



# HOW CREDIBLE IS SUSTAINABILITY REPORTING?

BY TAN ZHAI YUN

A parallel is often drawn between sustainability reporting and financial reporting. Both are mandatory for Malaysian public-listed companies (PLCs) and must be published online annually. Yet, compared with financial reports, sustainability reports seem to engender less trust and the comparability of data is less available.

As a result, the credibility of sustainability reports — in which companies' environmental, social and governance (ESG) performance is assessed — comes into question. This is especially observed outside of Malaysia, where scrutiny on greenwashing is more intense.

The proposed solution to this is a global sustainability reporting baseline, released by the International Sustainability Standards Board (ISSB) last year, and a newly proposed International Standard on Sustainability Assurance 5000 (ISSA 5000) by the International Auditing and Assurance Standards Board (IAASB), the body that governs audits for financial statements.

These discussions have reached Malaysia's shores. In February, a public consultation paper released by the Advisory Committee on Sustainability Reporting (ACSR), chaired by the Securities Commission

Malaysia, asked for feedback on whether to make the ISSB's standards mandatory for PLCs and non-listed companies, and if external limited assurance should be mandated. The consultation ended on March 29.

The ISSB's new standards are already widely discussed, compared with the proposed assurance standards. Regardless, both will require upskilling and resources to complete. Are Malaysian companies ready?

"Typically, in Malaysia, the assurance requirements for non-financial information, including sustainability reporting, are not mandatory. Currently, it is [a] voluntary [decision] by the management to go for independent assurance. It could be [driven by] reputational [factors]. It could be that they want to lead the charge, or it might be due to contractual requirements by banks, customers or suppliers," says Tan Eng Hong, assurance partner at PwC Malaysia.

Currently, all Main Market PLCs must report according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by 2025 and

provide a statement of assurance, whether it is done by an internal or external team, according to Bursa Malaysia's enhanced sustainability reporting requirements.

"What we see is quite a lot of internal audits involved in checking sustainability information at this point. Based on conversations with my clients, they want their internal audit to get the first view of the landscape, because I think the challenge is that the clients are still [improving] their processes and gathering data," says Tan.

"Non-financial information is very diverse. The existing processes they have for financial reporting is very good because it's been there for decades, but non-financial data has not been subject to the same level of scrutiny and robustness."

The readiness for sustainability reporting, much less assurance, is even less for smaller or non-listed companies, which are currently not required to prepare such reports. However, the demand for such reporting may come from their clients, investors and regulations overseas, such as the European Union's Corporate Sustainability Reporting Directive.

"Something else that would incentivise companies to look into independent assurance is access to sustainable finance, because before providing loans with preferential terms for the sustainability efforts of companies, financial institutions not only look at targets and key performance indicators but also how the information is being assured. This does not apply purely to listed companies," says Yulia Dobrolyubova, partner at ERM, who leads its corporate sustainability and climate change practice in Asia.

Dobrolyubova observes that many companies are starting with limited assurance, focusing on topics such as greenhouse gas emissions — which are quantifiable data that can be reported according to well-recognised frameworks — and climate change risks and opportunities.

"In my personal view, doing at least limited assurance is better than not doing it at all. At least, it provides a good signal to external stakeholders that you are on the right track. You are not just presenting information, but you also see the value of having an independent external party verify the information and reduce the risk of greenwashing or greenwashing accusations," she says.

## CHALLENGES OF ASSURANCE PROVIDERS

Much of the information in sustainability reports can be difficult to measure, and the boundary or scope of reporting tough to define. What is deemed material to one company, for instance, is not the same for another.

The proposed ISSA 5000 is meant to make the assurance process easier and standardised. It is framework neutral, practitioner agnostic, scalable and applies to limited and reasonable assurance. It is expected to be finalised by September this year.

"The usual timing [for a standard to be] effective is 24 months, so it could be around December 2026 or 2027. At that time, most of the [ISSB] reporting framework would be effective in Malaysia, including the TCFD-related disclosures," says Tan.

Once the finalised ISSA 5000 is issued, the Malaysian Institute of Accountants (MIA) will be responsible for adopting it in the country.

Tan is a member of the MIA's Auditing and Assurance Standards Board (AASB). As part of his role in AASB, he participated in discussions on the ISSA 5000 exposure draft.

"It's a challenging [standard] to apply effectively. That was our general comment to IAASB, because sustainability reports deal with non-financial information, and certain measurements may be very subjective and often multi-dimensional," he says.

"Practitioners may find the standard challenging to apply in certain circumstances because the principles required to apply it may need further guidance and implementation examples."

Additionally, the standard discusses the concept of double materiality, which looks not just at the financial impact of sustainability matters on the company but also the impact of the company on



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**Dobrolyubova**



## Assurance requirements for sustainability reports in other jurisdictions

COUNTRY	ASSURANCE REQUIREMENT	TIMELINE
Australia	External limited assurance progressing to reasonable assurance for Scope 1, 2 and 3 greenhouse gas (GHG) emissions, governance disclosures, scenario analysis and transition plans	2024 onwards
European Union	External limited assurance, progressing to reasonable assurance for all sustainability matters	2024–2028
New Zealand	External limited assurance for Scope 1, 2 and 3 GHG emissions	2024 onwards
Singapore	External limited assurance for Scope 1 and 2 GHG emissions	2027 onwards
Taiwan	Assurance specified for Scope 1 and 2 GHG emissions only. Type of assurance not specified.	2029 onwards

SOURCE: ACSR

the environment and society. This makes the materiality assessment more challenging.

"To illustrate, each sustainability topic may have different indicators, and the materiality assessment for each would be quite different, based on its attributes and risks. Unlike audits for financial statements, the materiality assessment after is often non-monetary," says Tan.

"As the proposed ISSA 5000 is a principles-based standard, there is limited guidance and examples on how to determine materiality in the context of sustainability information. So, the practitioner needs to first understand what the management sees as material to make an appropriate initial assessment."

From there, the practitioner must assess whether the disclosure of the material indicators is appropriate. "Materiality alone is a big topic. We think that because of this complexity, additional ISSAs may need to be issued to deal with the concept of materiality alone," he adds.

Another challenging area of application is the scope of reporting. In financial statements, companies must report on the assets of the holding company, subsidiaries, joint ventures, special associate companies and branches. For sustainability reporting, the ISSA 5000 introduced reporting boundaries, which means practitioners need to make an assessment on how far down the value chain a company should go in their reporting.

"Say for safety and hazard, you may have many potential external parties supporting the organisation on this topic. The problem is that the standard doesn't define [how far it should go]. If the reporting boundary is significant to them, you have to consider it. What that means is you might have situations where you might have entities outside the control of the group," says Tan.

Assurance practitioners may find it hard to assure the information from other entities, unless they are

willing to open their books.

Sustainability reports often involve the opinions of experts from various fields, especially for activities like the complex modelling required for scenario analysis of climate change impacts. Thus, assurance practitioners must be comfortable with these experts' work.

"If it's within your own network or member firms, at least it's within your control and you have a better view. But once it's outside, how does the practitioner effectively assess whether the appropriate level of quality control management and independence requirements are met by the expert?" says Tan.

Greenwashing, or fraud, is another key topic discussed by MIA with regard to the ISSA 5000, which has identified when it is not appropriate for assurance providers to issue an opinion.

"If you're being asked to assure X or Y number of indicators, you need to ask yourself, is this an appropriate indicator to assure in lieu of the others? Is the benchmark or framework used for the indicator one that is commonly accepted, less accepted or is it subject to a lot of management add-ons to achieve certain desired outcomes?" he says.

"It asks a practitioner to justly challenge that. Typically, for a practitioner who is independent, this concept can be effectively applied. The standard is trying to enforce and make sure that the measurements done by the practitioner are unbiased."

### SHOULD MALAYSIA MANDATE ASSURANCE OF SUSTAINABILITY REPORTS?

It is interesting to consider whether sustainability reporting will follow the same path as financial reporting, where all companies follow the same framework in reporting and policies and procedures to ensure independence and quality. But whether this path is worth taking will require some existential

questions to be answered.

"I think we should take a step back and ask ourselves whether the non-financial information in sustainability statements are as important as financial statements. If the answer is yes, that the information will create public confidence and trust for people to [decide whether to] put their money in, then it should deserve the same amount of attention and scrutiny as financial statements," says Tan.

"Of course, we understand that the journey [for] financial statements [to get to where they are today] is something that took decades. I think we are in the early stages."

Tan and Dobrolyubova agree that the assurance standards should evolve alongside the global sustainability reporting standards. It is the same with financial statements, where auditing standards continue to be improved over time.

"I'm really glad to see the discussions on reporting and assurance go hand in hand. That's fantastic. It gives a signal to the market that it's not just about reporting but also about the quality of your information and data, whether it's transparent and verifiable," says Dobrolyubova.

Companies will need time to adopt these new frameworks and standards, of course.

"I think management has to get its house in order, which is what I think [internal] audit teams are doing now, based on my conversations with clients. Clients need time to get ready and improve their processes to ensure they are able to appropriately support the practitioners' assurance process. Some people say they should have got ready years ago. Personally, I think yes, everyone should be ready, but it's a journey," says Tan.

There is also the question of cost.

Dobrolyubova is more optimistic about this challenge. External assurance will come with an investment, of course, but it has benefits, she says. For one, it can help companies identify areas of

improvement and opportunities.

She adds, "If you would like to have a high-quality sustainability report and reduce the risk of greenwashing, especially if you want to gain access to finance, eventually that will pay off because you will have preferential terms, more lenders and investors interested, and ESG raters will give you a higher rating if your information and data are assured."

Dobrolyubova strongly believes in the advantages of doing pre-assurance, which is where companies get consultants or assurance providers to help them prepare for the assurance process. "Companies can know where they stand and where they really need to work on to reduce the likelihood of issues during a formal assurance process."

Is there enough talent in the market to provide assurance? Again, she is positive. But she acknowledges that companies in Malaysia do find it challenging to find providers competent in every sector. "They struggle with some of the assurance because [the assurance providers] don't understand deep enough the nature of their business," she observes.

One point to consider is that companies will have to choose assurance providers that are experienced and accredited. In fact, one of the questions in ACSR's public consultation is whether assurance providers should be licensed, as required of financial assurance service providers.

Otherwise, this might lend to more greenwashing accusations. This is already something that companies are scrutinised for.

"Just last week, I was in a boardroom meeting and one of the representatives of the board challenged his own sustainability team, asking: 'Who did assurance of your data on this graph?' The team said they did [get assurance] but in line with the national standard and not the international standard. [The board member responded] that for the next step, they should do it [following international standards]. Those questions are coming," says Dobrolyubova.



PHOT: MAU JWSA

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## UPSKILLING ACCOUNTANTS

► Amid the growing demand for sustainability reporting, ACCA (the Association of Chartered Certified Accountants) released a guide last November to support professional accountants in enabling the process. The guide suggests a flow of process, technology and people-related activities to prepare for and manage sustainability reporting, led by professional accountants.

This is a critical role, says Hsiao Mei Chow, ACCA's head of corporate reporting insights – sustainability and co-author of the report, as sustainability

teams are often multidisciplinary, involving individuals from different departments and expertise. Collaboration is key.

"Here's where we think professional accountants come in, because they have the skill sets in reporting, analysing information and how to distil it. In the past, this has always been very financial reporting related. Once we start bringing in people from different disciplines – it could be people proficient in sustainability or forestry – to work together, you can apply the transferable skills of a professional accountant across to the other expertise," she says.

Accountants will have to keep

upskilling as they may get involved in the sustainability reporting process and as regulations like the European Union's Carbon Border Adjustment Mechanism and Corporate Sustainability Reporting Directive come into play.

"One thing I do think is happening right now is there are not enough external assurance providers in the industry. It's quite important for people planning to go into this form of assurance to make sure they build their capacity and upskill," says Chow.

"Sustainability assurance is not mandatory yet but in time, as regulations change and things are brought in, we will need to have those resources in place."