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# MOORE NEWSLETTER

## Enhancing Trust in ESG Reporting: The Role of Independent Assurance

In today's rapidly evolving business landscape, the importance of Environmental, Social, and Governance (ESG) reporting cannot be overstated. According to the International Auditing and Assurance Standards Board (IAASB), assurance on an ESG report involves evaluating the report's adherence to established assurance standards. This process pertains to specific subjects, such as key data disclosed in the report, and ensuring that the findings are objective and reliable. The primary goal of this assurance is to bolster the confidence of intended users in the verified information. Additionally, companies face significant risks without conducting ESG assurance, as investors globally seek reliable and comparable information for their decisions. The lack of standardised ESG definitions can lead to weak documentation and potentially misleading claims about sustainability practices, increasing the risk of misstatements and fraud. Furthermore, organisations may encounter operational inefficiencies without the insights that assurance provides, as well as regulatory risks arising from non-compliance with evolving standards. As sustainability becomes a critical factor in investment strategies, the absence of rigorous assurance can undermine trust and create substantial challenges in protecting investor interests. To maintain objectivity and reliability, it is crucial that the assurance service provider maintains independence, thereby preventing any potential conflicts of interest.

### INSIGHTS INTO ESG ASSURANCE IN HONG KONG'S MARKET

ESG assurance is yet to be widely adopted in Hong Kong, with only 141 out of 1,882 (7.5%) surveyed companies embracing external ESG assurance in 2023, up from 4.5% in 2021. Approximately 52% of the 69 Hang Seng Index companies, representing 36 firms, adopted ESG assurance practices in 2023.

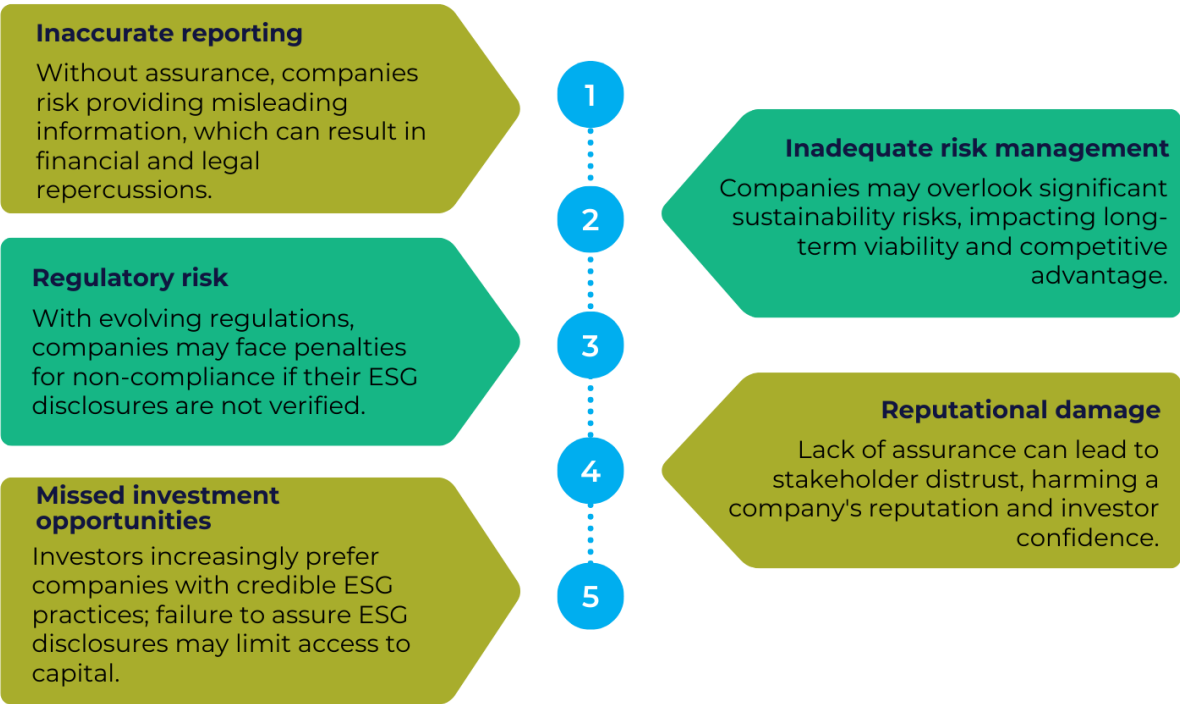
Large-cap companies ( $\geq$ HK\$38 billion) demonstrated the most substantial uptake, with assurance rates rising from 20.1% in 2021 to 41.6% in 2023, according to the findings by the Hong Kong Institute of CPAs. For small companies with a market capitalisation under HK\$6 billion, the number seeking assurance on their ESG disclosures increased by 1.1% from 2021 to 2023. This trend underscores the substantial uptake of ESG assurance among the region's leading corporations.

The motivations for Hong Kong's companies to adopt ESG assurance are not only for enhancing credibility and building stakeholder trust but also for unlocking investment opportunities, as investors increasingly expect reliable ESG reporting. Engaging a third-party for assurance strengthens a company's reputation by ensuring accurate and trustworthy disclosures. Moreover, ESG assurance helps businesses navigate evolving regulatory frameworks, which are becoming increasingly sustainability-focused. Accurate ESG data is vital, especially as jurisdictions implement measures like carbon taxes. Internally, the assurance process encourages managers to assess and improve the company's systems while raising awareness about the importance of high-quality ESG data. As the landscape of ESG reporting becomes more complex, adopting assurance practices positions companies to meet these challenges effectively.

The same research also revealed that ISAE 3000 (Revised), issued by the IAASB, is the most widely adopted assurance standard, appearing in 63% of ESG assurance reports. Currently, IAASB has approved and issued International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements (ISSA 5000). ISSA 5000 is effective for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026, with earlier application permitted.

## RISKS AND IMPLICATIONS FOR NEGLECTING ESG ASSURANCE

In today's rapidly evolving business landscape, companies face increasing pressure to demonstrate their commitment to ESG principles. Failing to conduct ESG assurance can expose organisations to various risks that may undermine their credibility and long-term success. Understanding these risks is essential for businesses aiming to navigate regulatory changes and maintain stakeholder trust. Below are the key risks associated with neglecting ESG assurance.



A prominent case where neglecting ESG assurance resulted in significant accusations was a greenwashing scandal involving a renowned European asset management group. This incident caused substantial financial and reputational damage to the group. Investigations uncovered that the group had overstated the ESG credentials of its funds without adequate processes or documentation to support claims that the investment products were environmentally friendly.

As internal documents suggested that many investments did not meet the disclosed standards, the public prosecutor issued a multi-million US dollar fine, marking the conclusion of an extensive probe into the group's alleged failure to incorporate ESG factors in its investments.

This scandal highlights the critical importance of ESG assurance for companies. Effective ESG practices not only improve transparency but also raise awareness of the need for maintaining accurate documentation that supports disclosures and claims. By implementing robust processes for assurance, companies can build trust with stakeholders and prevent the risk of misstatements. Additionally, identifying potential environmental and governance risks can prevent scandals and associated financial losses, while adherence to ESG standards ensures compliance with regulations, thereby reducing the risk of legal repercussions.

## INTERNATIONAL PRACTICES FOR ESG ASSURANCE

From an international perspective, ESG assurance is becoming mandatory in Europe through the Corporate Sustainability Reporting Directive (CSRD). This directive requires certain companies to report on their sustainability performance, which includes having their sustainability reports verified by an independent assurance service provider to ensure the accuracy and completeness of the information, necessitating at least limited assurance. The CSRD will be phased in gradually, starting with large public interest entities, followed by larger companies, and eventually including listed SMEs and some non-EU companies.

In 2022, nearly all companies published sustainability reports, even before the CSRD was set to mandate reporting and assurance for large and listed EU companies, originally scheduled for 2025 (prior to the adoption of the Omnibus Package by the European Commission in early 2025). The percentage of companies obtaining ESG assurance across Europe surged from 54% in 2019 to 75% in 2022. Notably, all surveyed companies in France, Italy, and Spain had assurance over some of their ESG information in 2022. Assurance rates were lower

in Belgium (64%), Ireland (56%), Poland (42%), Romania (21%), and Turkey (61%), but these countries also saw significant growth from 2019 to 2022. Romania, for example, increased its assurance rate from a mere 6% to 21%, marking a threefold rise.

Under the updated CSRD in February of 2025, the European Commission aims to issue targeted assurance guidelines by 2026. This development is anticipated to pave the way for reasonable assurance under certain conditions, which is a step up from the limited assurance requirement.

## LOCAL PRACTICES FOR ESG ASSURANCE

In the local context, issuers are now required to comply with the phased climate disclosure guidelines outlined in the HKEX Environmental, Social, and Governance Reporting Code (ESG Code), in alignment with IFRS S2. The phased climate disclosure represents new requirements implemented by the HKEX for listed companies to disclose climate-related information, such as scope 1 and 2 GHG emissions and financial impacts related to climate risks and opportunities, with the implementation happening in stages over time. LargeCap issuers will be subject to mandatory disclosure of new climate requirements from 2026, while Main Board issuers must comply with these requirements or explain any non-compliance.

To ensure accurate representation of an issuer's GHG emissions, measurements must adhere to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004 & 2015). The GHG Protocol emphasises precision, ensuring that reported data is sufficiently accurate to enable users to make informed decisions with reasonable assurance.

The ESG Code strongly encourages issuers to prepare climate-related disclosures under Part D of the ESG Code, which sets out under IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, issued by the International Sustainability Standards Board (ISSB). IFRS S1 underscores the necessity for accuracy in sustainability-related financial disclosures. While accuracy does not mandate perfect precision in every detail, the required and achievable level of precision, along with the factors contributing to accuracy, are contingent upon the nature of the information and the associated matters. Specifically, accuracy entails that:

- a) factual information is free from material error;
- b) descriptions are precise;
- c) estimates, approximations, and forecasts are clearly identified as such;
- d) no material errors occur in selecting and applying an appropriate process for developing estimates, approximations, or forecasts;
- e) assertions and inputs used in forming estimates are reasonable and based on information of sufficient quality and quantity; and
- f) information regarding future judgments accurately reflects both those judgments and the underlying information.

## TYPES OF ESG ASSURANCE

Assurance engagements are classified according to the level of scrutiny applied:

1. **Limited Assurance:** Offers a fair degree of confidence, concentrating on identifying material misstatements. The assurance service provider conducts procedures such as data analysis and interviews, with a narrower scope than reasonable assurance.
2. **Reasonable Assurance:** Provides a higher level of confidence through a more comprehensive evaluation. It can take various forms, usually involving detailed testing, substantive procedures and obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls.

### REFERENCES

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8. Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief - European Commission

# Moore ESG Assurance Services

Our sustainability assurance services employ rigorous methodologies to uphold the integrity of your sustainable practices, thereby fostering confidence in your sustainability initiatives and reporting. We deliver independent verification and assessments to guarantee that your sustainability information is in accordance with the applicable criteria.

## Independent verification and risk assessment

1

Conduct thorough audits of sustainability reports and data to ensure that your practices meet established benchmarks and frameworks. Assurance will be performed based on ISAE 3000 (Revised), which provides a robust framework for assurance engagements beyond traditional financial audits. In the future, this process will transition to ISSA 5000, a proposed standard specifically designed for sustainability assurance. Additionally, identify potential risks within sustainability initiatives and provide strategic recommendations for mitigation to enhance resilience.

## Compliance checks and stakeholder confidence

2

Assess compliance with relevant regulations and standards of both local and international sustainability requirements. Foster stakeholder trust through transparent and verified sustainability claims, thereby enhancing your organisation's reputation and demonstrating accountability.

## Continuous improvement

3

Provision of Conclusion based on the procedures performed and evidence obtained for management to refine and enhance sustainability strategies, and support the establishment of measurable goals for ongoing improvement.

## Why work with us?

- Our team includes professionals with practical and solid knowledge and experience.
- The team comprises charter holders or members of professional bodies such as HKICPA, CISA, CFA, CESGA and Certified ESG Planner.
- We have extensive sector knowledge to provide customised advice to suit each client, taking into account size, capabilities and goals.

Backed by our international network, we have the scope to provide clients with all the solutions and expertise they require, wherever they choose to do business.

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