



The Association of
Accountants and
Financial Professionals
in Business



COSO
COMMITTEE OF SPONSORING
ORGANIZATIONS

via email

To: clairegrayston@iaasb.org

9 January 2024

Tom Seidenstein, Chair
Claire Grayston, Principal, Non-financial Information Assurance
International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Seidenstein and Ms. Grayston:

Re: Proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

The Committee of Sponsoring Organizations (COSO), along with the IMA® (Institute of Management Accountants through its Sustainable Business Management Committee (SBMC or Committee), are writing to comment on the Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagement*.

This letter does not duplicate (nor is it intended to contradict) input from COSO's sponsoring organizations that have submitted their own comment letters to the IAASB. Rather, this letter highlights a few specific topics which the COSO Board and the IMA SBMC believe should be considered by the IAASB.

The Committee of Sponsoring Organizations' (COSO) operates as a collaborative body for five international accounting and auditing associations: American Institute of Certified Public Accountants, American Accounting Association, Financial Executives International, IMA, and the Institute of Internal Auditors. COSO's mission is to help organizations improve performance by developing thought leadership that enhances internal control, risk management, governance, and fraud deterrence.

IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The SBMC is the sustainable business technical committee of the IMA. The SBMC includes individuals with sustainable business expertise in reporting, management, consulting, and education. The SBMC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the SBMC can be found at www.imanet.org ([About IMA](#), [Advocacy](#), [Sustainable Business Management Committee](#)).

In 2021, IMA, through the leadership of the SBMC issued a [Statement of Position on Sustainable Business Information and Management](#). This SOP expresses nine fundamental principles that are essential to building a successful and sustainable accounting and reporting ecosystem in a way that meets global demands for sustainability information, and at the same time, promotes trust and facilitates meaningful action. The SOP represents the fundamental concepts for all of our responses herein. Trust, accountability, and transparency are the enduring cornerstones of professional accountancy.

In addition, in 2023, COSO, led by an authorship team that included representatives of IMA and the IIA, released interpretative guidance, [Achieving Effective Internal Control Over Sustainability Reporting” \(ICSR\) Supplemental Guidance](#) (or ICSR). The Guidance is based on the widely utilized and recognized COSO 2013 Internal Control Integrated Framework (ICIF) and reflects its application on sustainable business activities and information. This publication, although nonauthoritative, has received widespread approval in the market, and it’s often cited as reference. Our responses herein reflect the considerable information that was obtained directly from diverse practitioners in corporate accounting, finance, sustainability / ESG, internal audit, and external audit or assurance providers during the significant research that lead to the release.

Overall, COSO and IMA are delighted to see the evolution and considerable thought behind the delivery of an agreed upon set of auditing standards that address the evolving world of sustainability. Agreed upon auditing standards are key to the development of trust in sustainability reporting. We applaud the Board for taking this crucial step and provide further feedback on the particular points raised in the Proposal as follows:

Survey Question 1 - Do you agree that it is important for ED-5000 to be capable of being applied for each of the items listed above to provide a global baseline for sustainability assurance engagements?

We agree that it is important for ED-5000 to be capable of providing a global baseline for sustainability assurance engagements. Referencing the IMA’s SOP, we strongly support initiatives

that bring about integration and alignment and avoid creating (or enabling) “financial” and “nonfinancial” silos. Considering a holistic and value-based approach, it is crucial the ED-5000 can be applied to a wide range of sustainability topics as these topics (and aspects of topics) are evolving and will be dependent on the individual reporting entity.

Survey Question 2 - Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal?

As noted, our answers reflect the fundamental priority of upholding public trust in the work we do as a profession. Throughout our ICSR publication, we emphasize that ethics is the heart of governance and controls for all types of corporate reporting, including sustainability or ESG reporting. Instilling ethics throughout an organization guides each ICIF and ICSR component: control environment, risk assessment, control activities, information & communication, and monitoring activities. We agree the proposal is contributing to building public trust around sustainability disclosures.

However, in doing so, we emphasize the Board prioritize, in its deliberations, not only the needs of auditors and assurance providers but also the needs of preparers: the in-house corporate professionals in finance, accounting, controllership, risk, and internal audit teams that are now responsible for operationalizing and implementing complex new reporting standards, internal controls, and performance monitoring systems. Thus, it is critically important to consider governance – the design and implementation of reliable internal capacity and control systems alongside new auditing standards.

Survey Question 4 - Is ED-5000 sufficiently clear about the concept of “at least as demanding” as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm’s responsibility for its system of quality management?

The IESBA Code / ISQM 1 represents a workable foundation to align with and supplement existing, recognized, competency requirements. We observe that the nascency of sustainability reporting and auditing means that there is a lack of knowledge and experience in the market – principally around the well-developed rigor of traditional auditing standards around concepts of governance, controls, and fraud prevention and detection. Yet, these challenges can be addressed elegantly by leveraging the profession’s existing knowledge and expertise on governance and internal control. As we demonstrated throughout our ICSR publication, the means for addressing internal control for financial reporting that have developed for decades can indeed be applied to sustainable business activities and the related information and disclosures.

The profession must avoid the risk of “greenwashing,” the issuance of information to investors and other resource providers (users) that is subject to unacceptable risks of misstatement or

otherwise deemed unreliable. Therefore, we suggest that before the finalization of any novel standard, clear and specific ethical requirements regarding competencies be unambiguous.

Survey Question 6 - Do you agree with the way in which ED-5000 addresses the entity's "materiality process"?

The fundamental purpose of accounting and reporting is delivering decision-useful information. Finding its roots in the regulatory scheme established after the 1929 market crash and ensuing depression, securities law, the heart of financial reporting requirements, arose around the interrelated concepts of "trading in the sunshine" and materiality. Since then, the law – statute, regulation, and precedent -- has used the term "materiality" to assess the decision-usefulness of information from the perspective of a particular, hypothetical user, the "reasonable investor."

New corporate reporting mandates, however, are being promulgated with an ill-defined materiality standard that lacks the frame of reference of a specified user. If the intended user is poorly identified, dissemination and assurance of the appropriate information becomes subject to the question "material for whom?" and challenging to operationalize. The performance of an appropriate materiality assessment without identifying the user with clarity creates undue risk, particularly around potential claims of omissions. Therefore, to be meaningful, provided assurance must identify not only the subject, reporting entity but also the intended user(s) for whose use materiality has been assessed.

Survey Question 8 - Do you agree that ED-5000 appropriately addresses the topic of fraud (including "greenwashing") by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error?

In our view, ICIF / ICFR establish adequate procedures to address fraud risks, as much of this existing knowledge can be leveraged for sustainability reporting and assurance processes. The COSO Integrated Internal Control Framework (ICIF) Principle 8 speaks directly to the design and implementation of effective controls to detect and deter fraud. These standards form the basis of internal controls over financial reporting (ICFR), widely utilized as a foundation for compliance with the Sarbanes-Oxley Act in the U.S. We suggest the standards aim to stay consistent with the existing COSO standards as many companies have an established and effective ICFR framework.

Survey Question 9 - Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate?

As mentioned in Question 8 and 13, we believe that professionals taking on responsibility for new assurance standards for sustainability reporting should leverage, to the extent possible, existing competencies and processes.

One of the five components in COSO’s ICIF is Communication & Information. This means that quality, reliable information, communicated both internally and externally, are critical for an effective control strategy. We re-emphasized this in our ICSR publication. It is through the means of communication of trustworthy information that an organization considers its control environment, assesses risks, designs and implements policies and procedures for the use of technology, and reassesses the whole for improvement over time.

As an overall proposition, the Proposal seems to align with this view.

Survey Question 13 - Do you agree with the differentiation in the approach in ED-5000 for obtaining an understanding of the entity’s system of internal control for limited and reasonable assurance engagements?

We agree that leveraging the existing approach regarding an auditor’s work regarding documenting and testing controls as a predicate for the nature of the assurance report is wise. As we have noted, ICSR is the ideal roadmap for organizations to identify, formalize, and assess its control system, and it forms the foundation for effective external assurance. The profession has learned over a century, an effective and functioning system of internal controls is critical to providing reliable, trustworthy, and transparent reporting.

However, we are concerned that new users of corporate reporting, drawn to the topic of “sustainability,” will be entirely unfamiliar with the nuances of an assurance providers’ responsibilities. In the case, for example, of a greenwashing claim, an assurance provider may try to defend its work and its reputation by noting that the assurance provided was “limited.” This may not, however, satisfy the expectations of new persons or entities who are using the entity’s sustainability disclosures. Therefore, we implore the Board to make sure that standards regarding the assurance providers’ report are absolutely clear, and engagement with the auditing / assurance profession may be critical in determining the details.

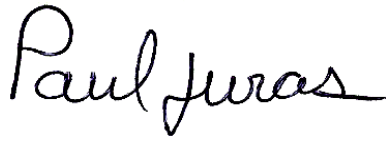
IMA acknowledges that the user groups of sustainability information are growing and the potential risks associated with disclosures are widening. It is crucial the users – who need to be identified for materiality assessments, as discussed above, must understand the audit scope and level of responsibility the audit opinion holds. Auditors and reporting entities should consider additional documentation to ensure the users understand the definition of assurance provided.

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We would be pleased to discuss our comments at your convenience.

A handwritten signature in black ink, appearing to read 'Lucia Wind', with a stylized flourish at the end.

Lucia Wind, Chair
COSO

A handwritten signature in black ink, appearing to read 'Paul Juras', with a stylized flourish at the end.

Paul Juras
Chair, Sustainable Business Management Committee
Institute of Management Accountants