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Sustainable Development Reporting: Challenges or Opportunities for Auditors?

The Directive of the European Parliament and Council from December 14, 2022 No. 2022/2464/EU on corporate sustainability reporting and the adoption of the European Sustainability Reporting Standards (ESRS) require that business entities and audit firms adapt their organizational processes of reporting and verifications to the new requirements. Ukraine demonstrates its propensity to the European choice by joining the strategies on the way towards Sustainable Development Goals. Hence, an important challenge for domestic enterprises is learning the sustainability reporting requirements, and for domestic auditors it is mastering the techniques for assurance engagements on this reporting. The article contains a review and systematization of the requirements of European legal acts on sustainability reporting, with detailing the structure of report in compliance with ESRS 1; a review of the Recommendations of the Committee of European Auditing Oversight Bodies on assurance engagements and main challenges faced by audit firms in implementing European standards for sustainability reporting, as well as opportunities opened by this practice. The definitions of terms “reasonable assurance” and “limited assurance” were examined. The author analyzed the need for adapting the auditing procedures to new requirements. For the limited assurance engagement, the following procedures were outlined: questioning of business entity’s staff, analytical substantive procedures, tests of control measures, assessment of the evidence from external (alternative) sources. Organizational approaches to the limited assurance engagement on sustainability were proposed, the phases in determining the impact materiality were outlined. A structure of the report on limited assurance on sustainability to be made by the auditor / independent practical specialist was developed. The author’s propositions can be used as a framework for ensuring quality of assurance engagements performed on legal grounds or on request of investors or other stakeholders. European innovations in the sustainable development field, while charging audit firms with a heavy responsibility, open up before them new perspectives and new markets, enhance the auditors’ role in ensuring the resilience and transparency of companies, foster new skills and competences in the domain of sustainability audit.

Key words: *sustainability reporting, materiality, audit, assurance engagement, limited assurance, reasonable assurance, users.*

Introduction. The Directive of the European Parliament and of the Council of 14 December 2022 No. 2022/2464/EU on corporate sustainability reporting (referred to hereinafter as Directive No. 2464), enforced on January 5, 2023, entailed amendments in a series of directives and other legislative acts pertaining to annual financial reporting, consolidated financial reporting and related reports of selected types of companies, as well as to the audit [1]. Once Directive No. 2464 is enforced, companies are obliged to submit sustainability reports along with financial reporting, which is a new step on the way towards the implementation of the United Nations’ (UN) strategic initiatives for meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. Ukraine, being a candidate for accession to the European Union (EU), comprehensively shows its propensity for the process of achieving UN Sustainable Development Goals (SDGs) at national level. Preparing sustainability reporting will demand from business entities a large scope of the effort on determining of risks, opportunities, their impact on the life activity of communities and territories, citizens, employees, the materiality of this impact, value chains for finished products, goods, works, services, their assessment and proper verification. Therefore, business entities need to launch a preparatory action to learn the European requirements on sustainability reporting, accumulation, analysis and aggregation of the relevant information, its verification for subsequent use in compiling the report. As far as auditing firms are concerned, they need to get acquainted with methods and procedures involved in verification of sustainability reporting, to provide impartial information to users of this reporting.

Literature review. Sustainable development issues have been in focus of economists, theoretical and practical researchers across the continents of our planet. Ukrainian researchers have examined the issues of implementing EU Directives, including the ones on sustainable development, in the Ukrainian legal domain and concluded that it is a necessary way to achieve the compliance of the national legislation with the European standards. This factor will promote the Ukraine's integration in the European legal and economic area, improve the investment climate and the life quality of the citizens.

In a review of the European Parliament's requirements pertaining to financial reporting and reporting audit I. Afanasieva drew attention to the need of disclosing information on development prospects in the management report of a business entity [2].

Ya. Oleinyk, M. Kucheriava, O. Boiarova, N. Semenikhina, N. Hrishchenko discuss the results of theoretical and practical research into the problem of comparability of the data in non-financial reporting of enterprises that preceded sustainability reporting. The authors outlined the problems in introducing non-financial reporting, e. g. incomparability of data disclosed in this reporting at company and country level, and proposed ways to achieve the comparability of data in non-financial reporting. Their research was based on data from non-financial reporting of a Ukrainian company over 2017–2018 [3].

The contribution of sustainability reporting in the corporate social responsibility at domestic enterprises is examined by O. Prymachenko and M. Romanenko. The authors demonstrated that the reporting helped enhance the transparency and accountability of companies before the community, shareholders, and other stakeholders. The authors concluded that domestic enterprises had to bridge some gaps on the way towards improved sustainability reporting. They recommended to reinforce the legal and normative framework, and to foster the culture of corporate social responsibility, organization of accounting and reporting within the Ukrainian business community. The authors' findings confirm that the incorporation of sustainability principles in business strategies is a crucial element of the corporate social responsibility and the sustainable development of the overall economy [4].

J. Gonzalez, C. Maliqueo, C. Rodriguez, N. Romero explored sustainability reports of companies operating in Chile in various economic sectors and conducted a questioning of these companies' representatives. The authors found out that management staff regarded the sustainability as a novel issue for companies and that they were not fully equipped to face the sustainability-related challenges in the period till 2030. The authors argue that company leaders need to act quicker, shifting from voluntary verbal intentions to specific and permanent actions. Besides that, there exist internal barriers in introducing the sustainability practice, there is no clear-cut policy at enterprise level, lacking knowledge and shortage of time. Another problem has to do with relevance, systematization, reliability of information in sustainability reports [5].

The disclosure of financial reporting indicators characterizing the financial resilience and the sustainability of company development is dealt with by A. Campos Muñiz, A. López Prado, F. Holguín Maillard [6].

Sustainable development prospects in Romania at country, industry (agriculture), household, individual (various categories of residents) level are analyzed by A.-N. Ciucu-Durnoi, M.-S. Florescu, C. Delcea. The authors came to the conclusion about positive trends on the way towards SDGs, but not in all the goals. Energy poverty of households, heavy dependence of the agriculture on power industry need to be overcome as soon as possible [7].

O. Kuur, E. Varavin, M. Kozlova demonstrated that the number of companies compliant with the principles of environmental, social and corporate (ESG) management has been increasing in Kazakhstan year-by-year. Their article contains a detailed description of the hurdles for environmentally responsible investments and projects. The authors revealed and outlined the factors favorable for the effective implementation of ESG policy in the Republic of Kazakhstan, with providing recommendations on their stepping up. The conclusion about critical importance of introducing non-financial reporting compliant with international standards is made [8].

However, the enforcement of Directive No. 2464, other new documents of the European Parliament, the transition from non-financial reporting to corporate sustainability reporting require in-depth research in this field with focus on the compilation and verification of sustainability reporting.

The article's objective is to highlight the results of research into the process involved in compilation of reporting by Ukrainian business entities in compliance with the Directive of the European Parliament and Council from December 14, 2022 No. 2022/2464/EU, other normative documents of EU pertaining to corporate sustainability reporting, and to propose practical recommendations on organizing verifications of this reporting by audit firms.

Research results and their discussion. The Directive of the European Parliament and Council from December 14, 2022 No. 2022/2464/EU on corporate sustainability reporting (referred to hereinafter as Directive No. 2464), enforced on January 5, 2023, entailed amendments to Regulation

No. 537/2014/EU, Directive 2004/109/EU, Directive 2006/43/EU and Directive 2013/34/EU [1]. Yet, the sustainable development of countries, communities and territories, business entities, and the stable life of the humanity has been in focus of many institutions for years. The Resolution of the UN General Assembly "Transforming our World: the 2030 Agenda for Sustainable Development", adopted at UN summit on September 25, 2015, outlined 17 SDGs worldwide (Table 1, compiled by the author on the basis of [9]).

Table 1

Sustainable Development Goals according to the UN Resolution

Goal	Definition
Goal 1	End poverty in all its forms
Goal 2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient, and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

Ukraine, as a member of UN, has joined SDGs strategies declared at global level. Once the Association Agreement with EU entered into force on September 1, 2017, Ukraine set course for harmonization of the national legislation with international standards and agreements. The harmonization covers domains like human rights, environment, labor relations, economy and trade, including the principles of accounting and audit, security and justice, anti-corruption measures. Ukraine acquired the status of candidate for EU membership on June 23, 2023, and the process of harmonization has been on unabated. The Order of the Cabinet of Ministers of Ukraine from October 18, 2024 No. 1015-р approved the Strategy for Introducing Sustainability Reporting by Enterprises [10]. The Strategy's purpose is to lay institutional arrangements, in 2024–2030, for preparation and submission of sustainability reporting by domestic business entities. The government-devised approach helps harmonize the national legislation of Ukraine with the EU legislation, opens a wider access for Ukrainian enterprises to international capital markets and invites foreign investments in the Ukrainian economy. Table 2 (compiled by the author on the basis of [11]) shows the documents supporting the effort of Ukrainian institutions on the way towards the sustainable development over 2015–2024.

The normative and legal acts regulating the procedure of compilation, submission and audit of sustainability reporting across EU are as follows:

1. Above-mentioned Directive No. 2464.
2. Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on annual financial statements, consolidated financial statements and related reports of certain types of undertakings (referred to hereafter as Directive No. 34) [12].
3. Regulations 537/2014/EU of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, which repeals Commission Decision 2005/909/EC [13].
4. Commission Delegated Regulation (EU) 2023/2772/EU (referred to hereafter as Regulation

Table 2

The documents supporting the Ukraine's sustainable development effort over 2015–2024

Year	Document
2015	Ukraine joined the global sustainable development process; initiated the inclusive process of SDGs adaptation, with interpreting each SDG in the national development context
2017	The national report "Sustainable Development Goals: Ukraine" as the framework for the national SDG system in Ukraine, which set 86 tasks of national development.
2019	The Order of the Cabinet of Ministers of Ukraine from August 21, 2019 No. 686-р "Issues of Data Collection for Monitoring of the Implementation of Sustainable Development Goals", setting 183 indicators by which the data have to be collected for the monitoring, appointing the managers of the information involved, and setting terms for its submission. The State Statistics Service of Ukraine was appointed as the coordinator of the works on collecting data for the monitoring and developing metadata for the set indicators
2019–2021	Monitoring reports "Sustainable Development Goals: Ukraine"; the responsibility for provision of data and estimation of indicators was put on the central executive power bodies and research institutions; the total number of entities delivering data for reports is 31.
2024	The Order of the Cabinet of Ministers of Ukraine from November 29, 2024 No. 1190-р "Some Issues of Support for the Achievement of Sustainable Development Goals in Ukraine", setting 101 objectives on the way towards DSGs, 309 indicators, and expanding the scope of data managers

No. 2772), supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards [14]. Regulation No. 2772 supplements Directive 2013/34/EU of the European Parliament and Council on the sustainability reporting standards. In particular, Regulation No. 2772 approves the European Sustainability Reporting Standards (ESRS) that must be used by enterprises for sustainability reporting pursuant to Articles 19a and 29a of the revised Directive 2013/34/EU. Although the sustainability report is not a financing reporting, it has to be part of the management report and be submitted together with financial reporting.

5. Directive 2006/43/EU of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (referred to hereinafter as Directive No. 43) [15]. Directive No. 2464 changed the requirements to audit, in particular ones on assurance on sustainability reporting, and selected requirements to the qualification of auditors. Directive No. 2464 demands that certain business entities comply with the terms of reporting (Table 3, compiled by the author on the basis of [1; 16]).

Table 3

Reporting deadlines under Directive No. 2464

Terms of reporting	Business entities
Beginning with January 1, 2024	Enterprises that are subject to Directive on Non-Financial Reporting (2014/95/EU)
Beginning with January 1, 2025	Large enterprises
Beginning with January 1, 2026	Medium and small enterprises registered in EU
Beginning with January 1, 2028	Enterprises beyond EU with branches / daughter enterprises within EU

The necessity of implementing Directive No. 2464 in Ukraine is mentioned in the European Commission's Ukraine Report 2023 [17].

Regulation No. 2772 introduces ESRS that must be used by enterprises in time of reporting (Table 4, compiled by the author on the basis of [14]).

The ESRS purpose is presenting and disclosing information by a business entity about its environment-related material impact and opportunities, about the risks affecting the capacity to achieve the sustainable development, social and corporate management issues. ESRS do not require that business entities disclose information on an environmental, social and governance topic covered by ESRS when the management has assessed such topic as non-material.

ESRS standards are divided into three categories:

– general standards;

– thematic standards (environmental, social and governance standards);

– sector-specific standards (affected industries).

General and thematic standards are used by all the business entities irrespective of the economic sector where they run business.

ESRS introduce the double materiality principle. Double materiality is, first and foremost, designed

Table 4

European Sustainability Reporting Standards

Standard	Standard name
ESRS 1	General requirements
ESRS 2	General disclosures
ESRS E1	Climate change
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity and ecosystems
ESRS E5	Resource use and circular economy
ESRS S1	Own workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers and end-users
ESRS G1	Business conduct

for users of sustainability reporting, who are divided into two large groups. The first group covers citizens and contributors, including trade unions and work team representatives who are willing to have reliable information on the sustainable development of a given enterprise and, therefore, can more actively participate in a social dialog. The second group covers individuals or certain groups whose interests are affected or can be affected – positively or negatively – by an enterprise. The second group of users consists of investors, including asset managers, who seek for a better understanding of the risks and opportunities of a business entity in the sustainable development field, of their investments' prospects and impact on citizens and environment, lending institutions or insurance companies.

Double materiality has two dimensions: impact materiality and financial materiality. These two dimensions are interrelated and interdependent. Basically, the starting point is the assessment of effects from (a) own operation of an enterprise, including the creation of a value chain through its own goods, works or services, and through business relations with counterparties; (b) interactions (cooperation) of an enterprise with community and environment, including social and governance issues. ESRS 1 does not require assessment of each participant of a value chain, but does require assessment of a material-technical chain, to give users a grasp of the material effects from economic activities and risks of a business entity, required for the assessment of its opportunities.

Financial materiality is related with omissions of the information that can have impact on users' decisions taken on the basis of sustainability reporting, and with material risks. As for material risks, they can occur due to the dependence on natural, human or social resources, and can be sources of financial risks or opportunities. They can affect the enterprise's capacity to continue exploiting or obtaining certain kinds of natural resources required in business processes, to maintain labor relations with certain categories of specialists, to ensure social guarantees for employees. Given these circumstances, an enterprise is obliged to disclose the occurrence of material negative impacts, material risks along with the actions aimed at their minimization.

Sustainability reporting has a structure and contains a declaration of business entity's management about the sustainable development (Table 5, compiled by the author on the basis of [1; 12; 14]). This declaration, providing assurance to the users that the information on sustainable development issues has been prepared in compliance with articles 19a and 29a of Directive No. 34 (a sustainability declaration), is contained in the management report.

Sustainability reporting is subject to audit. The amendments made in Directive No. 43 pertained to the requirements to independence of auditors / independent practical specialists, quality of audit services on assurance on sustainability reporting. Also, Recommendations of the Committee of European Auditing Oversight Bodies (referred to hereinafter as EC Recommendations) on providing limited assurance on sustainability reporting have been elaborated [18]. EC Recommendations should be applied until the European Commission adopts (expectedly not later than October 1, 2028) a standard on providing guarantees on sustainability reporting.

Directive No. 2464 and EC Recommendations emphasize the prohibition for simultaneous provisions of services on audit of sustainability reporting and services on its compilation. Paragraph 60 of Directive No. 2464 requires that the auditor provide users with a limited or reasonable assurance based on the results

Table 5

Sustainability declaration of the management and the structure of sustainability report under ESRS 1 (Annex D, F)

Section of declaration	Section content
Declaration of the management	
Performance analysis of the enterprise	The reporting period coincides with the reporting period for financial reporting
Probable future developments in the enterprise	If any
Description of risks and uncertainties	A description of business risks in the enterprise
Declaration about corporate management	In compliance with legal requirements and internal orders of the enterprise
Parts of management report	
1. General information	
Disclosure of general information ESRS 2	Specifics of business activities, sustainable development strategy, applications of ESRS 1,2, supplementary industry standards, requirements on information disclosure, application of other legislative acts of EU, countries where the enterprise operates. A brief description of the business model and strategy, including: the resilience of business model and business strategy to the sustainability-specific risks; the sustainability-related opportunities; the enterprise's plans, including the implementation of actions and related financial and investment plans, ways to achieve the compatibility of own business model and strategy with the transition to the resilient economy and the constraints of global warming
2. Environmental information	
Climate change ESRS E1	Impact management, risks and opportunities, potential supplementary information for a specific business entity
Pollution ESRS E2	
Water and marine resources ESRS E3	
Biodiversity and ecosystems ESRS E4	
Resource use and circular economy ESRS E5	
3. Social information	
Own workforce ESRS S1	Impact management, risks and opportunities, potential supplementary information for a specific business entity
Workers in the value chain ESRS S2	
Affected communities ESRS S3	
Consumers and end-users ESRS S4	
4. Information on management	
Business conduct ESRS G1	Impact management, risks and opportunities, potential supplementary information for a specific business entity

of sustainability reporting audit. The definitions of two terms are given in Table 6 (compiled by the author on the basis of [1; 14; 18]).

Under EC Recommendations, practical auditors are expected to provide a limited guarantee – a limited assurance – on the sustainability-related information provided in compliance with ESRS. When limited assurance engagements are performed, the analytical procedures will aim not so much at identifying misstatements in the reporting as at assessing the links of financial and non-financial information, certain development trends; the auditor can use more aggregated indicators, i. e., the nomenclature of procedures in a limited assurance engagement is smaller than in a reasonable assurance engagement. Also, EC Recommendations require that the auditors assess if the reporting of an enterprise complies with the requirements of sustainable development standards and Regulation No. 2772.

Auditors and audit firms have already had certain experiences in verifications of non-financial information, especially the management report, and the appearance of new reporting can cause risks of compliance with the independence principle.

Table 6

Definitions of terms “reasonable assurance” and “limited assurance”

Term	Definition	Engagement circumstances	Procedures	Example of non-modified opinion of an auditor (practical specialist) in the sustainability report
Reasonable assurance	Obtaining the evidence necessary for the auditor (practical specialist) to make a conclusion about the information on the engagement subject on the whole. In order to be capable of making a conclusion in a positive form that is necessary for a reasonable assurance engagement, the auditor (practical specialist) must assess the risks and collect sufficient and relevant evidence	Identify and asses the risks of material misstatement of the information about the engagement subject; create a framework for elaborating and performing the procedures in response to the assessed risks, obtain a reasonable assurance to support own conclusion; get understanding of internal control over preparing information on the engagement subject, which includes a structural assessment of the control measures that are expedient for the engagement, and determine if they have been introduced by way of performing relevant procedures in addition to requests to the staff responsible for information about the engagement subject	a) risk assessment procedures: request, analytical procedures for risk assessment, observation and inspection; b) procedures in response to the assessed risks: testing control actions, substantive procedures (testing details and analytical procedures)	To our opinion, the sustainability reporting of the company is prepared in all the material aspects on the basis of ESRS criteria
Limited assurance	It is an assurance proportional to the scope of procedures on collecting the evidence and assessing its sufficiency and relevance	Identify the segments where there can occur a material misstatement of the information about the engagement subject; create a framework for elaborating and performing the procedures necessary for analysis of the identified segments, analyze the process of preparing the information on the engagement subject, obtain a limited assurance to support own conclusion	Questioning of business entity staff, analytical substantive procedures, testing control actions, assessing the evidence from external (alternative) sources	The procedures performed and the evidence obtained have not drawn our attention to something that would make us believe that the management declaration about compliance with ESRS requirements in all the material aspects is not correct

Therefore, business entities need to take actions to achieve the compliance with the principles of professional ethics: independence, integrity, objectivity, professional conduct, competence and thoroughness, confidentiality and professional secret, compliance with technical standards [19].

Orders of Directive No. 2464 and EC Recommendations allow that the auditor performing obligatory audits of annual financial reporting provide information on assurance on sustainability reporting in the audit report. Yet, they prohibit simultaneous provision of services involved in the preparation of sustainability reporting, including consultative services, and sustainability assurance services. Specialists who will verify sustainability reporting are required to have certain knowledge and skills. As a transitional measure, the persons engaged in verifications of sustainability reporting will be exempt from the requirement of having a proper experience in the sustainable development field till December 31, 2025, with the certification of specialists launched in 2026. Directive No. 43 requires the implementation of an effective system for public oversight of audit firms engaged in the obligatory audit of financial reporting. These requirements will be applied to auditors and audit firms providing sustainability assurance services. Therefore, audit firms must assure the quality of their services in the sustainable development field through implementing a quality management system. EC Recommendations provide general principles and organizational approaches for limited assurance engagements on sustainability (Table 7, compiled by the author on the basis of [12; 18; 19]).

Engagement-related actions of the audit firm, set out in Table 7, need some explanation:

1. Engagement quality control, apart from control by the person responsible for the engagement

Table 7

General principles and organizational approaches for limited assurance engagements on sustainability

General principles and organizational approaches	Engagement-related actions of audit firm
1	2
1. Guiding principles: ethics, acceptance of customer and order, quality control of engagement	Practical specialist (partner in engagement) must assure that: a) ethical requirements, including the ones to independence, have been met (this is achieved through making relevant working documents); b) the engagement team is capable to complete the engagement (assessment of the audit firm's resources, knowledge and skills, appointment of the engagement team); c) there is understanding of the engagement subject, its assessment criteria, the responsibility of the practical specialist with respect to the engagement, including collection of evidence and reporting, the responsibility of the customer; d) the need to engage an expert (if necessary) has been assessed; e) the quality of assurance engagement has been guaranteed (by appointing a person responsible for verification of the engagement quality, who has appropriate competencies; elaborating and performing the procedures for testing the engagement for its relevance to the selected criteria), which allows to state that the audit firm has created a quality management system and complies with its norms
2. The purpose of assurance engagement	Provide information on the verification subject (declaration of sustainability) to the users of the assurance report and state that there exist reasons (based on the applied criteria, performed procedures and obtained evidence) to consider this information as materially misstated. The applicable criteria are Directive No. 2464, Regulation No. 2772, ESRS
3. The assessment of materiality and identified misstatements in the sustainability-related information contained in the report	Preparation of sustainability reporting involves "double materiality" that includes: a) financial materiality, meaning that environmental, social and governance (ESG) factors may affect the financial condition of company or organization. It can be estimated as a percentage of expenditure such as the environmental expenditure or the social benefits; b) impact materiality focused on ways of the business entity's impact on the environment, society (communities and territories), and economy. This dimension is important for all the stakeholders, including broader public, employees, governments and other groups, and requires expert assessment (in scores, percentage, ratings). The practical specialist must assess what kind of criteria for materiality selection were applied by the customer's management. The financial materiality will have the material component in monetary units. The materiality has to do with the so-called material misstatement which is the difference between the published data of sustainability reporting and the evidence obtained by the practical specialist in time of verification
4. Risk assessment, including the risks of fraud and incompliance with legal requirements on sustainability reporting. Risk responses. Defining the procedures for verification of sustainability reporting	Throughout the engagement the practical specialist is expected to apply the principle of professional skepticism, to stay alert to the assessment of risk of fraud and detected cases of incompliance with laws and normative acts in the sustainable development field. When assessing the risks, the specialist must get a grasp of the business entity, its environment and internal control system, its five components that have to do with the preparation of sustainability reports. The risk assessment procedures are as follows: – requests of information from management and other staff within the business entity, who can give answers to practical specialists to the effect of assessing the risk of material misstatements in the reporting and the risk of control; – analytical procedures that can, inter alia, be applied in identifying unusual circumstances; – physical observations and verifications that can allow practical specialists to confirm or dismiss the information obtained from management of other persons and included in sustainability reporting
5. Assessment of disclosure of sustainability-related information. Assessment of forward-looking information. Accumulation and analysis of identified misstatements	When identifying risks and material misstatements, special attention should to be drawn to the disclosure of information that will likely to be the most important for information needs of predictable users, and to whether or not the disclosure is compliant with the quality characteristics of the information, defined in ESRS, including relevance, topicality and authentic presentation, neutrality, comparability, intelligibility, possibility of verification. If a verification reveals a material inconsistency between the indicators of sustainability reporting and the collected evidence, the practical specialist must perform the following procedures: – ask the customer a question concerning the revealed inconsistency; – ask specialists in the respective field for consultation; – modify the opinion, withdraw the report and refuse to perform the engagement.

Table 7, Continued

1	2
	The identified misstatements are assessed by the practical specialist in a way allowing to form the opinion on the engagement subject; when a limited assurance has to be provided, sometimes it may be impossible to combine the misstatements into "one/ cumulative error", and each misstatement should, therefore, be analyzed separately considering its impact on the information declared in the sustainability reporting. The forward-looking information is a subject of attention for the practical specialist, because between the date of sustainability reporting and the date of assurance report on this reporting there can occur events that may have a material impact on the opinion of the practical specialist and the opinion of users of reports
6. Using the expert's work. Documentation. Format and contents of report	If the engagement team lacks certain knowledge, the engagement partner is obliged: to ask an expert for consultation or incorporate him in the engagement team that includes experts on the engagement subject and other assurance-related personnel; to have the expert's work integrated in the program for verification of sustainability reporting (to assess the expert's competence, to determine the nature, timing and scope of the procedures performed by the expert for the achievement of engagement's goals). Engagement documentation must contain the records by which the engagement report was prepared: a) the clarified nature, timing and scope of the procedures performed to ensure the compliance with the applicable requirements of legal and normative acts, the revised results of procedures performed and the evidence obtained; and b) important questions occurring in the engagement process, conclusions concerning them, and important professional judgements made in time of formulating these conclusions, structuring of the report

quality verification, will cover the engagement partner's oversight involving:

a) discussions of important issues occurred in time of engagement performing;

b) communications with the person responsible for the engagement quality verification to the effect of the engagement subject, draft of the assurance report, review of the working documentation that laid the ground for conclusions, and assessment of the conclusions.

2. Assessment criteria for the engagement subject should be interpreted as not only requirements of normative documents, but also as benchmarks for subject assessment, set by authorized or recognized experts or teams, published in scientific editions, or set specifically for the preparation of sustainability reporting. The principle requirement to the criteria is their acceptability that includes characteristics such as a) expediency, b) completeness, c) reliability, d) neutrality, e) intelligibility, and f) accessibility.

3. The process of determining the impact materiality is about revealing the character of impact that sustainability-related issues of the business entity (environmental, social and governance (ESG)) will have on the entity, its related parties and stakeholders. The impact materiality is determined by the customer's management in several phases (Table 8, compiled by the author on the basis of [18]).

4. When assessing the risks of material misstatement due to the fraud, the practical specialist, relying on the principle of professional skepticism, should be especially cautious about greenwashing

Table 8

Phases in determining the impact materiality

Phase	Issue for consideration	Actions on determining the impact materiality
1	Identifying the issues for determining the impact materiality	Environmental, social and governance issues with potential material impact on business entity's operation and related stakeholders: environmental impact due to emissions, water, land and geological resources, human resources and social guarantees and benefits, transparency of corporate management, etc.
2	Engaging stakeholders to determining the impact materiality	Consultations with internal and external stakeholders (employees, investors, banks, consumers, suppliers, regulatory bodies and community representatives), to get a grasp of their priorities and expectations in the sustainable development field, constructing rating assessment techniques
3	Analysis of markets and opportunities	Ways in which the issues identified in the first phase will impact the financial performance, reporting and reputation of the business entity, the broader public (the community in which the business entity operates), and the environment
4	Based on the analysis, determining the top priority (material) issues	The issues with the strongest materiality will become the reference point for the impact materiality assessment and benchmark setting

Structure of Report on Limited Assurance on Sustainability

- Report title, description of the limited assurance engagement; recipient of the report
- Formulation and description of the engagement subject (sustainability reporting, including consolidated one, reference to applications of ESRS by the management)
- Data and period covered by the management's declarations on sustainability
- Description of the segment where there can occur a material misstatement of information
- Description of the applied assessment criteria, including references to the legal or normative acts setting these criteria, used measurement methods
- Inherent constraints
- When the assessment criteria are elaborated for a specific purpose, the statement that the information about verification subject is not applicable for other purpose
- Requisites of customer and practical specialist, including the statement on application of European Commission's orders
- The statement informing that the practical specialist applies the requirements of international standards on quality management, complies with the requirements of independence and other ethical requirements
- Description of the completed work (procedures performed in the limited assurance engagement, with reference that the obtained level of assurance in the limited assurance engagement is far less in comparison with the reasonable assurance engagement)
- Conclusion (non-modified or modified) of the practical specialist, including assessment of the statements on resilience to the requirements of
- Signature of practical specialist, date of the assurance report, working address of practical specialist

Figure 1. The structure of Report on limited assurance on sustainability

practices, when a business entity misleads consumers by baseless claims that its output (goods, works or services) and governance policies are compliant with SDGs. To assess the truthfulness of management's claims pertaining to the sustainable development, the practical specialist must explore alternative sources of information that have to do with the business entity. Alternative sources include information obtained outside the reporting business entity.

The report on limited assurance on sustainability is made up in a written form, signed and dated by the person (practical specialist) who was responsible for the assurance engagement; its structure is given in Figure 1 (compiled by the author on the basis of [1; 14; 15; 18; 19]). Using this structure and filling it with relevant collected evidence pertaining to the engagement subject, the auditor / practical specialist will supply the stakeholders with unbiased information on the business entity's compliance with legal requirements in the sustainable development field.

Conclusions. Sustainability reporting across EU has been regulated through adopting by the European Parliament and Council of Directive No. 2464, amendments to Directive No. 34, Regulations No. 537, No. 2772, whereas the audit-related issues have been settled by amendments to Directive No. 43 and EC Recommendations. The implementation of these documents in Ukraine involves new types of services to be provided by domestic auditors.

First and foremost, these are services on the compilation of sustainability reporting on request of business entities. As mentioned before, the sustainability report is not part of the financial reporting, but it is submitted together with it as a component of the management report. Our research shows that such report requires a complex structure and disclosures. Preparing the sustainability report will involve a large scope of the effort on identifying business entity's risks, opportunities and environmental impact on the way toward the sustainability, the impact materiality, the value chain, their assessment and proper verification (by collecting information for the reporting, constructing and cohering the reporting indicators). Hence, the auditing community needs to promote these services on the market today, to launch preparatory works with customers on elaborating plans for sustainability reporting, collecting and verifying the data required for the compilation of this reporting. Second, these services involve assurance engagements on sustainability reporting, but with a reservation that simultaneous provisions of services on sustainability reporting and assurance engagements by the same audit firm are prohibited. Given that changed requirements to the audit, in particular ones pertaining to assurance on sustainability reporting, demand a special qualification of auditors / practical specialists, they need to learn the organizational process of assurance engagement for sustainability reporting and its verification techniques. Therefore, Directive No. 2462, apart from opening new perspectives for domestic audit firms, puts a heavy responsibility on them. Future studies will focus on elaborating techniques for assurance engagements involved in sustainability reporting.

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Звітність зі сталого розвитку: виклики чи можливості для аудиторів?

Директива Європейського Парламенту та Ради від 14.12.2022 року № 2022/2464/ЄС про корпоративну звітність зі сталого розвитку та прийняті Європейські стандарти звітності щодо сталого розвитку (ESRS) вимагають від суб'єктів господарювання та суб'єктів аудиторської діяльності адаптувати свої організаційні процеси звітування й перевірок до новітніх вимог. Україна демонструє свою прихильність до європейського вибору, приєднавшись до стратегій досягнення Цілей сталого розвитку. Тому вітчизняним підприємствам украй важливо опанувати вимоги щодо звітування зі сталого розвитку, а аудиторам – методики виконання завдань з надання впевненості щодо такої звітності.

У статті проаналізовані та систематизовані вимоги європейських законодавчих актів щодо звітності зі сталого розвитку, деталізовано структуру звіту згідно з ESRS 1. Розглянуто Рекомендації Європейського комітету наглядових органів за аудитом щодо виконання завдань з надання впевненості та основні виклики для аудиторських фірм при впровадженні європейських стандартів звітності щодо сталого розвитку, а також можливості, які відкриває ця практика. Розглянуто сутність дефініцій "обґрунтована впевненість", "обмежена впевненість". Авторка аналізує необхідність адаптації аудиторських процедур до нових вимог. Для завдань з надання обмеженої впевненості виокремлені такі процедури: опитування персоналу суб'єкта господарювання, аналітичні процедури по суті, тести заходів контролю, оцінка доказів із зовнішніх (альтернативних) джерел. Запропоновані організаційні підходи до виконання завдання із надання обмеженої впевненості щодо сталого розвитку, виокремлені етапи визначення суттєвості впливу. Розроблено структуру звіту аудитора / незалежного практикуючого фахівця з надання обмеженої впевненості щодо сталого розвитку. Пропозиції авторки можуть бути використані як підґрунтя для забезпечення якості завдань з надання впевненості, що виконуються на вимоги законодавства, інвесторів та інших зацікавлених сторін. Європейські новації у галузі стійкого розвитку, покладаючи на суб'єктів аудиторської діяльності значну відповідальність, відкривають перед ними і нові перспективи, нові ринки, сприяють підвищенню ролі аудиторів у забезпеченні стійкості та прозорості компаній, розвитку нових навичок і компетенцій у сфері аудиту сталого розвитку.

Ключові слова: *звітність зі сталого розвитку, суттєвість, аудит, завдання з надання впевненості, обмежена впевненість, обґрунтована впевненість, користувачі.*

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