with EU regulations and going beyond investor-relevant information, the requirement for mandatory assurance has served to sharpen companies' focus on their current sustainability reporting infrastructure, governance and controls for meeting mandatory reporting and assurance requirements.

Furthermore, in response to calls from IOSCO, the IAASB is working to develop a robust and overarching assurance standard for use in sustainability assurance engagements. We support the work of the IAASB and believe that ISSA 5000 *General Requirements for Sustainability Assurance Engagements*, when applied, will contribute to the delivery of consistent high-quality assurance. Similarly, the International Ethics Standards Board for Accountants (IESBA) has an ongoing sustainability project, which includes the development of ethics and independence standards for use and implementation in sustainability assurance engagements. We welcome the formulation of these standards and discuss in question 8 how they should feature within the UK sustainability assurance market.

While these developments are important, further action is needed to address the current diversity across the market. As discussed in response to question 8, we believe there is a need for an overarching supervisory regime including governance, oversight and monitoring of the work and activities of sustainability assurance providers. This regime should bring together international standards for reporting, assurance, ethics and quality management into a cohesive, integrated and harmonised ecosystem for sustainability reporting.

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

We believe there is a strong interplay between sustainability assurance and audit markets, driven by the growing demand for companies to demonstrate connectivity between their sustainability information and financial reporting. This connectivity is essential to show clearly how companies are creating long-term value by providing insights into their business models and the broader risks they face, including those that arise from the impacts they have on the economy, the environment, and people. Investors seek to understand how sustainability and climate-related risks and opportunities affect the financial position and performance of the company, including how they influence judgements and estimates used in the preparation of the financial statements. For example, estimates and assumptions used for the purpose of planning for transition towards net zero should be consistent with the relevant assumptions and judgements applied in the financial statements.

The 2024 IFAC report indicates notable improvement in this connectivity with 97% of UK companies reviewed in 2022 including sustainability information in an annual or integrated report (an increase from 39% in 2019)[4]. Notwithstanding this progress, the CERES report outlines how investors often cannot see a 'clear through line between companies' sustainability and climate disclosures, on the one hand, and their financial position and results on the other'[5]. Further action is needed to embed this connectivity across the market. Therefore, we believe it will be critical for sustainability assurance providers to be fluent in financial information and for audit providers to be fluent in sustainability-related information.

As an audit firm, we have the experience and technical capabilities to assess a company's control environment, including in relation to fraud, and to understand the governance structures and internal processes required for reporting purposes. Further capabilities include the ability to develop a comprehensive understanding of the risks, opportunities and business models, to make assessments on materiality, and to identify potential connections between sustainability information and financial reporting. These skills are relevant to both the provision of high-quality audit and assurance engagements. Therefore, audit firms should be well placed to provide sustainability assurance and, where requested, for this to be delivered as an integrated service alongside the statutory audit (see our response to question 5).

Within the audit market, fluency on sustainability matters has been developing for some time with sustainability-related considerations being integrated into existing audit requirements, for example, by factoring in climate into risk assessments for the statutory audit. Also, ISA 720 *The Auditors' Responsibilities Relating to Other Information*, requires the statutory auditor to review other information outside of the financial statements for inconsistencies between that information and the financial statements or the understanding obtained by the statutory auditor in the course of their audit work. While this is not the same as providing assurance on that information, it is the responsibility of the auditor to ensure they have the right skills and competencies to review this other information. This is an area where ongoing education and training will be necessary to ensure that the statutory auditors continue to be appropriately equipped to fulfil their responsibilities in relation to sustainability information included within the annual report.

Sustainability-related expertise can also be vital to ensure a proper understanding of the underlying data. Therefore, ensuring that sustainability-related expertise is integrated with core assurance skills across the market is important to ensure consistent high-quality assurance. Indeed, as discussed in question 5 we believe that connectivity between the statutory audit and assurance of sustainability information, and the integration of both of these services with sustainability-related expertise (whether in-house or through obtaining external expertise) will be a critical factor in meeting the growing demand for assurance of sustainability information across the market.

[4] IFAC, Sustainability Disclosure and Assurance: 2019 -2022 Trends and Analysis, page 43
[5] CERES, Closing the Gap: Investor Insights into Decision-Useful Climate Data Assurance, page 8

Choice and competition

3. **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?**

We note that the extent to which UK companies have sufficient choice of sustainability assurance provider will be influenced by the needs of individual preparers of sustainability information. The nature of information to be assured, the sector or industry in which the company operates, how the information is structured and where it is located will all be important factors. Therefore, different preparers will have different experiences and it will be important to ensure their views are captured within this market study.

It is also important to consider the assurance market holistically, taking account of the broad range of assurance services available for sustainability-related information and products. This includes, for example, assurance obtained for special purpose reports and product labelling certifications for financial products such as green bonds, energy efficiency, green and other sustainability-related labels such as palm-free products. As noted above, integrating assurance skills with specialist sustainability-related expertise will be important to ensure the provision of consistent high-quality assurance across the market. When considered at this broader level, we believe that the wide range of assurance providers operating in the UK market allows sufficient choice by companies for the different types of sustainability assurance.

While the extent to which price is a determining factor will depend on the individual circumstances of companies, in our experience, it can often be a key factor in decision making, sometimes at the expense of quality. As noted above, the market for assurance of sustainability reporting is currently characterised by variation in the application of assurance standards and quality management frameworks alongside a lack of a clear rationale for the scope of assurance engagements. This translates to a range of price points for a wide range of assurance services. For example, where assurance is sought on a voluntary basis, a company has the option to limit the scope by limiting the information to be assured to secure a lower overall price for the service.

In this dynamic and fast-moving market, the factors which may affect choice are complex and will vary over time. We set out below some key areas for consideration which may affect choice in the future, with cross-references to where these are discussed in more detail within our response:

- There are potential limitations on choice as a result of the current non-audit service fee cap (see question 5).
- The introduction of future changes and requirements could affect competition overall. For example, introducing professional and regulatory frameworks for sustainability assurance would help establish a baseline for quality, but would require investment, time and training to implement. As noted, while this may present a barrier for some existing and new market participants, we believe that establishing minimum requirements for consistent high quality sustainability assurance is critical for a well-functioning market (see question 8).
- The introduction of mandatory assurance under the CSRD introduces more stringent requirements on assurance providers such that only certain providers may be permitted to provide assurance (see question 6).

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

As noted above, we consider the UK sustainability assurance market to be a growing and diverse market, with a large number of providers. Please refer to our comments in response to questions 1 and 3 on how competition works in the UK sustainability reporting market, including the current challenges. We comment on how competition might change in response to questions 3, 5 and 8.

Market capacity, opportunities and barriers to entry / expansion

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

As discussed in our response to question 1, the UK market for sustainability assurance (both mandatory and voluntary) is growing. There is also growing demand for greater connectivity between the work of the statutory auditor and the sustainability assurance provider, and for core audit and assurance skills to be integrated with sustainability expertise. The 2024 IFAC Report shows that in 2022, where assurance reports were provided by an audit firm in the UK, in 71% of cases it was provided by the same firm as the statutory auditor (up from 63% in 2021 and 60% in 2020)[6]. Deloitte has also seen increased interest by companies in an integrated service delivery for the statutory audit and sustainability assurance, leveraging the inherent synergies that arise from adopting this approach. In the past 18 months 36 audit tenders in which Deloitte participated required specialist sustainability input including 82% of the 27 FTSE 350 bids in the period. In our view, the ability of audit firms to provide an integrated service will be the expected norm within 3-5yrs.

Growing demand for an integrated approach is important when considering capacity, as amongst the many participants across the UK sustainability assurance market, the pool of providers that are currently able to provide this integrated and connected service is notably smaller. Growing and strengthening the capacity for an integrated service will require continued investment by various stakeholders across the market. Audit firms will need to continue to invest in response to shifting demands and ensure that capacity develops in line with demand over time. With over 20 years of experience in delivering sustainability assurance, Deloitte is building sustainability skills into our audit and assurance offering over time and is already providing an integrated service. We are continually upskilling audit and assurance staff, by building and improving understanding of sustainability topics and, where necessary, bringing in specialist expertise.

Addressing the current non-audit service fee cap requirement will also be important as this may, in the near future, restrict the ability of the statutory auditor to take on many sustainability assurance engagements thus reducing the ability to provide an integrated service. This is an issue for both voluntary sustainability assurance engagements and those required by overseas laws and regulations, as in both cases they are not required by UK law and therefore fall within the fee cap restriction.

As a short-term solution, we recommend that consideration is given to whether there is scope to make changes via Sections 12 and 14 of the Retained EU Law (Revocation and Reform) Act 2023 which allows the Secretary of State to restate retained EU law. UK Government could use these powers to exempt from the cap "services required by the laws of another jurisdiction" as this is a requirement derived from EU law. This does not mean auditors would then be able to provide all such services as the legislative restrictions on the nature of services and the FRC Ethical Standard's requirements that only permit certain

[6] IFAC report Sustainability Disclosure and Assurance: 2019 -2022 Trends and Analysis, page 43

services would still apply. This change would simply disapply the cap from such services if the auditor is allowed to perform them where the service is required by another jurisdiction.

In the longer term, we believe the most appropriate route would be to remove the fee cap from the law and to allow the FRC Ethical Standard (which has the force of law in any case) to determine an appropriate capping mechanism (with a consequential redrawing of the line between capped and uncapped work). Should the fee cap be removed from law, we would encourage the FRC to reconsider the treatment of independent assurance services under the cap, particularly in relation to work already prepared under the FRC Ethical Standard's independence rules and to consider alignment with the IESBA code. Addressing the non-audit service fee cap would not fetter the choice of Those Charged With Governance in selecting other assurance providers for such services if they thought that was appropriate for them.

In the absence of changes to the non-audit service fee cap requirements in law, we recognise that there are limited actions that can be taken by the FRC. There may, however, be some helpful clarifications that could be made to the FRC's Ethical Standard which are discussed in more detail in our response to the FRC's Ethical Standard 2023 Invitation to Comment and Impact Assessment. Pending the outcome of this market study, we encourage the FRC to engage with UK Government on how to address the challenges arising from the current non-audit service fee cap.

Decisions around the development of an overarching supervisory regime for sustainability assurance also have implications for capacity across the market. The continued absence of any professional and regulatory frameworks for sustainability assurance could have an adverse effect on capacity if the market is unduly influenced by criteria other than quality of service. For example, an assurance provider adopting an aggressive pricing strategy might build its own capacity and dominate the market even if at the expense of overall quality.

The introduction of professional and regulatory frameworks, as discussed in our response to question 8, would help establish a baseline in quality across the sustainability assurance market. It will also require investment by assurance providers including, for example, in relation to quality management, training and technological capabilities. The level of investment needed will vary between providers and depend on factors such as the extent to which they are already operating within a supervisory regime. While this may present a barrier for some existing and new market participants, we believe that establishing minimum requirements for consistent high quality sustainability assurance is critical for a well-functioning market. The consideration is not whether a supervisory regime should be introduced, but rather which approach should be adopted to ensure that sufficient time is given for sustainability assurance providers, as well as other stakeholders across the market, to prepare. This is considered further in response to question 8.

In respect of future changes to capacity, consideration must be given to any conflicts of interest that might arise in cases where firms currently offer both advisory and assurance services on sustainability information. We believe that ensuring independence must be a key pillar of a robust supervisory regime for sustainability assurance. In our view, the overall capacity in the market would be sufficient to absorb changes that arise should firms be unable to provide assurance on independence grounds.

There will also be a need for many companies preparing sustainability reporting to build internal capacity in response to new sustainability reporting requirements and frameworks (see our responses to questions 1 and 7).

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

We believe there are opportunities for assurance providers to meet the growing demand for sustainability assurance. The 2024 IFAC report highlights how in 2022, 84% of the UK companies reviewed obtained assurance over some ESG information[7]. While this is a high proportion, the scope of many of these assurance engagements has, until now, largely focused on a number of selected performance metrics. This is now changing in line with international and UK developments. The application of UK-endorsed ISSB standards will likely drive demand for assurance of sustainability information. The CSRD also represents a significant expansion in scope, with mandatory assurance required by in-scope companies across a broader range of sustainability information. The SEC rules also require mandatory assurance over scope 1 and scope 2 GHG emissions, which will be a further expansion for some although in many cases this may be an area where companies are already obtaining assurance.

For assurance providers there will also be opportunities to contribute to the development of a professional framework for sustainability assurance, ensuring that the UK market is recognised for being competitive with high standards of quality for sustainability assurance. We believe the development of an integrated audit, assurance and sustainability skill set will also have benefits for the wider accountancy and assurance profession, for example, increasing its attractiveness and enhancing career progression. Accountancy bodies also play a critical role in relation to education and training, as discussed in our response to question 8.

We believe that the UK market is at the start of period of rapid growth and that there is a need to act now and decisively, starting with the development of a clear roadmap for the UK sustainability assurance market.

We have identified potential barriers to expansion and entry in our response to question 5, in particular in relation to the current non-audit service fee cap. We also note that the CSRD introduces a certification regime for CSRD assurance engagements which determines who can perform assurance engagements and sign assurance reports. The implications of this regime remain unclear and will vary across jurisdictions and therefore, at this stage it is not clear the extent to which this may act as a barrier within the UK market.

Regulatory framework and future developments

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

As discussed in our response to question 1, there are various international regulatory developments that will affect the UK sustainability assurance market. These include:

- Jurisdictional adoption of the ISSB's IFRS Sustainability Disclosure Standards, with the UK Government's stated intention to endorse the ISSB's standards for use in the UK.
- New mandatory reporting and assurance requirements from different jurisdictions, with extra-territorial reach, such as the CSRD, SEC climate-rule and Californian climate bills.
- The development by the IAASB of an international standard for sustainability assurance engagements.
- The development by the IESBA of international ethics and independence standards for use and implementation in sustainability assurance engagements.

[7] IFAC report Sustainability Disclosure and Assurance: 2019 -2022 Trends and Analysis, page 43

Application of UK-endorsed IFRS Sustainability Disclosure Standards will mean UK companies are reporting against global sustainability reporting standards and will provide clear criteria against which sustainability information can be assured. As there is significant overlap between the IFRS Sustainability Disclosure Standards and existing UK sustainability reporting requirements, this move will be a natural step for many companies. However, to ensure that the information disclosed is 'assurance ready', companies will need to develop appropriate governance structures, processes, and internal controls for accumulating, analysing, and reporting sustainability information. Similar changes will also be required for companies within the scope of the CSRD and other jurisdictional requirements. Looking ahead, we note growing demand for companies to report on their plans to reduce their carbon emissions and transition to net zero. To prepare for these new requirements, companies will need to develop structures and processes to capture relevant data from across their value chains, using estimations and judgements, and to disclose information that is forward-looking in nature. There will be a need for internal capacity building within companies to ensure they have the appropriate level of expertise and are assurance 'ready'.

Assurance providers and oversight bodies may face significant challenges in carrying out their roles and responsibilities where companies are not ready to report complete and high-quality information. In our view, in the first years of reporting under new sustainability reporting requirements or frameworks, it will likely be inevitable that assurance providers will modify their assurance reports to the state of companies' readiness. There is a possibility that this increase in sustainability assurance reports with modifications, qualifications or emphasis of matters could create a negative perception of a company unless the circumstances are properly explained and put in context. The complex requirements introduced by the CSRD that go beyond existing UK mandatory sustainability reporting requirements or voluntary reporting frameworks mean this will be particularly pertinent as UK companies within the scope of the CSRD start reporting in compliance with its requirements in the UK market from this calendar year end.

The FRC, in collaboration with other relevant bodies and regulators, have an important role to play in explaining, educating and providing that context to help alleviate market concerns if modified assurance reports are issued. In doing so, it is important to acknowledge that achieving a high-quality outcome will likely be a journey and regulators should engage with companies on the basis of what steps are being taken to address identified areas for improvement in future years.

8. 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).

We believe that development of an overarching supervisory regime is critical to the growing UK sustainability assurance market to ensure the provision of consistent high-quality and independent sustainability assurance. This supervisory regime should comprise:

- A professional framework and ethical code which governs the work and activities of sustainability assurance providers. This would cover, for example, requirements relating to competence, systems of quality management, independence and professional liability mechanisms.
- A regulatory framework under which the FRC, or another appropriate body, oversees and monitors sustainability assurance providers including their adherence to the requirements of the professional framework and inspection of assurance engagements in order to maintain standards of quality across the market.

It will be essential for this regime to apply to all sustainability assurance providers to avoid the emergence of a two-tier market.

Developing a UK supervisory regime would be in step with international developments, for example, the proposed competency requirements for an engagement leader as set out in the ISSA 5000 exposure draft and the requirements in the CSRD relating to the expected attributes of assurance providers (including independence, ethics and quality control). It is important that changes to the UK market take account of international expectations and developments while remaining proportionate to the UK market.

Establishing this supervisory regime will require the concerted and coordinated effort of all stakeholders, including regulators, government, professional bodies, audit firms, assurance firms, and businesses. Investment will be required by the FRC to ensure both the appropriate infrastructure and appropriately skilled staff to support, monitor and enforce requirements under the frameworks. Investment will also be required by audit firms, assurance firms and accounting bodies, both in the preparation for, and ongoing compliance with, the requirements. The FRC will have critical role to support assurance providers and the profession in this transition. A roadmap for the UK sustainability assurance market would provide transparency including on key milestones. It will be important to ensure sufficient time, support and guidance, including from the FRC, is provided throughout. Providing transparency over the direction of travel will enable all stakeholders to plan ahead, encourage investment, allow assurance providers to serve in the public interest, and for the market to evolve over time.

Continued investment in training and development will also be necessary to ensure that there are sufficient skills within the market to meet the growing demand for high quality assurance. Audit firms and non-audit assurance firms must continue to invest in training on sustainability matters and assurance as part of their core curriculum and in continued development of their assurance methodologies. With sustainability reporting being brought into mainstream reporting, appropriate knowledge to understand the connectivity between sustainability information and financial reporting will be critical.

Accounting Bodies also play a pivotal role in equipping professional accountants for evolving sustainability reporting requirements and the growing demand for assurance of sustainability reporting. They will need to educate members on sustainability reporting and assurance. This starts with ensuring that the qualification is 'fit for purpose' by giving sustainability-related topics the appropriate syllabus weighting compared to financial topics in order to equip new members with the foundational knowledge needed. Furthermore, professional accountants will need to upskill throughout their careers, particularly given the rapidly evolving nature of sustainability reporting and assurance. Effective CPD training will be key, as will the creation of practical resources, communities, and networks to share knowledge, best practice, and ideas. We encourage the FRC to engage with the relevant accounting bodies to discuss these training and education needs and how this would fit within a wider professional framework for sustainability assurance which would be monitored and supervised by the FRC.

In addition, we believe there should be a framework which companies can apply when deciding on the appropriate scope of assurance for sustainability information. This framework should be proportionate, and risk focused, emphasising the selection of high-risk areas and/or matters of significant interest for users and stakeholders. We believe this could be achieved with the Audit and Assurance Policy (AAP) proposals which were recently withdrawn by UK Government. Introducing the AAP disclosures or similar would provide transparency on a company's rationale for deciding the scope of assurance and encourage greater rigour in the governance structures and processes around assurance decisions.

As noted above, the IAASB's forthcoming assurance standard for use in sustainability assurance engagements and IESBA's standards for use and implementation in sustainability assurance engagements are important developments and should form part of a broader UK supervisory regime for sustainability assurance. UK endorsement of the ISSB's IFRS Sustainability Disclosure Standards is also critical as it will enable UK companies to report against global sustainability reporting standards and will provide clear criteria against which sustainability information can be assured. We believe bringing together these international standards into a cohesive, integrated, and harmonised ecosystem for sustainability reporting and assurance, governed by an overarching supervisory regime, is critical to ensuring the provision of consistent high-quality assurance across the UK market.