Assurance on Sustainability / Environmental, Social and Governance (ESG) Reporting: Request for Board Direction to Support Progressing the IAASB’s Immediate Actions

Overview and Objective of the Discussion

At the March 2022 IAASB meeting, the breakout group discussions signaled clear support for a timely standard-setting response for assurance on sustainability / ESG reporting to provide a global assurance solution. As further explained in this paper, the Sustainability Assurance Working Group (SAWG) is proposing to pursue the development of a standard for assurance on sustainability / ESG reporting.

A standard for assurance on sustainability / ESG reporting would need to provide a complete assurance solution, based on or drawing from the IAASB’s existing standards and guidance, with enhancements and specificity to address assurance on sustainability / ESG reporting. However, given the IAASB needs to be nimble and rapid in its response, the SAWG is proposing prioritizing key challenges in developing the initial standard-setting efforts. Over time, and as the IAASB’s capacity and resources become available, the IAASB could undertake further standard-setting action to provide specificity on challenges not addressed as part of initial efforts, and also respond to the maturity of reporting standards and assurance engagements.

To pursue standard-setting, and determine the scope of the Board’s immediate actions, it is necessary to understand the Board’s views on the approach to developing a standard for assurance on sustainability / ESG reporting, in particular:

1. Which challenges are the most critical areas to be covered as part of the IAASB’s immediate actions.
2. Whether the IAASB’s immediate actions should only address limited assurance, or both limited and reasonable assurance.
3. The relationship between an overarching standard for assurance on sustainability / ESG reporting and ISAE 3000 (Revised).
4. Whether the Board supports development of an overarching assurance standard to provide the building blocks for a phased approach to standard-setting in response future priorities in the public interest.

Accordingly, at the June 2022 meeting, the objective is to obtain the Board’s direction on the above matters. This direction will help inform the SAWG’s work in developing an outline of the requirements of the overarching standard, which the SAWG aims to present at the September 2022 meeting.

A. Introduction

1. Given the feedback from the Board during the breakout groups in the March 2022 meeting, the assurance on sustainability / ESG reporting topic was moved into Category C of the Framework for Activities “recommendations for IAASB action and scoping a project.”

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1 ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
2. Since the March 2022 IAASB meeting, the SAWG and IAASB Staff considered the breakout groups’ discussions to:
   (a) Identify the challenges that are most significant, and which may warrant more immediate action.
   (b) Understand the Board’s views about the possible actions and the way forward.

3. In June 2022, the SAWG is seeking direction from the Board on the immediate actions to be undertaken in response to the call for a global standard-setting solution for assurance on sustainability / ESG reporting. The Board direction will prioritize the IAASB’s actions and inform the initial standard-setting efforts.

4. Engagement with key stakeholders remains an important element of the IAASB’s work on assurance on sustainability / ESG reporting. In March 2022, the SAWG indicated it would undertake outreach to solicit broader views on the various matters affecting the IAASB’s work. After considering the Board’s feedback in March 2022, the SAWG and IAASB leadership determined that it would be more effective to continue targeted outreach with only key stakeholders, with a view to undertaking more comprehensive and broader outreach in Quarter 4 of 2022 (i.e., once the IAASB’s thinking is more developed). Engagement with key stakeholders in Quarter 2 of 2022 has involved updates on the project, and discussions about immediate plans for the path forward, to ensure key stakeholders remain informed of the IAASB’s work. Appendix 3 includes a summary of key stakeholders with whom IAASB Staff have met in quarter 2, 2022. Feedback from stakeholders that is relevant to the proposals in this paper will be shared with the Board in the June 2022 meeting.

5. In March 2022, the International Sustainability Standards Board (ISSB) released its exposure drafts, Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures. The suitability of criteria is a key issue for the IAASB’s work, and therefore it is critical that the IAASB contributes feedback on the “assurability” of the ISSB’s standards. An ISSB Liaison Group has been formed to support the IAASB Staff in developing a comment letter for the ISSB. In quarter 2, the IAASB Chair and Staff have engaged with the ISSB Chair, Deputy Chair, and Staff.

6. To support the Board’s contributions to the June 2022 discussion, this paper provides:
   (a) An overview of the feedback from the Board breakout groups in March 2022; and
   (b) Options for consideration regarding the possible approach to the design of the IAASB’s proposed standard(s) for assurance on sustainability / ESG reporting, which will impact how the IAASB prioritizes and approaches its work on this topic and will provide the basis for development of a proposed overarching standard.

Appendices to this Paper and Other Agenda Items Accompanying This Paper

7. Agenda Item 4-A includes the presentation for the IAASB for June 2022, and therefore provides an overview of the proposals outlined in this paper and the progress of the project to date. The following appendices accompany this paper:

   | Appendix 1 | Extract from the Approved March 2022 IAASB Meeting Minutes for Sustainability |
B. Feedback from the Board Breakout Groups in March 2022 and SAWG Recommendations

8. In March 2022, the Board was asked to provide feedback on six questions, which were explored in breakout groups. The outcomes of the breakout group discussions indicated a strong consensus on the need for actions for assurance on sustainability / ESG reporting. Below is a summary of the common themes that emerged across the breakout groups for the specific questions raised.

| The Board was asked to share views on the following: |
| Q.1 Whether the Board agrees that its actions should be focused on assurance on sustainability / ESG reporting more broadly, encapsulating all topics and information disclosed about the topics, recognizing different mechanisms for reporting, and remaining framework-neutral in terms of the reporting standards used? |
| Q.2 Whether the Board agrees that it should remain neutral on the intended users of the assurance practitioner’s report (recognizing the broad spectrum of users of sustainability / ESG reporting), as is currently the case across the IAASB’s Standards? |

There was a strong consensus that the IAASB’s actions and considerations should encapsulate:

(a) All sustainability topics (such as climate, economic impacts, labor practices, human rights and community relations, and biodiversity).
(b) All information disclosed about the topics (such as governance, strategy and business model, risks and opportunities, metrics and key performance indicators, targets, internal control over monitoring and managing risk, and impact analysis).
(c) All mechanisms for reporting (such as integrated reports, annual reports, management commentary and sustainability reports).
(d) All reporting standards (such as the reporting standards issued by the International Sustainability Standards Board (ISSB), Global Reporting Initiative (GRI) or by national jurisdictions, including the European Union’s Proposed Corporate Sustainability Reporting Directive and the U.S. Securities and Exchange Commission’s (SEC) proposed rules to enhance and standardize climate-related disclosures for investors). However, there was encouragement to reflect on particular reporting standards to ensure that the IAASB’s proposals are appropriate and can be practically applied to those reporting standards, such as through relevant application material including examples.
(e) All users, including those focused on enterprise value creation, such as providers of capital and broader stakeholders focused on impacts on economy, environment or society.
The Board was asked to share views on the following:

Q.3 What are the challenges in performing assurance engagements on sustainability / ESG reporting? In sharing these challenges, the Board was asked to also indicate what is the urgency and priority of each challenge.

The breakout groups agreed that the challenges reflected in paragraph 38 of Agenda Item 6 of the March 2022 Board meeting are pertinent. The areas of challenges discussed by the breakout groups as being most critical included:

(a) The extent of work effort needed for engagement acceptance and continuance, including determining the appropriate scope and assessing the suitability of the criteria.

(b) Understanding controls to identify risks of material misstatement.

(c) Evidence gathering for limited versus reasonable assurance engagements, and the lack of clarity on the level of assurance being provided in a limited assurance engagement.

(d) Clarification of sufficient appropriate evidence, given immature systems and controls and lack of reliable information, and the impact on the conclusion or opinion if there is not sufficient appropriate evidence.

(e) Determining materiality, applying the concept of double materiality, and assessing misstatements given the varying nature of the information.

(f) The risk of the completeness of sustainability / ESG information.

(g) How to assure forward-looking information and expectation gaps regarding assurance of forward-looking information.

(h) Reliance on experts or the work of others.

(i) Fraud (in particular given immature systems).

(j) Users’ lack of understanding of assurance reports regarding, for example, the level of assurance provided and whether assurance has been provided on all sustainability information reported or only selected information.

(k) Inconsistencies between assurance reports on sustainability / ESG reporting which impedes comparability.

(l) Barriers for non-accountants or non-accounting firms in using the IAASB standards as a result of the need apply the IESBA Code\(^2\) (or other professional requirements that are at least as demanding) and be subject to a system of quality management in accordance with ISQM 1\(^3\) (or professional requirements that are at least as demanding).

The SAWG has further distilled the challenges into five priority challenges (see further explanation in paragraph 14 below).

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\(^2\) The International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)

\(^3\) ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
The Board was asked to share views on the following:

Q.4 What are the Board’s views about the actions the IAASB should take in addressing assurance on sustainability / ESG reporting?

There was support for timely and responsive standard-setting action to provide a global solution for assurance on sustainability / ESG reporting, and minimize the risk of fragmentation in assurance standards. In this regard, across the breakout groups there was broad support for a “sustainability branded” standard. There was also an acknowledgement that the IAASB will need to develop a more immediate standard-setting solution, with a view to further developing and building on that standard(s) in the future.

The breakout groups acknowledged that existing IAASB standards should be leveraged in developing standard(s) for sustainability assurance engagements (i.e., ISAE 3000 (Revised) and ISAE 3410⁴), and that other IAASB standards, such as the International Standards on Auditing (ISAs), ISAE 3400⁵ and ISAE 3402⁶, may provide relevant material that could be adapted for assurance on sustainability / ESG reporting. In addition, the breakout groups noted that the Non-authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements (sustainability / EER guidance) is helpful and that the challenges addressed in the guidance continue to be relevant.

Across the breakout groups it was noted that authoritative requirements are needed, as guidance is not widely recognized or accepted by regulators and other stakeholders. Nevertheless, there was encouragement to leverage the sustainability / EER guidance as part of the IAASB’s further work.

The Board was asked to share views on the following:

Q.5 For the integration of sustainability / ESG information within the financial statements:
   
   (a) Has the Board observed that sustainability / ESG information is being integrated with the financial statements?
   
   (b) What challenges and complexities does this create from an audit and/or assurance perspective?
   
   (c) How are auditors of financial statements currently dealing with the integration of this information?
   
   (d) Does the Board believe that IAASB actions in this regard are needed, and if so, is this a priority action that needs to be addressed in parallel with any other actions taken to address assurance on sustainability / ESG reporting?

It was noted that expectation gaps can arise when certain sustainability information is included in the notes to the financial statements or when not all information in the financial or annual report

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⁴ ISAE 3410, Assurance Engagements on Greenhouse Gas Statements
⁵ ISAE 3400, The Examination of Prospective Financial Information
⁶ ISAE 3402, Assurance Reports on Controls at a Service Organization
has been subject to audit. Furthermore, across the groups, the application of ISA 720 (Revised)\(^7\) was emphasized as an issue in this context, given confusion that may arise about what the practitioner’s responsibilities encompass and the limitations of the responsibilities. In addition, it was noted that there can be added complexity if different auditors or assurance providers are used for the audit of the financial statements and the assurance of the sustainability / ESG information, in particular when that reporting is integrated. However, overall, there did not appear to be an urgent call for action from the breakout groups to address integration with the financial statements at this time.

The Board was asked to share views on the following:

Q.6 What outreach and information-gathering should the IAASB undertake to solicit input from stakeholders?

The breakout groups did not identify specific stakeholders for outreach, but were encouraged to submit those in writing.

SAWG Recommendations

Pursue the Development of a Standard for Assurance on Sustainability / ESG Reporting

9. The SAWG noted the support for timely and responsive standard-setting action, including broad support for a “sustainability branded” standard. In considering the way forward, the SAWG acknowledged the extensive work already undertaken by the IAASB in developing the sustainability / EER guidance to understand the challenges for assurance engagements on sustainability / ESG reporting, and how these challenges may be approached. Accordingly, the SAWG is of the view that undertaking further information gathering and research at this stage, including through outreach, may not provide extensive insights that would significantly affect the IAASB’s standard-setting work.

10. Given the strong call across all stakeholders for a timely standard-setting response, the SAWG is proposing pursuing the development of an overarching standard for assurance on sustainability / ESG reporting. An overarching standard would provide a global baseline for sustainability / ESG assurance engagements, from which further standards could be developed over time. Future standards could be developed to provide enhancements and specificity on challenges not addressed as part of the Board’s initial efforts, to respond to reporting frameworks and the nature of assurance engagements as they mature, and to meet the emerging priorities of stakeholders.

11. A plan for a program of work will be created to guide the development a standard for assurance on sustainability / ESG reporting, including broad objectives for the project, key targeted milestones and key focus areas. In consultation with IAASB leadership, it is suggested that a formal project proposal is not necessary at this point, given that there is clear direction on what actions the IAASB needs to take and the urgency of those actions. Furthermore, developing a project proposal could impair IAASB Staff’s capacity to advance standard-setting and negatively impact the project timeline by approximately 6 months. This will continue to be a matter for close coordination with the Public Interest Oversight Board to determine how best to accommodate the relevant standard-setting due process steps.

\(^7\) ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information
12. **Section C** of this paper further explores the approach to developing a standard for assurance on sustainability / ESG reporting.

**Critical Challenges on Which Initial Efforts need to Focus**

13. As highlighted to the Board in March 2022, it is essential that the IAASB prioritize the challenges that are most critical to achieving timely progress and impactful change. Once priority challenges have been progressed, and as capacity opens and resources become available, the IAASB could undertake further standard-setting action, as highlighted in paragraph 10 above.

14. A key focus of the discussions in the breakout groups was the challenges in assurance on sustainability / ESG reporting, and identifying which of the challenges are a priority for the IAASB. After considering the discussions across the breakout groups, the SAWG identified the following challenges as most critical. As a result, these would be the areas where specificity would be provided as part of the initial standard-setting effort:

(a) Limited and reasonable assurance

   (i) The sufficiency of evidence required to obtain a particular level of assurance. This includes the extent of variance in practice on how much evidence is considered sufficient appropriate evidence to obtain limited assurance given varying interpretations of limited assurance on the spectrum of assurance.

   (ii) Users’ lack of clarity on the level of assurance being communicated in a limited assurance engagement.

(b) Suitability of the reporting criteria

   (i) Challenges in evaluating whether the reporting standards provide suitable criteria.

   (ii) The extent to which preparers need to develop, select and apply additional criteria, which may involve significant judgment.

(c) The scope of the assurance engagement

   (i) Considerations regarding the appropriateness of the scope of the engagement, for example, when the assurance practitioner is requested to only assure certain aspects of the sustainability information.

   (ii) Users’ lack of understanding of whether the practitioner’s assurance conclusion covers all of the sustainability information reported versus selected information (i.e., what information was subject to assurance).

(d) Evidence

   (i) A lack of clarity on what comprises sufficient appropriate evidence given the diverse nature of the information, the immaturity of many entities’ systems and controls and lack of reliable external information.

   (ii) How to evaluate the reliability of information in the supply chain.

   (iii) The impact on the practitioner’s conclusion or opinion if there is not sufficient appropriate evidence, including as a result of a lack of internal control or relevant and reliable information.
(e) Materiality

(i) Applying the concept of double materiality (i.e., to consider the needs of different users, who may either be concerned with enterprise value or the entity’s impact on ESG).

(ii) Determining materiality, given the nature of information which can be narrative and qualitative.

(iii) Assessing the materiality of misstatements as a whole, in particular given that information is often of a different nature and therefore misstatements are difficult to collate or aggregate as a whole.

15. The SAWG debated whether the IAASB should focus only on limited assurance in its initial standard-setting efforts, given this is a more urgent issue in some jurisdictions where policymakers are mandating limited assurance on sustainability / ESG reporting, as a transition to reasonable assurance. This decision fundamentally impacts the approach to developing a standard for assurance on sustainability / ESG reporting, including how the standard is structured.

16. Addressing only limited assurance could take less time to finalize, but it would delay the development of an overarching standard for reasonable assurance, and affect the IAASB's ability to deliver a standard addressing reasonable assurance within the timeframes that some policymakers have set for the shift to reasonable assurance. In addition, limited assurance is a concept that is relative to reasonable assurance and may be better understood when it is addressed in the context of reasonable assurance.

17. As a result, the SAWG is of the view that it is necessary to address both limited assurance and reasonable assurance in the IAASB’s initial standard-setting efforts.

Matters for Board Consideration

1. Does the Board support pursuing the development of standard for assurance on sustainability / ESG reporting as the immediate action?

2. Does the Board agree with the five challenges (refer paragraph 14) that have been identified by the SAWG as most critical, and on which specificity would be provided as part of the initial standard-setting effort?

3. Does the Board agree with the SAWG’s view that it is necessary to address both limited assurance and reasonable assurance initially or does it prefer to address limited assurance only as the IAASB’s initial standard-setting efforts?

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Paragraph 12(b) of ISAE 3000 (Revised) defines a limited assurance engagement as (emphasis added) “An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful...”
C. The Approach to Developing a Standard for Assurance on Sustainability / ESG Reporting

18. As explained in the previous section, the SAWG is proposing pursuing the development of a standard for assurance on sustainability / ESG reporting. As highlighted in paragraph 8 (see Question 4 responses), across the breakout groups at the March 2022 Board meeting, there was an acknowledgement that the IAASB will need to develop a more immediate global standard-setting solution for sustainability assurance engagements, with a view to further developing and building on that standard in the future.

19. Given there are many challenges related to assurance of sustainability / ESG reporting that need to be addressed, the SAWG envisages that the standard(s) for assurance of sustainability / ESG reporting will need to be developed in phases over time (i.e., applying a phased approach). Furthermore, the preparation of sustainability information, underlying sustainability reporting standards, and assurance practice on sustainability / ESG reporting are at an early stage in the maturity curve, and the need for further specificity and enhancements to the assurance standards may emerge as sustainability reporting continues to evolve.

20. The IAASB’s immediate standard-setting action needs to focus on an overarching standard that will provide a baseline for a global assurance solution, as well as the building blocks for further assurance standards on sustainability / ESG reporting in the future. An “overarching standard” in this context refers to a standard that addresses the conduct of an assurance engagement in its entirety, dealing with all topics and types of information encompassed by sustainability / ESG reporting. This overarching standard would need to:

(a) Provide a complete assurance solution, with specific issues, or more granular requirements and application material, developed over time. Critical challenges that are identified and prioritized by the IAASB would also be addressed initially (see paragraphs 13-14).

(b) Address the broad range of topics, information disclosed about the topics, mechanisms for reporting, reporting standards, and users encapsulated within the wide spectrum of sustainability / ESG reporting globally.

(c) Be developed in a timely and responsive manner, while remaining appropriate and of high-quality.

(d) Leverage the IAASB’s sustainability / EER guidance, and relevant IAASB Standards, such as ISAE 3000 (Revised), ISAE 3400, ISAE 3402 and ISAE 3410, as well as relevant material from the ISAs, in developing enhanced requirements and application material that are specific to assurance on sustainability / ESG reporting.

21. The further development of standard(s) could follow a phased approach, based on evolving priorities in the public interest. Topics that these future standard-setting actions could deal with include:

(a) Specific aspects of the engagement, such as quality management, materiality, evidence and reporting.

(b) Special considerations regarding the types of information prepared and disclosed about topics, for example, forward-looking information, scenario analysis or information about systems, processes and internal controls.

(c) The integration of sustainability / ESG information with financial statements.
22. A key consideration for the further development of the overarching standard is how to design and frame the standard, including the relationship with ISAE 3000 (Revised). The SAWG identified three options, which will affect how the IAASB approaches the standard-setting journey. Accordingly, to be responsive to the urgent call for a global sustainability assurance solution, the SAWG is seeking the Board’s direction on which of the options should be pursued. These options are set out in Table 1 below, along with an assessment of the extent to which each option addresses the public interest characteristics which the SAWG considered to be of greatest relevance to the development of a sustainability / ESG assurance standard. The public interest characteristics were derived from the qualitative characteristics that standards should exhibit under the Public Interest Framework (PIF) set out in the Monitoring Group Report *Strengthening The International Audit And Ethics Standard-Setting System (July 2020)*. The SAWG has indicated the extent to which each option addresses the public interest characteristics, using a scale of 0-3 ("0" being that it does not address the public interest characteristic, “2” being that it partially addresses the public interest characteristic and “3” being that it fully addresses the public interest characteristic).
### TABLE 1: Options for Approach to Overarching Standard

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<tr>
<th>Option</th>
<th>Description of Option</th>
<th>Extent Option Addresses Public Interest Characteristics</th>
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| Option 1: “Greenfield” approach | • Although ISAE 3000 (Revised), the IAASB’s sustainability / EER guidance and other IAASB standards and guidance would be considered, development of the standard would not be constrained by the concepts, requirements, application material or terminology used in ISAE 3000 (Revised).  
• Allows for innovation and new approaches.  
• Elements and principles of ISAE 3000 (Revised) may be modified or adapted and therefore concepts may differ to varying degrees from ISAE 3000 (Revised).  
• Does not require compliance with, or reference to, ISAE 3000 (Revised). | 0      | 3               | 3        | 0 (2⁹)      | 1 (2⁹)         | 1.4 (2⁹)       |
| Option 2: “Stand-alone” standard consistent with ISAE 3000 (Revised) | • Broadly consistent with ISAE 3000 (Revised), as it would contain all relevant elements and principles of ISAE 3000 (Revised).  
• Tailored for assurance on sustainability / ESG reporting through adding enhancements and specificity for these engagements (such as using more customized terminology, and addressing the challenges for assurance on sustainability / ESG reporting by adding specificity).  
• Does not require compliance also with ISAE 3000 (Revised) and enables the standard to be understood without the need to refer to ISAE 3000 (Revised). | 2      | 3               | 3        | 2 (2⁹)      | 3               | 2.6 (2.6⁹)     |

*For assurance practitioners without an existing ISAE 3000 (Revised) methodology.*
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<th>Option 3: “ISAE 3000 (Revised) plus” approach</th>
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<tr>
<td>Requires compliance with ISAE 3000 (Revised), in addition to the standard(s) for assurance on sustainability / ESG reporting.</td>
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<tr>
<td>Provides only the additional requirements and application material specific for assurance on sustainability / ESG reporting.</td>
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<td>Similar approach to other subject-matter specific ISAEs, such as ISAE 3410.</td>
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<td>Future revisions to ISAE 3000 (Revised) would directly impact sustainability / ESG assurance engagements, since compliance with ISAE 3000 (Revised) would still be required and relevant changes would need to flow through to the sustainability assurance standard(s).</td>
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10 For assurance practitioners without an existing ISAE 3000 (Revised) methodology.
23. The SAWG prefers Option 2, the “Stand-alone” approach consistent with ISAE 3000 (Revised), as it best achieves the public interest characteristics. This option strikes a balance between consistency with the key concepts and principles underlying the existing standards, and enabling innovation to facilitate the enhancement and specificity needed for assurance engagements on sustainability / ESG reporting. The SAWG also observed that this option would be more suitable for “all” assurance practitioners, because:

(a) For practitioners familiar with ISAE 3000 (Revised), they may already have methodologies and an understanding of ISAE 3000 (Revised) and are therefore able to build on what they have.

(b) For practitioners not familiar with ISAE 3000 (Revised), it would better support their understanding as the standard would be stand-alone.

### Matters for Board Consideration

4. The Board is asked to share their views on:

(a) The proposed phased approach to standard setting for sustainability / ESG assurance engagements including (see paragraphs 18-21):
   - Immediate action: an overarching standard to provide the future building blocks;
   - Possible future action: standard-setting in response to public interest priorities.

(b) The approach to developing an overarching standard for assurance on sustainability / ESG reporting (i.e., which option described in Table 1 is preferred: “Greenfield”, “Stand-alone” or “ISAE 3000 (Revised) plus”).

(c) Any other matters for consideration by the SAWG or Staff as work is undertaken in developing the overarching standard.

### D. Way Forward

24. If the Board at the June 2022 meeting agrees with the proposals in this issues paper, the SAWG plans to develop an outline of the requirements for an overarching sustainability / ESG standard, to present at the Board meeting in September 2022. The specific content of the new standard, and extent of the outline, will depend on the option suggested by the Board in June 2022. For example, if the Board supports Option 2, “stand-alone” standard consistent with ISAE 3000 (Revised), the outline of the requirements would likely:

(a) Include the requirements adapted from ISAE 3000 (Revised), ISAE 3410 and the sustainability / EER guidance.

(b) Exclude introductory material, the objective, definitions, application material, and further specific requirements to address the priority challenges. However, to the extent possible, a discussion with the Board of the challenges, and how they may be addressed in principle, may form part of the September 2022 discussion.

25. The SAWG intends to continue outreach activities and collaboration with key stakeholders and initiate planning for broader outreach in quarter 4 2022, which would target feedback on the priority challenges and the IAASB’s planned immediate actions.
Appendix 1

Extract from the Approved March 2022 IAASB Meeting Minutes

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<th>Sustainability (Agenda Item 6)</th>
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<td><strong>Substantial Matters</strong></td>
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The Board received four presentations reflecting the perspectives of a regulator, preparers, an investor and an assurance practitioner on issues relating to assurance on sustainability, as follows:

- Ms. Arveras, Corporate Reporting, Audit and Credit Rating Agencies at DG FISMA in the European Commission (EC) provided an update on the proposed Corporate Sustainability Reporting Directive (CSRD).

- Ms. Fries, Executive Chairman, Accounting for Sustainability (A4S) provided an update on the reporting landscape in sustainability / Environmental, Social, and Governance (ESG) reporting, including the harmonization of the reporting standards. She explained the key challenges from a reporting perspective and shared some insights from outreach undertaken by A4S with preparers and finance leaders (including their perspectives on assurance).

- Mr. Carsten Stendevad, Co-Chief Investment Officer for Sustainability, Bridgewater Associates explained how ESG information is becoming increasingly important to investment decisions, as is the reliability and comparability of available information sources. He explained how sustainability / ESG information is processed and integrated into investment decisions, and how the reliability of the information is considered (including when information is assured).

- Mr. Neil Morris, Global Head: Assurance & ESG Methodology, KPMG, provided an overview of some of the complexities and key challenges for the practitioner in undertaking sustainability / ESG assurance engagements. He also emphasized the importance of the IAASB’s strategic focus on being the globally recognized standard-setter for assurance on sustainability / ESG reporting, thereby supporting the quality of, and consistency and comparability in, assurance. In this regard he noted the importance of the IAASB developing standards that are branded as assurance on sustainability / ESG reporting.

Several Board members posed questions and shared views with the presenters.

Following the presentations, the Board discussed in breakout groups their views on the proposals and questions presented by the Sustainability Assurance Consultation Group in Agenda Item 6. The questions discussed were as follows:

1. Whether the IAASB agrees that its actions should be focused on assurance on sustainability / ESG reporting more broadly, encapsulating all topics and information disclosed about the topics, recognizing different mechanisms for reporting, and remaining framework-neutral in terms of the reporting standards used?

2. Does the IAASB agree that it should remain neutral on the intended users of the assurance practitioner’s report (recognizing the broad spectrum of users of sustainability / ESG reporting), as is currently the case across the IAASB’s Standards?
3. What are the challenges in performing assurance engagements on sustainability / ESG reporting? In sharing these challenges, the IAASB is asked to also indicate what is the urgency and priority of each challenge.

4. What are the IAASB’s views about the actions the IAASB should take in addressing assurance on sustainability / ESG reporting?

5. For the integration of sustainability / ESG information within the financial statements:
   (i) Has the IAASB observed that sustainability / ESG information is being integrated with the financial statements?
   (ii) What challenges and complexities does this create from an audit and/or assurance perspective?
   (iii) How are auditors of financial statements currently dealing with the integration of this information?
   (iv) Does the IAASB believe that IAASB actions in this regard are needed, and if so, is this a priority action that needs to be addressed in parallel with any other actions taken to address assurance on sustainability / ESG reporting?

6. What outreach and information-gathering should the IAASB undertake to solicit input from stakeholders?

The breakout groups did not report back in plenary after their discussions. Staff in coordination with the Sustainability Assurance Consultation Group will collate and consider the feedback received during the breakout group discussions, which will be incorporated as appropriate in future Board materials as this project progresses.

IAASB CAG Chair Remarks

Mr. Dalkin noted that Representatives have a keen interest in sustainability.

PIOB Observer Remarks

Ms. van Diggelen noted the importance of the IAASB’s work in taking a lead on assurance on sustainability / ESG reporting as there is a real demand and need. She noted that momentum is building for assurance on ESG information and highlighted the need to act quickly to produce a standard that can be used by all assurance providers. She suggested that development of a standard could use the materials which the IAASB already has. She further described the IAASB’s opportunity as “an open door” for standard-setting on this topic. She noted that the speakers have created clarity in the options available for the best way forward, which can be further discussed in the breakout session. Ms. van Diggelen welcomed those discussions. Overall, she noted that it is important that a standard is developed for all assurance providers to use including non-accountants.

Next Steps

The Sustainability Assurance Working Group will consider the feedback from the breakout groups and plans to undertake outreach to solicit input across the IAASB’s stakeholders. An update on the project will be provided to the Board in June 2022.
Appendix 2

Overview of SAWG’s Activities

1. The following sets out the activities of the SAWG including coordination with key stakeholders and other standard-setting Boards.

2. The composition of the SAWG is as follows:
   (a) Lyn Provost (Chair);
   (b) Wolfgang Böhm;
   (c) Diane Larsen;
   (d) Warren Maroun; and
   (e) Isabelle Tracq-Sengeissen.

SAWG Activities in Quarter 2 of 2022

3. The SACG held one video-conference and a three-day virtual meeting since the March 2022 Board meeting.

4. As explained in paragraph 4 of the paper, the SAWG and IAASB Staff undertook engagement with key stakeholders in Quarter 2 of 2022. These key stakeholders were:
   (a) Regulators:
      (i) European Commission
      (ii) International Forum of Independent Audit Regulators (IFIAR)
      (iii) Committee of European Auditing Bodies (CEAOB)
      (iv) Financial Stability Board (FSB)
      (v) International Organization of Securities Commissions (IOSCO)
      (vi) The U.S. Securities and Exchange Commission (SEC)
   (b) Standard-setters:
      (i) International Sustainability Standards Board (ISSB)
      (ii) Global Reporting Initiative (GRI)
      (iii) European Financial Reporting Advisory Group (EFRAG)
      (iv) National Auditing and Assurance Standard Setters
      (v) International Ethics Standards Board for Accountants (IESBA) and the International Public Sector Accounting Standards Board (IPSASB)
   (c) Practitioners:
      (i) Global Public Policy Committee of largest international network firms (GPPC)
      (ii) Forum of Firms (FoF)
(iii) Small to Medium Practitioner Advisory Group (SMPAG) convened by the International Federation of Accountants’ (IFAC)

(iv) International Organization of Supreme Audit Institutions Working Group on Environmental Auditing (INTOSAI – WGEA)

(d) Other:

   (i) IFAC

   (ii) Various experts in sustainability assurance

5. Prior to the June 2022 Board meeting, the IAASB Staff will also be meeting with a group of assurance practitioners from “non-audit” firms.

Coordination with Other IAASB Task Forces, Working Groups and Consultation Groups and Other Standard Setting Boards

6. Staff of the IAASB are holding quarterly meetings with the IESBA and IPSASB to share experiences, recent developments and future plans on sustainability / ESG reporting. The second quarterly meeting was held in May 2022.
Appendix 3

Overview of Feedback from the IAASB’s National Standard-Setters (NSS) Meeting in May 2022

1. The virtual NSS meeting on May 12, 2022 included an agenda item on assurance on sustainability / ESG reporting. In response to the IAASB’s Request for Information the NSS provided in advance detailed information for their jurisdiction regarding:

   (a) Significant national developments in mandatory requirements related to sustainability / ESG for reporting and assurance;

   (b) National standards or guidance on sustainability / ESG for reporting and assurance; and

   (c) Other relevant significant national developments for reporting or assurance on sustainability / ESG.

   This information on the developments relating to sustainability reporting and assurance at a national level will provide an important reference for the IAASB’s standard-setting work.

2. Lyn Provost, SAWG Chair presented on the IAASB’s progress with this work stream. Following the presentation, the NSS representatives were invited to respond to the following questions posed:

   (a) What are the most significant challenges in performing assurance engagements on sustainability / ESG reporting that the IAASB should prioritize as part of its initial actions?

   (b) What are the NSS Representatives’ views on the options of possible architecture of the standard/s (approach to developing the standard)?

   (c) Are there any other considerations for the Board regarding assurance engagements on sustainability / ESG reporting that are important as the IAASB progresses its work on this topic?

3. Feedback from the NSS discussion included the following:

   (a) Challenges: Overall there was support for the challenges identified by the SAWG. The following challenges were also raised:

      (i) The urgency of the standard-setting response needed, whilst respecting due process.

      (ii) The need to ensure that quality management and ethics are applied by all assurance providers.

      (iii) The materiality assessment to address the various types of information and applying double materiality.

      (iv) The inconsistencies in the reporting frameworks and the reporting boundaries.

      (v) The integration of sustainability information into the financial statements, particularly when the information is audited / assured by different practitioners.

   (b) Options for the approach to developing a standard for assurance on sustainability / ESG reporting: Overall there was support for a sustainability branded standard that provides enhancements and specificity for these engagements.

      (i) A range of views were expressed regarding the linkage to ISAE 3000 (Revised). On balance there was greatest support for an approach that reflects the Option 1 (Greenfield) and 2, (Stand-alone) such that there is sufficient flexibility in option 2 (Stand-alone) to allow
specificity relevant to sustainability and not simply a duplication of the ISAE 3000 (Revised) requirements.

(ii) Overall there was support to address both reasonable assurance and limited assurance as both types of engagements are being conducted and different levels of assurance may be required on different types of information.

(iii) It was noted that ISAE 3000 (Revised) is being successfully applied now to sustainability / ESG information so ISAE 3000 (Revised) can still be applied while a new standard is being developed and Option 2 (Stand-alone) can allow for a transition from engagements conducted under ISAE 3000 (Revised).

(iv) An all-encompassing standard can become very long.

(c) Other considerations:

(i) The need for communication to keep the public informed of the actions the IAASB are taking and to provide certainty regarding the way forward.