Green Intent, Red Flags: Assurance over Sustainability and the Risks that Matters

CA. Nipa Shah

Member of the Institute

This article highlights the growing importance of sustainability assurance in strengthening the credibility of corporate sustainability disclosures amid increasing stakeholder expectations and evolving regulatory requirements. It explains the significance of ESG reporting, the value of independent assurance in mitigating greenwashing risks, and the role of reliable sustainability information in enhancing trust, compliance, governance, and informed decision-making. The article further outlines the key risk areas that Assurance Practitioners should evaluate, including industry-specific sustainability risks, governance culture, reporting boundaries, data integrity, indicator selection, technical expertise, and external factors. It also underscores the need for professional skepticism, transparent reporting, and alignment with emerging global assurance frameworks such as ISSA 5000. Serving as a practical guide, the article equips Assurance Practitioners with a structured approach to identifying, assessing, and responding to sustainability assurance risks while promoting high-quality and credible assurance engagements.

Sustainability, Assurance Practitioner and sustainability risk assessment

As companies commit to Net Zero, carbon neutrality, make ambitious sustainability claims etc. stakeholders increasingly demand independent validation and a clear view on the green claims. To meet this expectation, Assurance Practitioners look beyond the disclosures, beyond the claims, beyond the bold statements. This article provides a brief guide to analyze the risk behind the green intents.

What's Sustainability?

Things which can be sustained over a period without impacting on the people, environment etc. As per United Nations ('UN') it is defined as "meeting the needs of the present without compromising the ability of future generations to meet their own needs." In practice, it means balancing three dimensions, three pillars of sustainability, as recognized by the UN are:

- **Environmental:** Use resources responsibly, judiciously, cut pollution and greenhouse gases, protect ecosystems and biodiversity.
- **Social:** Treat people fairly and safely, support communities, uphold human rights, inclusion, and equity.
- **Economic:** Run activities and businesses in ways that are resilient, ethical, and create long-term value.

Sustainability and ESG

Sustainability is the broad goal and set of practices. The UN developed the Sustainable Development Goals or the SDGs. These goals are interlinked to broad pillars stated below and there are 17 SDGs issued linking to these pillars:

People | Planet | Prosperity

Peace | Partnership

Sustainability is broad term and the need for reporting on sustainability arose for Companies. The Organization for Economic Co-operation and Development (OECD) suggested Companies for reporting and communicating the practices under 'ESG' criteria. These three are key in shaping the sustainability reporting landscape.

Environment | Social

Governance

It is a way Company reports of its performance, and the investors, regulators stakeholders assess against those parameters.

Why Sustainability/ESG reporting matters

The essence of ESG reporting is to disclose how companies are being responsible under these categories of E, S and G, how they are managing the risk and how it's being reflected upon.

It's a way of building trust in society, ensuring regulatory norms are met and other aspects, thereby providing a sense of comfort, confidence to stakeholders about preserving the future and having a system we all can rely on.

As we drill down let's understand why its important to get Assurance over sustainability

As said above, that stakeholders are increasingly requiring third party validation on the claims made by the Companies. When sustainability data sets i.e. KPIs, metrics, disclosures etc are assured, customers, investors, employees, value-chain partners, regulators, stakeholders gain greater confidence.

1. Trust

- Customers get a sense of comfort that the products they are investing in/buying are not harming the environment
- An assurance on sustainable data sets gives or reduces risk of green washing/whitewashing/ social washing risk and gives Investors, stakeholders a sense of confidence that the products, offerings are genuine
- Further, it strengthens brand reputation of the Company and supports investors' outlook towards the Company
- Improves the credibility and clarity of public communications

2. Compliances

- Many jurisdictions now expect assurance over sustainability reporting against defined frameworks. Such assured sustainability reports enhances comparability between peers, sector, industry standards etc and help readers, including regulators, about a company's standards and governance.
- In India, Listed Companies are expected to report their performance in Business Responsibility and Sustainability Report and mandatory assurance has been introduced, similarly in European Union, the EU's CSRD mandates limited assurance over ESRS disclosures, including GHG; in Australia, government has introduced Australian Sustainability Reporting Standards (ASRS) which require the phased auditing of climate reports, in Singapore listed companies are required to have external limited assurance on their Scope 1 and Scope 2 greenhouse gas (GHG) emissions two years after they begin reporting and in similar ways other geographies are too marching.

3. Accessibility

- Sustainability data sets are becoming a critical factor in financial decision-making. Lenders, insurers, investors and customers access this information to evaluate the overall risk and potential performance of a company or asset
- Banks and other lending institutions use verified ESG data to assess a borrower's long-term viability and potential for default. Companies with strong ESG practices are often seen as better equipped to manage future challenges, new regulations like climate regulations or supply chain disruptions, potentially leading to better loan terms or even access to specialized green financing options
- Insurance companies use ESG metrics to determine coverage, premium percentage etc. A company that actively manages E, S and G might receive lower premiums than one that does not. Poor ESG performance can signal higher operational and liability risks, leading to higher insurance costs
- Investors use this data to identify sustainable, resilient, and potential investments. Investors do believe that strong ESG performance correlates with long-term financial success and a company's ability to adapt to a changing world. Verified data helps them avoid greenwashing, social washing, and help investors to make choice on where to allocate capital in ways that align with both financial goals and sustainability values.
- Customers require audited supplier ESG data to meet their own targets and due-diligence obligations and to assess as their value chain partner where the Company stands

4. Better risk management, governance and integration with Financials

- Audited data set and that process of getting the same audited, surfaces management of the Company to know the design gaps, control gaps, enabling them to lay down stronger footing over Company's data collection, methodology used and oversight.
- The above helps Company to put discipline in place driving towards stronger policies, internal controls and oversight like financial reporting.
- Further, this all assessment helps Company to identify the risk, opportunities and measures. Sustainability issues help Client to identify the financial impact and the provisioning which might be required. For example: Company has an Asset emitting high emissions and thereby an alternate asset has been assessed. This decision will

have an impact on the useful life of an asset or for evaluating an impairment in the books of accounts. Such decisions are no longer to be seen in isolation and therefore such information needs mapping on financial impacts and implications.

In essence, verifiable sustainability data is transforming into a standard financial metric, moving beyond a niche ethical consideration to an essential component of mainstream risk assessment and helping Companies to make sustainability statements, set goals and helping various stakeholders in assessing their decisions of investments, partnership etc.

The risks identified in table 1 guide the Assurance Practitioner in determining the red flags and the areas where an Assurance Practitioner needs to be more mindful about. This helps in determining the nature, timing, and extent of procedures to be performed and should be considered throughout the entire engagement lifecycle—planning, execution/fieldwork, and completion.

In addition, foundational parameters must be understood and clarified at the first place: the rationale for the assurance, the required level of assurance (e.g., limited or reasonable), the purpose of the engagement, the intended users of the report, and the planned distribution. Compliance to the applicable framework, reporting standards are must and being an Independent Assurance Practitioner it's necessary to keep professional antennas up to smell the reds and apply professional skepticism throughout the course of delivery of the engagement.

Transparency is key in our Independent Assurance Practitioner report. The Assurance Practitioner should clearly set out the scope of the engagement, the reporting boundaries, the applicable criteria and standards, any limitations, and the conclusions. This transparency enables stakeholders to understand the nature, scope, and level of assurance obtained, matters which they need to consider whilst making any decision.

> “The essence of ESG reporting is to disclose how companies are being responsible under these categories of E, S and G, how they are managing the risk and how it's being reflected upon.”

What's next: The introduction of International Standard on

As we are now aware as to why such Assurances are required, it is now important to consider what are the risks associated in such assurances and the measures that an Assurance practitioner should consider, which are depicted in the table 1 below:

Risk associated	Details and measures
Industry/Sector in which Client belongs	It's important to assess clients' Industry in which Client operates. The Client's industry and sector define or help in understanding the material topics of that specific industry. Sustainability impacts differ sharply by sector. Understanding of this assist Assurance Practitioner in evaluating the risks. There could be water and land-use related concern in agriculture; child labor, modern slavery, human rights violation related concerns in manufacturing concerns; human health, plastic pollution and waste, water scarcity in beverages sector; land expansion or setting up an industry from far off place from city might trigger question on destruction of environment; risk of cotton supply chain in clothing industry etc. Further, even geography defines the risk for the specific Client, there could be climate risks such as flood, heat, water etc. depending on where the site/Client is located affecting strategy of the Company and its KPI's, measures etc. All such risks can have significant consequences for the environment, people and the economy. Industry knowledge is foundational to assess sustainability risk at the start. This will help Assurance Practitioner to evaluate whether Client is including right set of information in their Statement, is the rationale purpose of the Statement addressing the key risk, are there any material information which is likely of getting omitted. This will help Assurance Practitioner to challenge the management appropriately. This evaluation might help you focus on gaining understanding, understanding of entity's business, assess the riskier topics, satisfy the rationale purpose, identify the risk that may arise and accordingly might assist in designing assurance procedures.

Risk associated	Details and measures
Knowledge about the Client and its Governance	Apart from the sector and Industry its important to Understand Client specifics. Assess how the client's governance is structured and the tone set by senior leadership. To understand client's governance is paramount. It is necessary to understand how key decision-makers view sustainability and what they aim to achieve. When top management is genuinely committed towards sustainability roadmap, that mindset typically cascades through the organization, aligning everyone toward shared targets. Governance of the Company reflects as to the level of sustainability transparency that Client wants in their reporting and thereby will drill down on the internal controls that management would want in for sustainability reporting. Conversely, if sustainability is treated mainly as a tick-in-box exercise to be checked in, management may approach targets in a different fashion rather than pursuing for meaningful outcomes. There could be reluctance in implementing sufficient internal control over sustainability reporting or addressing its weaknesses or deficiencies. Understand and assess how much clients are inclined to achieve sustainability objectives, whether they are too aggressive or over ambitious, are there incentives linked to their compensation, how much pressure there is on the management to achieve sustainability roadmap or to achieve the sustainability goals positively. If such pressures exist the risk of management objectivity, fraud risk increases and should be accordingly assessed by the Assurance Practitioner. To summarize, the tone at the top is pivotal. Therefore, understanding the client, understanding the client's leadership, having a conversation with top level management goes long way to assessing such risk.
Reporting boundaries	There could be situations where clients have multiple branches, factories, units, offices etc. It is important to understand the scope of the reporting boundaries that management uses to measure the metrics and for reporting purpose. Understand from the management their rationale for scoping in certain boundaries and for not scoping in the other boundaries. This assessment will help an Assurance Practitioner to evaluate the risk which lies in reporting boundaries and the management's rationale of not scoping in the other boundaries and the reasons thereby. This should be assessed in light of whether the boundaries not being assured by – does it give rise to any greenwashing, social washing risk, what's the residual risk of not reporting those by the management and whether that residual risk is such that it will mislead the reader if we issue report only on the scoped in boundaries. At this time, it is important for an assurer to take a pause and think of how this assurance report is going to be conceived by the stakeholder and for the purpose for which assurance is being sought for. Companies may try to limit the scope of the assurance engagement to a narrow set which reflects positive impacts ignoring material negative impacts. Example: A manufacturing unit has 5 sites and has implemented emissions reductions measures in 3 sites and thereby management has considered 3 sites for reporting only. At this juncture, it is critical to evaluate ▪ Is management clearly defining the reporting boundary or not in the Statement. ▪ What the applicable regulation is saying and is it giving a choice to management to pick and choose the boundaries. ▪ To understand how the readers will perceive the report of a Company, will our assurance opinion/conclusion be conceived as substance over form even for the sites not within our scope. ▪ What's the risk of not assuring those sites, assessing whether those sites are highly emissions asset, or some labor issues at the site etc. because of which management does not want to report or want to include in reporting. ▪ Whether cherry picking of only fewer units misrepresents the sustainability reporting. There is a significant risk that management may use assurance symbolically to boost reputation while engaging in greenwashing, social washing, misleading stakeholders about their true sustainability performance. Assurance Practitioners must apply professional skepticism to mitigate such type of risk.

Risk associated	Details and measures
Synchronization of Financial and sustainability data sets	Completeness and data accuracy are key. Unlike financial systems the maturity of record keeping and tracking sustainable transactions is less matured and thereby, it's important that sustainability metrics/KPIs speaks to financial data for ensuring completeness and data accuracy. It is important that finance department are involved in sustainability reporting. This eliminates the risk of any omissions which can lead to a misleading or incomplete assurance opinion. For example, Company's property, plant and equipment schedule in Balance sheet has details of assets held by the Company e.g. leased assets, manufacturing sites, freehold property, guest houses etc. Whilst assessing the completeness of the sustainability data, it's important to tie it back to financial parameters to ensure completeness of the data being captured. Further, management's decision also needs integration throughout the sustainability reporting and financial statement. For example, for a high emission generating asset, a replacement has been considered by the management and the same has been addressed upon by the leadership in their management discussion and analysis section of the annual report. This aspect must be looked into financials also; Finance team will need to make appropriate provision or capex investment for replacement and will need to analyze the remaining useful life and or impairment of high emission generating assets. If there is no synchronization between finance and sustainability data, the risk of omission, completeness, accuracy and positions gets challenged.
Indicator being called for assurance and its selection process	It is important to understand the indicators being presented by the Company in their sustainability report and the indicators on which assurance is being called for and the rationale/ reasons for selection of the indicators and for the indicators not scoped in. The scoped in indicators may be either ▪ linked to measuring Company's material topics, ▪ linked for making public statement about achievement of desired level, ▪ represent the company's significant impacts, risks, and opportunities across its value chain and important to its stakeholders Thereby, it is important to understand from the management as said earlier about the rationale purpose, whether the indicators being reflected are addressing those rationale purpose, what's scoped in indicators for assurance and what are the scope out indicators and the rationale for scope outs. As Assurance Practitioner it is important to assess that indicators called for an assurance meet below aspects: ▪ **Indicators are measurable and reliable**: Data should be quantitative or semi-quantitative, accurate, robust, and consistent over time, allowing for objective measurement and verification. ▪ **Complete sets of indicators are being presented and assured upon**: The set of indicators should provide a comprehensive picture of the organization's performance across environmental, social, and economic dimensions and should avoid "cherry-picking" of positive information only. ▪ **Indicators are comparable**: Indicators should be clear, easy to understand for users, and comparable across time and, ideally, across similar entities or industry benchmarks. ▪ **Subjectivity and Estimates**: Many sustainability metrics involve significant judgment, forward-looking statements, and complex estimations (e.g., scenario analysis for climate risks), which can be subjective for rendering an assurance upon or are based on many future events. ▪ **Scope Limitations**: Management may consider scoping only narrow set of positive indicators, ignoring material negative impacted indicators, thereby important to assess the total number of indicators being presented by the management in their reporting and the numbers of indicators on which they need our assurance and important to assess the residual risk of not assuring the reminder indicators and its rationale.

Risk associated	Details and measures
Technical nature of the metric	The Assurance Practitioner team may lack the specific expertise (e.g., in environmental science or social impact assessment) required to adequately evaluate certain claims or there could be environmental or social issues which might need involvement of specialized experts and thereby there may be a need to have multidisciplinary expertise. The Assurance Practitioner may assess the need for assembling a multi-disciplinary team with the necessary expertise to address various risk envisaged
External factors	It's important to check for external factors throughout the process to assess ▪ Are there any adverse media news, ▪ Are there any allegations to the Company by any stakeholders, ▪ what's the Clients ESG rating and its peers ESG rating depicting (whether ESG rating of the client has been improved or downgraded and the rationales provided by the rating agency) ▪ What are the market controversies in that sector, etc. Whilst it's important to Understand the Sector/Industry, Understand the Governance within the organization, it is equally important to Evaluate the factors which are present outside an organization and assess those.

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Sustainability Assurance 5000, ISSA 5000, is coming to provide a single, global baseline for assuring sustainability reports, driven by strong demand from investors and regulators for consistent, high-quality, and comparable ESG data across the different sectors, industries and locations. It aims offering a unified, framework-neutral standard applicable to all topics and practitioners, moving beyond fragmented guidance to support decision-making with reliable sustainability information. This standard is framework agnostic, profession agnostic and scalable to provide both reasonable and limited assurances. It's coming for combatting the reds, providing single stringent framework for everyone to follow aiming to build trust, greater extent comparability and prevent greenwashing, social washing or faulty decision-making based on unreliable data.

As this domain matures over a period, the future of assurance reports on sustainability reporting will see the inclusion of robust internal controls reporting, other information paragraphs and, potentially, the evolution of a concept similar to Key Audit Matters (KAMs) adapted for sustainability.

All these standards are aimed at providing the highest level of trust to stakeholders; however, the responsibility of Assurance Practitioner continues to remain the same i.e. to apply highest level of professional skepticism to smell the reds, analyze the inherent risk, potential risk and apply appropriate measures, safeguards to identify.

Conclusion

This article is just providing guide light to Assurance Practitioner. This is not an exhaustive list of

envisaged risks. There could be many more risks which a professional may consider based on their experience. I hope this article helps professionals to identify such risks, detect them, engage in constant dialogue with the management, address them enabling professionals to provide green assurance without being in grey and flag off the red.

Author may be reached at
eboard@icai.in