Corporate Sustainability Reporting Directive assurance: What you need to know

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Contents

Overview

The Corporate Sustainability Reporting Directive (CSRD) represents a significant evolution in sustainability reporting, setting higher standards for disclosures covering environmental, social and governance (ESG) aspects. This paper:

- Highlights the importance of independent assurance and the applicable standards and frameworks, such as the Statements on Standards for Attestation Engagements (SSAEs) and the International Standard on Assurance Engagements (ISAE) 3000/3410.
- Explains the differences between assertion-based examinations and reviews, detailing the levels of assurance, procedures performed and risk assessments involved.
- Provides a brief overview of CSRD assurance engagements, highlighting the applicable standards, frameworks and types of assurance.
- Discusses the operationalization and compliance pitfalls that organizations may encounter, emphasizing the need for proper documentation of methodology and the establishment of robust processes and controls.
- Notes the proposed omnibus legislation by the European Commission, which could significantly reduce the number of entities in scope for CSRD compliance.

1. Introduction

The CSRD represents a significant evolution in sustainability reporting, setting higher standards for disclosures covering ESG aspects. The objective of this article is to demonstrate that CSRD engagements are fundamentally similar to other common assurance engagements.

The CSRD mandates comprehensive sustainability disclosures for entities meeting specific criteria, including annual revenue, total assets and employee count. These requirements extend beyond previous regulations, necessitating a holistic approach to compliance, independent assurance and significant sustainability efforts. This article will provide a brief overview of CSRD assurance engagements, highlighting the applicable standards, frameworks and types of assurance.

2. General

2.1. CSRD scope and other basics

The CSRD is set to affect more entities than any previous sustainability regulation, setting higher standards for disclosures covering ESG aspects. Under the CSRD as it was initially approved in 2022, it is estimated that approximately 50,000 entities globally would have to disclose, monitor and assess their sustainability performance. More specifically, any entity meeting two of the three criteria listed below would be obligated to adhere to the CSRD:

1. Annual revenue exceeding 50 million euros
2. Total assets on the balance sheet exceeding 25 million euros
3. Employing more than 250 staff members

A few other scenarios in which non-European Union (EU) entities need to comply with CSRD global regulatory compliance reporting mandates are:

- A non-EU entity traded on an EU-regulated market
- A non-EU entity that operates within the EU and has a group-level revenue of over 150 million euros in the EU

Compliance dates range from as early as 2025 to 2030, depending on the category that non-EU entities and their subsidiaries fall under. While the Non-Financial Reporting Directive's (NFRD's) requirements were generally met by a handful of regulations within North America, the CSRD requirements exceed these requirements.

Consequently, it behooves North American entities that are in scope of CSRD to start to develop the necessary processes, procedures, controls, data systems, roles and responsibilities, and disclosure documentation to address the requirements of the CSRD as soon as possible. The scope of the CSRD's disclosures will require organizations to take a holistic approach to prepare for compliance, independent assurance and clear disclosure of the impacts of the entity's actions on the environment and society as a result of sustainable efforts.

However, on Feb. 26, 2025, the European Commission proposed omnibus legislation to reduce the sustainability reporting and due diligence requirements for entities that are currently in scope of CSRD or the Corporate Sustainability Due Diligence Directive (CSDDD). This proposal could significantly reduce the entities in scope. The reduction in scope is anticipated to reduce the entities affected from approximately 50,000 entities to 7,000 entities. Also of note: On April 14, 2025, the European Commission passed legislation to extend the implementation date of certain waivers by two years.

3. Assurance

3.1. Applicable standards and framework

Sustainability assurance engagements performed by practitioners in the United States are typically assertion-based examinations or reviews performed under the Statements on Standards for Attestation Engagements (SSAEs), which are established by the American Institute of Certified Public Accountants (AICPA).

The SSAEs are designed to be framework-neutral and provide practitioners with the requirements and related guidance they need to opine or conclude on the entity's application of either the applicable framework (examples of which include the IFRS Sustainability Disclosure Standards, European Sustainability Reporting Standards (ESRS), Global Reporting Initiative (GRI) and Greenhouse Gas (GHG) Protocol) or entity-developed criteria on their sustainability matters. Sustainability matters include ESG or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.

As an analogy, the SSAEs may be viewed similarly to auditing standards and the framework and entity-developed criteria may be viewed similarly to accounting standards. Entities apply accounting standards to their transactions to prepare the financial statements, to which the auditing standards are applied to provide an opinion.

3.2. Engagement types and corresponding levels of assurance

There are two types of engagements—assertion-based examinations and reviews. An assertion-based examination provides reasonable assurance, while a review provides limited assurance.

Assertion-based examination: To obtain reasonable assurance, the practitioner gathers sufficient and appropriate evidence to assess how the sustainability matters have been measured or evaluated against the criteria—which may include framework criteria, entity-developed criteria, or both. Framework criteria include criteria that are embodied in law or regulation or are established by authorized or recognized organizations that follow a transparent due process. This evidence must be robust enough to enable the practitioner to form an opinion on whether the sustainability information is, in all material respects, in accordance with the criteria or whether any related assertions are fairly stated.

Review: To obtain limited assurance, the practitioner gathers sufficient and appropriate review evidence to assess how the sustainability matters have been measured or evaluated against the criteria—which may include framework criteria, entity-developed criteria, or both. Based on this review evidence, the practitioner forms a conclusion about whether any material changes are needed for the sustainability information to be in accordance with the criteria or for any related assertions to be fairly stated.

The key differences, based on the SSAEs effective as of the date of this article, between an assertion-based examination engagement and a review engagement performed in accordance with the SSAEs are as follows:

	Assertion-based examination	Review
Assurance level	Provides reasonable assurance, i.e., an opinion.	Provides limited assurance, i.e., a conclusion.
Procedures performed	Involves more extensive procedures, similar to those performed for an audit engagement, to gather sufficient evidence to form an opinion.	Uses less comprehensive procedures, primarily inquiry and analytical procedures, to form a conclusion. If deemed necessary, other procedures may also be performed.
Risk assessment	Identifies and assesses the risks of material misstatement in the sustainability information.	Identifies areas in the sustainability information in which a material misstatement is likely to arise.
Internal control understanding	Obtains an understanding of internal control over the preparation of the sustainability information, including performing design and implementation procedures.	May obtain an understanding of internal control over the measurement, evaluation and disclosure of the sustainability information.
Report content	Report explicitly states an opinion on the sustainability information or assertion on the sustainability information.	Report presents a conclusion about whether any material modifications are needed to the sustainability information or assertion on the sustainability information.
Report modifications	Report will be modified when either there is an inability to obtain sufficient appropriate evidence (i.e., a scope limitation) or sustainability information is materially misstated.	Report will be modified when sustainability information is materially misstated. When there is an inability to obtain sufficient appropriate evidence, the practitioner will withdraw from the engagement.

Although generally not required for sustainability assurance engagements for U.S.-based entities, practitioners in the United States may also perform sustainability assurance engagements for nonissuer entities in accordance with international standards.

The direction for performing the engagement in accordance with international standards should come from the engaging party. If the practitioner's report states that the sustainability assurance engagement was conducted in accordance with the international standards, the U.S. practitioner should comply with both the international standards and, as required by the AICPA Code of Professional Conduct, the SSAEs, i.e., the practitioner performs a dual-standards engagement.

The international standards practitioners in the United States most often are engaged to apply are International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information, or* ISAE 3410*, Assurance Engagements on Greenhouse Gas Statements.*

Both ISAE 3000 (Revised) and ISAE 3410 allow for the provision of reasonable assurance (akin to that provided from an assertion-based examination engagement under the SSAEs) or limited assurance (akin to that provided from a review engagement under the SSAEs).

3.3. ISAEs versus SSAEs

Dual-standards engagements are ordinarily performed in accordance with the SSAEs and the addition of any incremental procedures required by the international standards (i.e., the ISAEs). ISAE 3000 (Revised) and ISAE 3410 are substantially similar to the SSAEs, but do have incremental requirements related to:

- Engagement acceptance and continuance
- Planning (ISAE 3410 only)
- Testing procedures (ISAE 3410 only)
- Concluding and reporting procedures, including additional written representations (ISAE 3410 only) and reporting requirements

A new standard on the horizon:

The International Auditing and Assurance Standards Board (IAASB) issued International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, in November 2024.

With the goals of replacing ISAE 3000 (Revised) and ISAE 3410 as applied to assurance engagements on sustainability information and enhancing the trust and confidence that investors, regulators and other stakeholders have in sustainability information, ISSA 5000 will serve as a comprehensive, stand-alone standard suitable for any sustainability assurance engagement.

ISSA 5000 will apply to sustainability information reported across any sustainability topic and prepared under any sustainability framework. The standard is also profession-agnostic, supporting its use by both professional accountant and nonaccountant sustainability assurance practitioners.

ISSA 5000 is effective for assurance engagements on sustainability information reported for periods beginning on or after Dec. 15, 2026, or at a specific date on or after Dec. 15, 2026. For assurance engagements on sustainability information reported that contain both period and date, the effective date is for periods beginning on or after Dec. 15, 2026.

A summary of the primary difference between ISSA 5000 and the SSAEs are:

- **Non-CPA practitioners:** ISSA 5000 allows sustainability assurance engagements to be performed by non-CPAs. SSAEs allow only CPAs to perform such engagements.
- **Internal control:** ISSA 5000 requires practitioners to gain an understanding of the system of internal control over sustainability reporting for both reasonable and limited assurance engagements.
- **Risk assessment:** ISSA 5000 requires risk assessment procedures to be performed for limited assurance (i.e., review) engagements. The SSAEs do not require risk assessment procedures, but rather an identification of areas in the sustainability information in which a material misstatement is likely to arise.
- **Risk response:** For limited assurance engagements, ISSA 5000 requires the practitioner to design and implement further procedures responsive to the risks of material misstatement. Meanwhile, the SSAEs should design and perform procedures placing increased focus on areas where the practitioner believes there are increased risks that the sustainability information may be materially misstated.
- **Using the work of another practitioner:** ISSA 5000 does not permit the practitioner to refer to another practitioner in the practitioner's report. In contrast, the SSAEs do.
- **Materiality:** ISSA 5000 includes the requirement to determine performance materiality for quantitative disclosures. The SSAEs do not include the concept of performance materiality.
- **Other information:** ISSA 5000 includes requirements for other information. The SSAEs do not include guidance for other information.
- **Scope limitation:** ISSA 5000 allows the practitioner to issue a report expressing a modified conclusion due to a scope limitation for a limited assurance engagement. Conversely, the SSAEs require the practitioner to withdraw from the engagement unless prohibited by law or regulation.

4. Operationalization and compliance pitfalls

Organizations that adopt CSRD may strengthen their compliance processes by being mindful of some common pitfalls, specifically ones involving documenting methodology and establishing processes and controls.

4.1. Documenting methodology

Scoping evaluation

When the entity is determining their reporting entity, the entity should document how they have determined their reporting entity, including any value chain entities that may be required for certain metrics or disclosures. Specifically, they should document their:

- Decision-making process
- Conclusion

Pitfall: Inadequate documentation or misalignment with the guidance

Omission of disclosures

When the entity omits any disclosures that should be disclosed, the entity should document their reasoning. Consider the following actions:

- Review disclosure checklists to ensure alignment to the applicable framework
- Document rationale for any assessment or materiality discussion or stakeholder relevance that may have justified the omission

Pitfall: Inability to provide support of judgments

Estimation uncertainty

If there are any estimates included in the sustainability disclosures, especially for metric disclosures, the entity should disclose the methodology they used to develop the estimate. The following should be documented:

- Estimation calculations
- Estimation methodologies that include assumptions, data sources, rational for assumptions, etc.

Pitfall: Inability to provide support and lack of clarity on how the entity determined the estimate.

4.2. Establishing proper processes and controls

In collecting and reporting nonfinancial data as required by CSRD, entities should take steps to identify related risks and establish proper controls and processes to address those identified risks.

Pitfall: Unknown risk exposure

5. Conclusion

The transition to CSRD reporting and compliance may present challenges, but with a dedicated approach and understanding, management can meet the CSRD's requirements.

With reporting requirements starting as early as 2025 for the first wave of entities, it will be important for management to take a proactive approach. This will allow entities more time to determine and implement policies, procedures and controls to compile and communicate information to comply with CSRD reporting requirements. It will also allow more time to achieve transparency in reporting and accountability related to an entity's actions and sustainability efforts, and their impact on the environment and society.

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