

## Assurance on Sustainability / Environmental, Social and Governance (ESG) Reporting: Request for IAASB Input as a Basis for Formulating Recommendations for Future Action

### Overview and Objective of the Discussion

Sustainability / ESG reporting has quickly become a matter of global importance. The reliability of such reporting is a key issue for many stakeholders, in particular investors, regulators and non-governmental organizations (NGOs), who are looking to the IAASB to take proactive steps in providing robust standards that support and address sustainability / ESG reporting from an audit and assurance perspective.

The objective of the discussion with the Board in March 2022 is to obtain the Board's feedback on the various factors that the Sustainability Assurance Consultation Group (SACG)<sup>1</sup> has identified that need to be considered by the IAASB in formulating recommendations for further possible action(s), which may inform a project proposal on Sustainability / ESG assurance.

The IAASB has standards and guidance that already deal with this topic more broadly, including:<sup>2</sup>

- ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*;
- ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*;
- Non-authoritative guidance on sustainability and other extended external reporting assurance engagements (EER Guidance) issued in April 2021, comprising:
  - [Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Sustainability and Other Extended External Reporting Assurance Engagements](#);
  - [Non-Authoritative Support Material: Extended-Credibility and Trust Model relating to Sustainability and other Extended External Reporting \(EER\)](#);
  - [Non-Authoritative Support Material: Illustrative Examples of Selected Aspects of Sustainability and Other Extended External Reporting \(EER\) Assurance Engagements](#); and
- The Staff Audit Practice Alert, [The Consideration of Climate-Related Risks in an Audit of Financial Statements](#), issued in October 2020.

The SACG has an open mind as to the way forward. However, given the expansiveness of this topic, it is essential that the feedback from the IAASB in March 2022 assist in directing the SACG's activities in a prioritized and responsive manner, while recognizing available Board capacity and staff resources.

For the purposes of the discussion with the Board in March 2022, the SACG is seeking views on the following:

<sup>1</sup> The SACG was formed in December 2021. The purpose of the SACG is to provide input and support to Staff and the Board more broadly as to how to respond to developments in sustainability / ESG reporting

<sup>2</sup> The IAASB has a dedicated [Focus Area webpage for Sustainability Assurance](#), which brings together all content the IAASB has available regarding assurance on sustainability reporting and other forms of extended external reporting.

1. The topics (underlying subject matter), information disclosed about the topics (the resulting subject matter information), mechanism for reporting (the collation and presentation of the subject matter information), and reporting standards (criteria) within the scope of the IAASB's work.
2. The IAASB remaining neutral regarding the intended users of the assurance practitioner's report (recognizing the broad spectrum of users of sustainability / ESG reporting).
3. The challenges in performing assurance engagements on sustainability / ESG reporting, and the urgency and priority of each challenge.
4. The actions the IAASB should take in addressing assurance on sustainability / ESG reporting.
5. The integration of sustainability / ESG information within the financial statements, including observations about the prevalence of such integration, challenges and complexities this creates from an audit and/or assurance perspective, how auditors are currently dealing with such integration, and whether IAASB action in this regard is needed.
6. The outreach and information-gathering the IAASB should undertake to solicit input from stakeholders.

## A. Introduction

1. Globally, there is increasing demand from a broad range of stakeholders for organizations to provide transparency about their sustainability, including ESG matters. There is also a global trend whereby organizations are shifting from voluntary reporting to reporting in accordance with requirements mandated by jurisdictions. Sustainability matters may indicate how an organization has impacted the environment, people, and economy (and vice versa). These matters may also impact financial reporting, for example, asset impairments or restructuring efforts necessary to mitigate climate risk. Sustainability matters may also affect the organization's value, and therefore is receiving increased attention from investors, policymakers, and other capital market participants. In November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board—the International Sustainability Standards Board (ISSB)—to help meet the global demand for sustainability reporting.
2. As organizations expand their reporting on sustainability matters, stakeholders are increasingly demanding assurance on this information. For example, in the European Union (EU), the Corporate Sustainability Reporting Directive (CSRD) proposes mandatory assurance on sustainability information (see **Appendix 3** for a summary of EU developments). In recent months, many key stakeholders have engaged with the leadership of the IAASB to discuss actions the IAASB is taking to address the assurance demand. Such stakeholders include the ISSB, Climate Accounting Project (which is supported by the United Nations (UN) sponsored Principles for Responsible Investment), the Financial Stability Board, the International Organization of Securities Commissions (IOSCO), the European Commission, the Committee of European Auditing Oversight Bodies, the Center for Audit Quality, the Global Public Policy Committee's (GPPC) ECG Committee, and the International Accounting Standards Board (IASB).
3. In June 2021, the International Federation of Accountants (IFAC) and Association of International Certified Professional Accountants (AICPA) published the results of their benchmarking study, [\*The State of Play in Sustainability Assurance, Benchmarking Global Practice\*](#), to understand market

practice for the assurance on sustainability information. This study found that 51% of companies reporting sustainability information have some level of assurance on it, with 63% of such assurance engagements provided by audit or audit-affiliated firms. Although the use of ISAE 3000 (Revised) among audit or audit-affiliated firms remained high, assurance engagements performed by non-audit firms mostly used other assurance frameworks and standards, such as [AA 1000](#), issued by AccountAbility, or [ISO 14016:2020. Environmental management — Guidelines on the assurance of environmental reports](#).

4. The fragmentation in global sustainability / ESG reporting frameworks drove the need for action to bring coherence, consistency and comparability between reporting frameworks, which led to the establishment of the ISSB. The risk of fragmentation exists for assurance standards too. As demand for assurance on sustainability / ESG reporting grows, there is an urgent need for globally accepted sustainability / ESG assurance standards that can be used by all assurance professionals. While ISAE 3000 (Revised) and ISAE 3410 provide a robust foundation for these engagements, and are widely used among audit practitioners, the IAASB strategic focus needs to be on:
  - (a) ***Being the globally recognized standard-setter for assurance on sustainability / ESG reporting.*** In this vein, it is essential that the IAASB is integrated in discussions at a global and jurisdictional level, to reinforce the IAASB's rigorous due process that is characterized by accountability, inclusiveness, transparency, public consultation and public oversight, and the quality of its audit and assurance standards.
  - (b) ***Focused actions to respond to global needs for specific assurance standards on sustainability / ESG reporting, which build upon existing IAASB Standards and guidance in a priority manner.*** The SACG recognizes that varying issues and challenges exist among jurisdictions, regions or industries. However, it is not possible to address all of these issues and challenges and the IAASB needs to be targeted in its response. The ask of the IAASB in March 2022 is to provide input through the lens of globally relevant issues, and priority actions to address those issues.
5. The [Work Plan for 2022-2023](#)<sup>3</sup> indicates a commitment to a workstream on assurance on non-financial information. Given the global developments outlined above that are driving the need for the IAASB to take strategic and focused action, the SACG is of the view that the topic of sustainability / ESG reporting has appropriately met the criteria in the [IAASB Framework for Activities](#) for this topic to be moved into Category B, *Initial assessment and describe or distinguish the issue or challenge*.<sup>4</sup>

### The Scope of the IAASB Discussion

6. In developing this paper and preparing for the IAASB discussion in March 2022, the SACG considered the scope of matters that need to be considered, in particular whether:
  - (a) The topics being considered should focus on sustainability / ESG reporting only, or also include other non-financial information topics, such as assurance on digital reporting (e.g., Extensible Business Reporting Language (XBRL)) and internal controls.

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<sup>3</sup> The Work Plan was approved by the IAASB in December 2021, pending approval by the Public Interest Oversight Board

<sup>4</sup> The criteria for inclusion in Category B are: 1. Action on the topic is in the public interest; 2. Alignment with the Board's remit for standard-setting or other focused activities; 3. Prevalence of the issue globally; 3. Board action is necessary to maintain or enhance quality of engagements; and 4. Urgency for the issue to be addressed.

- (b) The IAASB should deal with the *assurance* implications of sustainability / ESG reporting, or address broader implications of sustainability / ESG reporting, for example, how sustainability / ESG-related risks impact the audit of financial statements<sup>5</sup> or the auditor's responsibilities relating to other information included in an entity's annual report (ISA 720 (Revised))<sup>6</sup>.
7. The SACG noted that, in developing the Work Plan for 2022-2023, stakeholders were asked to provide views on the IAASB's activities, including which topics should be prioritized as part of any new initiatives of the IAASB.<sup>7</sup> National Standard Setters, GPPC firms, academics, member bodies and other professional accounting organizations rated assurance for *climate change disclosures* as the highest or second-highest priority overall. Regulators and audit oversight bodies and non-GPPC firms rated assurance for climate change disclosures as the fourth highest topic overall. Assurance over digital financial reporting (e.g., XBRL) was less of a priority among the possible topics to be addressed by the IAASB. Although respondents broadly supported the prioritization of an assurance project on *climate-related disclosures*, there was a call for considering assurance on other types of non-financial information,<sup>8</sup> such as:
- (a) Sustainability information (i.e., broader than climate), in particular addressing the notion of double materiality and exploring whether applying ISAE 3000 (Revised) appropriately deals with reasonable assurance on sustainability information.
  - (b) More specific underlying subject matters forming part of sustainability information, such as gender equality, modern slavery, or corporate ethics.
  - (c) Other emerging areas of risk (e.g., cyber security); and
  - (d) Internal controls.
8. The SACG has taken the view that the topics for the IAASB discussion in March 2022 should focus on all areas of sustainability / ESG reporting (i.e., not only climate, which is a subset of sustainability / ESG reporting) because:
- (a) Global developments in reporting are more holistically dealing with sustainability / ESG reporting, and priority areas may differ among jurisdictions or regions (e.g., climate may be a priority in developed countries, but developing countries may be dealing with social issues, such as modern slavery); and
  - (b) Depending on the actions the IAASB takes, these actions could be suitable to assurance on sustainability / ESG reporting more broadly, rather than only being relevant to assurance on climate-related reporting.

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<sup>5</sup> The IAASB's Staff Audit Practice Alert, *The Consideration of Climate-Related Risks in an Audit of Financial Statements*, outlines many of these implications in the context of climate-related risks.

<sup>6</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>7</sup> Respondents' feedback on the Work Plan for 2022-2023 was presented to the IAASB at the September 2021 meeting (see [Agenda Item 4](#)).

<sup>8</sup> Respondents to the survey also suggested updating ISAE 3000 (Revised), for example, to:

- (a) Include certain matters addressed in the EER Guidance.
- (b) Align it more closely with recent revisions to the auditing standards (e.g., reporting, identifying and assessing risks, and technology).

9. The SACG has also taken the view that, for the purposes of focusing on more immediate actions, the IAASB should not deal with:<sup>9</sup>
- (a) How sustainability / ESG risks impact the audit of financial statements. The IAASB's Staff Audit Practice Alert<sup>10</sup> is adequate in the interim to deal with this issue.
  - (b) The auditor's responsibilities relating to other information included in an entity's annual report (ISA 720 (Revised)). The SACG notes the number of issues and complexities identified as part of the Auditor Reporting Post Implementation Review, and the recommendations of the Auditor Reporting Implementation Working Group discussed with the IAASB in September 2021.<sup>11</sup> The SACG is of the view that addressing ISA 720 (Revised) at this time would distract the IAASB's resources and efforts.
  - (c) Other assurance-related topics explored or discussed in developing the Work Plan for 2022-2023, such as XBRL or cyber security.
10. Sustainability / ESG information is often disclosed outside of the financial statements, such as in a separate statement or report, or in management commentary that is part of the annual report (also see paragraph 9(b) with respect to "other information"). The SACG is also aware that sustainability / ESG information is, in some cases, integrated within the financial statements (e.g., it is disclosed in the notes to the financial statements, and may include a variety of information that is beyond historical quantitative information). The SACG noted that the integration of the financial and sustainability / ESG information has been common practice in the public sector for many years and is being increasingly seen in the private sector. The SACG further noted that some of the organizations establishing reporting frameworks, standards or recommendations encourage this integration. This brings about a number of challenges and considerations. The SACG therefore would like the Board's views in March 2022 on the integration of sustainability / ESG information within the financial statements, through the lens of audit or assurance, to understand if immediate actions are needed by the IAASB to address the impact on audit and/or assurance engagements.

### Appendices to this Paper and Other Agenda Items Accompanying This Paper

11. The following appendices and agenda items accompany this paper:

<b>Appendix 1</b>	Overview of SACG's Activities
<b>Appendix 2</b>	Summary of ISSB Developments
<b>Appendix 3</b>	Summary of Developments in the EU Regarding Sustainability Reporting

<sup>9</sup> Although it is proposed that certain topics are not further considered for possible IAASB action at this stage, the SACG notes that these topics could be addressed as part of future actions of the IAASB (i.e., once the priority actions have been taken, and as Board and staff capacity opens up, there may be opportunities to undertake work to address these topics).

<sup>10</sup> The IAASB's Staff Audit Practice Alert, *The Consideration of Climate-Related Risks in an Audit of Financial Statements*, outlines many of these implications in the context of climate risk.

<sup>11</sup> See [Agenda Item 5 of the September 2021 IAASB Meeting](#), in particular paragraphs 18–20. In addition, the Work Plan 2022-2023 (see *Our New Projects in the Work Plan Period*, pages 6-8) identifies the topics, including ISA 720 (Revised), that are currently in Category A of Component I of the Framework for Activities.

<b>Appendix 4</b>	Roadmap of Considerations for the IAASB
<b>Agenda Item 6-A (FOR REFERENCE)</b>	Assurance on Sustainability / ESG Reporting - Mapping of the Requirements in ISAE 3000 (Revised) to the Requirements in ISAE 3410  <i><b>Agenda Item 6-A</b> has been provided purely for informational purposes, i.e., the IAASB may refer to the analysis as a matter of interest but is not asked to read and review it in detail.</i>

### Structure of the IAASB Discussion

12. The IAASB discussion will comprise the following:

	Approximate timing
Introduction (Lyn Provost, Chair SACG)	5 minutes
Presentations from key speakers:	
<ul style="list-style-type: none"> <li>• Developments in sustainability / ESG reporting standards <i>Presenter: Jessica Fries, Executive Chairman, Accounting for Sustainability</i></li> </ul>	15 minutes
<ul style="list-style-type: none"> <li>• Assurance on sustainability / ESG reporting - What are user needs? <i>Presenter: Carsten Stendevad, Co-Chief Investment Officer for Sustainability, Bridgewater</i></li> </ul>	15 minutes
<ul style="list-style-type: none"> <li>• Providing assurance on sustainability / ESG reporting: What are the challenges and special considerations? <i>Presenter: Neil Morris, Global Head: Assurance &amp; ESG Methodology, KPMG</i></li> </ul>	15 minutes
Questions	20 minutes
<i>Break</i>	10 minutes
Briefing on breakout group sessions	10 minutes
Breakout groups	90 minutes

13. **Appendix 4** to this paper provides a roadmap to assist the IAASB in considering the matters outlined in this paper. It reflects how the IAASB's feedback on the issues raised in this paper could be addressed.

### B. The Topics, Information Disclosed About the Topics and Mechanism for Reporting

14. Sustainability / ESG reporting covers many topics (i.e., underlying subject matter). The information disclosed about these topics (i.e., the resulting subject matter information) and the mechanism for reporting to the public or stakeholders (i.e., the collation and presentation of the subject matter

information) also varies. In some cases, a company may use multiple mechanisms for reporting information.

15. Below are examples of the variety of topics that form part of sustainability / ESG reporting, the information disclosed about these topics that results from applying criteria to the topics, and various mechanisms used by entities for reporting the information (individually as one mechanism or a combination of mechanisms):

Topics (Underlying Subject Matter) <sup>12</sup>	Information Disclosed About the Topics (the Resulting Subject Matter Information) <sup>13</sup>	Mechanism for Reporting (the Collation and Presentation of the Subject Matter Information)
<ul style="list-style-type: none"> <li>• Climate, including emissions</li> <li>• Economic impacts, such as government assistance, tax strategy, anti-competitive behavior and market presence</li> <li>• Labor practices, such as diversity and equal opportunity and training and education</li> <li>• Human rights and community relations, such as local community engagement, impact assessments and development programs</li> <li>• Water and effluents, such as water consumption and water discharge</li> <li>• Energy, such as type of energy and consumption</li> </ul>	<p>Depending on the criteria, information about the topics may relate to elements such as:<sup>14</sup></p> <ul style="list-style-type: none"> <li>• Governance</li> <li>• Strategy and business model</li> <li>• Risks and opportunities</li> <li>• Risk management or mitigation</li> <li>• Innovation to address risks and opportunities</li> <li>• Metrics and key performance indicators</li> <li>• Targets</li> <li>• Internal control over monitoring and managing risk</li> <li>• Scenario analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated report</li> <li>• Sustainability report</li> <li>• CSR Report</li> <li>• ESG Report</li> <li>• Annual report</li> <li>• Management commentary related to the financial statements</li> </ul>

<sup>12</sup> The underlying subject matter is defined in ISAE 3000 (Revised) as “The phenomenon that is measured or evaluated by applying criteria.”

<sup>13</sup> The subject matter information is defined in ISAE 3000 (Revised) as “The outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter.”

<sup>14</sup> In certain instances, some of these elements may be the underlying subject matter. For example, the subject matter may be the entity’s governance processes, controls, and procedures used to monitor and manage climate-related risks and opportunities, and the subject matter information may be the information disclosed in the sustainability report about these governance processes, controls, and procedures, which is disclosed in accordance with a reporting framework (criteria).

<ul style="list-style-type: none"> <li>• Biodiversity, such as impacts on biodiversity or habitats protected and restored</li> </ul>	<ul style="list-style-type: none"> <li>• Impact analysis, including magnitude of impact</li> </ul>	
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*Organizations may address and present the topics, or the information about the topics, in an integrated manner (i.e., they may not always be addressed and presented individually).*

### The Frameworks, Standards and Recommendations Used to Prepare Sustainability / ESG Information (Criteria)

16. There are many frameworks, standards, recommendations, or laws or regulations (referred to in this paper as “reporting standards”) used by organizations to prepare and disclose sustainability / ESG information, and organizations often use a combination of reporting standards. Some of the reporting standards most commonly referred to are summarized in the table below, with an illustrative example of reporting undertaken in accordance with such reporting standards. Although not a reporting standard, organizations may also map their sustainability / ESG information to the [United Nations’ Sustainable Development Goals](#) (UN SDGs).<sup>16</sup> The table below is not intended to be exhaustive, and many other reporting standards may exist globally.

Reporting Standard	Audience	Overview	Example <sup>17</sup>
The <a href="#">Global Reporting Initiative</a> (GRI) Standards	Multistakeholder	The Standards address reporting on the organizations’ impacts on the economy, the environment, and society. The Standards comprise of (1) universal standards applicable to all organizations; (2) sector standards that enable more consistent reporting on sector-specific impacts; and (3) topic standards that deal with disclosures for providing	Mondi Group <sup>18</sup> <a href="#">Content index</a> <a href="#">Sustainability report</a>

<sup>15</sup> The criteria is defined in ISAE 3000 (Revised) as “The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.”

<sup>16</sup> See, for example, this [report from Eni](#), which maps the UN SDGs at the front of the report, and throughout the report.

<sup>17</sup> The examples were sought from sources indicating best practice, and have been provided for reference purposes to provide the Board with context as to the nature and range of disclosures in practice.

<sup>18</sup> The World Business Council for Sustainable Development’s (WBCSD) 2021 report, [Reporting Matters](#), summarizes the results of the WBCSD’s review of organizations’ sustainability reporting against a set of comprehensive indicators. In this report, Mondi Group was identified as one of the top ten overall performers, and therefore was used as an illustration to demonstrate sustainability disclosures.

Reporting Standard	Audience	Overview	Example <sup>17</sup>
		<p>information on topics (e.g., waste).</p> <p>Organizations are required to identify and assess the impacts of the organization on the economy, environment and people and determine material topics, which would drive what is disclosed.</p> <p>Since not all GRI Standards are applicable, the organization prepares a content index to map the applicable GRI disclosure requirements to the location of the disclosure in the organizations' reports.</p>	
<p>The <a href="#">Sustainability Accounting Standards Board</a> (SASB) Standards (part of the Value Reporting Foundation)</p>	<p>Investors, lenders and other creditors</p>	<p>The SASB Standards address the disclosure of sustainability information that is <i>financially</i> material, decision-useful and cost effective.</p> <p>The Standards comprise of 77 Industry Standards. Each standard includes (1) disclosure topics (these are topics that are likely material information for that industry); (2) accounting metrics to measure performance on each topic; (3) technical protocols that support the accounting metrics; and (4) activity metrics.</p>	<p>Mondi Group <a href="#">Content index Sustainability report</a></p>
<p>The <a href="#">International Integrated Reporting (IR) Framework</a> (part of the Value Reporting Foundation)</p>	<p>Providers of financial capital</p>	<p>The International IR Framework includes guiding principles and content elements that govern the overall content of an integrated</p>	<p>Nedbank Group<sup>19</sup> <a href="#">Integrated Report</a></p>

<sup>19</sup> Integrated Reports using the International IR Framework are commonly prepared in South Africa, as the Johannesburg Stock Exchange (JSE) Listing Requirements require application of the King IV Report on Corporate Governance for South Africa 2016 (King IV) on a comply or explain basis. King IV recommends preparing an integrated report. Annually the JSE hosts Integrated Reporting Awards, in conjunction with the Chartered Governance Institute of South Africa. The winner of the awards for 2021 was the Nedbank Group.

Reporting Standard	Audience	Overview	Example <sup>17</sup>
Reporting Foundation)		report. The International IR Framework deals with explaining how an organization creates, preserves or erodes value over time, through explaining the resources and relationships used and affected by the organization (the capitals).	(in particular see page 11)
The <a href="#">Task Force on Climate-Related Financial Disclosures</a> (TCFD) Recommendations (Financial Stability Board)	Investors, lenders and insurance underwriters (it recognizes that other organizations such as credit rating agencies, equity analysts, stock exchanges, investment consultants and proxy advisors may also use this information)	<p>The TCFD Recommendations focus on providing <i>climate-related financial</i> disclosures. They help a company assess the risks of climate change (physical risk and transition risk) and opportunities, and the financial implications on the company.</p> <p>The TCFD Recommendations comprise of recommended disclosures structured around four thematic areas that represent core elements of how organizations operate: (1) governance; (2) strategy; (3) risk management; and (4) metrics and targets.</p> <p>The TCFD has also issued various guidance and supplements.</p>	Eni <sup>20</sup> <a href="#">Carbon Neutrality Report</a>
The ISSB Sustainability Disclosure Standards Note these Standards are still in development	Investors and other capital market participants	Please see <b>Appendix 2</b> for a summary of the work of the ISSB and an explanation of the prototypes.	N/A (newly formed)

17. In some jurisdictions, law or regulation requires the use of a reporting standard. Jurisdictions may also have law or regulation that requires certain information to be disclosed or directs the mechanism

<sup>20</sup> In the WBCSD 2021 report, [Reporting Matters](#), Eni was identified as one of the top ten overall performers, and therefore was used as an illustration to demonstrate sustainability disclosures.

for reporting such information.<sup>21</sup> For example, as explained in **Appendix 3**, the EU CSRD proposes sustainability reporting in accordance with mandatory EU sustainability reporting standards, which are to be developed by the European Financial Reporting Advisory Group.

18. Given the complexity and fragmentation of the reporting landscape, the ISSB was established to develop a global baseline of sustainability disclosure standards. Although the ISSB's work will be based on the reporting standards of the organizations consolidating into the ISSB, the SACG expects that multiple reporting standards for sustainability / ESG reporting may continue to exist because:
  - (a) The ISSB's work is focused on investors and other capital market participants. However, sustainability / ESG reporting is also often prepared for broader stakeholder groups. For example, the GRI Standards are focused on reporting for multiple stakeholders.
  - (b) Jurisdictions may develop their own sustainability / ESG reporting standards, or may use the ISSB standards and build upon the ISSB standards to deal with jurisdictional matters.
19. Currently, under the financial reporting model, there are multiple financial reporting frameworks in addition to International Financial Reporting Standards (IFRS). The International Standards on Auditing (ISAs) are developed on the basis of being framework-neutral in terms of which financial reporting framework is applicable in the circumstances of the engagement.

### **What is the SACG Seeking Views On?**

#### *Focusing on Topics, the Information Disclosed About the Topics, or Mechanisms for Reporting*

20. Given the broad landscape of topics, information disclosed about the topics, and how it is reported, the SACG considered whether it would be helpful or appropriate to focus the IAASB's efforts on assurance on particular areas of sustainability / ESG reporting, as outlined in the table in paragraph 15, i.e., the IAASB could focus on particular:
  - (i) Topics. For example, the IAASB could focus its work on dealing with assurance on climate-related disclosures.
  - (ii) Information disclosed about the topics. For example, the IAASB could focus its work on dealing with assurance on governance information, regardless of what topic it relates to.
  - (iii) Mechanisms for reporting. For example, the IAASB could focus its work on assurance on sustainability reports.
21. The SACG noted the ISSB's approach in focusing its efforts, i.e., dealing with general requirements (the general requirements would result in particular types of subject matter information) and the topic (the ISSB refers to these as "themes") of climate first, and undertaking future standard-setting on other sustainability topics (themes) (see **Appendix 2**).
22. The SACG considered focusing on assurance on information about particular topics, but is of the view that doing so could inadvertently limit the application of the IAASB's Standards, when the concepts and principles underpinning the assurance on that information can be applied broadly and the individual standards would inevitably repeat themselves. For example, the considerations in

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<sup>21</sup> A full list of mandatory and voluntary instruments that either require or encourage organizations to report sustainability-related information can be found on the [Carrots and Sticks website](#). The website contains a database of mandatory and voluntary instruments, by jurisdiction, that either require or encourage organizations to report sustainability-related information.

assurance on governance disclosures would likely be similar whether those disclosures apply to governance of climate, or governance of social matters. Other SACG observations also included that:

- (a) The topics may be presented by the organization in an integrated manner, and it may not be possible to separately define them.
- (b) Focusing on priority topics first would mean that it would take time for the IAASB to address remaining topics.
- (c) The ISAs are in general not designed around particular topics, for example, ISA 540 (Revised)<sup>22</sup> deals with audits of accounting estimates, regardless of what the estimate relates to.

Accordingly, the SACG is of the view that the IAASB should not focus its work on assurance on particular topics, and rather include within the scope of the IAASB's work assurance on sustainability / ESG reporting more broadly, encapsulating all relevant sustainability / ESG topics.

23. The SACG also considered focusing on assurance on particular information disclosed about the topics (e.g., governance information about a topic such as climate). However, the SACG noted similar issues as explained in paragraph 22 (i.e., the concepts and principles underpinning assurance may be applied broadly, the integrated manner of presenting information, and the time it would take to deal with types of information that is not initially identified as a priority). Accordingly, the SACG is of the view that the IAASB should include within the scope of the IAASB's work all information disclosed about the topics related to sustainability / ESG reporting.
24. The SACG also concluded that focusing on only certain mechanisms for reporting would not be appropriate. In particular, the SACG noted that there are varying practices globally for what the reports are called, and that sustainability / ESG information is presented across multiple reports in many instances. Furthermore, the prototypes published by the ISSB are not prescriptive about where the information is presented (see **Appendix 2**), and therefore practice may continue to evolve in terms of the mechanism for reporting. Accordingly, the SACG is of the view that the IAASB should focus on assurance on sustainability / ESG information irrespective of reporting mechanism(s), while recognizing that different reporting mechanisms may be used.

#### *Remaining Neutral Regarding the Reporting Standards (Criteria)*

25. As noted previously, all of the IAASB's Standards are designed to be framework-neutral. The SACG continues to believe that this is the appropriate approach because jurisdictions may adopt a variety of reporting standards, and as the international standard setter, it is critical that the IAASB's Standards can be used in virtually all circumstances. Gravitating towards a particular reporting standard could result in the IAASB's Standards not being adopted on a global basis, resulting in fragmentation.
26. Nevertheless, recognizing the variety of reporting standards used to prepare and disclose sustainability / ESG information, the SACG may refer to one, or multiple, reporting standards, on an informal basis, as case studies to formulate the IAASB's actions. The SACG noted that this approach could assist in focusing the IAASB's deliberations on the issues and solutions, because the reporting standard would provide context regarding the subject matter information that is being assured.

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<sup>22</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

### *Remaining Neutral Regarding the Intended Users of the Assurance Practitioners' Report*

27. As explained previously, some sustainability / ESG reporting is focused on users with a financial interest in the organization. However, sustainability / ESG reporting may also be prepared for broader user groups. The user group for whom the sustainability / ESG reporting is prepared affects matters such as the scope of the information reported, what is material and therefore what is reported, and where the information may be presented and disclosed.
28. The *Amended International Framework for Assurance Engagements* notes that “An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion *designed to enhance the degree of confidence of the intended users* other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria”. Accordingly, the intended users are an important consideration in performing an assurance engagement.
29. The SACG debated the impact on the IAASB's work of focusing on particular user groups. The user groups for whom the sustainability / ESG reporting is prepared is an important consideration for the assurance practitioner in determining the intended users of the practitioner's assurance report<sup>23</sup> and in matters such as materiality, misstatements, and reporting. However, the SACG is of the view that the IAASB's work should not focus on particular user groups and should remain principles-based regarding the intended users, as is currently the case across the IAASB's Standards. Nevertheless, given the importance of obtaining users' views and input, user groups will be important in determining with whom the IAASB undertakes outreach in progressing this project.

#### **Matters for IAASB Consideration**

The IAASB is asked to share views on the following during the breakout session:

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 (for example, all of the items in the tables in paragraphs 15 and 16 would be included)?
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?

## **C. The Challenges in Applying ISAE 3000 (Revised) in Performing Assurance Engagements on Sustainability / ESG Reporting and Identifying the IAASB's Priority Actions**

### **Current Standards and Guidance that Deal with Assurance**

30. ISAE 3000 (Revised) is intended for use in performing assurance engagements on a variety of topics. However, performing assurance engagements on particular topics may present unique challenges

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<sup>23</sup> Paragraph 12(m) of ISAE 3000 (Revised) defines intended user as “The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.”

and considerations for assurance practitioners, and dealing with those challenges as part of an overarching standard may not be appropriate. Accordingly, the architecture of the IAASB's Standards have been designed to accommodate these unique challenges, through developing subject-matter specific ISAEs that expand on how ISAE 3000 (Revised) is to be applied in an assurance engagement on that particular topic (i.e., subject-matter specific ISAEs supplement ISAE 3000 (Revised), and do not replace it).

### *The IAASB's EER Guidance*

31. The IAASB issued the EER Guidance in April 2021 to respond to increasing demands for assurance on sustainability and other forms of extended external reporting, by addressing key stakeholder-identified challenges in applying ISAE 3000 (Revised) in such assurance engagements. However, the IAASB's discussions regarding sustainability / ESG reporting date back many years. Initial efforts and discussions on this topic started in 2014, through the Integrated Reporting Working Group. In developing the project proposal for the EER Guidance, which was approved in October 2017, the IAASB undertook extensive information gathering and research, and public consultation, through discussion papers and outreach, to identify key challenges in performing assurance engagements on EER. Similarly, throughout the development of the drafts for public consultation for the two phases of the project, significant targeted outreach was undertaken across a broad range of stakeholders. This, together with the feedback received from the public consultations, and Board deliberations of issues and proposals, provided the basis for finalizing and approving the EER Guidance at the March 2021 IAASB meeting.
32. The culmination of the IAASB's work since 2014 identified ten (10) key challenges to performing assurance engagements on sustainability and other EER. These challenges were addressed in the twelve (12) areas covered by the EER Guidance, which are as follows:
  - 1) Applying appropriate competence and capabilities;
  - 2) Exercising professional skepticism and professional judgment;
  - 3) Determining preconditions and agreeing the scope of the EER assurance engagement;
  - 4) Considering the entity's process to identify reporting topics;
  - 5) Determining the suitability and availability of criteria;
  - 6) Considering the process used to prepare, or internal control over the preparation of, the subject matter information;
  - 7) Using assertions;
  - 8) Obtaining evidence;
  - 9) Considering the materiality of misstatements;
  - 10) Addressing qualitative EER information;
  - 11) Addressing future-oriented EER information; and
  - 12) Communicating effectively in the assurance report.
33. Not all aspects of ISAE 3000 (Revised) were addressed in the EER Guidance. The following diagram from the EER Guidance maps the relationship between the EER Guidance and ISAE 3000 (Revised), and therefore indicates specific aspects of ISAE 3000 (Revised) that were addressed:

Quality Control (31-36)								
Ethical Requirements (20)								
Competence (31(b)-(c), 32 (a), 39, 52(a), 53)					Chapter 1 Applying Appropriate Competence and Capabilities			
Professional Judgment and Professional Skepticism (37-38)					Chapter 2 Exercising Professional Skepticism and Professional Judgment			
Conduct of Assurance Engagement	Acceptance and Continuance	Planning (40, 42-43)		Procedures to Obtain Sufficient Appropriate Evidence			Forming the Assurance Conclusion	Preparing the Assurance Report, and Other Communications
		Understanding the Engagement Circumstances and the Likelihood or Risks of Material Misstatement		Design	Performance	Other		
(14-19)	(21-30)	(41, 44 (a), 45, 46 L/R, 47 L/R)		(48 L/R (a))	(48 L/R (b), 49, 50-51)	(52 -63)	(44 (b), 64-66)	(67-70, 71-77, 78)
	↓	↓	↓	↓	↓		↓	↓
	Chapter 3 Determining Preconditions and Agreeing the Scope of...	Chapter 4 Considering the Entity's Process to Identify Reporting Topics	Chapter 6 Considering the Process Used to Prepare, or Internal Control Over the Preparation of...	Chapter 8 Obtaining Evidence			Chapter 12 Communicating Effectively in the Assurance Report	
		↓		↓			↓	
		Chapter 5 Determining the Suitability and Availability of Criteria		Chapter 7 Using Assertions			Chapter 9 Considering the Materiality of Misstatements	
Chapter 10 Addressing Qualitative EER Information and Chapter 11 Addressing Future-Oriented EER Information								
Documentation (79-83)								

*Subject-Matter Specific Standards*

34. The IAASB has several subject-matter specific ISAEs, built upon ISAE 3000 (Revised). The Appendix in the [Basis for Conclusions](#) for ISAE 3410 summarized the areas where ISAE 3410 included additional requirements built upon ISAE 3000, areas partly covered in ISAE 3410, and areas where no additional requirements in ISAE 3410 were considered necessary because ISAE 3000 adequately addressed them. However, this analysis was based on a previous version of ISAE 3000 (ISAE 3000 (Revised) was released in December 2013). Accordingly, Staff have updated this analysis to map extant ISAE 3000 (Revised) to ISAE 3410 (see **Agenda Item 6-A**, which has been provided for informational purposes).
35. The SACG is aware that many National Standard Setters (NSS) have also developed their own assurance standards to deal with assurance on jurisdictional topics, built upon ISAE 3000 (Revised). These standards address topics such as engagements in the public sector (performance audits that focus on the economy, efficiency and effectiveness of organizational activities or assurance on reported service performance information), compliance assurance engagements and engagements to address specific assurance requirements embedded in law or regulation. Staff reviewed some of these standards to understand how NSS have approached developing subject-matter specific standards, and to identify any content that may be of use to the IAASB's work on assurance on sustainability / ESG reporting. Staff noted that the approach taken by the NSS in terms of the structure and content of the assurance standards varied, with some NSS repeating many of the principles-based requirements in ISAE 3000 (Revised) (adapted to reflect the circumstances of the

engagement), and other NSS focusing more directly on the unique challenges or considerations specific to the engagement.

36. In performing the analysis of the NSS Standards, Staff also identified guidance issued by NSS specifically related to assurance on sustainability / ESG reporting, which will be considered as the IAASB progresses its work on this topic.

### **Challenges in Performing Assurance Engagements on Sustainability / ESG Reporting**

37. Understanding the challenges in performing assurance engagements on sustainability / ESG reporting may assist the IAASB in identifying the matters that need to be addressed by the IAASB, the urgency and priority of each matter and how the IAASB should address these matters.
38. Leadership and Staff of the IAASB have engaged with a number of stakeholders over the last few months on sustainability / ESG reporting. Through these discussions, a few areas have emerged where challenges appear to be arising, including:
  - (a) Engagement acceptance;
  - (b) Differentiating between limited and reasonable assurance;
  - (c) The nature and extent of audit evidence, and underlying work effort needed (including sampling), taking into account the nature of the underlying sustainability / ESG information;
  - (d) Materiality, including materiality for non-quantitative information;
  - (e) Consideration of the risks of material misstatement;
  - (f) Fraud;
  - (g) Groups, i.e., when the reporting entity consolidates information from other group entities;
  - (h) Supply chain issues outside of the corporate group (i.e., challenges in obtaining assurance on information from upstream and downstream supply chains);
  - (i) Reliance on the work of others, and the use of experts;
  - (j) Interactions between the auditor of the financial statements and the practitioner(s) undertaking a separate assurance engagement (when different), including in circumstances when the respective engagements are performed by different personnel within a firm; and
  - (k) Reporting requirements to meet user needs for consistency and transparency.
39. The SACG is seeking the Board's input on the challenges in performing assurance engagements on sustainability / ESG reporting, including the Board's views on the challenges outlined above.

### **Focusing and Prioritizing the IAASB's Possible Actions for Assurance on Sustainability / ESG Reporting**

40. In view of the nature of the challenges specific to an assurance engagement on sustainability / ESG reporting, the SACG noted that it is essential to first understand and consider the following in formulating the IAASB's further actions:
  - (a) Are the challenges already addressed in ISAE 3000 (Revised)?
  - (b) Are the challenges already addressed in the EER Guidance?

- (c) Do the challenges, or aspects of the challenges, relate to “how” an assurance practitioner complies with the principles established in the IAASB Standards? (*The SACG notes that the IAASB’s Standards are principle-based and that requirements are largely focused on “what” an assurance practitioner is expected to do in undertaking the engagement. Application material may be used to focus on “why” a requirement is necessary and, in certain instances, addressing at an appropriately level “how” to implement the requirement (however, more detailed explanations of “how” to execute are not included). If challenges identified by stakeholders, or aspects of the challenges, relate to detail about “how” an assurance practitioner executes to comply with the principles established in the IAASB Standards, then it is likely a matter for the assurance practitioner to determine in developing an assurance methodology, and is beyond the remit of the IAASB’s work.*)
41. Whether the challenges have already been addressed in the IAASB Standards or guidance, and if so, where they are addressed, affects the IAASB’s further actions in addressing assurance on sustainability / ESG reporting.<sup>24</sup> Accordingly, in determining the focus and priority of the IAASB’s work, the question for the Board is as follows (see **Appendix 4**, which provides a roadmap for the IAASB to assist with these considerations):
- (a) If the challenges are already addressed in the EER Guidance (and *not* addressed in ISAE 3000 (Revised)), should the guidance be incorporated as principles in the IAASB Standards (i.e., principle-based requirements and, when necessary, application material to support the proper application of the requirements)? In particular, should the EER Guidance be used for:
- (i) Developing a subject-matter specific ISAE; or
  - (ii) Targeted revisions to ISAE 3000 (Revised)?
- (b) If the challenges are *not* addressed in ISAE 3000 (Revised) or the EER Guidance:
- (i) Should the EER Guidance be expanded to address these challenges, or new guidance developed; or
  - (ii) Should the challenges be addressed in the IAASB Standards, through:
    - a. Developing a subject-matter specific ISAE; or
    - b. Targeted revisions to ISAE 3000 (Revised)?

The SACG notes that the above questions, and the outcome, may vary for each challenge because some challenges may already be addressed in the EER Guidance, and other challenges may not. Furthermore, some challenges may need to be addressed in the IAASB Standards, while guidance

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<sup>24</sup> The possible actions that could be taken by the IAASB for assurance on sustainability / ESG reporting were outlined on page 13 of the IAASB’s Work Plan for 2022-2023 as follows:

- (a) Developing new subject-matter specific standard(s) to address sustainability / ESG reporting (or aspects thereof), i.e., a subject-matter specific standard(s) that builds on and supplements the application of ISAE 3000 (Revised);
- (b) Targeted enhancements to ISAE 3000 (Revised); or
- (c) Other related actions that are necessary in the public interest, for example, revising the IAASB’s existing guidance or developing new guidance.

may be suitable for other challenges. These various options, i.e., enhancing or developing guidance, or taking standard-setting actions, are further explored below.

42. In considering the actions for the IAASB, the SACG notes the following:
- (a) Although there are resources and capacity dedicated to this topic, it is essential that the IAASB takes focused action to address stakeholder needs in a responsive manner, through prioritizing what is most critical. Undertaking multiple actions (e.g., developing guidance concurrently with standard setting) would risk timely progress and impactful change. Once priority actions have been progressed, and as Board and staff capacity opens up, additional actions could be pursued, subject to the IAASB's overall strategic priorities and its Work Plan. This step-by-step approach (i.e., taking priority actions first, with the potential for additional long-term actions) is similar to how the ISSB is approaching their work (**Appendix 2** indicates that the ISSB plans to focus on particular topics initially, with plans for future work to deal with other topics).
  - (b) As explained in paragraphs 3–4, assurance engagements are performed by audit-affiliated firms and non-audit firms, with non-audit firms mostly using other assurance frameworks and standards. There is a critical need to minimize fragmentation, through the IAASB being the globally recognized standard setter for assurance on sustainability / ESG reporting. Accordingly, as the IAASB develops actions, it is essential that the IAASB is mindful that its actions could affect whether non-audit firms choose to use the IAASB Standards (i.e., if law or regulation does not prescribe the assurance standards).

#### *Expanding the IAASB's EER Guidance or Developing New Guidance*

43. Based on the preliminary outreach to date, although stakeholders acknowledge the value of the EER Guidance, the SACG is consistently hearing a call for standards to address these challenges (i.e., that more specificity is needed and that this should go beyond guidance).
44. In particular, standard setting actions will drive consistency, comparability and transparency in performing these engagements, which is in the public interest. In addition, a global standard-setting solution will minimize the risk of fragmentation in assurance standards across jurisdictions, because regulators are more inclined to require the use of standards than guidance. Accordingly, the SACG is of the view that expanding the IAASB's existing EER Guidance or developing new guidance may:
- (a) Appear unresponsive to the call for action; and
  - (b) Risk the IAASB not being recognized as the global standard setter for assurance on sustainability / ESG reporting.
45. However, the SACG noted that guidance could still be a possible solution, through taking standard-setting action and addressing specific matters not suitable for the standards in guidance.

#### *Targeted Revisions to ISAE 3000 (Revised)*

46. Targeted revisions to ISAE 3000 (Revised) could involve:
- (a) Incorporating principles and concepts addressed in the EER Guidance in ISAE 3000 (Revised);
  - (b) Developing new principles and concepts to address challenges not dealt with in the EER Guidance for incorporation in ISAE 3000 (Revised); or
  - (c) A combination of (a) and (b).

47. Given that ISAE 3000 (Revised) is intended to be used for a variety of topics, any revisions to ISAE 3000 (Revised) would need to be considered in the context of *all* assurance engagements, not only assurance engagements on sustainability / ESG reporting. Accordingly, targeted revisions to ISAE 3000 (Revised) would need to be undertaken in a cautious manner, such that:
- (a) Changes to ISAE 3000 (Revised) are appropriate for all assurance engagements.
  - (b) The IAASB continues to focus its attention on sustainability / ESG reporting (i.e., that the IAASB is not inadvertently distracted by issues arising on assurance engagements for other topics).
  - (c) The targeted revisions to ISAE 3000 (Revised) also address stakeholder needs for assurance on sustainability / ESG reporting.
48. The SACG noted that if targeted revisions to ISAE 3000 (Revised) were undertaken, it would not be possible to simultaneously develop a subject-matter specific standard, given Board and staff capacity constraints. For example, if targeted revisions to ISAE 3000 (Revised) were undertaken simultaneously with developing a subject-matter specific ISAE, it would likely need to be managed in a similar way as the Quality Management Standards (i.e., as a package of two interrelated, but separate projects). Accordingly, each project would require its own Board time, dedicated staff resources, and a dedicated Working Group / Task Force. The Work Plan for 2022-2023 has not accounted for two separate projects on this topic.

#### *Subject-Matter Specific ISAE*

49. The architecture of the ISAE series of standards is designed for developing subject-matter specific ISAEs that build upon ISAE 3000 (Revised) and focus on the challenges and considerations unique to performing assurance engagements on the topic (i.e., it expands on how ISAE 3000 (Revised) is to be applied in an assurance engagement on that particular topic).<sup>25</sup> A subject-matter specific ISAE for assurance on sustainability / ESG reporting would provide a “complete” assurance solution enabling the practitioner to form and report an assurance conclusion in line with current calls for assurance on sustainability / ESG reporting. The ISAE could be developed based on:
- (a) The principles and concepts addressed in the EER Guidance; and
  - (b) New principles and concepts to address challenges not dealt with in the EER Guidance.
50. Developing a subject-matter specific ISAE for assurance on sustainability / ESG reporting (or matters related thereto) would clearly signal that the IAASB has an assurance standard for sustainability / ESG reporting (i.e., addressing the calls for more specificity). This could promote and encourage regulators globally to use the IAASB Standards as the basis for assurance engagements on sustainability / ESG reporting, reducing the risk of fragmentation.
51. However, the time it would take to develop the ISAE for assurance on sustainability / ESG reporting would depend on the nature and extent of the identified challenges and considerations scoped into the project. Although ISAE 3000 (Revised) will still be applicable to the assurance engagement overall, there may be pressure to not leave any gaps in the ISAE for assurance on sustainability /

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<sup>25</sup> Currently, the IAASB has subject-matter specific ISAEs for the following: (1) ISAE 3400, *The Examination of Prospective Financial Information*; (2) ISAE 3402, *Assurance Reports on Controls at a Service Organization*; (3) ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*; and (4) ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*.

ESG reporting in line with calls for specificity in performing an assurance engagement on this subject matter information. If the expectation is to scope all challenges and considerations into the project, it may take a long time to develop the standard.

#### A Series of Multiple ISAEs

52. The SACG considered whether developing a series of multiple ISAEs for assurance on sustainability / ESG reporting to deal with discrete areas of the engagement would be appropriate (i.e., in a manner similar to the architecture of the ISAs). However, the SACG noted that this would take a long time to deliver a “complete” assurance solution, since the separate standards for all the various aspects of the assurance engagement cannot be addressed simultaneously (i.e., while the IAASB is working to develop a standard for a particular aspect, all other aspects remain unaddressed). Although in this situation ISAE 3000 (Revised) would still be applicable to the assurance engagement overall, this approach may not satisfy the expectations of stakeholders in line with current calls for an assurance solution for sustainability / ESG reporting.

#### Matters for IAASB Consideration

The IAASB is asked to share views on the following during the breakout session:

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? In providing a response, the IAASB is asked to consider the questions outlined in paragraphs 40 and 41.

## D. The Integration of Sustainability / ESG Information Within the Financial Statements

### Emerging Trends Regarding the Integration of Sustainability / ESG Information within the Financial Statements

53. As noted in paragraph 10, the SACG is aware that sustainability / ESG information is, in some cases, integrated within the financial statements (e.g., it is disclosed in the notes to the financial statements). In outreach undertaken thus far, this issue has also been raised by some stakeholders. The ISSB’s prototype on *General Requirements for Disclosure of Sustainability-related Financial Information* (see **Appendix 2**) suggests that sustainability-related financial information could be positioned in the relevant sections of a general-purpose financial report, together with information from the financial statements.
54. The SACG noted that jurisdictional law or regulation, or the financial reporting framework, may or may not permit the inclusion of information beyond what is required by the financial reporting framework in the financial statements.<sup>26</sup> The inclusion of non-financial information in the general-

<sup>26</sup> Paragraph 13(f) of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing*, defines financial statements as “A structured representation of historical financial information, including disclosures, intended to communicate an entity’s economic resources or obligations at a point in time, or

purpose financial reports has been common practice in the public sector for many years. For example, in New Zealand, some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general-purpose financial report. As a result, in February 2019, the New Zealand Auditing and Assurance Standards Board of the External Reporting Board issued New Zealand Auditing Standard 1, *The Audit of Service Performance Information*, to address assurance challenges arising when service performance information is included within general purpose financial reports that are subject to audit. The Standard includes several requirements focused on matters such as the entity's process for reporting on the service performance information, the suitability and availability of criteria, relying on the work of others, materiality for the service performance information, and the auditor's report.

### **Challenges and Complexities that Arise for the Auditor when the Sustainability / ESG Information is Integrated within the Financial Statements**

55. The SACG observed that several challenges and complexities arise when the sustainability / ESG information is integrated within the financial statements, for example:

- (a) If the auditor is required by law or regulation or is otherwise engaged by the entity to include the sustainability / ESG information within the scope of the audit of financial statements, given the ISAs only deal with auditing historical financial information, the auditor should use ISAE 3000 (Revised) to perform the assurance engagement of the sustainability / ESG information. However, in doing so, various challenges may arise, including with respect to the competence and capabilities of the engagement team (including the engagement partner), and the auditor's report / assurance report, for example:
  - (i) Whether the auditor is permitted to issue a combined auditor's report / assurance report.
  - (ii) Describing the various reporting frameworks, i.e., the financial reporting framework and the sustainability / ESG reporting standards.
  - (iii) Differentiating and identifying the historical financial information versus the sustainability / ESG information.
  - (iv) Whether to provide a separate opinion on the audit of the financial statements and the assurance on the sustainability / ESG information.
  - (v) The impact on the audit opinion if there are material misstatements in the sustainability / ESG information, or vice versa.
- (b) If the auditor is not required by law or regulation or is not otherwise engaged by the entity to include the sustainability / ESG information within the scope of the audit of financial statements, the question arises as to whether such information is subject to ISA 720 (Revised) (i.e., does it meet the definition of "other information"), and how the auditor should deal with such information in the auditor's report (i.e., to clarify that such information was not included in the scope of the audit).

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the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference."

- (c) If current or future law or regulation does not permit the auditor of the financial statements to also perform the assurance engagement on the sustainability / ESG information, it could create several complexities and challenges in performing the audit of financial statements and reporting thereon.
56. The SACG noted that if the auditor is required to include sustainability / ESG information that is integrated within the financial statements in the scope of the audit of financial statements, and the auditor is unable to obtain sufficient appropriate audit evidence regarding such information, the auditor may need to express a qualified opinion or disclaim the opinion on the audit of the financial statements and/or the assurance of the sustainability / ESG information.
57. Noting these challenges and complexities, the SACG is seeking the Board's input on trends that are emerging regarding the integration of sustainability / ESG information within the financial statements, the challenges this creates from an audit and/or assurance perspective, and whether the IAASB needs to take action to, for example:
- (a) Clarify the applicability of the IAASB's Standards in circumstances when sustainability / ESG information is integrated within the financial statements; and
  - (b) Deal with the challenges that arise in these circumstances (e.g., the structure and content of the auditor's report / assurance report).

#### **Matters for IAASB Consideration**

The IAASB is asked to share views on the following during the breakout session:

5. For the integration of sustainability / ESG information within the financial statements:
- (a) Has the IAASB 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 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?

#### **E. Approach to Soliciting Stakeholder Input on the IAASB's Work Regarding Assurance on Sustainability / ESG Reporting**

58. Following the March 2022 meeting, the SACG plans to further understand the matters outlined in this paper through information gathering and research. A key component of this will be soliciting feedback from a broad range of stakeholders.
59. The SACG considered how to approach soliciting feedback from stakeholders, in particular, how to reach a broad range of stakeholders across multiple jurisdictions. The SACG is of the view that:
- (a) Given the need to take action in a responsive and timely manner, a discussion paper would not be effective, as it would take approximately 9-12 months to complete. Furthermore, the

SACG noted that a discussion paper was already developed as part of the initial efforts in formulating the project proposal for the EER Guidance, and that extensive information gathering and research, and public consultation were undertaken for that project (see paragraph 31).

- (b) There are a number of key stakeholders with whom engagement is needed, many of whom form part of the IAASB's usual outreach program (e.g., regulators and audit and assurance oversight bodies, firms, NSS and Professional Accountancy Organizations). Key stakeholders that the IAASB will need to include in addition to the stakeholders the IAASB typically engages with include:
- (i) Users of sustainability / ESG reporting. As indicated in **Section B** of this paper, the SACG is of the view that the IAASB's work should focus on all users of sustainability / ESG reporting, and not only users with a financial interest. Accordingly, it will be important to reach organizations such as intergovernmental organizations (e.g., various agencies within the United Nations and World Bank) and key NGOs with an interest in climate or social matters (e.g., Greenpeace, Ocean Conservancy Climate Action Network, World Wildlife Fund, or Human Rights Watch).
  - (ii) Sustainability / ESG reporting standard setters (e.g., the ISSB, the Value Reporting Foundation, or the GRI).
  - (iii) Regulators in addition to the audit and financial-related regulators who are taking action on sustainability / ESG reporting (e.g., the European Commission).
  - (iv) Management, preparers and those charged with governance of organizations who have experience in preparing sustainability / ESG reporting.
  - (v) Practitioners, other than audit firms, who perform assurance engagements on sustainability / ESG reporting.
  - (vi) The public sector.

#### **Matters for IAASB Consideration**

The IAASB is asked to share views on the following during the breakout session:

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

## **F. Way Forward**

60. Following the March 2022 IAASB discussion, the SACG suggests that this topic be moved into Category C of the Framework for Activities "*recommendations for IAASB action and scoping a project.*" As a result, the SACG will be reconstituted as the Sustainability Assurance Working Group (SAWG).
61. The SAWG plans to bring more advanced thinking and proposals to the IAASB in September 2022 and is targeting the approval of a project proposal in December 2022. The timing is indicative at this stage, since much will depend on the specific issues and approach that the Board may wish to

prioritize, including the nature and extent of the ultimate deliverable(s), Board and staff capacity, and other priorities on the work plan.

62. In developing the proposals for September 2022, the activities the SAWG is planning to undertake include:
- (a) The outreach activities described in **Section E**, to solicit feedback from a broad range of stakeholders across multiple jurisdictions on this topic and the possible actions of the IAASB. In doing so, the SACG notes that communicating with stakeholders that the IAASB is taking a proactive response in addressing this topic will be important.
  - (b) Understanding and analyzing academic research on assurance on Sustainability / ESG reporting. The SACG has already begun to perform this work and has identified extensive research on this topic.
  - (c) Further understanding and analyzing relevant NSS assurance standards and guidance, as described in paragraphs 35-36.

## Appendix 1

### Overview of SACG's Activities

1. The following sets out the activities of the SACG including coordination with other IAASB Task Forces and Working Groups and other standard setting Boards.
2. The composition of the SACG is as follows:
  - (a) Lyn Provost (Chair);
  - (b) Wolfgang Böhm;
  - (c) Diane Larsen;
  - (d) Warren Maroun; and
  - (e) Isabelle Tracq-Sengeissen.

#### SACG Activities in Quarter 4 of 2021 and Quarter 1 of 2022

3. The SACG held three calls since the December 2021 IAASB meeting.
4. As already highlighted in this paper, a number of outreach activities were undertaken in quarter 1 of 2022 with various stakeholders.

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

5. Staff of the IAASB are holding quarterly meetings with the International Ethics Standards Board for Accountants and the International Public Sector Accounting Standards Board to share experiences, recent developments and future plans on sustainability / ESG reporting. The first quarterly meeting was held in January 2022.

## Appendix 2

### Summary of ISSB Developments

1. On November 3, 2021, the IFRS foundation announced the formation of the ISSB. The ISSB's mandate is to develop, in the public interest, a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. The intent is to provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
2. The ISSB has been formed through the consolidation of leading organizations focused on sustainability disclosures for investors. The organizations consolidated into the ISSB include the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), which houses the Integrated Reporting Framework of the International Integrated Reporting Council and the Sustainability Accounting Standards Board Standards. The intention is to complete the consolidation by June 2022.
3. It is intended that the technical standards and frameworks of the CDSB and the VRF, along with those of the Task Force on Climate-Related Financial Disclosures (TCFD) (established by the Financial Stability Board) and the Forum Stakeholder Capitalism Metrics, will provide a basis for the technical work of the ISSB.
4. To date, the ISSB has appointed a Chair, Vice Chair, and special advisor to the Chair, and is in the process of appointing Board members. The ISSB will use the recommendations developed by the Technical Readiness Working Group (TRWG) (the TRWG was formed by the Trustees of the IFRS Foundation) to inform their work. These recommendations include, among other matters:
  - (a) The proposed architecture of the ISSB standards (the standards will be called "IFRS Sustainability Disclosure Standards"); and
  - (b) Two prototypes:<sup>27</sup>
    - (i) General Requirements for Disclosure of Sustainability-related Financial Information (general sustainability disclosures prototype); and
    - (ii) Climate-related disclosures prototype, which builds on the TCFD's recommendations and includes industry-specific disclosures.

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<sup>27</sup> These prototypes were developed by representatives of the CDSB, the International Accounting Standards Board (IASB), the TCFD, the VRF and the World Economic Forum, supported by the International Organization of Securities Commissions (IOSCO) and its Technical Expert Group of securities regulators.

5. The *Summary of the TRWG Programme of Work*, issued in November 2021, suggests the following architecture for the ISSB Standards:

Figure 1: Architecture of Standards



6. The presentation standard would address general requirements, similar in nature to International Accounting Standard 1, *Presentation of Financial Statements*. It would deal with disclosing sustainability-related financial information relevant to the significant sustainability-related risks and opportunities of an entity. It would address matters such as materiality, general disclosure requirements, and location of the disclosures. A prototype of this standard was developed by the TRWG (see above).
7. Specific standards would deal with:
- Thematic disclosure requirements, such as climate. This would be relevant to all entities, regardless of their industry. It would focus on disclosures regarding climate through the lens of governance, strategy, risk management, and metrics and targets. A prototype of the climate standard was developed by the TRWG (see above).
  - Industry disclosure requirements. These would identify disclosure topics that are relevant to a particular industry.
8. The ISSB recognizes that it cannot develop all standards simultaneously, and in 2022 plans to solicit input from their stakeholders on which items should be on the ISSB's initial work plan (i.e., which thematic and industry-based requirements should be dealt with first). The ISSB plans to move quickly to issue an exposure draft for priority thematic issues, such as climate, enabling the first Standards to be published expeditiously, while also setting out a potential basis for future standard setting on other sustainability matters.
9. Given the ISSB will need time to develop thematic standards on sustainability-related matters and industry-specific standards, there may not be an ISSB Standard that applies to a specific sustainability matter. The ISSB has indicated that in such cases, preparers would use their judgment to provide disclosures that are relevant, neutral, and faithfully represent the entity's significant sustainability-related risks and opportunities. In applying such judgment, an entity would consider the requirements of the General Requirements Prototype and other IFRS Sustainability Disclosure Standards that address similar and related issues. The entity may also use the most recent pronouncements of other standard setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting and accepted industry practices.

10. While the prototypes provide a useful indication of the direction of travel, they are not exposure drafts. The ISSB will consider them as recommendations and determine next steps, while following the due process of the ISSB. The expectation is that the ISSB will carry out public consultation in 2022 to solicit input on any proposed standards.

*The Location of Sustainability-Related Financial Disclosures and Relationship with the Financial Statements*

11. The location of sustainability-related financial disclosures is addressed in paragraphs 21-22 of the general sustainability disclosure prototype, as follows:

A complete set of sustainability-related financial disclosures is provided so that users can understand the connections, dependencies and trade-offs that may apply between sustainability-related financial disclosures and other information in general purpose financial reporting. Some sustainability-related financial information could be positioned in the relevant sections of a general purpose financial report together with information from the financial statements to provide users a complete depiction of the entity's business. Specific required metrics and targets could be disclosed together with information on governance, strategy and risk management where these metrics and targets support such disclosures.

12. Accordingly, subject to any regulation or other requirements that apply to an entity, there are various possible locations in an entity's general purpose financial reporting in which to disclose sustainability-related financial information.

## Appendix 3

### Summary of Developments in the EU Regarding Sustainability Reporting

#### Current Requirements for Sustainability Reporting

1. Currently, in the EU, certain large companies are subject to the Non-Financial Reporting Directive issued in 2014, which requires such companies to disclose information on the way they operate and manage social and environmental challenges. The disclosures include information related to:
  - (a) Environmental matters;
  - (b) Social matters and treatment of employees;
  - (c) Respect for human rights;
  - (d) Anti-corruption and bribery; and
  - (e) Diversity on company boards (in terms of age, gender, educational and professional background)
2. The European Commission published guidelines to assist companies in disclosing this information. These guidelines are not mandatory, and companies may decide to use international, European or national guidelines according to their own characteristics or business environment.

#### What is Changing?

3. In 2021, the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the Non-Financial Reporting Directive issued in 2014. The proposal:
  - (a) Extends the scope of sustainability reporting to include additional companies;
  - (b) Requires the assurance on reported information;
  - (c) Introduces more detailed reporting requirements, and a requirement to report in accordance with mandatory EU sustainability reporting standards (the standards are to be developed by the European Financial Reporting Advisory Group (EFRAG)); and
  - (d) Requires companies to digitally tag the reported information.
4. The CSRD does not specify which assurance standards are to be used to perform the assurance engagements. It provides for Member States to determine the assurance standards until such time as assurance standards are adopted by the European Commission. If assurance standards are adopted by the European Commission, the CSRD sets out the requirements for such standards, including that they have been developed with proper due process, public oversight and transparency.
5. For now, the CSRD requires that limited assurance is provided, although allows for reasonable assurance if the European Commission adopts assurance standards based on reasonable assurance. Other key features of the CSRD as it relates to assurance includes proposals to address the qualifications of the individuals who may perform the assurance on the sustainability reporting, principles for relevant ethical requirements and specific matters for the assurance report.

6. The timelines for the CSRD and the development of the European sustainability reporting standards by EFRAG are evolving, and therefore uncertain at this stage. However, the following timeline, published in December 2021 by the Climate Disclosure Standards Board, provides an estimate of the timeline at December 2021, and has been provided to the Board for illustrative purposes.



Source: Climate Disclosure Standards Board, [Timeline of European Corporate Reporting Policy: Towards Mandatory and Standardized Reporting Requirements](#)

Appendix 4

Roadmap of Considerations for the IAASB

