



Investor course: Understanding corporate sustainability

How to use third-party assurance
for better investment decisions,
monitoring and stewardship

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Introduction

Companies around the world are trying to differentiate themselves through their strategies to achieve sustainable, long-term growth in corporate value. Investors need rigorous, reliable information about the impact and progress of these strategies to make informed decisions about capital allocation, monitoring and stewardship. Much of this information sits outside the traditional audited financial statements, but it is no less important to investors' decisions. Unfortunately, information reported outside the financial statements often lacks the discipline, rigor and consistency of the financial statements – or indeed any discernible connection to the financial statements – making it difficult for investors to use this information for assessing company performance.

Investors have made enormous strides in persuading companies and managers to make new and relevant disclosures, most notably in the areas of climate risk, human capital and long-term sustainability. In order for investors, companies and markets to realize the benefits of this progress, however, the disclosures and measures must be accurate and reliable.

At present, sustainability disclosures are outside of the traditional audit. As many of these disclosures are made on a voluntary basis there is no established mechanism to provide investors with confidence that the claims companies make can be supported by evidence.

High quality, independent, third-party assurance is a key tool to:

- probe the reliability of company assertions,
- improve the rigor of corporate information,
- tie relevant information to financial impacts and
- give investors confidence in the information they use.

But when it comes to important disclosures outside the traditional financial statements, the scope, depth and quality of assurance varies widely, the market remains unregulated and the application of globally recognized assurance standards remains weak. This is a gap investors can close, with knowledge and corporate engagement, by establishing a mechanism to turn unsubstantiated claims into actionable data.

To support investors and other users of corporate sustainability disclosures, we have developed a free short-course which is designed to:

1. **Develop a working knowledge of the assurance process**
2. **Enhance your understanding of assurance reports**
3. **Engage with companies to obtain high-quality assurance**
4. **Boost investor monitoring resources by leveraging third-party assurance**
5. **Promote rigorous and reliable corporate disclosures and commitments**



Emerging trends reshaping the role of assurance in sustainability reporting

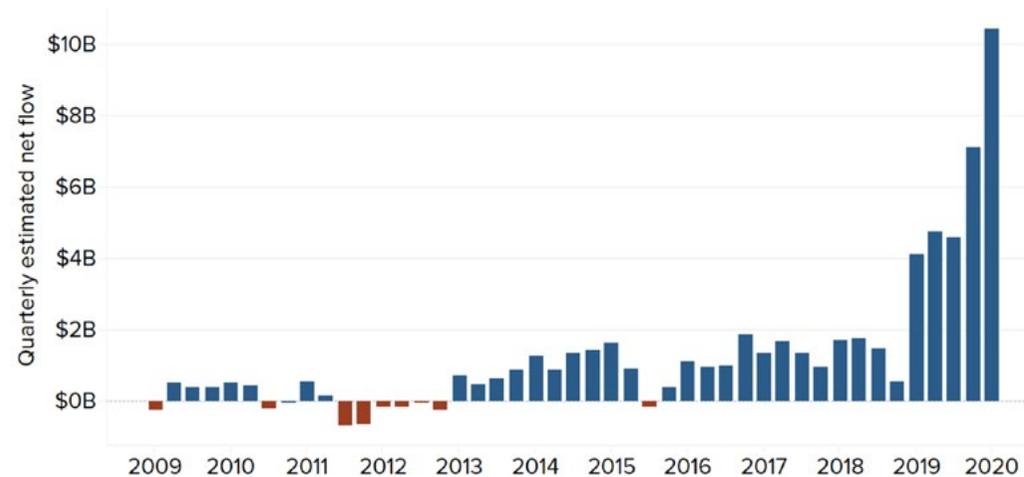
The growth of environmental, social and governance (ESG) investment strategies and funds has outpaced traditional investment approaches, before and since COVID-19. And yet there remains an information gap when it comes to high-quality and material information about sustainability performance. It's time for the market to catch up and close out these information asymmetries.

Investors' use of sustainability disclosures is increasing, while confidence in the reliability of those disclosures is decreasing.¹

The coverage and depth of third-party assurance over sustainability assurance is confusing, not meeting investor needs, and causing companies to miss out on opportunities to enhance trust and value.²

WBCSD's annual review of member sustainability reports, Reporting Matters (2020), found that 94% of the reports reviewed obtain some form of assurance. 80% of those companies obtain assurance at a limited level and 5% obtain a reasonable level of assurance. In many cases, this assurance is over a subset of key metrics or parts of the report rather than across the full report and all metrics.³

Figure 1: Sustainable funds see record inflows in first quarter⁴



¹ EY. (2020). How will ESG performance shape your future? available at: https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/assurance/assurance-pdfs/ey-global-institutional-investor-survey-2020.pdf

² IIRC Institute & Sustainable Investments Institute State. (2018). State of sustainability and integrated reporting available at: <https://www.weinberg.udel.edu/IIRCiResearchDocuments/2018/11/2018-SP-500-Integrated-Reporting-FINAL-November-2018-1.pdf>

³ WBCSD, (2020), Reporting Matters, available at: <https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/Reporting-matters/Resources/Reporting-matters-2020>

⁴ Morningstar Direct (2020), ESG Integration, Impact and Sustainable Sector Funds as defined in Sustainable Funds U.S. Landscape Report, 2018, includes liquidated funds, does not include funds of funds. Accessed via CNBC, available at: <https://www.cnbc.com/2019/12/14/your-complete-guide-to-socially-responsible-investing.html>

The reliability and confidence that investors have in sustainability information is further challenged in the US. The November 2018 research report by the Investor Responsibility Research Center Institute and the Sustainable Investment Institute identified critical gaps in assurance that have not been filled:

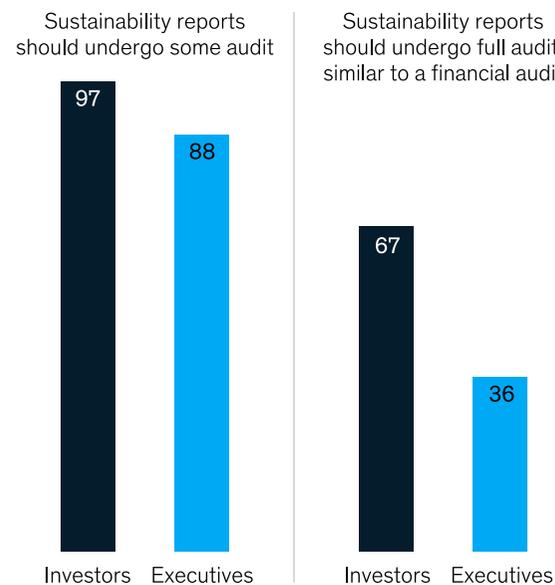
1. **Coverage:** Investors perceive an unfilled need for more reliable disclosures.
 - Only 36 % of S&P 500 companies' sustainability reports included third-party assurance of any portion.
 - The assurance provided in connection with most of those reports (about 90%) was limited to some data, usually greenhouse gas emissions.
2. **Depth:** Even when a company makes a claim of third-party verification, the scope and relevance of the verification can be murky, at best.

McKinsey & Company – More than values: The value-based sustainability reporting that investors want⁵

A 2019 McKinsey survey of institutional investors found that investors are increasingly seeking corporate disclosure to judge how well companies manage ESG risks and exploit opportunities to drive sustainable corporate value. But McKinsey also reported that "Investors say they cannot readily use companies' sustainability disclosures to inform investment decisions and advice accurately."

This gap in the production of corporate data that is both useful and reliable is linked to the absence of high quality, third-party assurance over the data. McKinsey reported that "Investors also harbor doubts about corporate sustainability disclosures because few of them undergo third-party audits. Nearly all the investors we surveyed - 97% - said that sustainability disclosures should be audited in some way, and 67% said that sustainability audits should be as rigorous as financial audits."

Figure 2: Respondents who agree with statement, %¹



¹ Respondents who answered "agree" or "strongly agree." For investors, n = 57; for executives, n = 50.
Source: McKinsey Sustainability Reporting Survey

⁵ McKinsey & Company. (2019). More than values: The value-based sustainability reporting that investors want, available at: <https://www.mckinsey.com/business-functions/sustainability/our-insights/more-than-values-the-value-based-sustainability-reporting-that-investors-want>



About the course

This course is designed specifically to meet the needs of investors. The objective is to provide investors with a toolkit that they can use to differentiate high-quality assurance from less robust third-party verification and inform engagements with companies to reinforce accountability. The course is intended to be interactive and engaging with a focus on working through practical examples and case studies.

WHY THIS COURSE

Poor quality data is, at best, bewildering and confusing. At worst, it can lead to mis-allocation of capital and significant surprises and losses. This course is designed to provide investors with the knowledge and skills to navigate through that landscape and demand better quality information.

By engaging with companies on a more strategic use of assurance, investors can build the infrastructure needed to support robust and useful corporate reporting on information that matters.

Investor-grade assurance is a value-enhancing tool to build investor trust and confidence, but many companies do not take advantage of this opportunity.

Investors who improve the scope and depth of third-party assurance will be better prepared in the face of uncertainty.

COURSE FORMAT

The virtual, self-paced course covers a comprehensive set of topics as listed below, with additional modules, training and support available depending on individual needs.

The synchronous training is constructed around the needs of your team and includes foundation modules and additional topics that can be selected. The course can be tailored to run from three to five hours and delivered in a block or as a series of classes.

The flexible format is designed to meet your team's needs.

We will tailor the use of **examples** relevant to your portfolio and engagement program and focus on building **investor knowledge and tools**. Our goal is not to teach you to audit, rather we will teach you how to use the audit.

WHAT THE COURSE WILL COVER

With the growth in capital flows to companies and funds focused on sustainability to drive corporate value, we will explore how assurance can be used as a lever to improve the relevance and reliability of disclosures used to measure and evaluate milestones, outcomes and impacts. The course supports investors with skills in:

- How to **read** assurance reports:
 - Identify scope of assurance
 - Identify level of assurance
 - Assess and understand the quality of assurance
- How to **identify** the through line from sustainability disclosures to financial statements (or determine there is not one)
- How to use tools to **motivate** improvements in disclosure by improving assurance, including:
 - Use of audit committee report
 - Engagement with audit committee
 - Engagement with audit firms
 - Voting on audit committee, auditor and proxy proposals

WHAT YOU WILL TAKE AWAY

Following the introductory course, participants will take away a practical checklist to apply new knowledge and tools going forward. The course will provide the foundations and introduction to this topic, which we hope will stimulate further discussion and learning opportunities for those interested in engaging in the full course and additional modules.

How to enroll

To enroll in this course, please email us at investor-assurance@wbcsd.org.

COURSE INSTRUCTORS



Mario Abela
Director, Redefining Value
WBCSD

Mario Abela is a Director in the Redefining Value program at the World Business Council for Sustainable Development (WBCSD), where he leads projects aimed at transforming performance management, governance, assurance and internal control to make sustainability an integral part of mainstream business and investor decision-making. Mario is also part of the Faculty for the WBCSD's Leadership Program, which is run in conjunction with Yale University. Mario is a CPA and Chartered Management Accountant. Mario's expertise is in corporate reporting and he has held senior management positions in both the private and public sectors in Australia, Belgium, the United Kingdom and the US, including senior compliance roles in government.

He has extensive regulatory and standard setting experience. Mario is a visiting professor at IESEG School of Management in Paris where he teaches in the Masters in Accounting, Audit and Control program. He is also an expert advisor to the United Nations Conference on Trade and Development on corporate reporting. Mario is currently completing a PhD on corporate reporting and business models at Queen Mary, University of London. Mario is also a member of the research committee at the Institute of Chartered Accountants in Scotland and a regular presenter at the United Nation's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).



Samantha Ross
Founder, AssuranceMark

Samantha Ross was one of the founding staff of the Public Company Accounting Oversight Board (PCAOB) and helped build it from the ground up for its first 15 years. She contributed to building the world's largest and most respected audit oversight institution and achieving long-term positive, incremental change to make audits more transparent and relevant to investors. She founded AssuranceMark to continue to serve investors' interest in high-quality, reliable reporting and assurance on material disclosures beyond the financial statements.

In her capacity advising PCAOB chairmen, she had a significant role in most of the PCAOB's major policy initiatives, including development of the PCAOB's Center for Economic Analysis; modernization of the auditor's reporting model; rule on audit transparency, providing for disclosure of engagement partners and other firms that participate in audits; auditor independence initiatives, such as the PCAOB's rules prohibiting auditor involvement in designing tax shelters and other tax services; and the Audit Committee Dialogue publication and podcast series. In the PCAOB's first year, she also played a key role in developing a plan for a joint inspection regime in negotiation with representatives of the European Commission. That work laid the foundation for the PCAOB's bilateral agreements with 20 audit regulators in Europe and elsewhere with whom it continues to conduct joint inspections. She also testified on behalf of the PCAOB before the Financial Services Committee of the U.S. House of Representatives on that dialogue with non-US. regulators.

USEFUL RESOURCES

WBCSD & PwC, Enhancing the credibility of information outside the financial statements – the investor perspective:

<https://www.wbcd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Enhancing-the-credibility-of-non-financial-information-the-investor-perspective>

WBCSD & FSR Danish Auditors, Guidance on improving the quality of ESG information for decision-making: <https://www.wbcd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/Guidance-on-improving-the-quality-of-ESG-information-for-decision-making>

WBCSD & ICAEW, The buyer's guide to assurance of financial information: <https://www.wbcd.org/Programs/Redefining-Value/External-Disclosure/Assurance-Internal-Controls/Resources/A-buyer-s-guide-to-assurance-on-non-financial-information>

DISCLAIMER

This information guide is released in the name of WBCSD. However, it does not mean that every member company agrees with every word. This publication has been prepared for general guidance on matters of interest only, and only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (expressed or implied) is given as to the accuracy or completeness of the information contained in this publication. To the extent permitted by law, WBCSD, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

ABOUT ASSURANCEMARK, THE INVESTORS CONSORTIUM FOR ASSURANCE

AssuranceMark is an investor resource to evaluate and articulate demand for high-quality assurance on important information outside the scope of the traditional audit.

AssuranceMark works with investors to help them understand the scope and meaning of assurance statements. AssuranceMark also helps investors identify opportunities advocate for new or enhanced assurance to improve the rigor and reliability of important disclosures.

ABOUT WBCSD

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD \$8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues. Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

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For more information, please see <http://www.moore.org/FinancialMarkets>