

CSRD READINESS: LIMITED ASSURANCE APPROACH TO DOUBLE MATERIALITY ASSESSMENT

VIEWS

INTRODUCTION

The [Corporate Sustainability Reporting Directive](#) (CSRD) requires companies to draw up sustainability reports in accordance with the European Sustainability Reporting Standards (ESRS). According to the CSRD, these reports will also be subject to assurance. The first sustainability reporting and assurance reports will be published in 2025 on 2024 data.

Professional assurance standards such as the International Standard on Sustainability Assurance (ISSA 5000) and CEAOB guidelines outline principles for sustainability reporting assurance engagements. The European Commission will adopt an EU limited assurance standard to define expectations for practitioners conducting limited assurance engagements in the EU on the basis of CEAOB technical advice including adds-on and possible carve-outs to ISSA 5000 (see [EC letter to CEAOB](#)).

In this paper, we share some key aspects on the assurance practitioner's approach to double materiality assessment, value chain information and transition plans to contribute to the CSRD implementation and readiness debate.

These three short papers are meant to provide a high-level explanation of the limited assurance approach rather than a detailed roadmap of procedures. They are primarily addressed to stakeholders such as users of assurance and structured in three parts:

- facts and principles from the CSRD and ESRS including those that are key to the assurance engagement
- high-level explanation to limited assurance approach along with examples
- preparer's perspectives on double materiality assessment

1- (DOUBLE) MATERIALITY ASSESSMENT

FACTS AND PRINCIPLES – CSRD/ESRS

The CSRD and ESRS require that sustainability statements include sustainability information related to material impacts, risks and opportunities identified through a double materiality assessment process. According to the [double materiality principle](#), a sustainability matter can be material from an impact perspective, a financial perspective, or both.

The ESRS do not prescribe how the double materiality assessment process shall be designed or conducted as it will vary depending on companies' respective characteristics. Company's management is responsible for designing and implementing an appropriate process to identify material sustainability matters. In accordance with the ESRS, companies

shall describe the methodologies and assumptions applied as well as the inputs used for their double materiality assessment process.

ESMA recommended issuers to consult relevant EFRAG implementation guidance, including [Implementation Guidance on Materiality Assessment](#) (IG1) which can be helpful for companies when applying ESRS. The IG1 is a non-binding document which suggests a 4-step process to conduct the double materiality assessment process.

LIMITED ASSURANCE APPROACH

The double materiality assessment process is critical as it defines the extent of sustainability information to be reported. Accordingly, practitioners pay specific attention to it as also the CSRD explicitly requires the practitioner to express an opinion on the company's sustainability statement, including the double materiality assessment process. The process is so crucial that its existence is confirmed before the assurance engagement is accepted.

Early in the assurance engagement, practitioners have discussions with company's management and others who were involved in the double materiality assessment process. Practitioners are to assess this process including whether relevant governance bodies have been involved. Furthermore, these discussions assist the practitioners in evaluating whether the reported sustainability information is in line with the practitioner's understanding of the company's business model, industry and operating environment.

For the matters determined as material by the company's double materiality assessment process, practitioners, following a risk-based approach, will apply assurance procedures to evaluate the reported information's relevance and reliability. The ESRS will serve as the set of criteria against which practitioners will perform procedures over selected datapoints and disclosures. For example, for policies, actions, metrics and targets reported, the practitioner assesses if the minimum disclosure requirements set in ESRS-2 are met.

For the matters the company has determined as immaterial and not reported on, practitioners apply professional judgement and assess if the company's conclusion is appropriate. Relevant assurance procedures may include:

- inquiries of the individuals within the company or stakeholders the company engaged with
- when possible - benchmarking the company's materiality thresholds with organisations such as those similar in size, industry and location.

Practitioners also obtain evidence to assess if the company's description of the process in the sustainability statement is consistent with what has been done in practice. This includes considering whether the main assumptions and materiality thresholds are disclosed so that users understand both the company's process and its outcome.

For the first year of reporting and assurance, the practitioner would normally spend considerably more time understanding the company's double materiality assessment process than in subsequent years. In following years, practitioners would focus on understanding the company's update of its previous assessments as the company's process evolves based on the impacts, risks and opportunities affected by changes in company's operating environment.

The practitioner needs to obtain sufficient and appropriate evidence to support the assurance opinion. In this regard, they may request and review:

- the company's documentation on assessing the business context and value chain
- methodologies applied
- peer analysis
- (internal and external) stakeholders considered, the nature of engagement and outputs collated
- materiality assessment of the long list of impacts risks and opportunities, thresholds used for assessment of material topics
- management and the board's involvement in validating the sustainability information
- the company's relevant policies in place
- documentation supporting the disclosures of the process

PREPARER PERSPECTIVES

The importance of sitting down with the sustainability assurance provider as early as possible is the first lesson we learnt. It was extremely helpful that our assurance provider gave us the questions that we would be asked throughout the engagement. Another useful practice we do is we are discussing our progress with the audit committee while the assurance providers are also present. (Paul Symons – Chief Sustainability Officer, Euroclear)

It is very odd to see that a material risk reported in a company's sustainability statement does not appear in its overall risk reporting. This happens when Enterprise Risk Management (ERM) process is not integrated with the sustainability reporting. The double materiality assessment should be considered as a key input to ERM. (Jane Thostrup Jagd – Director, We Mean Business Coalition)

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