Agenda Item 7: Assurance on Sustainability Reporting
Agenda for IAASB Discussion

Wednesday
7 Key principles and concepts
7-A Definitions
7-B Part 3: Acceptance and Continuance of the Assurance Engagement
7-B.1 Part 8.2: Evaluating the Description of the Applicable Criteria

Thursday
7-B Part 3 & Part 8.2 cont.
7-C Part 4: Evidence and Documentation
7-D Part 5: Planning
7-D.1 Part 8.1: Accumulation and Consideration of Identified Misstatements

IESBA Presentation
7-E / Part 6: Risk Identification and Assessment – Overview and Explanations
Key Principles and Concepts – Guiding Principles

Addresses a priority area

Is suitable for an overarching standard:
• Is relevant to most sustainability assurance engagements
• Excludes or simplifies material from underlying source

Application material that addresses “why” and “what”

Included

Addresses a concept that is known

Provides context or insights on sustainability topics or specific frameworks

Application material that addresses the “how”

Not Included

Definitions were individually evaluated and were only included if the term requires an explanation to support consistent interpretation and application.
1. Does the IAASB support the guiding principles used by the SATF in developing the drafting for Proposed ISSA 5000?
Key Principles and Concepts – Aggregation/Disaggregation

Agenda Item 7

Criteria

Framework criteria

Entity-developed criteria

Sustainability information as a whole

Underlying subject matter

Topics
E.g., climate; human rights; biodiversity

Aspects of topics
E.g., risks & opportunities; scenario analysis; controls over monitoring or managing risk

Characteristics
E.g., qualitative / quantitative; judgmental / factual; historical / forward-looking; relates to a point in time / covers a period

Disclosures about the topics or aspects of topics

Assertions
E.g., completeness; occurrence and responsibility; accuracy and quantification; cut-off; classification and understandability; consistency

Assurance engagement

Scope of the assurance engagement
E.g., all sustainability information, only certain aspects of the sustainability information

The conclusions to be expressed in the assurance report
E.g., one conclusion for all sustainability information being assured, or piecemeal conclusions for different disclosures of sustainability information
### Agenda Item 7

#### Key Principles and Concepts – Aggregation/Disaggregation

<table>
<thead>
<tr>
<th></th>
<th>Reasonable Assurance</th>
<th>Limited Assurance</th>
<th>Aggregated/Disaggregated Disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Materiality</strong></td>
<td>Determine materiality for disclosures</td>
<td></td>
<td>Disaggregated disclosures</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td>Identify and assess risks of material misstatement at the assertion level for disclosures.</td>
<td>Identify disclosures in the sustainability information where material misstatements are likely to arise.</td>
<td>Disaggregated disclosures</td>
</tr>
<tr>
<td><strong>Evaluating misstatements</strong></td>
<td>Evaluate whether misstatements are material: (a) For each disclosure; and (b) For the disclosures that will be aggregated for purposes of concluding (i.e., disclosures “as a whole”).</td>
<td></td>
<td>Disaggregated disclosures Aggregated disclosures</td>
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</table>
2. The Board is asked for its views on the approach to aggregation and disaggregation in Proposed ISSA 5000 as outlined above. In particular:

(a) Does the Board agree that the practitioner should determine the aggregation or disaggregation of the information that is appropriate in the circumstances of the engagement, i.e., that Proposed ISSA 5000 should not be prescriptive about how the information should be disaggregated?

(b) Does the Board agree with how this approach has been reflected in the proposed requirements in paragraphs 5L, 5R and 6 of Part 5 (see Agenda Item 7-D)?

(c) Does the Board agree with the notion of “disclosures” as defined, and that this is used as the consistent basis to describe the disaggregation throughout the standard (e.g., with respect to determining materiality, identifying and assessing risks of material misstatement and evaluating misstatements)?

(d) Does the Board agree with the notion of “topics” and “aspects of topics”, given these terms are also extensively used throughout the standard?
Definitions – Requiring Specific Consideration

(a) Assertions (see line 1)
(b) Engagement leader (see line 8)
(c) Sustainability information (see line 38)
(d) Underlying subject matter (see line 40)
3. The IAASB is asked to share its views on all of the proposed definitions in the table below (excluding any definitions that will be further revised alongside the requirements, highlighted in grey cells). In particular:

(a) **Assertions** (see line 1): Does the IAASB agree with the enhancements to the definition of “assertions” in ISAE 3410 that clarify what the assertions relate to and how the assertions are used by the practitioner?

(b) **Engagement leader** (see line 8): Does the IAASB support using the term “engagement leader” and agree with how the SATF has amended the definition of “engagement team” (see line 11) to recognize the engagement leader?

(c) **Sustainability information** (see line 38): Does the IAASB support the definition, including the application material to explain how this term is used in the standard?

(d) **Underlying subject matter** (see line 40): Does the IAASB support using the term “underlying subject matter” instead of “sustainability subject matter” and is the definition as proposed clearer for the purposes of Proposed ISSA 5000 than the related definition in ISAE 3000 (Revised)?
Part 3: Acceptance and Continuance

- **Strategic importance of preconditions being met**
  - Multiple frameworks and entity-developed criteria
  - Sustainability information reported and assurance scope
  - Risks of misleading users and greenwashing
  - Issues with obtaining sufficient appropriate evidence
  - Importance of preconditions in agreeing engagement terms

- **Project Proposal key issues addressed:**
  - The scope of the assurance engagement
  - The suitability of the reporting criteria
  - Evidence - sufficiency and appropriateness
  - The entity’s system of internal control
Part 3: Preliminary Knowledge and Appropriate Scope

**SUSTAINABILITY MATTERS**

**SUSTAINABILITY INFORMATION REPORTED**

**Scope of Engagement**

**Topic**

<table>
<thead>
<tr>
<th>Aspects of the Topic</th>
<th>Information Disclosed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario analysis</td>
<td>KPI</td>
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</table>

**Topic**

<table>
<thead>
<tr>
<th>Aspects of the Topic</th>
<th>Disclosures</th>
<th>KPI</th>
</tr>
</thead>
</table>
Part 3: Preliminary Knowledge and Appropriate Scope

Requirements included for:

• Requirement 1 - Preliminary knowledge of the engagement circumstances, emphasizing
  ➢ Sustainability information expected to be reported
  ➢ Scope of the proposed assurance engagement

• Requirement 2(c) - Precondition for appropriate scope of the engagement

Application material included for:

➢ The process and criteria for identifying and selecting information for inclusion in the sustainability information to be reported
➢ The reporting boundaries
4. Does the Board support how the scope of the assurance engagement and the preliminary knowledge of the sustainability information has been addressed in Part 3?
Part 3: Appropriate Underlying Subject Matter, Suitable Criteria & Scope

Sustainability Matters Available

Topics
e.g., climate, human rights, biodiversity

Aspects of the Topics
e.g., strategy, process

Boundaries
e.g., entity(ies), value chain; jurisdictions, locations, facilities
Part 3: Appropriate Underlying Subject Matter, Suitable Criteria & Scope

- **Sustainability Matters Available**
  - Topics: e.g., climate, human rights, biodiversity
  - Aspects of the Topics: e.g., strategy, process
  - Boundaries: e.g., entity(ies), value chain, jurisdictions, locations, facilities

- **Entity’s Process to Identify Reporting Topics**
  - Criteria: - Applied to identify and select topics, aspect & boundaries to meet users’ needs

- **Sustainability Information Identified for Reporting**
  - Topics Selected
  - Aspects of the Topics selected
  - Reporting Boundaries Selected

**Engagement Preconditions**

- Suitable & Available Criteria
- Appropriate Underlying Subject Matter
### Part 3: Appropriate Underlying Subject Matter, Suitable Criteria & Scope

#### Topics
- e.g., climate, human rights, biodiversity

#### Aspects of the Topics
- e.g., strategy, process

#### Boundaries
- E.g., entity(ies), value chain, jurisdictions, locations, facilities

#### Sustainability Matters Available

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Topics Selected</th>
<th>Aspects of the Topics selected</th>
<th>Reporting Boundaries Selected</th>
<th>Information disclosed about the topics and aspects of the topics within reporting boundaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Applied to identify and select topics, aspect &amp; boundaries to meet users’ needs</td>
<td>-</td>
<td>Reporting Boundaries Selected</td>
<td>Framework Selected or Entity Develops</td>
<td></td>
</tr>
</tbody>
</table>

#### Engagement Preconditions
- Suitable & Available Criteria
- Appropriate Underlying Subject Matter
- Suitable & Available Criteria
Part 3: Appropriate Underlying Subject Matter, Suitable Criteria & Scope
Part 3: Acceptance and Continuance - Preconditions

Requirement on determining if preconditions are present supplemented with:

- Requirements on Criteria:
  - Suitability and Availability of Criteria
  - Characteristics of suitable criteria

- Requirements on other preconditions:
  - Roles and responsibilities
  - Underlying subject matter
  - Rational purpose
    - Stand back
    - Engagement as a whole will be useful and not misleading

- Application material on criteria:
  - Sources of criteria
  - Process to develop criteria
  - Criteria for information with different characteristics
  - Each characteristic of suitable criteria

- Application material on other preconditions:
  - Maturity of process to prepare the information
  - Impact of subject matter on whether evidence can be obtained
  - Evaluating rational purpose
Questions 5 & 6: Suitable Criteria & How Sustainability has been Addressed

5. Does the Board support how criteria have been addressed? In particular:
   
   (a) Do the proposals appropriately reflect considerations related to suitable criteria in sustainability reporting, including matters such as framework and entity-developed criteria, and the entity’s process for selecting criteria and reasons for the criteria used (see paragraphs 5, 6, A15 and A22-A42 of the drafting)?

   (b) Are the requirements and application material for the characteristics of the criteria appropriate (see paragraphs 6, A30-A31 and A36-A42 of the drafting)?

6. Is the Board of the view that issues related to sustainability assurance engagements have been appropriately addressed in this Part, including matters such as:

   (a) The process to identify reporting topics (see paragraphs A2-A5 and A15 of the drafting).

   (b) The complexity of reporting boundaries (see paragraphs A5 and A12 of the drafting).

   (c) The evolving maturity of entities’ processes for reporting sustainability information (see paragraphs A6(b), A18-A19 and A45 of the drafting).
7. General questions for the Board:

(a) Does the IAASB believe that the requirements and application material in Part 3 and 8.2 are at an appropriate degree of specificity for an overarching standard?

(b) Are there any other significant comments regarding matters addressed in Part 3 and 8.2, for example:

(i) Are there concepts or issues the Board expected to be addressed that have not been addressed?

(ii) Are there any proposals in this Part that were not addressed by the questions above on which the Board has significant comments?
Part 4: Evidence

Key considerations:

- Retain core concepts (sufficiency, appropriateness, persuasiveness, consistency/inconsistency, corroborative/contradictory).
- Adopt ED-500 requirements as “latest thinking” with cross-check to extant ISAE 3000 (Revised) / ISAE 3410 requirements.
- Not feasible to address detailed evidence considerations for every potential characteristic of disclosures – focused on key challenge areas (qualitative and forward-looking).
Design and perform procedures
➢ in an unbiased manner; and
➢ to meet the intended purpose of performing those procedures

Doubts about relevance and reliability of information

Evaluate whether evidence met intended purpose

Evaluate all evidence obtained

Address inconsistent evidence and consider effects
Part 4: Requirements Adopted with Some Changes from Proposed ISA 500 (Revised)

ED-500 Para

9. Evaluate relevance and reliability of information intended to be used as evidence:
   - Consideration of sources of information and attributes of relevance and reliability in AM

10. Obtain evidence over accuracy and completeness of information in AM

11. Evaluate work of a management’s expert:
   - Detailed requirements on understanding management’s use of work of experts moved to AM (ED-500 Para 11(c)(i)-(ii))
Part 4: Evidence - Application Material

- Not all AM paragraphs from ED-500 included
  - Excessive for an overarching standard
  - Important to balance length

- Task Force focus
  - Essential AM from ED-500 to support revised requirements
  - EER guidance that most directly supports or provides examples that support proposed requirements, including with respect to qualitative and forward-looking information
Part 4: Documentation

• Key considerations:
  ➢ The ISAEs have minimal application material - additional paragraphs from ISA 230 included to supplement guidance, focused on core principles
  ➢ Task Force exploring whether detailed documentation requirements from other Parts should be included in Part 4 – see illustrative example 15L and 15R (Risk assessment)
8. Does the Board support how the requirements have been adapted from Proposed ISA 500 (Revised), and does this Part appropriately address the issues associated with evidence in performing sustainability assurance engagements? In particular, does the Board agree with the following approach (subject to considering the feedback from Proposed ISA 500 (Revised)):

(a) A principles-based requirement to evaluate the relevance and reliability of information intended to be used as evidence, with application material highlighting the sources and attributes?

(b) Addressing completeness and accuracy in the application material?

(c) Including requirements from Proposed ISA 500 (Revised) that focus on the purpose of the procedures?
Questions 8 and 9: Evidence and Documentation (continued)

9. With respect to the requirements for documentation:

(a) Does the Board believe that documentation requirements for specific matters are necessary, such as documentation requirements for identifying and assessing risks of material misstatement (e.g., see illustrative paragraphs 15L and 15R of the drafting)?

(b) Should all documentation requirements be located together in this Part, or should any documentation requirements that relate to specific Parts (e.g., paragraphs 15L and 15R of the drafting) be located in the Part to which they relate?
10. General questions for the Board:

(a) Does the Board believe that the requirements and application material in Part 4 are at an appropriate degree of specificity for an overarching standard?

(b) Are there any other significant comments regarding matters addressed in Part 4, for example:

(i) Are there concepts or issues the Board expected to be addressed that have not been addressed?

(ii) Are there any proposals in this Part that were not addressed by the questions above on which the Board has significant comments?
Part 5: Planning

• Aggregation and disaggregation (paragraphs 5L, 5R and 6 of Part 5)
• Materiality:
  - No difference between limited and reasonable assurance
  - Determine materiality for each disclosure identified in accordance with 5L and 5R
  - No requirement to determine materiality for the aggregated disclosures
• Aggregation risk:
  - No requirement to determine performance materiality
  - However, consider aggregation risk at the planning phase (paragraph A30)
Questions 11 and 12: Materiality

11. For the requirement to determine materiality (see paragraph 7 of the drafting), does the Board support:

(a) The approach to materiality being the same for limited and reasonable assurance;

(b) The work effort, i.e., that the practitioner is required to “determine” materiality; and

(c) That materiality is determined for each disclosure (i.e., not in aggregate across all sustainability information)?

12. Does the Board support the approach to addressing aggregation risk at the planning stage of the engagement (see paragraph A30)?
Part 8.1: Misstatements - Level Evaluated

Each disclosure

Example: The disclosure “work-related injuries”

Evaluate individual and combined effect of identified misstatements on that disclosure

Disclosures in aggregate

Example: The disclosure in aggregate of “occupational health and safety” including work-related injuries

Evaluate all misstatements related to “occupational health and safety” including work-related injuries
Questions 13, 14 and 15: Materiality and Evaluation of Misstatements

13. Does the Board support the levels at which misstatements are evaluated (see paragraph 8 of Part 8.1)?

14. Does the Board believe that sustainability-related issues have been appropriately addressed in Parts 5 and 8.1, such as qualitative materiality, qualitative misstatements and how to aggregate misstatements?

15. General questions for the Board:
   (a) Does the IAASB believe that the requirements and application material in Parts 5 and 8.1 are at an appropriate degree of specificity for an overarching standard?
   (b) Are there any other significant comments regarding matters addressed in Parts 5 and 8.1, for example:
       (i) Are there concepts or issues the Board expected to be addressed that have not been addressed?
       (ii) Are there any proposals in this Part that were not addressed by the questions above on which the Board has significant comments?
Part 6: Purpose of Understanding

Understand to:
- Identify disclosures in the sustainability information where material misstatements are likely to arise
- Design procedures to focus on those disclosures

Understand to:
- Identify and assess ROMM at assertion level for each disclosure
- Design of further audit procedures

The underlying subject matter and the subject matter information

The entity and its environment

Applicable criteria
Question 16: Risks of Material Misstatement

16. Recognizing the Board’s views on Question 2(a) (see Agenda Item 7), does the Board support the approach to risks of material misstatement in this Part, i.e.:

(a) For limited assurance, that the focus is on identifying disclosures where material misstatements are likely to arise (see paragraphs 1L and 15L of Part 6); and

(b) For reasonable assurance, that the risks are identified and assessed at the assertion level for each disclosure (see paragraphs 1R and 15R of Part 6)?
Part 6: Required to Understand

The underlying subject matter and the subject matter information
- Topics / aspects of the topics / disclosures / characteristics of the disclosures
- Extent to which the aspects of the topics / disclosures are affected by complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud

The entity and its environment
- Nature of operations, legal / organizational structure, ownership / governance, and business model
- Reporting boundary / activities within reporting boundary
- Relevant industry, regulatory, and other external factors
- Goals, targets, or strategic objectives and measures used to assess the entity’s performance

Applicable criteria (also evaluate criteria)
- Entity’s process for identifying applicable criteria, evaluating applicable criteria, and determining how criteria will be applied
- Reason for using the applicable criteria
- Reasons for changes to the applicable criteria

Components of Internal control

continued
## Agenda Item 7-E and E.1 – Part 6

### Part 6: Understanding the Components of Internal Control

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<tr>
<th>Component</th>
<th>Limited Assurance</th>
<th>Reasonable Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The control environment</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>The information systems</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>The entity’s risk assessment process</td>
<td>Only the results</td>
<td>✅</td>
</tr>
<tr>
<td>Control activities</td>
<td></td>
<td>✅</td>
</tr>
<tr>
<td>The entity’s process to monitor the system of internal control</td>
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<td>✅</td>
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**Reasonable assurance:** More detailed requirements that specify either what needs to be understood or evaluated.

**Application material includes further specific aspects of the component that may obtain an understanding of (adapted from ISA 315 (Revised 2019))**
Part 6: Understanding the Risk Assessment Component: Reasonable Assurance

Which aspects of the risk assessment process required to understand?

1. Identifying risks relevant to sustainability information reporting objectives
2. Assessing the significance of those risks, including the likelihood of their occurrence
3. Addressing the risks

Evaluate whether the entity’s risk assessment process is appropriate to the entity’s circumstances considering the nature and complexity of the entity.
Part 6: Understanding the Control Activities Components: Reasonable Assurance

Which control activities required to understand?

1. Controls the practitioner plans to test operating effectiveness - includes controls that address risks for which substantive procedures alone do not provide sufficient appropriate evidence

2. The entity’s general IT controls that address risks arising from the use of IT related to the controls identified above in block 1

3. Other controls the practitioner considers are appropriate to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risks

For each control identified

Evaluate whether the control is designed effectively

Determine whether the control has been implemented
Part 6: Other Matters

- Not prescriptive about the types of risk procedures (i.e., inquiries, analytical procedures, and observation and inspection).

- Whether risk procedures alone are sufficient to provide evidence to support assurance conclusion:
  - Limited assurance: In rare circumstances
  - Reasonable assurance: No

- Not required to separately assess inherent and control risk.

  Concepts such as relevant assertions, significant disclosures and significant risks therefore not brought in from ISA 315 (Revised 2019)
Questions 17, 18 and 19: Understanding required and risk procedures

17. Does the Board support the approach for matters the practitioner is required to understand. In particular:
   (a) Are the requirements appropriate for sustainability assurance engagements and address the matters a practitioner would be expected to understand in the context of these engagements?
   (b) Are the differences between limited assurance and reasonable assurance appropriate, for example, with respect to understanding internal control?

18. Does the Board support the proposals on the risk procedures?

19. General questions for the Board:
   (a) Does the IAASB believe that the requirements and application material in Part 6 are at an appropriate degree of specificity for an overarching standard?
   (b) Are there any other significant comments regarding matters addressed in Part 6, for example:
      (i) Are there concepts or issues the Board expected to be addressed that have not been addressed?
      (ii) Are there any proposals in this Part that were not addressed by the questions above on which the Board has significant comments?