The Chartered Governance Institute UK & Ireland

Saffron House
6-10 Kirby Street
London EC1N 8TS

vdotto@cgi.org.uk
cgi.org.uk

Valentina Dotto
Policy Adviser

By email: uk.srs@businessandtrade.gov.uk

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To whom it may concern

DBT Consultation: Developing an assurance regime for assurance of sustainability related financial disclosures

The Chartered Governance Institute is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, the Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. They are therefore well placed to understand the issues raised by this consultation document. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below.

Question 1: Do you agree or disagree with the government's core proposal to create a voluntary registration regime for sustainability assurance?

We support the government's proposal to introduce a voluntary registration regime for sustainability assurance providers. This approach strikes an appropriate balance between encouraging market development and maintaining high standards of trust and transparency. The sustainability assurance market remains in its early stages. A voluntary regime allows providers the space to adapt and grow without facing immediate mandatory requirements. It fosters innovation in assurance methodologies, which is crucial given the wide range of reporting frameworks in use—such as UK SRS, TCFD, and ESRS—and the differing needs across sectors.

A publicly available register, managed by the Audit, Reporting and Governance Authority (ARGA), would improve transparency and help companies identify qualified assurance providers. This would address a significant market gap highlighted by the FRC: many companies struggle to assess the competence of potential providers. Public registration would act as a form of quality assurance, enhancing trust in the market and encouraging best practice.

Such a register would also strengthen the international standing of UK-based providers. In the context of the EU's Corporate Sustainability Reporting Directive (CSRD), recognised assurance credentials are becoming increasingly important. ARGA registration could serve as a mark of quality, helping UK firms compete more effectively in global markets and reinforcing the UK's position as a leader in sustainable finance.

Finally, a voluntary regime fits with ARGA's role as an improvement regulator. It promotes capacity-building over enforcement and avoids premature regulation, which might otherwise deter new entrants or limit innovation in this fast-evolving field. We had considered establishing an accreditation service for sustainability assurance providers ourselves, but ARGA feels a much more appropriate home for this important activity.

Question 2. In your view, what are the advantages and disadvantages of the opt-in approach?

A voluntary registration regime for sustainability assurance providers offers several strategic advantages, particularly in the early stages of market development. It allows providers to grow their capabilities organically and encourages continuous improvement without the immediate burden of compliance. However, it also presents certain risks if not implemented with appropriate safeguards.

Advantages

A voluntary approach enables the market to respond flexibly. Providers can register when ready, allowing time to build the necessary skills and infrastructure. Registration also acts as a quality signal, encouraging firms to adopt best practices to gain recognition. By avoiding immediate mandatory requirements, the regime reduces pressure on both ARGA and providers, preventing potential regulatory bottlenecks before market capacity matures.

Innovation also benefits from this approach. Without rigid rules, assurance providers can trial new methods and frameworks, refining their approaches to fit diverse sectoral needs. Registration further supports international recognition by offering a formal UK benchmark of quality, helping registered providers demonstrate credibility in cross-border engagements.

Disadvantages

However, a voluntary regime may lead to inconsistencies. Without a uniform standard, the quality of assurance services could vary significantly, leading to unreliable reporting outcomes. If uptake remains low, the register risks becoming unrepresentative and less useful for companies seeking assurance.

There is also the possibility of misrepresentation. Unregistered providers may still operate in the market without meeting expected standards, which could mislead clients and undermine trust. Investors might then question the reliability of disclosures not assured by registered providers, potentially weakening the credibility of sustainability reporting. Moreover, voluntary systems may take time to drive meaningful change, delaying improvements in assurance quality and market behaviour.

Recommendations for Implementation

In the short term, ARGA should publish clear eligibility and qualification criteria to set expectations. Government and regulators should promote uptake through outreach, training support, and recognition schemes. Linking registration directly to assurance of UK SRS disclosures would further establish its relevance.

Over the medium term, it will be important to monitor uptake and market outcomes, using this data to assess the regime's effectiveness. A 'voluntary plus' model could emerge, where registration remains optional but strongly encouraged in high-impact sectors such as financial services or energy.

In the longer term, the government could consider mandatory registration for assurance providers working with listed companies or public interest entities. If the market matures and public interest grows, the UK might also evaluate whether assurance of UK SRS disclosures should become a legal requirement—particularly for entities with significant sustainability risks or exposure to investors.

Question 3: Do you agree or disagree with the government taking a profession-agnostic approach to sustainability assurance? Provide justification.

The profession-agnostic approach to sustainability assurance represents a pragmatic and necessary evolution in UK regulation. It reflects the complexity of sustainability-related financial disclosures and the interdisciplinary expertise required to assure them effectively. By not restricting assurance to traditional audit professionals, this model supports innovation, market development, and a more credible assurance landscape. Indeed, it is likely that some small, specialist providers will have greater expertise in their field than traditional audit professionals.

Sustainability assurance spans a wide range of domains—climate science, engineering, social impact, governance, and finance. For example, assessing physical climate risks like flood exposure relies on environmental science and modelling, not just financial analysis. Limiting assurance to statutory auditors would overlook the technical knowledge essential for credible evaluations of such risks.

Opening the assurance market to qualified professionals from varied backgrounds—such as ESG consultants, environmental scientists, and engineers—strengthens capacity and addresses current skills shortages. It also fosters methodological diversity, allowing assurance approaches to evolve in step with the rapidly developing sustainability landscape. Provided ARGA sets clear and rigorous standards, this openness need not compromise quality.

The model aligns with international developments, such as the ISSA 5000 standard and EU sustainability reporting requirements under the ESRS. UK providers will be better positioned to compete globally if the regime encourages flexible, high-quality assurance across disciplines.

From a market perspective, this inclusivity improves trust. Investors and stakeholders can have greater confidence in disclosures that reflect robust, relevant assurance tailored to the entity's specific sustainability risks and opportunities. It also helps companies meet regulatory expectations under the UK SRS, TCFD, and other frameworks.

However, challenges remain. Without a common professional foundation, assurance quality could vary significantly unless ARGA enforces rigorous, enforceable criteria. Accreditation processes may become complex, as they must assess a wide range of professional competencies across disciplines. In the early stages, companies may struggle to compare providers with different backgrounds and qualifications, creating uncertainty and potential confusion.

Additionally, interaction with existing statutory audit rules and non-audit service limitations could create regulatory overlaps or compliance challenges. ARGA will need to coordinate closely with other regulators to ensure a coherent framework.

To enhance the regime's effectiveness, ARGA could consider tiered accreditation. This would allow providers to register according to their expertise—environmental, social, governance, or financial, or recognising even greater specificity —helping companies select assurance professionals aligned with the material issues in their reports. All registered providers should meet shared ethical and professional standards, with mandatory continuous professional development to ensure competence.

ARGA's public register should clearly disclose each provider's qualifications and areas of specialism. Boards and audit committees must also play a role by selecting providers with the appropriate expertise for their disclosures, integrating assurance selection into broader corporate governance responsibilities.

Question 4: Do you agree or disagree that both individuals and firms should be able to be registered as sustainability assurance providers? Provide justification and explain whether any specific requirements are needed to ensure appropriate accountability.

Both individuals and firms should have the option to register as sustainability assurance providers. This dual model reflects the established precedent in statutory audit and offers the right balance of accountability, flexibility, and inclusivity for a fast-developing and multidisciplinary market.

The statutory audit framework already allows for both individual and corporate registration. Applying the same principle to sustainability assurance creates consistency across regulatory regimes and ensures that responsibilities can be clearly attributed—whether at the level of a lead practitioner or an assurance firm. This alignment with existing audit structures also helps companies integrate sustainability assurance into broader governance and control systems.

Allowing individuals to register ensures personal accountability for ethical conduct, technical competence, and professional standards. At the same time, registering firms ensures that organisational-level systems—such as quality control, training, and engagement oversight—are subject to regulation. Sustainability assurance often involves cross-functional teams, including climate scientists, social analysts, and financial professionals. Firm-level registration allows for recognition of this collaborative model, while individual registration ensures that key signatories remain personally accountable for the quality of their work.

This approach also supports diversity in the assurance market. Smaller consultancies or sole practitioners may opt for individual registration, while larger or multidisciplinary firms may operate under a corporate structure. Such flexibility promotes competition, encourages innovation, and avoids excessive concentration among the largest audit firms. It also allows a broader range of providers to deliver services to SMEs and organisations with more bespoke needs.

However, effective implementation requires safeguards. ARGA must set out distinct but complementary criteria for individuals and firms, covering both technical and ethical standards. There is a risk that, in engagements involving multiple contributors, responsibilities could become blurred unless roles are clearly defined from the outset. Regulatory gaps could also emerge if only one party—either the firm or the individual—is held accountable.

To manage these risks, ARGA should require all engagements to name a lead registered individual responsible for signing off the assurance. This mirrors audit practice and ensures that personal accountability accompanies firm-level oversight. Both individuals and firms should comply with the same sustainability assurance standards—such as ISSA 5000—and follow a unified code of ethics. Individuals should also meet continuing professional development requirements, while firms must demonstrate that they maintain adequate quality control and training systems.

The public register should be fully transparent, including detailed profiles of both individuals and firms. These should disclose qualifications, disciplinary history, areas of specialism, and any restrictions on their scope of practice.

Question 5: What are the main principles that ARGA should consider when developing a registration regime for sustainability assurance providers?

ARGA plays a central role in establishing a credible and effective registration regime for sustainability assurance in the UK. Its success will depend on how well it upholds public trust, balances rigour with inclusivity, and adapts to the evolving demands of a multidisciplinary assurance landscape. By taking a principled, collaborative approach, ARGA can lay the foundations for a framework that meets both domestic needs and international expectations.

To ensure credibility and impact, ARGA must place the public interest and market integrity at the heart of the regime. Investors and stakeholders need assurance that sustainability-related financial disclosures are transparent, reliable, and comparable. Assurance providers must be held to high standards so that the information they validate is genuinely decision-useful.

The regime must also reflect the profession-agnostic nature of sustainability assurance. Sustainability disclosures often require expertise that extends beyond traditional financial audit, including environmental science, social impact, and governance. ARGA should design the framework to accommodate this diversity—enabling auditors, ESG consultants, scientists, and other professionals to participate, provided they meet consistent standards. This approach supports innovation and avoids over-concentration among a narrow set of providers.

Proportionality is equally important. ARGA should set criteria that are proportionate to the size and complexity of the assurance engagement. This allows smaller firms and specialist providers to operate alongside larger players, encouraging competition and ensuring a wider pool of available expertise. The framework should also be scalable, with the flexibility to evolve as market maturity, technical standards, and reporting requirements develop over time.

International alignment will be crucial. ARGA should ensure that its criteria and processes are consistent with globally recognised frameworks, such as ISSA 5000, the UK Sustainability Reporting Standards, TCFD, and ESRS. This will enhance interoperability, reduce compliance burdens for multinational entities, and strengthen the global standing of UK-registered assurance providers.

Ethical conduct and accountability must underpin the regime. Assurance providers should demonstrate independence, integrity, and professional responsibility at both individual and organisational levels. ARGA must establish robust mechanisms to enforce these standards and address misconduct or quality failures swiftly and transparently.

Finally, ARGA should commit to continuous improvement. The assurance landscape will continue to evolve as new technologies, risks, and expectations emerge. ARGA must remain responsive, regularly reviewing its criteria and engaging with stakeholders to keep the regime relevant and effective.

In building this regime, ARGA has the opportunity to shape not just the domestic assurance market but also to contribute to the global leadership of the UK in sustainable finance. A principled, inclusive, and adaptive approach will be key to achieving that ambition.

Question 6: How should ARGA work with other organisations when developing a future registration regime?

ARGA should adopt a collaborative approach to developing and operating the sustainability assurance registration regime. Success will depend on drawing from a wide pool of existing expertise, fostering engagement across sectors, and building alignment with international standards. By working openly and strategically with relevant partners, ARGA can create a regime that is both technically robust and practically workable.

To begin, ARGA should draw on the expertise already available within the market. Collaborating with the professional bodies, as well as ESG standard-setters and academic institutions, will help define appropriate qualifications, assurance methodologies, and training standards. This approach ensures that the regime builds on established best practices while adapting them to the specific demands of sustainability assurance.

Ongoing stakeholder engagement will be essential. ARGA should form advisory panels or working groups that include voices from industry, civil society, academia, and the investor community. These groups can support the co-development of standards and guidance, ensuring that the regime remains inclusive and relevant. Regular public consultations will also promote transparency, helping ARGA to maintain trust and adjust its approach in response to market feedback.

International coordination must form a core part of ARGA's strategy. Engagement with global bodies such as the ISSB and EFRAG will ensure that UK standards remain interoperable and internationally credible. Close alignment will reduce duplication for cross-border entities and strengthen the global competitiveness of UK-based assurance providers.

Training and capacity building should also be prioritised. ARGA can work with partners to deliver targeted programmes, including certification pathways and ongoing professional development. This will help develop a skilled and ethical assurance workforce, capable of meeting the diverse challenges posed by sustainability-related disclosures.

Finally, ARGA should support data-driven improvement. By partnering with research institutions and industry bodies, it can gather evidence on assurance quality, provider performance, and market trends. This information should feed directly into the continuous improvement of the regime, helping ARGA to identify emerging risks and areas for refinement.
Through this collaborative and evidence-based approach, ARGA can build a sustainability assurance regime that is not only technically sound but also responsive, inclusive, and aligned with the broader goals of sustainable finance.

Question 7: Do you agree or disagree that the UK's registration regime should recognise 'sustainability assurance providers' as being capable of providing high-quality assurance over multiple reporting standards (TCFD, UK SRS, ESRS)?

The UK's registration regime should recognise sustainability assurance providers as competent to assure disclosures across multiple reporting frameworks. This approach is crucial to achieving international alignment, maintaining market competitiveness, and ensuring comprehensive assurance quality.

Recognising providers as capable of assuring disclosures under TCFD, UK SRS, ESRS, and other aligned frameworks is both strategic and necessary. It supports the UK's ambition to lead globally in sustainable finance, builds trust in corporate reporting, and enables UK firms to operate effectively across diverse frameworks.

UK companies increasingly report under several frameworks due to regulatory demands and investor expectations. These include UK SRS (based on IFRS S1 and S2), TCFD (climate-related financial disclosures), and ESRS (mandatory under the EU CSRD for certain UK-parented entities). A registration regime that spans these standards ensures consistency and comparability across jurisdictions.

Recognising assurance providers for ESRS and other international standards enables UK firms to compete globally, particularly in Europe where the CSRD mandates third-party assurance. This removes barriers for UK providers seeking recognition under EU regulations.

Investors demand decision-useful, credible, and comparable information across sustainability frameworks. A unified assurance regime meets this need, enhancing investor confidence.

Companies often prepare disclosures aligned with multiple standards. Recognising a single assurance provider across frameworks reduces costs, complexity, and duplication of effort.
The UK government supports alignment with IFRS Sustainability Disclosure Standards and the International Standard on Sustainability Assurance (ISSA 5000). This ensures that UK assurance practices meet global best practice and regulatory expectations.

Recognising assurance providers across multiple frameworks offers clear benefits. It promotes regulatory coherence by preventing fragmentation and supports harmonisation internationally. It boosts market competitiveness, enabling UK providers to serve multinational clients and comply with EU CSRD requirements. It encourages providers to develop broad expertise, raising the quality and trustworthiness of assurance. Additionally, it improves operational efficiency by reducing the need for multiple providers or separate engagements.

However, this approach presents challenges. ARGA must develop robust, flexible criteria to assess competence across diverse frameworks. Providers might overextend, claiming expertise without sufficient depth unless properly regulated. Assurance professionals will require ongoing training to keep pace with evolving standards.

To ensure high-quality assurance across frameworks, ARGA should define core competencies and framework-specific qualifications. It should mandate adherence to international standards such as ISSA 5000 and relevant ethical codes. A tiered recognition system would allow providers to gain accreditation for specific frameworks based on demonstrated expertise. ARGA should also require continuous professional development aligned with changes in reporting standards and assurance methods. Finally, collaboration with international regulators, including EU and IFRS bodies, will promote mutual recognition and interoperability.

By adopting this multi-framework recognition, the UK can establish a credible, efficient, and internationally respected sustainability assurance regime.

Question 8: Do you agree or disagree that sustainability assurance providers must follow UK-equivalent standards to ISSA 5000?

We agree that sustainability assurance providers should be required to follow UK-equivalent standards to ISSA 5000. This requirement is vital to ensure consistency, credibility, and international alignment across sustainability assurance engagements.

ISSA 5000, developed by the International Auditing and Assurance Standards Board (IAASB), serves as the global benchmark. It adopts a profession-agnostic approach, making it applicable to both accountants and non-accountants. The standard offers a comprehensive framework for assuring sustainability information across various reporting standards such as UK SRS, ESRS, and TCFD.

Following this standard enhances trust and investor confidence. ISSA 5000 embeds strong ethical principles, including independence, integrity, and professional competence, which underpin high-quality, decision-useful assurance that stakeholders and investors can rely on.
Adopting a UK-equivalent to ISSA 5000 also facilitates international recognition. UK providers will be better positioned to meet EU CSRD requirements, which mandate assurance over ESRS disclosures. This alignment strengthens the UK's standing in global sustainable finance and supports cross-border business opportunities.

Moreover, aligning UK standards with ISSA 5000 promotes regulatory coherence. It avoids market confusion caused by divergent or duplicated regulations and ensures consistent oversight.

Mandating a UK-equivalent to ISSA 5000 offers several advantages. It guarantees global alignment, making UK assurance practices interoperable with international frameworks. The standard embeds rigorous ethical and technical requirements, enhancing the reliability of assurance. It builds confidence among investors, regulators, and the public, while also encouraging professional inclusivity by allowing both accountants and non-accountants to participate, provided they meet the quality standards.

However, the approach also presents challenges. Providers may face implementation complexity, requiring significant training and system upgrades to comply. There is a risk of over standardisation, potentially limiting flexibility for innovative or sector-specific assurance methods. Smaller firms might struggle to meet these requirements initially without transitional support.

Overall, adopting UK-equivalent standards to ISSA 5000 is essential for establishing a credible, consistent, and internationally respected sustainability assurance framework.

Question 9: How should ARGA exercise its proposed functions in respect of sustainability assurance standard setting in the future?

Mandating the use of UK-equivalent standards to ISSA 5000 is essential to establish a robust, credible, and internationally aligned sustainability assurance regime. ARGA must take a collaborative, adaptive, and forward-looking approach to standard setting, ensuring UK assurance providers can deliver high-quality assurance across a range of sustainability frameworks.

ARGA should align closely with international standards, adopting and adapting ISSA 5000 as the foundation for UK requirements. Any divergence should be limited and clearly justified by UK-specific needs. To ensure relevance and buy-in, ARGA must engage widely with stakeholders, forming consultative panels that include industry experts, assurance providers, investors, and civil society representatives to co-develop the standards.
Implementing the standards should follow a phased approach. ARGA should begin with voluntary adoption, allowing the market to build capacity and understanding before moving to mandatory use. The standards must undergo regular review and updating to reflect emerging risks, new technologies, and evolving reporting frameworks.

ARGA should also support capacity building by providing training, guidance, and certification pathways to help providers meet the standards. To reinforce the UK's position as a global leader in sustainability assurance, ARGA should actively contribute to international standard-setting bodies and share best practices.

This approach will help create a credible, flexible, and internationally respected sustainability assurance framework that supports the UK's sustainable finance ambitions.

Question 10: What factors should ARGA consider when developing its approach to enforcement?

ARGA should adopt a balanced, proportionate, and improvement-focused enforcement framework, particularly in the early years of the sustainability assurance regime. By combining supportive oversight with targeted enforcement, ARGA can foster a culture of trust, professionalism, and accountability within the UK's sustainability assurance market. Sustainability assurance remains an emerging and evolving field, so ARGA's enforcement approach must reflect this by prioritising support over punishment initially. Enforcement should follow a graduated process, emphasising education, guidance, and capacity building before imposing sanctions.

ARGA should focus its enforcement efforts where risks are greatest. It must prioritise cases involving serious misconduct, systemic failures, significant public interest, or suspected greenwashing and misleading sustainability claims. This risk-based approach ensures resources target threats to market integrity and investor confidence.

Clear accountability is vital given the multidisciplinary and team-based nature of sustainability assurance. ARGA must clarify who holds responsibility—whether individuals or firms—define breaches such as failure to adhere to standards or ethical violations, and outline how responsibility is shared or escalated within organisations.

Transparency and fairness should underpin all enforcement actions. ARGA must ensure due process and allow for appeals. Publishing anonymised case studies or summaries will help educate the market and promote best practice.

Coordination with other regulators, such as the FCA—particularly concerning anti-greenwashing rules—is crucial to avoid duplication and maintain consistency across regulatory regimes.

ARGA should position itself as an improvement-driven regulator, providing guidance, toolkits, workshops, and peer learning opportunities. Feedback from inspections should support providers in enhancing their assurance quality.

Sanctions such as fines or deregistration should be reserved as a last resort, applied only in cases of repeated non-compliance, intentional misrepresentation, or serious breaches of public trust and ethical standards.

ARGA's enforcement toolkit should include inspections and thematic reviews to assess compliance and identify systemic risks, corrective action plans for providers to remedy deficiencies, public warnings to alert the market when necessary, and fines or deregistration for serious or repeated violations.

This balanced enforcement framework will encourage continuous improvement while protecting market integrity and investor confidence.

Question 11: Do you agree or disagree that assurance of UK SRS disclosures is desirable in the long term?

Assuring UK SRS disclosures is desirable in the long term. It plays a crucial role in ensuring credibility, comparability, and trust in sustainability-related financial information, which increasingly influences investment decisions and corporate accountability.

A move to mandatory assurance would reflect international trends. The EU's Corporate Sustainability Reporting Directive (CSRD) already requires assurance for ESRS disclosures. Since the UK SRS is based on IFRS S1 and S2, it could be argued that adopting mandatory assurance naturally follows to ensure comparability and interoperability with global standards.

However, it is important that a balance be struck between the work that this creates for UK companies, some with limited resources, and the desire for comparable data. Any transition to a mandatory regime must be phased, proportionate, and accompanied by capacity-building initiatives to ensure smooth and effective implementation.

Mandatory assurance may improve data quality and comparability, build stakeholder trust, encourage stronger internal controls and governance, and support international recognition of UK disclosures. However, it also imposes cost and resource burdens, particularly on SMEs, faces limited market capacity in the short term, and risks devolving into a box-ticking exercise if applied rigidly.

To implement this effectively, the process should begin with voluntary or limited assurance, gradually progressing to mandatory reasonable assurance. Early phases should prioritise large, listed, or high-impact companies. Requirements must be proportionate, considering company size, sector, and risk, with simplified assurance options for SMEs and non-listed entities.

Investing in training and accreditation for sustainability assurance professionals will build market capacity. Supporting the formation of multidisciplinary assurance teams is also vital.
Clear guidance and standards should align with ISSA 5000 and UK-equivalent frameworks. Sector-specific guidance will help ensure consistent application.

As interim measures, voluntary assurance with public disclosure of methodology can encourage adoption. Transparency statements explaining why assurance was or wasn't obtained and market incentives such as procurement preferences and investor ratings can further promote early uptake.

This approach will establish a credible, trustworthy, and internationally aligned assurance regime for UK sustainability disclosures.

Question 12: Provide evidence where assurance providers have been excluded from or where you anticipate future barriers to competing for CSRD assurance engagements, due to a lack of UK registration regime or other reasons. Where possible, include quantitative estimates of the scale of impact on UK companies.

There is clear evidence that the absence of a UK registration regime creates significant barriers for UK-based assurance providers and UK-parented companies trying to comply with CSRD requirements. These obstacles are already impacting market access and competitiveness and will intensify unless addressed promptly.

The lack of a formal UK registration regime presents material, systemic, and urgent challenges for assurance providers and companies subject to CSRD. Implementing interim solutions and accelerating the establishment of the ARGA regime are vital to protect UK market access, support sustainable finance, and maintain the competitiveness of UK firms in the evolving global assurance landscape.

Under CSRD Article 34(1), sustainability disclosures must be assured by a provider authorised under the national law of the non-EU company's home country or an EU member state. Since the UK currently lacks a formal registration regime for sustainability assurance providers, UK firms fail to meet this requirement and cannot provide assurance for UK-parented entities operating within the EU.

Large UK companies with EU subsidiaries or listings fall within the scope of CSRD. This group includes UK companies listed on EU-regulated markets and UK-parented groups with significant EU turnover exceeding €150 million. These companies must either obtain assurance from an EU-authorised provider or wait for UK registration recognition under CSRD. This situation adds costs, delays, and operational complexity, particularly for groups with integrated reporting systems.

UK assurance providers cannot compete for CSRD engagements, even when they have the necessary technical expertise and client relationships. This exclusion results in lost business opportunities, especially for mid-sized firms and ESG consultancies that lack the resources to establish EU branches or partnerships easily.

Although precise figures are still emerging, early industry feedback indicates that dozens of UK-parented groups—particularly in financial services, retail, and manufacturing—face these challenges. Assurance costs for CSRD compliance typically amount to 20–30% of the financial audit costs per entity. The inability to use UK providers could lead to millions of pounds in lost annual revenue for UK assurance firms, especially as CSRD extends to thousands of entities across Europe.

Looking ahead, recognition delays may persist even after ARGA is established, as CSRD compliance might require bilateral agreements or EU-level approval. UK firms could also struggle to scale quickly if excluded from early CSRD engagements. Furthermore, UK companies may need to change assurance providers mid-cycle, disrupting reporting continuity and increasing costs.

To address these issues in the short term, the government should engage EU authorities to seek interim recognition of UK providers through diplomatic or regulatory channels. Establishing a temporary accreditation mechanism, such as a government-backed certification scheme that meets CSRD requirements, could bridge the gap until ARGA becomes operational. Additionally, providing guidance and funding to help UK providers form EU partnerships or subsidiaries will support firms in navigating this transition.

This coordinated approach is essential to safeguard the UK's position in the sustainable finance market and ensure that UK assurance providers remain competitive and capable in a shifting regulatory landscape.

Question 13: Provide evidence where the non-audit services cap has been a barrier to accessing or providing high-quality sustainability assurance. Where possible, include quantitative estimates of the scale of impact.

The current non-audit services cap, which limits permitted non-audit fees to 70% of the average audit fees over the previous three years for Public Interest Entities (PIEs), has become a clear barrier to providing sustainability assurance services, especially during the voluntary phase. This cap restricts the ability of audit firms to offer high-quality sustainability assurance and risks slowing market development. Adjusting the cap to exclude voluntary sustainability assurance, with appropriate safeguards, would support growth, enhance investor confidence, and align with the UK's broader sustainable finance goals.

Under the UK-adopted version of the EU audit regulation, sustainability assurance counts as a permitted non-audit service and is included in the 70% cap calculation. This creates a disincentive for statutory auditors, particularly those already providing significant audit services to PIEs, to offer sustainability assurance. Consequently, many large audit firms—often best placed to deliver high-quality assurance—may decline these engagements to avoid breaching the cap. This reduces the number of available providers at a time when demand is rapidly increasing among listed companies and financial institutions.

The FRC's market study confirmed that audit firms view the cap as a barrier to expanding sustainability assurance services. Firms reported that the cap limits their ability to scale these services in preparation for anticipated mandatory requirements under the UK SRS or CSRD. Industry estimates indicate that sustainability assurance fees for large PIEs typically range from £100,000 to £500,000 per engagement, depending on scope and complexity. For entities with relatively low audit fees—for example, around £300,000 per year—the cap restricts non-audit services to £210,000 annually, potentially excluding sustainability assurance entirely. This could cost audit firms millions of pounds in lost revenue each year and delay assurance adoption for many PIEs.

As sustainability assurance becomes more integrated into corporate reporting, the cap risks distorting provider selection by forcing companies to use non-audit firms, even when their auditor possesses relevant expertise. It could also fragment assurance quality if non-audit firms lack access to integrated financial data. Ultimately, this may delay voluntary assurance adoption, undermining investor confidence and market readiness.

To address these challenges, the government should exclude voluntary sustainability assurance from the non-audit services cap, as already proposed. This exemption would encourage early adoption and capacity building while maintaining auditor independence. Introducing a conditional exemption framework would strengthen safeguards through requirements such as disclosing assurance scope and provider independence, enforcing audit committee oversight, and limiting the bundling of assurance with other advisory services.

Finally, the government should establish a mechanism to monitor and review the cap's impact regularly. This should track market uptake of sustainability assurance, provider concentration and competition, and investor feedback on assurance quality. Such ongoing oversight will ensure the cap continues to support a healthy, competitive, and credible sustainability assurance market.

If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,

Dr Valentina Dotto
Policy Adviser
The Chartered Governance Institute UK & Ireland