



ESG Reporting - Role of the auditor

Federale Raad voor Duurzame Ontwikkeling – 29 September 2022

Sofian Milad – Partner Audit & ESG Reporting & Assurance



Current requirements for the auditor

NFRD



CURRENT REQUIREMENTS

- ✓ Art 3:6 / 3:32 CCA
- ✓ Statutory auditors are required to check that the **non-financial information** has been provided in the management report or in a separate report which is published at the same moment (**compliance check**).

Topics

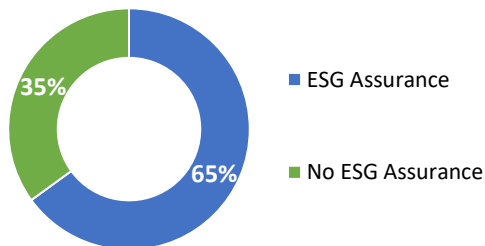
- Diversity
- Environmental , social & employee matters
- Respect for human rights
- Anti-corruption and bribery

Aspects

- Policy
- Results
- Risks
- KPI's

- ✓ Statutory auditors are **NOT** required to provide **assurance** on the content of the statement / report.
- ✓ Voluntary assurance or request of stakeholders

Assurance trends



Source: BEL 20 companies sustainability reports 2021



SNIP OF AN AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report on the consolidated financial statements.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing (ISA) as applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report on the consolidated financial statements, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for that same year and has been established in accordance with the requirements of article 3:32 of the Code of companies and associations.

In the context of our statutory audit of the consolidated financial statements we are responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements included in chapter 2 of the annual report, are free of material misstatements, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such a material misstatement.

The non-financial information as required by article 3:32, § 2 of the Code of companies and associations, has been disclosed in the directors' report on the consolidated financial statements that is part of section 2.3 of the annual report. This non-financial information has been established by the company in accordance with the GRI Standards. In accordance with article 3:80, § 1, 5° of the Code of companies and associations we do not express any opinion on the question whether this non-financial information has been established in accordance with these GRI Standards.



Requirements for the auditor

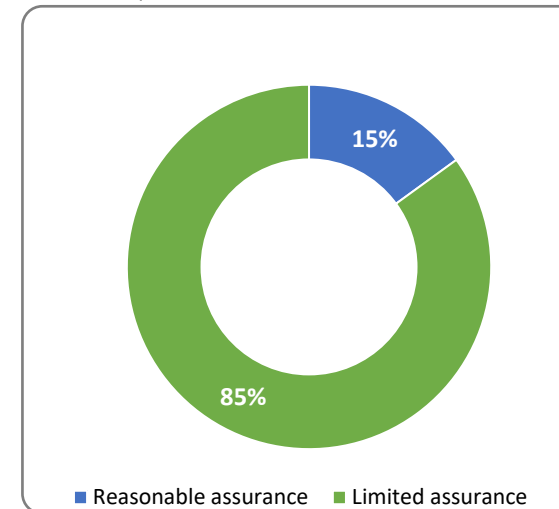
CSRD



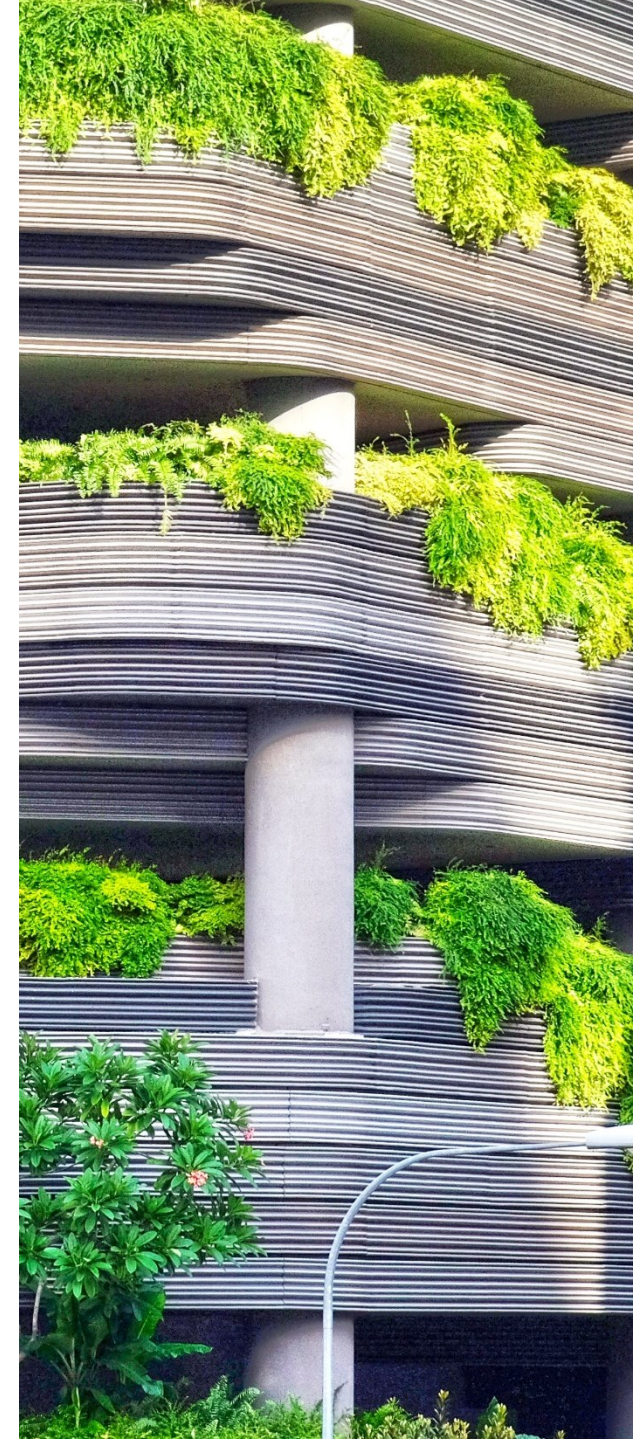
REQUIREMENTS AS FROM FY24

- ✓ Assurance requirement
- ✓ Scope based on the CSRD:
 - Compliance with European reporting standards (ESRS), including reliable performance data;
 - Process carried out to identify the information reported according to those standards;
 - Mark-up of sustainability information;
 - EU Taxonomy reporting requirements.
- ✓ Limited assurance (on the longer term: reasonable assurance)
- ✓ Assurance standard to be adopted by the EC, but in the meantime apply national assurance standards (ISAE 3000)
- ✓ Daughter companies using the exemption:
 - ✓ In the management report, refer to the sustainability reporting at group level
 - ✓ Publish the consolidated sustainability information

Limited assurance will be required by law as a first step.



Source: BEL 20 companies sustainability reports 2021





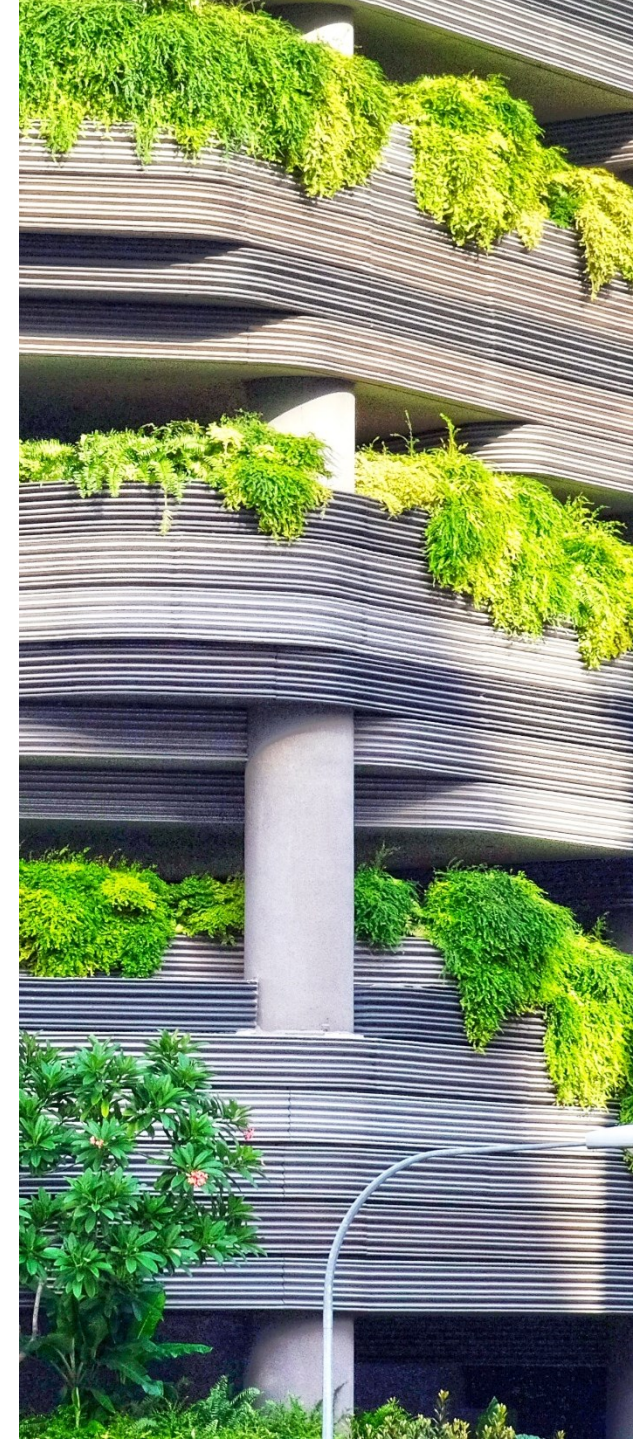
Requirements for the auditor

Assurance standard ISAE3000



MAIN DIFFERENCES BETWEEN LIMITED AND REASONABLE ASSURANCE – UNDERSTANDING OF THE SUBJECT MATTER (PLANNING PHASE)

Limited Assurance	Reasonable Assurance
<p>46L. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none">a. Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; andb. Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 46L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A101 – A105, A108) <p>47L. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46L, the practitioner shall consider the process used to prepare the subject matter information. (Ref: Para. A107)</p>	<p>46R. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none">a. Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information; andb. Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion. (Ref: Para. A101 – A104, A108) <p>47R. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46R, the practitioner shall obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This includes evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information. (Ref: Para. A106)</p>





Requirements for the auditor

Assurance standard ISAE3000



MAIN DIFFERENCES BETWEEN LIMITED AND REASONABLE ASSURANCE – OBTAINING EVIDENCE & CONCLUSION

Obtaining Evidence

The Nature, Timing and Extent of Procedures (Ref: [Para. 48\(L\)](#) – [49\(R\)](#))

- A109. The practitioner chooses a combination of procedures to obtain reasonable assurance or limited assurance, as appropriate. The procedures listed below may be used, for example, for planning or performing the engagement, depending on the context in which they are applied by the practitioner:
- Inspection;
- Observation;
- Confirmation;
- Recalculation;
- Reperformance;
- Analytical procedures; and
- Inquiry.

A110. Factors that may affect the practitioner's selection of procedures include the nature of the underlying subject matter; the level of assurance to be obtained; and the information needs of the intended users and the engaging party, including relevant time and cost constraints.

A179. Examples of conclusions expressed in a form appropriate for a **reasonable assurance** engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, "In our opinion, the entity has complied, in all material respects, with XYZ law;"
- When expressed in terms of the subject matter information and the applicable criteria, "In our opinion, the forecast of the entity's financial performance is properly prepared, in all material respects, based on XYZ criteria;" or
- When expressed in terms of a statement made by the appropriate party, "In our opinion, the [appropriate party's] statement that the entity has complied with XYZ law is, in all material respects, fairly stated," or "In our opinion, the [appropriate party's] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated".

A181. Examples of conclusions expressed in a form appropriate for a **limited assurance** engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that [the entity] has not complied, in all material respects, with XYZ law."
- When expressed in terms of the subject matter information and the applicable criteria, "Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the assessment of key performance indicators for them to be in accordance with XYZ criteria."
- When expressed in terms of a statement made by the appropriate party, "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has complied with XYZ law, is not, in all material respects, fairly stated."



Requirements for the auditor

Assurance standard ISAE3000



EXAMPLE OF LIMITED ASSURANCE REPORT

To the board of directors

We have been engaged by Company X to conduct a limited assurance engagement on selected environmental, social and governance performance indicators ("the ESG KPI's") published in Company X's group Sustainability Report (the "Sustainability Report") for the year ended 31 December 2021. In preparing the ESG KPI's as included in section "Data Tables" of the Sustainability Report, Company X applied the standards of the Global Reporting Initiative (GRI) and a set of own reporting criteria as disclosed in the Sustainability Report (Criteria). The ESG KPI's included in scope of the limited assurance are mentioned below and are identified with ** in the Sustainability Report:

Based on our work done as described in this report, nothing has come to our attention that causes us to believe that the abovementioned selected ESG KPI's as published in Company X's group Sustainability Report, have not been prepared, in all material respects, in accordance with the applied criteria.

Responsibility of the board of directors

The board of directors of Company X is responsible for the preparation of the ESG KPI's and the references made to it presented in the Sustainability Report as well as for the declaration that its reporting meets the requirements of the criteria.

This responsibility includes the selection and application of appropriate methods for the preparation of the ESG KPI's, for ensuring the reliability of the underlying information and for the use of assumptions and reasonable estimations. Furthermore, the board of directors is also responsible for the design, implementation and maintenance of systems and procedures relevant for the preparation of the ESG KPI's that is free from material misstatement, whether due to fraud or error.

Nature and scope of our engagement

Our responsibility is to express a conclusion on the ESG KPI's based on our procedures. We conducted our engagement in accordance with International Standard on Assurance Engagements ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB), in order to state whether anything had come to our attention that causes us to believe that the ESG KPI's have not been prepared, in all material respects, in accordance with the applicable criteria.

We apply International Standard on Quality Control 1 and, accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Applying these standards, our procedures are aimed at obtaining limited assurance on the fact that the ESG KPI's do not contain material misstatements. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our work was performed on the data gathered and retained in the reporting scope by Company X as mentioned above. Our conclusion covers therefore only the abovementioned ESG KPI's and not all information included in the Sustainability Report. The limited assurance on the selected KPI's was only performed on the ESG KPI's covering the period from 1 January 2021 till 31 December 2021.

The scope of our work included, amongst others the following procedures:

- obtaining an understanding of the company's business, including internal controls relevant to collection of the information used to prepare the ESG KPI's. This included discussions with the Company's management responsible for operational performance in the areas responsible for the data underlying the ESG KPI's;
- considering the risk of material misstatement of the ESG KPI's;
- performing analytical procedures; and
- examining, on a limited sample basis, internal and external supporting evidence and performing consistency checks on the consolidation of these ESG KPI's.

Our report is made solely to the Company's directors, as a body, in accordance with ISAE 3000. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body for our work, this report, or for the conclusions we have formed.

Independence

In conducting our engagement, we have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior, and with the Belgian legal and regulatory framework.



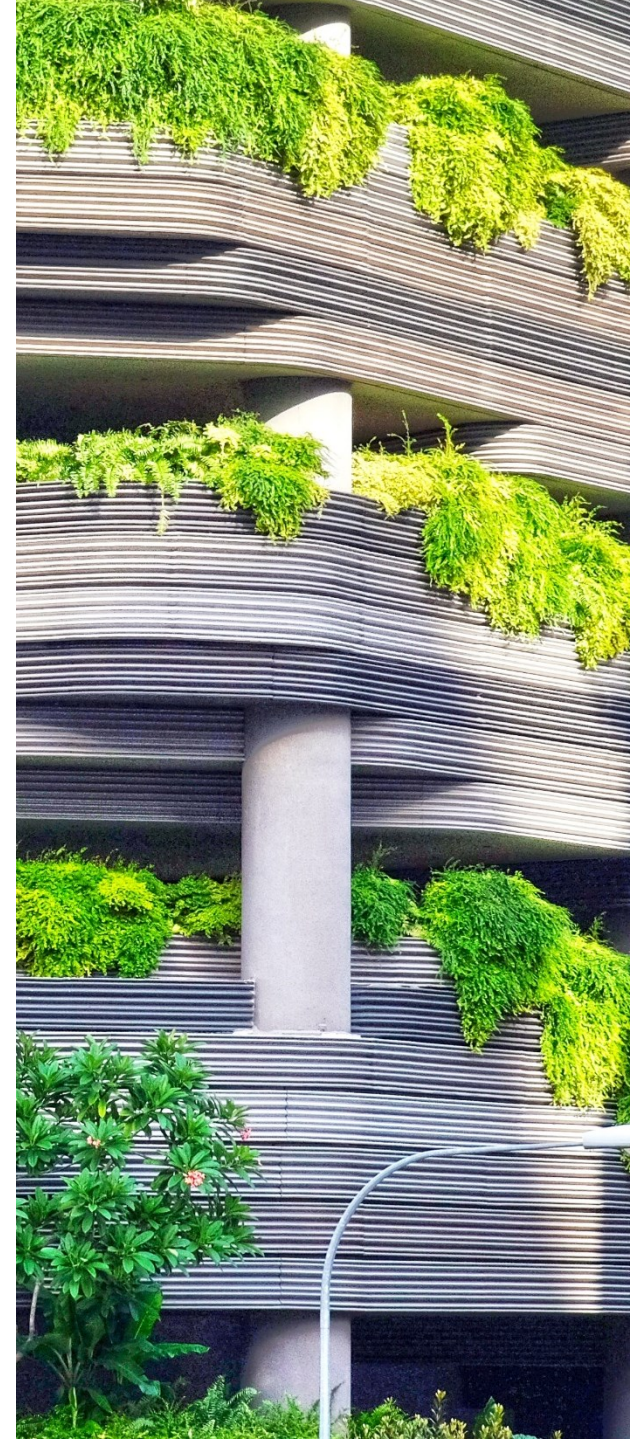
Requirements for the auditor

Our experience and attention points



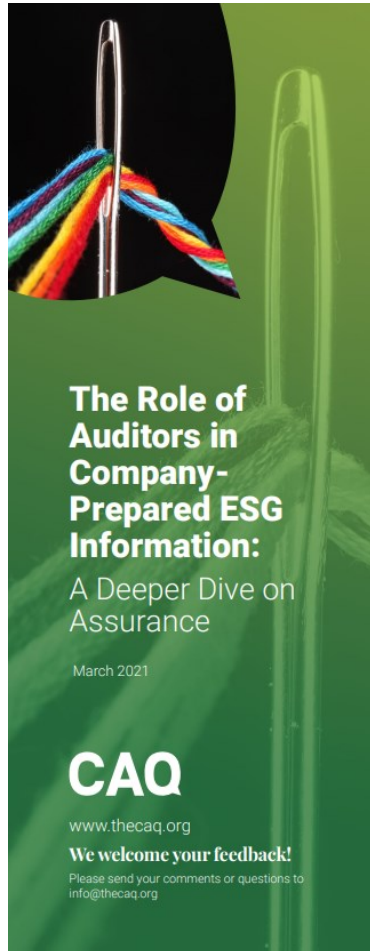
SOME TAKE-AWAYS

- ✓ Start timely with the sustainability reporting process
- ✓ Involve your auditor in the sustainability reporting process.
- ✓ Are you ready for assurance? Auditor can help you by performing an assurance readiness assessment.
- ✓ Assurance process is “similar” to a financial audit process:
 - ✓ Understand the environment
 - ✓ Perform risk assessment and determine materiality
 - ✓ Perform (detailed) testing
 - ✓ Conclude and report
- ✓ Statutory auditor is well placed to provide ESG Assurance:
 - ✓ Independence
 - ✓ Interconnectivity between financial and non-financial information
 - ✓ Sustainability information will be part of the management report
 - ✓ More efficient – avoid duplication of procedures



Appendix

Relevant brochures



[caq_rota-esg-a-deeper-dive-on-assurance_2021-03.pdf \(thecaq.org\)](#)

Overview

Companies are increasingly tackling complex problems facing society in the form of environmental, social, and governance (ESG) commitments and practices. Such developments have caused what has been referred to as a "fundamental reallocation of capital."¹ Some questioned whether the COVID-19 pandemic would disrupt investor focus on ESG matters; instead we saw COVID-19, among other recent events, accelerate interest in ESG topics. Asset flows into sustainable funds in the United States continued at a record pace through the fourth quarter of 2020 to nearly \$51 billion, more than two times higher than asset flows attracted to sustainable funds in all of 2019, according to Morningstar.²

In July 2020, the Center for Audit Quality (CAQ) released *The Role of Auditors in Company-Prepared ESG Information: Present and Future*, which gives an overview of what ESG reporting is, how investors are using the information and how public company auditors are well positioned to enhance the reliability of ESG information. This publication builds on those concepts and provides more detail about the range of assurance³ services that can be provided to enhance confidence in ESG information, why assurance on ESG information might be needed, and questions that boards should consider when planning to obtain assurance on ESG information.

- 1 See Larry Fink's 2021 annual letter to chief executives of the world's largest companies.
- 2 See https://www.morningstar.com/content/dam/marketing/shared/pdf/Research/Global_Sustainable_Fund_Flow_Q3_2020.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=25660.
- 3 For purposes of this publication, the term assurance means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The term attestation as used herein is when assurance is provided by an auditor under the American Institute of CPAs Statements on Standards for Attestation Engagements.



[IBR-IRE-brochure-attesting-non-financial-information.pdf](#)



[brochure-esg-ne-def.pdf \(ibr-ire.be\)](#)



Thank you



Thank you for your
attention.
Please feel free to ask
questions.





Stay connected



Sofian Milad

Partner, Audit & ESG Reporting & Assurance

Tel.: + 32 2 800 24 09

Mob.: +32 479 43 07 70

E-mail: smilad@deloitte.com





This document is confidential, and it is not to be copied or made available to any other party. Deloitte Bedrijfsrevisoren BV does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte engagement contract.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms. Deloitte provides audit, tax & legal, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 312,000 professionals are committed to becoming the standard of excellence.