Limited vs. Reasonable Assurance:
Bridging the Expectation Gap for Board Directors

Assurance, Sustainability Reporting & Audit Readiness Series

Executive Summary

As Malaysian Public Listed Companies (PLCs) progress through the National Sustainability Reporting Framework (NSRF), boards and audit committees are entering a new era of assurance expectations. What began as voluntary sustainability reporting with optional Limited Assurance is now moving toward a regulated destination: **Mandatory Reasonable Assurance over Scope 1 and Scope 2 GHG emissions**, beginning **FY2027 for Group 1 issuers** and expanding to other groups in subsequent years.

This shift is not cosmetic. It represents a fundamental elevation in evidentiary requirements, internal control maturity, and audit readiness. To avoid misalignment between management, external auditors, and capital markets, directors must clearly understand the operational and cost implications of moving from Limited to Reasonable Assurance.

Why This Matters for Boards

The transition from Limited Assurance to Reasonable Assurance is not simply an increase in audit work. It requires stronger controls, verifiable evidence, system-based governance and audit-ready documentation. Boards must understand the implications for budgets, timelines, resources and governance oversight.

Decoding the Two Assurance Levels

The distinction between Limited and Reasonable Assurance is often misunderstood at board level. The difference is not merely "more testing"—it is a shift in the **level of confidence**, **depth of audit procedures**, and **nature of evidence** required under standards such as **ISSA 5000** and **ISAE 3000 (Revised)**.

Assurance Dimension	Limited Assurance ("Negative Assurance")	Reasonable Assurance ("Positive Assurance")
Auditor's Conclusion	"Nothing has come to our attention…"	"In our opinion, the GHG statement is fairly stated…"
Audit Depth	High-level analytics, inquiries, plausibility checks	Detailed testing of controls, IT systems, primary evidence, recalculation
Control Reliance	Reviews control design only	Tests design **and** operating effectiveness across the reporting period
Work Effort & Cost	Lower cost; smaller samples; shorter timelines	Significantly higher cost (often 2–3×); extensive sampling, site visits, data room audits

Reasonable Assurance mirrors the rigor of financial audits—risk-based sampling, materiality thresholds, and evidence trails that withstand external scrutiny.

The Operational & Technical Reality Check

Transitioning to Reasonable Assurance is not a documentation upgrade. It requires a **systemic transformation** in how non-financial data is governed, validated, and stored.

Primary Evidence vs Plausible Data

Under Limited Assurance, auditors may accept aggregated utility summaries if management explanations appear reasonable. Under Reasonable Assurance, auditors must trace every material data point back to **primary evidence**:

- Monthly electricity invoices
- Meter calibration certificates
- Fuel delivery receipts
- ERP system extracts
- Facility-level logs and sign-offs

This shift is already reflected in NSRF guidance and assurance expectations for GHG emissions.

The Death of Manual Spreadsheets

Manual spreadsheets—especially those with unlinked formulas, copy-paste errors, or missing change logs—are a major risk under Reasonable Assurance. Auditors will perform:

- **IT General Controls (ITGC)** testing
- **Data lineage tracing**
- **Access control reviews**
- **Version history checks**

Spreadsheets without dual authorization, audit trails, or system controls may lead to **audit adjustments** or even **qualified opinions**.

Boards must recognize that Reasonable Assurance requires **system-based data governance**, not spreadsheet-based reporting.

Boardroom Expectation Gap

Audit Committees must actively address two recurring misconceptions:

Misconception 1: "We already have Limited Assurance, so Reasonable Assurance will be easy."

Reality: Limited Assurance tests whether data appears plausible. Reasonable Assurance tests the **internal controls**, **data lineage**, and **transaction-level evidence** behind every material metric. Gaps that were invisible under Limited Assurance will surface immediately under Reasonable Assurance.

Misconception 2: "External assurance guarantees 100% accuracy."

Reality: Reasonable Assurance provides **high but not absolute** assurance. It mirrors financial audit standards—risk-based sampling, materiality thresholds, and professional judgment. It does not eliminate all uncertainty.

Boards must recalibrate expectations to avoid friction with auditors and prevent delays in annual report publication.

3-Step Preparation Plan for CFOs & Audit Committees

To meet the FY2027 mandate without budget shocks or last-minute remediation, PLCs should begin preparation now.

Step 1: Conduct a Control Design & Operating Gap Assessment

Move from self-reported data to formal **Standard Operating Procedures (SOPs)** for Scope 1 and Scope 2 GHG accounting. Assess:

- Control design adequacy
- Operating effectiveness
- Evidence trails
- System dependencies

Step 2: Execute Pre-Assurance "Mock Audits"

Engage internal audit or independent advisors to stress-test:

- Primary source evidence
- Meter logs and calibration records
- ERP extracts
- Facility-level documentation

Mock audits help identify gaps before external auditors arrive.

Step 3: Establish a Secure Digital Data Room

Centralize all primary evidence:

- Invoices
- Grid emission factors
- Fuel receipts
- Meter logs
- Sign-off sheets

A structured data room reduces audit delays and supports multi-location evidence retrieval.

Audit Committee Readiness Checklist

- Have Scope 1 and Scope 2 processes been documented?
- Are evidence trails complete and retrievable?
- Have operating controls been tested?
- Are spreadsheets subject to governance controls?
- Has management conducted a mock assurance review?
- Is a central ESG evidence repository established?

Board Director Questions

• Can management trace every material emissions figure to primary evidence?
• Which controls are relied upon by external assurance providers?
• What assurance gaps remain before FY2027?
• Are sustainability data systems audit-ready?
• What budget implications exist for Reasonable Assurance?

Moving Forward

Limited Assurance is a useful stepping stone, but **Reasonable Assurance is the destination** that builds investor confidence and protects organizations from qualified opinions. As regulators push sustainability reporting toward the rigor of financial statements, boards must ensure their organizations invest early in:

- Internal controls
- Evidence governance
- Digital systems
- Audit-ready documentation

By strengthening these foundations today, PLCs will enter FY2027 with confidence—and demonstrate the governance maturity expected by capital markets.

Author

KC Teo
National Quality Expert (Corporate Sustainability & ESG Frameworks – IQM)
Principal Consultant & Lead Auditor, VeriSustain MyESG PLT

consultant@verisustain.my | +6013 699 6033 | www.verisustain.my