

Sustainability Assurance – Respondents’ Detailed Comments to EM Question 12

Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?

12.2 Agree with comments**1. Monitoring Group****Basel Committee on Banking Supervision (BCBS)**

The Committee generally agrees with the approach in ED-5000 for the practitioner to determine materiality (including performance materiality) for quantitative disclosures. However, we believe that the requirement to “consider” materiality for qualitative disclosures should be strengthened, as it could be interpreted as inherently optional and could lead to inconsistent application.

We agree that materiality is a matter of professional judgment and is affected by the practitioner’s perception of the information needs of intended users of the sustainability information.

The Committee believes that, because sustainability information is of a variety of natures and its materiality differs according to the intended users of the sustainability reports, the practitioner should define different tolerances for misstatement, as necessary. The Committee agrees, therefore, with the proposals in paragraph A277.

The Committee considers that examples of factors that may be relevant to the practitioner’s consideration of materiality for qualitative disclosures (A278 and A277) and considerations for quantitative materiality (A279–A281) are very useful and relevant.

We have identified a specific area where the requirements of the ED-5000 could be clarified or strengthened.

The Committee believes that ED 5000 should include the requirement in ISA 320, Materiality in Planning and Performing an Audit, (paragraphs 12 and 13), for the practitioner to review materiality in situations where they become aware, during the course of the engagement, of information that would have led them to initially set the materiality level(s) at a different amount(s). Although this concept is addressed in paragraph A282, we believe that it should form part of the requirements of the standard.

International Association of Insurance Supervisors (IAIS)

The IAIS agrees in general terms with the approach taken by ISSA-5000 whereby the practitioner determines materiality (including performance materiality) for quantitative disclosures and the need to consider materiality for qualitative disclosures. The examples provided of factors that may be relevant to the practitioner’s consideration of materiality for quantitative disclosures (A279-A281) and qualitative disclosures (A278) are relevant.

International Organization of Securities Commissions (IOSCO)

determining materiality for numerical disclosures. However, we believe the requirement to consider materiality for narrative disclosures should be strengthened. In the Proposed 5000, the performance requirement associated with “consideration” is not always clear, could be perceived as inherently optional, and may result in inconsistent application.

We further note that the guidance provided in the Proposed ISSA 5000 only addresses quantitative factors to consider when determining materiality for numerical disclosures and does not address qualitative factors. We believe that the guidance provided in the Proposed ISSA 5000 should also give consideration to qualitative factors when determining materiality for numerical disclosures.

More broadly, we believe the Proposed ISSA 5000 should be clear that materiality will be anchored in the applicable sustainability reporting framework.

We generally support the approaches in the Proposed ISSA 5000 regarding

2. Preparer and Users of sustainability information

Link Asset Management Limited

More guidance is needed on how to 'determine' materiality, especially since it was stated in the Explanatory Memorandum that "Materiality is a matter of professional judgment".

MFIs' Internal Audit ESG Working Group

Same as point 9 above.

To ensure consistency across practitioners, consider providing additional guidance and practical application in establishing materiality for both quantitative and qualitative disclosures under ED A279 – A281.

Philip Morris International INC.

We agree with the proposed approach for "practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures". However, it is evident that sustainability information and disclosures may include qualitative information subject to interpretation and may rely on professional judgement for assessing materiality for sustainability disclosures. Considering the complexities expected to be faced, we encourage further guidance on this topic to increase transparency in reporting and how to apply professional skepticism to safeguard against risks of inadvertent greenwashing. Illustrative guidance for standardization in formulation of materiality for sustainability disclosures may increase comparability and narrow down the variability of professional judgement.

4. Regulators and Audit Oversight Authorities

Accounting and Auditing Board of Ethiopia

Incorporating guidance on determination of materiality would still be relevant to aid practitioners and entity in performing the assurance engagement and evaluating misstatement.

Botswana Accountancy Oversight Authority

We agree with the approach for the Practitioner to "consider" materiality for qualitative disclosures and "determine" materiality for quantitative disclosures. Given the nature of the disclosures of sustainability information, that is, qualitative and quantitative disclosures, it is not practicable to determine materiality for sustainability information as a whole and so a bifurcated approach introduced by the IAASB is a welcome decision.

European Securities and Markets Authority (ESMA)

Practitioner's determination of quantitative materiality and consideration of qualitative materiality (Q12)

While the approach in ED-5000 for the practitioner to “determine” materiality for quantitative disclosures and “consider” materiality for qualitative disclosures seems to be balanced, ESMA considers that the requirement to “consider” materiality for qualitative disclosures could be strengthened. This is in order to avoid the potential perception of it being an optional requirement resulting in potential inconsistency in application.

Furthermore, the interrelation between these two concepts could be further explained in ED-5000. In this regard, provisions are set in the application material only in relation to quantitative factors to be considered when determining materiality for quantitative disclosures. ED-5000 would benefit from clarifying that the determination of materiality is a matter of professional judgement and includes consideration of both quantitative and qualitative factors.

5. National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

Use of terms in a standard used by all assurance providers

As professional accountants, we understand the distinction between ‘consider’ and ‘determine’ and why ‘consider’ would apply to qualitative matters and ‘determine’ to quantitative matters. However, non-accountant assurance practitioners may not be as familiar with the words used to express required actions. Appendix 2 of the Draft CUSP Guidelines explains the spectrum of work effort implied by verbs commonly used in IAASB standards. This appendix, adapted to be non-audit-specific, would be an excellent addition to the appendices of ED-5000, from which all assurance practitioners could benefit.

Resources for additional guidance on materiality

We believe additional guidance regarding materiality is needed or, at a minimum, available resources should be referenced so that all assurance practitioners are aware of them. Resources for additional guidance on materiality include the application paragraphs related to materiality in ISAE 3000 (Revised), the AICPA Sustainability Guide Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information and Climate-Related Financial Disclosures), and the AICPA whitepaper Materiality Considerations for Attestation Engagements. In addition, practical guidance using the ESRS and ISSB as examples would be helpful.

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB is supportive of the approach for the practitioner to consider materiality for qualitative disclosures and to determine materiality for quantitative disclosures. However, some Australian stakeholders found the split approach to be confusing. It was seen by some to have qualitative materiality at a lower level of consideration than quantitative materiality. Determining materiality of numerical information has a qualitative aspect as well as a quantitative aspect and it is difficult to separate the two. These stakeholders considered that the determination could be a threshold or characteristic and not necessarily a number or a percentage. The AUASB encourages the IAASB to clarify that the bifurcation approach is not intended to diminish the importance of qualitative materiality.

To aid in consistency between assurance engagements, the IAASB should provide practical guidance and examples on how to consider/determine materiality for the purpose of determining risks of material misstatement, designing further procedures and evaluating disclosures both individually and in the context of the sustainability reporting as a whole.

Additionally, the IAASB should better structure the requirements and application material by clearly separating the entity's materiality from the practitioner's performance materiality. The two types of materiality are currently intermingled particularly through the application material and this is causing confusion (for example paragraphs A273 and A274 relate to entity materiality but the placement is within the practitioner's materiality determination).

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We agree that the practitioner should consider, and not need to determine, materiality for qualitative disclosures. We suggest that the application material should further clarify the difference between the work effort for considering and determining materiality, using the 'Work Effort Spectrum' from the IAASB's CUSP (Complexity, Understandability, Scalability and Proportionality) Drafting Principles and Guidelines.

Paragraph 92 of the ED suggests that for quantitative disclosures, the practitioner is required to determine performance materiality as applicable in the circumstances. This implies that in some cases this may not be applicable, and we agree with this.

In determining materiality, the practitioner will need to consider relevant qualitative factors and paragraph A278 of the ED ISSA 5000 provides useful examples in this regard. Similarly, materiality of uncorrected misstatements should be considered in the context of qualitative factors such as the ones listed in paragraph A417.

Comite Brasileiro de Sustentabilidade (CBPS)

With regards to paragraphs A283 - A285 of the ED-5000, which provide guidance on the use of performance materiality, as it is a concept that was not present in ISAE 3000 (revised), we consider that it is necessary to provide examples and guidelines on determining performance materiality. Also, paragraph A281 of ED-5000 determines that if there is financial or cost information included in the sustainability report and this information is part of the assurance scope, the materiality for this information must be the same as that used by the audit of financial statements (accounting). Since the materiality for auditing financial statements are determined considering "the financial statements as a whole", it is possible that these costs or expenses used as an example are not material. Therefore, we consider that, if the costs or expenses are material for the purposes of ensuring the sustainability report (even if not material for financial statements),

the materiality calculation should not follow what was determined for purposes of the financial statements.

Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

We support the approach in ED-5000 for the practitioner to "consider" materiality for qualitative disclosures and "determine materiality" for quantitative disclosure. Because the difference in work effort between "determine" and "consider" may be difficult to understand, especially in translation, we encourage the IAASB, to further explain these terms in the Basis for Conclusions accompanying the final standard or in the application material. The IAASB publication "Complexity, Understandability, Scalability and Proportionality" document (CUSP), Appendix 2, provides helpful guidance to understand the difference in work effort and documentation between these two terms.

It is unclear whether considering/determining materiality at the disclosure level implies that any identified misstatement that exceeds materiality at the disclosure level would result in a modified conclusion on the sustainability information as a whole. This should be clarified. If this is the intent, this may create an expectation that the practitioners' work is planned and performed to form piece-meal individual conclusions

for each individual disclosure, and the standard should be clarified to explain that when considering/determining materiality at the disclosure level, the practitioner should consider/determine the misstatements of the individual disclosure that would be considered material to the sustainability information as a whole.

Hong Kong Institute of Certified Public Accountants

No specific comment is provided to the relevant approach in ED-5000 but a concern is raised on whether the approach can be applied consistently by all practitioners. Therefore, we recommend that the IAASB illustrate through practical cases the methodology for determining materiality for various aspects of topics in order to ensure consistency in applying the assurance standard and the overall quality of such assurance in the market.

In addition, to ensure practitioners are clear as to the work effort for “determine” and “consider”, it would be helpful to make reference to the explanation in Appendix 2 of the CUSP Drafting Principles and Guidelines adopted by the IAASB in April 2022.

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

Comments on the Requirements

We agree with the requirements in the draft as proposed to distinguish between considering materiality for qualitative disclosures and determining materiality (including performance materiality) for quantitative disclosures, because determining a materiality level (a quantitative threshold) for quantitative disclosures is both appropriate and implementable by practitioners (including being susceptible to reasonable documentation), whereas it is hard to fathom how practitioners would determine qualitative materiality for qualitative disclosures in advance of the risk procedures performed on the qualitative disclosures. Furthermore, we are at loss to understand how practitioners could document such “qualitative thresholds” in advance of the risk procedures. For these reasons, we would be quite adamant about not requiring the determination of qualitative materiality as part of the planning process. We have become aware that some readers are interpreting the requirement “to consider materiality” for qualitative disclosures to mean that dealing with materiality issues is an option. Since that is not what is meant by the term “consider”, we suggest that the application material clarify this matter. In addition, including some of the material from the CUSP conventions in an appendix to the standard (see our response to Question 5) may guide practitioners in the right direction on this matter.

We believe that the requirement regarding the determination of performance materiality could easily be clarified by stating “For quantitative disclosures, the practitioner shall determine performance materiality when the assurance procedures performed on those disclosures are subject to aggregation risk”.

In line with our comments on Questions 9 and 11, we believe that paragraphs A273 to A275, which deal with the “materiality process” and “double materiality”, ought to be moved to a section that deals with the “materiality process” and to the section that deals with the suitability of criteria (in particular, relevance), respectively. Dealing with the materiality process and double materiality in the materiality section only helps fuel the confusion that readers in distinguishing these. However, the materiality section could make reference to the application material that provides a treatment of the materiality process and double materiality.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)

Please see our comments on Question 9.

In practice, the application of the concept of performance materiality may not be practicable or easily applied for certain quantitative disclosures involving certain subject matters or topics which include sustainability metrics which are expressed in percentage or ratios terms (which may be binary or linked to certain legal or contractual sustainability performance targets). Therefore, we suggest that the IAASB provide additional application guidance on this area to enable the practitioners to effectively apply the concept of performance materiality in practice in a number of different sustainability matters or topics.

In addition, there is a lack of clarity on how misstatements are assessed together with qualitative and quantitative materiality under Paragraph 91 of ED-5000, especially if there are aggregated uncorrected misstatements. Further clarity may be required to be considered when misstatements can or cannot be aggregated due to their differing nature and how this would need to be considered in determining the final opinion.

New Zealand Auditing and Assurance Standards Board

The NZAuASB agrees with the proposed approach to consider materiality for qualitative disclosures and determine materiality for quantitative disclosures.

However, we believe that the standard could be enhanced in two ways:

Minimizing confusion between the entity's materiality process from the practitioner's performance materiality. We outline our learnings and two step approach from our domestic service performance project below to articulate how we approached this challenge.

Adding further application material or guidance to assist the practitioner make materiality judgements.

Minimising confusion

In New Zealand, to address some of the challenges related to an entity's materiality process, and the practitioner's materiality judgements, we adopted a two-step process:

The first step is assessing whether "what and how" selected by the entity to report on is "appropriate and meaningful" and in accordance with the applicable reporting framework. This includes assessing the elements/aspects that the entity has selected to report on, the measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects during the reporting period, and the measurement basis or evaluation method used to measure or evaluate the subject matter. The approach would mean that even if the framework does not require an entity to follow or report about their "materiality process" explicitly, there is a prompt in the standard for the practitioner to understand more about what and how the entity went about making its judgements about what aspects to report on.

Step two is the performing the audit procedures step to gather evidence as to whether the reported information fairly reflects the actual subject matter and is not materially misstated.

These two steps are iterative, step one begins based on a preliminary knowledge of the engagement (at the pre-acceptance stage) but is built on throughout the engagement, and informs the planning and materiality judgements in step 2.

We offer this approach as an alternative way to structure the requirements and application material by separating but linking the entity's materiality process from the practitioner's materiality judgements.

More guidance to assist the practitioner make materiality judgements

The practitioner's materiality requirements and application material do not take into account that the sustainability information may not be homogenous. It might be impractical to document considerations for all disclosures.

Identification of important disclosures, in the first place, using the concept of materiality would help focus the assurance practitioner on the areas that require further consideration and identification of disclosures where material misstatements are likely to arise (for limited assurance) or where risk of material misstatement at assertion level needs to be assessed (for reasonable assurance).

We encourage the IAASB to consider adding application material that prompts the practitioner to:

Identify significant disclosures. This should be built on the understanding of the materiality process performed by the entity. The proposed standard should better explain that the practitioner needs to understand the entity's process for the purpose of identifying what would be material for the user.

Consider/determine the practitioner's tolerance for error for the disclosures identified above.

Public Accountants and Auditors Board Zimbabwe (PAAB)

Feedback 1: This is a necessity and key focus to ensure that materiality is not biased or skewed and is cognizant of all factors. The explanation and guidance regarding qualitative factors in respect of disclosures being accurate and complete (i.e., do not omit information that may affect the users' decisions), and do not include information that obscures the presentation of the disclosures is a good side.

Feedback 2: The two are different and in distinguishing and setting out the parameters or elements to consider when reporting on qualitative and quantitative we will find reporting improving as it is easily done for the quantitative aspects and harder with regards to qualitative aspect.

7. Accounting Firms

Ataf Noor Ali Chartered Accountants

Response 12. We agree with the approach in the ED to consider materiality for qualitative disclosures and determine materiality for quantitative disclosures.

We do not agree with the requirement of A285 which reads as follows: 'Performance materiality does not address misstatements that would be material solely due to qualitative factors that affect their significance. However, designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in addressing aggregation risk.'

We find A285 to be inconsistent with the earlier assertion of the Board that performance materiality cannot be set for the qualitative disclosures. There is no concept of aggregation risk without the performance materiality. There is no concept of performance materiality for the qualitative disclosure.

We are concerned that A285 is asking the practitioner hypothetically to do more. With this, we get into 'what you think was possible with a hindsight may not have occurred to me' debate.

This para must be deleted.

BDO International Limited

Although we agree that separate materiality levels can be applied for qualitative disclosures and quantitative disclosures, we have the following suggestions:

Paragraph 91 indicates that the practitioner determines materiality for purposes of planning and evaluating whether the sustainability information is free from material misstatement. Further, in the application guidance relating to 'Evaluating the Effect of Uncorrected Misstatements' (particularly paragraphs A414 to A416), the proposed standard refers to the sustainability information as a whole possibly being misstated. However, the concept of an overall materiality for the sustainability information is missing from ED-5000. We suggest the standard include guidance on this concept given the different topics and aspects of topics that may form an entity's sustainability information and how to determine an overall materiality. Additional examples would also be helpful when evaluating the individual materiality levels per disclosure (whether these are qualitative or quantitative) and the impact on the sustainability information as a whole.

More guidance is needed on the distinction between situations and information where materiality needs to be considered and when it needs to be determined and evaluated.

We suggest adding guidance for practitioners relating to the judgments involved when evaluating whether a misstatement is material.

Performance Materiality – We generally agree with the definition of performance materiality, the application and the other explanatory material (paragraphs A283-A285) and that these are helpful in determining the audit response in auditing quantitative information. However, it is not clear how the concept addresses 'aggregation risk' in relation to complex sustainability information. We believe the concept of performance materiality is designed for a subject matter expressed in one single metric (e.g., currency) like financial statements. Therefore, performance materiality to address aggregation risk in our view can only be used for individual disclosures. We suggest providing more guidance to explain when and how to set performance materiality to address aggregation risk.

More guidance on materiality considerations for qualitative information should be given in ED-5000 or application material A278.

In A156-A157, the practitioner's consideration of the entity's 'materiality process' is for obtaining a preliminary knowledge of the sustainability information expected to be reported only. However, understanding how management identifies topics and aspects of topics to be reported on also helps the practitioners to identify if there is any management bias in choosing those topics/aspects of topics. We suggest adding this consideration when the practitioner identifies areas where material misstatements are likely to arise (for a limited assurance engagement) and during the risk identification and assessment process (for a reasonable assurance engagement).

Crowe Global

We agree with the approach but stress the point we made above about the importance of providing implementation support for the application of the concepts of materiality and the contexts in which these concepts are applied.

Deloitte LLP

We agree with the differentiated approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures, particularly given the complexities of non-quantitative sustainability information. To support the IAASB's use of these terms in the materiality paragraphs of ED-5000 as well as more broadly in the proposed standard, we recommend the IAASB make reference within ED-5000 to Appendix 2 of the IAASB's Complexity, Understandability, Scalability, and Proportionality ("CUSP") Drafting Principles and Guidance document where the terminology is described in detail. The IAASB may consider the need for

additional promotion of the outcomes of the CUSP project to stakeholders. Alternatively, the IAASB could bring the descriptions of “consider” and “determine” as defined in the CUSP guidance into the requirements of ED-5000 without directly referencing the CUSP guidance.

With regard to performance materiality, we believe it may be helpful for the IAASB to develop further application material or non-authoritative educational material to support assurance practitioners in determining performance materiality as part of a sustainability assurance engagement.

Ernst & Young Global Limited

We support the approach in ED-5000 for the practitioner to “consider” materiality for qualitative disclosures and “determine materiality” for quantitative disclosure. Because the difference in work effort between “determine” and “consider” may be difficult to understand, especially in translation, we encourage the IAASB, to further explain these terms in the Basis for Conclusions accompanying the final standard or in the application material. The IAASB publication “Complexity, Understandability, Scalability and Proportionality” document (CUSP), Appendix 2, provides helpful guidance to understand the difference in work effort and documentation between these two terms.

Performance materiality

We also agree with the need to determine performance materiality for quantitative disclosures as applicable in the circumstances to reduce aggregation risk to an appropriately low level. This approach is consistent with ISAE 3410, as GHG statements include quantitative disclosures.

We suggest that the IAASB clarify in ED-5000 that the determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the practitioner's understanding of the entity, which is updated during the performance of the risk procedures, and the nature and extent of misstatements identified in previous engagements and thereby the practitioner's expectations in relation to misstatements in the current period. We suggest developing further guidance on the concept of performance materiality and how such a concept may be applied in sustainability assurance engagement, including considering disclosures both individually and in the aggregate, when considering and applying materiality.

Need of illustrative examples

We believe that illustrative examples would be helpful to demonstrate the requirements of consideration and determination of materiality, including determination of performance materiality. This could be developed in an updated EER publication and other implementation guidance material such as an updated FAQ on materiality.

Grant Thornton International

We agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures. We have, however, identified several areas (in addition to those identified in Question 11) where further clarification is needed to ensure consistency in how practitioners apply the standard. We propose the IAASB:

Add further guidance related to the requirement in ED-5000, paragraph 91 to include examples of materiality for both qualitative and quantitative disclosures for each sustainability topic.

Add further guidance related to the requirement in ED-5000, paragraph 92 to determine performance materiality to include examples of when it would be appropriate to determine performance materiality.

Add further guidance related to the requirement in ED-5000, paragraph 92 to indicate whether it is appropriate to determine performance materiality for a limited assurance engagement.

Revise the requirement in ED-5000, paragraph 138(a) to include a reference to application material in ED-5000, paragraphs A417-A419 to provide examples of qualitative misstatements that may be individually material.

Add further guidance related to the requirement in ED-5000, paragraph 138(a) to indicate how practitioners may aggregate misstatements across different sustainability matters and evaluate the aggregated risk of material misstatement given that misstatements may relate to multiple topics and the related sustainability matters have different materiality considerations or determinations.

Revise the requirement in ED-5000, paragraph 138(a) and (b) to consider and respond to misstatements due to include error as well as fraud.

Revise the requirements in ED-5000, paragraphs 160 – 162 to clarify how practitioners will conclude that a limited assurance engagement is free from material misstatement.

KPMG International

We are supportive of the inclusion of principles-based, framework-neutral requirements and guidance addressing materiality in respect of sustainability assurance engagements. We welcome the application material that provides greater context in terms of the concept of “materiality”, how this applies in the context of sustainability assurance engagements (including the purpose of determining/considering materiality) and the fact that this involves professional judgement in light of the surrounding circumstances but is not affected by the level of assurance. In general, we consider that as an overarching, principles-based and framework-neutral foundational standard, the IAASB has struck an appropriate balance in terms of how “materiality” is addressed. We welcome the IAASB’s approach to develop the existing concept of “materiality”, which is largely understood in the context of its applicability to audits or reviews of historical financial information, and adapt this as appropriate for a sustainability assurance engagement. However, we highlight that there are likely to be challenges in applying this concept to sustainability assurance engagements. Accordingly, we recommend that the IAASB monitor the development of practice in this area and consider the development of a separate ISSA that is more sustainability-specific and with more detailed guidance for practitioners in the medium term. In the meantime, we make certain recommendations below to enhance the clarity of this standard further and provide more guidance to practitioners.

Clarify the relevance of qualitative factors to the determination of quantitative materiality in the application material

We recognise the IAASB’s aims in setting out a bifurcated approach in respect of materiality at paragraphs 91-92, i.e., that the practitioner is required to “consider” materiality for qualitative disclosures and “determine” materiality for quantitative disclosures. We support the rigour and specificity that we believe is intended by the use of “determine” in respect of quantitative information, and we concur with the IAASB’s view that it may not be practicable for a practitioner to “determine” materiality in respect of qualitative information and therefore that “consideration” is more appropriate in this regard. In connection with this, we welcome the application material, at paragraphs A278 and A279, setting out qualitative and quantitative materiality factors, and we believe that these will be helpful to practitioners in making their determinations/considerations. However, we highlight that many of the qualitative factors will likely be relevant to practitioners when determining quantitative materiality, since quantitative materiality is determined based on the understanding of users’ information needs. For example, matters such as the

form and presentation of the sustainability information, the number of persons that could be affected by, and the severity of, a particular impact, and/or whether the information affects the ability of the entity to achieve a goal or target are qualitative factors that, where applicable, might be expected to affect the practitioner's determination of materiality in respect of quantitative information. Accordingly, we recommend that this application material be cross-referenced to both 91(a) and 91(b) and additional clarification included within the application material that these factors are considered together with quantitative factors.

Clarify how financial materiality is considered when applying a percentage to a non-financial metric to determine materiality

Whilst we welcome the application material at paragraph A280, we recommend that in discussing the determination of materiality by the application of a percentage to the reported metric, ED-5000 clarify that applying a percentage to a reported metric when that metric is a non-financial metric and financial materiality is relevant to the intended users will involve the exercise of professional judgment, with the practitioner's considerations focused on the changes in the metric that could have material financial impacts, as opposed to material impacts relative to the non-financial metric.

Explore the challenges with respect to considering the "common information needs of the intended users as a group" further and link materiality considerations to other relevant application material

We are supportive of the references in the application material to the needs of the intended users, which the qualitative and quantitative factors develop further, providing helpful examples of factors to consider. However, we note that the application material states that the practitioner addresses the "common information needs of the intended users as a group" and that "unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary, is not ordinarily considered". Whilst we agree, we believe this is a principle that is clearly understood in connection with financial statement audits and it is generally well established in most jurisdictions by laws and regulations, including legal precedent, who the intended users of an auditor's report are and to whom the auditor owes a duty of care. This may be less clear in respect of sustainability assurance engagements, and there may be a wider range of intended users, with more varied information needs and in respect of which their decision-making parameters may be less well defined. This may be the case, in particular, in respect of information regarding the impact of the entity on sustainability matters. We recommend that the standard discuss this more specifically and link to the application material in respect of the addressees of the report, the description in the assurance report of the inherent limitations and the procedures performed, and considerations regarding restriction of use and/or distribution of the report.

Development of a separate ISSA to address materiality

In addition to the above, whilst we welcome the acknowledgement that materiality may differ across different disclosures, and that the information needs of users may be different in respect of different disclosures (paragraph A277), we highlight that significant judgement may be required in determining both whether information is qualitative or quantitative (with certain "disclosures" including elements of each type) and/or at what level, in terms of aggregation/disaggregation, to consider such disclosures when determining/considering materiality. Furthermore, even when disclosures include qualitative and quantitative information that may be clearly separate, practitioners may need to consider whether to address materiality in respect of such information in totality/on an aggregated basis, or whether information should be disaggregated and materiality considerations made at an appropriate level of disaggregation or de-grouping. For example, the information may contain data about water usage in gallons, which may be appropriate to a

determination of materiality, however, users may not be focused on water usage in gallons per se, but rather would be focused on trends in usage over time, or whether an entity is on track to meet a particular target and would consider water gallon usage together with broader information (including related qualitative information). In such situations, it may be appropriate to determine materiality across several data sets, rather than individual pieces of data, or at a higher level in terms of a broader set of disclosures that encompass both qualitative and quantitative information. Additional complexity may arise when that information is included across multiple topics/aspects of topics, as well as because many reporting frameworks afford entities flexibility in terms of deciding how best to present and group information. Whilst paragraphs A266-269 refer to these considerations at a high level, including that the practitioner may group the sustainability information as they consider appropriate for the purposes of determining/considering materiality, and the overarching need to consider the needs of intended users, they do not discuss the considerations in detail. We believe there are significant challenges involved in making such materiality considerations, however, the content in ED-5000 is built on the concept of “materiality” and how to apply this as envisaged by the ISAs, which do not necessarily envisage such challenges. Accordingly, we recommend that the IAASB explore this area further following the issuance of this standard. This may involve the development of a separate ISSA, within the ISSA 5000 suite, addressing materiality and/or further developing the EER Guidance in this respect, discussing more common practical challenges in this area (with illustrative examples) as practice evolves.

Consider exploring performance materiality and aggregation risk concepts further in a separate ISSA to address materiality

We welcome the material regarding how performance materiality may assist the practitioner in addressing aggregation risk. However, we consider that this concept is less applicable to sustainability assurance engagements (including in respect of quantitative information) for the reasons discussed above, i.e., that this interacts with considerations of the presentation, grouping and aggregation/disaggregation of information, different sub-types of information (including, in respect of quantitative information, different units of measure), the application of qualitative factors, and the consideration of the needs of the intended users. We suggest the IAASB explore the interaction of these matters further and how a practitioner may consider these, with practical examples of common scenarios, either within a specific ISSA to be developed following the issuance of this standard or within expanded EER Guidance.

We also highlight that the concept of “performance materiality” may be helpful when applied to “groups” and “consolidated” or aggregated sustainability information to address aggregation risk, similar to component performance materiality when performing an audit of group financial statements in accordance with ISA 600 (Revised). Accordingly, we recommend that the IAASB consider the application of performance materiality to sustainability information that is “consolidated” or aggregated from different sources (including when such sources are from the entity’s value chain) to address aggregation risk, with examples of factors a practitioner may consider, if relevant. Such material could be included in a separate ISSA within the ISSA 5000 suite of standards, addressing “consolidated” or aggregated sustainability information, or within the EER Guidance, taking account of practice as this evolves. Please also refer to our comments in response to Question 18 in respect of “groups” and “consolidated”/aggregated sustainability information.

Consider exploring the evaluation of the effects of uncorrected misstatements further in a separate ISSA to address materiality

We welcome the requirements at paragraphs 143-144 to consider whether materiality needs to be revised based on the results of the procedures performed and evidence obtained, and to determine whether uncorrected misstatements are material, individually or in the aggregate. We believe the application

material in this regard is helpful, for example the recognition that information may or may not be measured using a common base, as well as the fact that misstatements of amounts smaller than the quantitative materiality threshold may have a material effect on the reported sustainability information qualitatively (e.g., if the error results in a reversal of a negative trend, or indicates that a target may not be met). We also believe the material at paragraphs A415-416 regarding “grouping” of misstatements or considering whether they indicate a common direction will help the practitioner to operationalise the requirements, including in respect of qualitative misstatements. We highlight that considerations in this area are likely to involve significant judgement and we suggest that the IAASB explore this area further within a separate standard or the EER Guidance, including consideration as to how multiple material misstatements may relate to the concept of “pervasiveness”, which would have reporting consequences also.

Mazars

Terminology and definitions

We note that the only term relating to materiality defined in ED-5000 is Performance Materiality. As noted in Question 9, we suggest that the entity’s materiality assessment process and the practitioner’s materiality be added to the definitions in ED-5000.17. Furthermore, we note that “clearly trivial” is used in relation to accumulating misstatements but is excluded from the definitions and should also be added to ED-5000.17.

Quantitative materiality

The determination of quantitative materiality will be very different from the process in a financial statements audit, where overall materiality can be determined based on a single benchmark/unit. For sustainability engagements, materiality will need to be determined on a much more granular level (e.g. for each disclosure, topic, aspect of topic, KPI etc.). While our early concerns about the determination of quantitative materiality may have reduced over time, it remains unclear how practitioners will determine materiality for a wide range of measures and units, and the extent of documentation required, or at what level materiality should be determined (e.g. for each individual disclosure, by topic, or aspect of topic?). Further guidance, with practical examples would be helpful in this regard.

Reflecting the perspective of users in determining the practitioner’s materiality is much more challenging in a sustainability engagement as the perspectives of different users may impact different disclosures/indicators to a greater or lesser degree. For example, in a financial statements audit, it is possible to focus on the impact on decisions made by users using a single measure, but in sustainability you may have multiple users focused on different matters, some qualitative, some quantitative – it is not clear from the existing guidance how the practitioner assesses the impact on the decision making of different users.

Qualitative materiality

We believe that the requirement of ED-5000.91(a) to “consider” materiality for qualitative disclosures with a series of considerations set out in ED-5000.A278, is appropriate. It is not possible to “determine” materiality for qualitative disclosures. However, it is not clear how this “consideration” works in practice compared to the “determination of materiality” required for quantitative disclosures, nor how the practitioner should document their consideration of materiality for qualitative disclosures (e.g. by topic, aspect of topic, disclosure, section or paragraph of the sustainability report etc.). Further practical guidance would be helpful to support the practitioner in “considering” materiality in relation to qualitative disclosures and how this will work in practice, as well as the documentation of qualitative materiality.

Performance materiality

The concept of Performance Materiality is complex and not always well understood by auditors. We believe therefore that the concept may be difficult to apply in a profession-agnostic standard with other assurance providers being less familiar with a complex concept.

Furthermore, it is not obvious how performance materiality may be applied to sustainability disclosures, and we question whether the concept is necessary for sustainability assurance engagements. The IAASB should provide examples of how the concept could be applied in practice to sustainability information. Furthermore, guidance and examples of aggregation risk, where aggregation risk may apply and what this means in practice in relation to sustainability information would be especially helpful, particularly in assisting practitioners in aggregating and evaluating misstatements.

Materiality and accumulation of misstatements

Even if we accept that the challenges of determining materiality for quantitative disclosures and considering it for qualitative disclosures can be overcome when setting the practitioners materiality, there are significant challenges when it comes to applying materiality in the accumulation, aggregation and evaluation of misstatements given the potential for a wide range of materialities (e.g. determined by disclosure, or topic) with materiality measured in different units, as well as the need to consider the impact of any qualitative issues identified. We note that there is helpful guidance in the application material on evaluation of misstatements which will assist practitioners in devising an approach to such evaluation. As noted above, the concept of clearly trivial is used in relation to accumulating misstatements but is not defined in ED-5000.

Materiality in a group engagement

The application of materiality to a group engagement is complex, even in well-established financial statements audits. There is currently no guidance on the application of materiality to a group sustainability engagement and such guidance, along with other aspects of group/consolidate sustainability engagements is desperately needed, especially as many of the assurance engagements in the early years of adoption will be undertaken on large groups.

MHA

While we believe the approach outlined in ED-5000 is appropriate, we are concerned that the concepts expressed in the ED may not be well understood by non-accountant assurance practitioners. We recommend that the IAASB replaces the word “consider” with “determine” when explaining materiality requirements in the final standard, and includes some examples to aide understanding.

We believe the final standard should provide greater detail on aggregation risk, together with examples, as this is considered solely in paragraphs A284-285 of the ED and would be better presented within the main body of the standard. For example, a breach of a specific environmental regulation on a single day at a single site might be regarded by the assurance practitioner as ‘clearly trivial’, but when breaches of different environmental regulations across other sites in isolated incidents arise, the intended users may consider these breaches in aggregation to be material. Similarly, a breach of a safety-related metric in scope of an assurance engagement on a single day might be regarded as clearly trivial by the assurance practitioner, but could be regarded as material by the intended users if this breach coincided with other safety-related breaches occurring on the same day or at the same location over an extended period. In both examples, the other breaches identified do not necessarily have to be within the scope of the sustainability assurance engagement for the intended users to regard the breaches as material in aggregate.

We would also highlight that the IAASB has not addressed the nature of materiality where the sustainability information subject to the assurance engagement is prepared and provided on a consolidated basis across

a group of reporting entities. The component approach to materiality on group financial statement audits is not generally applicable to sustainability assurance engagements and we believe detailed guidance on this topic would significantly enhance the final standard.

While we welcomed the IAASB's non-authoritative guidance on Extended External Reporting under ISAE 3000 engagements published in April 2021 ('the EER guidance'), some critical areas are either insufficiently clarified or omitted in their entirety from ED-5000, for example:

Statistical sampling of non-financial or future-oriented sustainability information: the EER guidance considers sampling in just two paragraphs, while paragraph A385 of ED-5000 does not discuss the appropriateness of sampling techniques that might be applied by an assurance practitioner. We strongly recommend that the IAASB incorporates the requirements of ISA 530 Audit Sampling into ISSA 5000, or that specific sampling techniques are recommended or explained in ISSA 5000 (or supplementary material) to enable consistent adoption of the final standard across sectors, professions and frameworks.

Substantive procedures over future-oriented sustainability information: while chapter 11 of the EER guidance provides high level guidance over how an assurance practitioner might obtain evidence over future-oriented sustainability information, we believe the implementation of ISSA 5000, and significant increase in sustainability assurance engagements, necessitates this non-authoritative guidance being incorporated into ISSA 5000 as authoritative literature.

MNP LLP

We agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality for quantitative disclosures. We believe that more application guidance is needed for accumulating and evaluating misstatements, especially when the information includes misstatements related to different units of measurement and misstatements related to qualitative disclosures. Examples should be included demonstrating how a practitioner would practically accumulate misstatements and assess whether in aggregate the sustainability information is materially misstated.

Mo Chartered Accountants (Zimbabwe)

Yes, this is a necessity and key focus to ensure that materiality is not biased or skewed and is cognisant of all factors. The explanation and guidance regarding qualitative factors in respect of disclosures being accurate and complete (i.e., do not omit information that may affect the users' decisions), and do not include information that obscures the presentation of the disclosures is a good aide.

PKF International Limited

Materiality for qualitative disclosures – application guidance

In our view, the related application guidance in para A278 is helpful, as it provides a wide range of examples of factors that may be relevant when considering materiality for qualitative disclosures.

However, we are concerned about the significant extent of narrative disclosures on sustainability information which may be subject to assurance, in comparison to the more limited extent of narrative disclosures that are typically subject to an ISA audit of historic financial information. Against this backdrop, it is reasonable to assume that sustainability assurance practitioners with a background in ISA audits are relatively less experienced in applying materiality considerations to qualitative disclosures.

Consequently, we suggest that further application guidance is provided which goes beyond the current list of factors in para A278 to provide more contextual explanations on related matters, such as:

why the process of considering qualitative disclosure materiality is important to a sustainability assurance engagement, the nature of the professional judgements that the practitioner may need to apply in considering materiality for qualitative disclosures, and the practicalities of applying a materiality to qualitative disclosures.

Materiality for qualitative disclosures – requirement

The requirement on considering materiality as presented in ED-5000 para 91, is as follows:

“For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall:

a) Consider materiality for qualitative disclosures; and ...”

To align with the application guidance in A278, which involves consideration by the practitioner of relevant factors, we recommend that the word “factors” should be inserted into the wording of the requirement in para 91. In our view, in the absence of the word “factors” the current wording doesn’t guide the practitioner towards an outcome from the process, and that the word “consider” in its current location within the requirement is too passive a description of the procedure that the practitioner should undertake. An alternative suggestion to the wording of the requirement in para 91 (a) is:

“For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall:

a) Consider Establish materiality for qualitative disclosures by considering relevant factors; and ...”

Clarity on establishing materiality for each disclosure

ED-5000 should be revised to make it clearer that materiality needs to be determined or considered (as the case may be), for each separate disclosure, as opposed to determining a performance materiality for the engagement as a whole. It would be helpful to provide this extra emphasis in response to the significant differences in the approach between establishing materiality for an ISA audit, compared to establishing materiality for each disclosure within the scope of an ED-5000 sustainability assurance engagement.

Materiality for quantitative disclosures – application guidance

The application guidance on determining materiality for quantitative disclosures is useful, but brief. We recommend that further application guidance is provided in the standard. This might include, for example:

Contextual information on why professional judgement is required, and where it can be applied

Further examples of determining materiality for a range of quantitative disclosures

Considerations on materiality for an item of disclosure which contains both quantitative and qualitative information.

PricewaterhouseCoopers International Limited

We agree with the IAASB decision to bifurcate the requirement by requiring the practitioner to consider materiality for qualitative disclosures and to determine materiality for quantitative disclosures. The focus on factors that may be relevant to the practitioner’s consideration of materiality for qualitative disclosures is appropriate. We also support the IAASB’s additional emphasis on the importance of evaluating the evidence obtained and standing back when concluding on the engagement to determine whether such qualitative information is misstated, including due to bias.

While we support the overall requirement, we believe that further clarification is required for the following aspects:

Intended users

Paragraph A272 of the application material states that (emphasis added) “materiality is a matter of professional judgement and is affected by the practitioner’s perception of the common information needs of intended users as a group”.

As explained in our response to question 1, we recommend that the IAASB considers whether a clearer differentiation is warranted between the “intended users as a group” and other interested “stakeholders”, who may be interested in certain impacts of an entity but whose decision-making needs are narrower and may not ordinarily be considered when determining materiality. Such guidance may assist practitioners in assessing tolerance for misstatement.

Materiality on individual disclosures

Although application material in paragraph A277 includes guidance for practitioners when the same intended users may have different information needs, a different tolerance for misstatement, or when the disclosures may be expressed using different units of measure, we believe it would be useful to leverage the guidance included in paragraphs A268-A269, regarding the grouping/aggregation of disclosures for purposes of planning and performing the engagement, to further emphasise how such considerations may affect the practitioner’s determination/consideration of materiality. Paragraph A268 makes reference to the practitioner’s materiality judgements, however this application material is not directly linked to the materiality requirement.

Materiality considerations in aggregated sustainability engagements

Please see our response to question 18.

Communication with Those Charged with Governance

We believe that the requirement from paragraph 62 of ED-5000 relating to communication with those charged with governance should be further enhanced with an additional requirement on communicating to those charged with governance about the materiality(ies) determined for the engagement, together with significant factors considered in relation to materiality for qualitative information. See also our response to question 20.

RSM International

We believe the following aspects of ‘considering materiality’ for qualitative disclosures should be clarified:

The extent to which materiality should be considered at the planning stage for each qualitative disclosure.

If there is a misstatement of a qualitative disclosure, the practitioner should determine if the misstatement is material, and the factors considered in the determination should be documented (ref: paragraphs A417-A419 of ED-5000).

Paragraph 137 of ED-5000 requires the practitioner to “accumulate misstatements identified during the engagement, other than those that are clearly trivial.” It is unclear when misstatements in qualitative disclosures may be considered immaterial and required to be accumulated versus when the misstatements in qualitative disclosures may be clearly trivial and not required to be accumulated. Paragraph A400 of ED-5000 states that ‘clearly trivial may be considered in the context of the impact of the misstatement on the intended users’ decision.’ We recommend that the IAASB include additional application material of factors to

consider in assessing and examples of the differences between immaterial misstatements of qualitative disclosures to be accumulated and clearly trivial misstatements of qualitative disclosures not required to be accumulated.

In providing additional guidance on materiality for qualitative disclosures, the IAASB may benefit from the guidance provided in the Australian National Greenhouse Energy and Reporting Act 2007 (NGER Act) to consider materiality for qualitative disclosures. In considering materiality for qualitative disclosures, a practitioner needs to consider the misstatement in the context of information that is relevant to users. An assessment of materiality for qualitative disclosures should include an assessment of whether the misstatement is significant to the reporting entity if it is pervasive and the effect it has on the GHG information. Ultimately, it may depend on the internal controls around preparing and reporting the qualitative information.

8. Assurance Practitioner or Firm - Other Profession

SGS

There should be more guidance of determining appropriate materiality levels for quantitative disclosures regarding to limited assurance and reasonable assurance, such as 5%,10%, etc.

And what the benchmark used for materiality?

such as the use of revenue's X%, pre-tax net profit's X% or total assets' X% , under what conditions those benchmarks can be used as benchmarks for assessing materiality?

In addition, if the auditor obtains certain information during the audit process, and if such information will cause it to be materialistic in the audit planning to be different, will it be necessary to adjust and assess the materiality in a timely manner?

TIC Council

Performance materiality (practitioner materiality) - is included in paragraph 17 definitions section, but no link to main explanation in paragraph A283-285. No materiality level is stated, or indication of appropriate level, could include a suggested 5%, and/ or an upper materiality level of 10% (for quantitative data).

A506 - not clear why uncorrected material misstatements would be relevant her as this is for a qualified conclusion. If material misstatements existed, this would be an adverse not a qualified conclusion.

Human judgement of the assessor is not properly highlighted, and there is need for some further guidance on the approach rather than just the situations, in particular for qualitative materiality assessment (fer A278-281).

It is not clear the benchmarks used for materiality, such as the use of revenue's X%, pre-tax net profit's X% or total asset's X% , under what conditions those benchmarks can be used as benchmarks for assessing materiality?

In addition, if the auditor obtains certain information during the audit process, and if such information will cause it to be materialistic in the audit planning to be different, will it be necessary to adjust and assess the materiality in a timely manner?

9. Public Sector Organizations

Office of the Auditor General (New Zealand)

We agree that qualitative factors should be used to determine if narrative information is materially misstated.

We agree that a threshold should be calculated for quantitative information. The concept of performance materiality is appropriate (and makes sense) for quantitative information. We therefore agree that it only applies to quantitative information. Qualitative materiality should also apply to misstatements in quantitative information that is below the calculated threshold individually or in aggregate.

The distinction made between 'consider' and 'determine' is not clear or described in the application and other explanatory material of the standard. We understand the reason for the distinction is because the practitioner does not necessarily use qualitative materiality during the risk assessment process. The explanatory memorandum describes that it is impracticable for practitioners to determine materiality for sustainability information as a whole given the nature of the disclosures, i.e., qualitative and quantitative disclosures about a number of different topics and aspects of topics. We agree with this statement but believe that qualitative factors should be used per topic or aspects of topics during planning and risk assessment to assess the risk of material misstatement in narrative disclosures.

Office of the Auditor General of Alberta

We agree. We agree that materiality may differ across disclosures. We agree with determining performance materiality for quantitative disclosures. We disagree that materiality be determined based on "common information needs" and instead materiality should be more closely tied to the concept of what is relevant in sustainability, which is negative impact reduction. It is not clear how animals or the water cycle "makes decisions" but it is clear that an entity can take actions to reduce animals habitat destruction or water contamination, which are elements of sustainability performance.

In ED-5000, materiality is tied exceedingly to a "decision making" premise, rather than a "sustainability performance" premise. Guidance should be added that materiality should be determined with regard to the actions or inactions of an entity with respect to mitigation of negative impacts, and more intrinsically related to the topic or aspect of a topic and the actions actually performed by the entity to reduce negative impacts. This may draw upon the ISAE 3000 concept of enhancing confidence in the subject matter, a more general concept and more in line with the stewardship and accountability premises of sustainability, and avoiding having to tie sustainability information to specific decisions.

We suggest a much more straight-forward approach to materiality, drawing from ISA 320 use of benchmarks, such as materiality may be set based on the metric itself, for example 1% to 5% of the metric. Guidance could indicate that 1% to 5% may be commonly considered as the amount of misstatement that would not enhance the confidence of users, and instead may cause users to have undue confidence in the sustainability information.

10. Member Bodies and Other Professional Organizations

Accountancy Europe

Yes, we agree that the practitioner should consider, and not need to determine, materiality for qualitative disclosures. The application material should further clarify the difference between the work effort for considering and determining materiality, using the 'Work Effort Spectrum' from the IAASB's CUSP (Complexity, Understandability, Scalability and Proportionality) Drafting Principles and Guidelines.

Paragraph 92 of the ED suggests that for quantitative disclosures, the practitioner is required to determine performance materiality as applicable in the circumstances. This implies that in some cases this may not be applicable, and we agree with this.

In determining materiality, the practitioner will need to consider relevant qualitative factors and paragraph A278 of the ED ISSA 5000 provides useful examples in this regard. Similarly, materiality of uncorrected misstatements should be considered in the context of qualitative factors such as the ones listed in paragraph A417.

ASSIREVI – Association of the Italian audit firms

We agree with the approach in ED-5000 to consider materiality for qualitative disclosures and to determine materiality (including performance materiality) for quantitative disclosures.

Specifically, ED-5000.A278 sets out the factors relevant to the practitioner's consideration of materiality for qualitative disclosures. It could be worthwhile including examples and more explanations in the standard about how the information relevant to the practitioner's consideration of materiality for qualitative disclosures (set out in paragraph A278) may affect such consideration.

Conversely, with respect to materiality for quantitative disclosures (non-financial disclosures), we believe that paragraph A279 should be supplemented with general guidelines about how to determine the threshold; its current wording gives the practitioner considerable leeway in defining such criteria.

Belgian Institute of Registered Auditors

We suggest to include further guidance to understand the practitioner's responsibilities in "considering" materiality, especially also in view of qualitative disclosures.

We suggest also to include further guidance on the topic of accumulating identified misstatements, including when sustainability topics or aspects of topics are measured using different measurement bases and/or when misstatements are identified in qualitative disclosures.

Chamber of Financial Auditors of Romania (CAFR)

Emphasizing the complexities in determining materiality for the entirety of sustainability information, especially due to the diverse nature of qualitative and quantitative disclosures across various topics, the "bifurcated" approach proposed by the IAASB, where the practitioner is required to "consider" materiality for qualitative disclosures and "determine" materiality for quantitative disclosures seems to be a good approach, but we express the need for further application material and guidance. Different units of measure used in sustainability reporting might generate a different approach from professionals regarding the quantitative materiality.

Considering the information needs of intended users and the relevance of applicable criteria we consider professional judgment essential in assessing materiality, therefore the standard should stress the significance of documenting the factors influencing the practitioner's consideration or determination of materiality, as outlined in paragraphs 93 and A278-A281 of ED-5000.

It is important to include a requirement in ED-5000 for determining performance materiality for quantitative disclosures, aligning with the concept of aggregation risk to reduce the probability of material misstatement. We appreciate IAASB's decision to base the definition of performance materiality on ISAE 3410 and to stress the importance of documenting the basis for determining performance materiality when applicable.

Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

We agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures.

As we stated in our response to Q11, the consideration of materiality in sustainability assurance is complex due to the multiple meanings that the term may be taken to mean. We believe that materiality is an area where there will be a need for additional guidance, examples and perhaps an additional standard to assist practitioners particularly when it comes to qualitative disclosures. Education will also be needed for preparers and other users about how materiality is addressed by the assurance practitioner.

We encourage the board to determine its future priorities and workplan for developing additional ISSA standards and guidance and make these public as soon as possible. This will assist local regulators and national standard setters to determine where they may need to fill gaps or develop additional requirements. We also encourage the board to consider where it may be able to facilitate development of guidance in cooperation with national standard setters or professional bodies. Materiality should be a prioritised topic.

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

Similar to the prior point, while the ED-5000's approach is generally reasonable, additional guidance would enhance clarity. An appendix with real cases or examples could provide valuable insights and promote consistent application of materiality concepts in sustainability reporting.

CPA Ireland

CPA Ireland notes that ED-5000 deems the "bifurcated" approach appropriate because it is impracticable for practitioners to determine materiality for qualitative disclosures given the nature of those disclosures, and being impracticable to determine a single materiality for the sustainability information as a whole due to a mix of qualitative and quantitative disclosures about a number of different topics and aspects of topics, and for quantitative disclosures the practitioner is required to determine performance materiality.

Whilst it is noted that a sustainability assurance engagement ordinarily involves multiple materialities, amplified by the fact that there is no single evaluation of the materiality process, more guidance would be welcomed on the application of these different variables namely:

Quantitative disclosures

Qualitative disclosures

Notion of double materiality

Performance materiality

Although A278 of the Exposure draft outlines examples of factors that may be relevant to the practitioner's consideration of materiality for qualitative disclosures, worked examples with a scenario analysis would be helpful and/or a process map to guide a practitioner in the application of the different variables.

Sustainability reporting frameworks ordinarily will include requirements for the entity to disclose information about sustainability matters when such information is material. The entity's judgments about what is material are specific to the entity's facts and circumstances with the entity not providing specific disclosure if the information is not material.

How does the entity measure if a sustainability matter is not material? Worked examples with a scenario analysis would be welcomed.

In their consideration of quantitative disclosures, the practitioner and the entity will not necessarily arrive at the same materiality threshold(s) (i.e. the entity uses a threshold to determine, for example, whether certain metrics or targets should be reported and whether they are properly disclosed in accordance with the reporting framework, while the practitioner may use a different threshold when obtaining evidence about the metrics and targets that are reported by the entity, and evaluating identified misstatements in that information.

As the thresholds may differ, further guidance in this complex area for the practitioner on the application of professional judgment would be welcomed.

European Federation of Accountants and Auditors for SMEs (EFEAA)

We agree with the general approach.

We are, however, concerned that multiple materiality thresholds may create confusion and increase the difficulty of performing the assurance engagement. We believe that the requirements and application material may be insufficient and that there is a need for further application material and guidance in the standard. This is especially the case with the quantitative materiality considerations given the large number of different units of measure used in sustainability reporting.

EXPERTsuisse

Materiality considerations

We recommend that the IAASB provides further guidance on dealing with materiality analysis on the practitioner's overall evaluation of the sustainability information.

Federation of Accounting Professions (TFAC)

Generally agree. As this is a new area for practitioners and significant judgement is needed when considering the materiality for qualitative disclosure, additional guidance would be beneficial.

Institute of Chartered Accountants in England and Wales (ICAEW)

We support the distinction made in the requirements of paragraphs 91(a) and 91(b) between 'consider' 'materiality for qualitative disclosures and 'determine' materiality for quantitative disclosures. It is not possible to 'determine' materiality for qualitative disclosures.

We are, however, concerned that there may be confusion for both practitioners and users regarding the distinction between 'consider' and 'determine'. We are aware that the IAASB uses these words in a precise manner throughout IAASB standards, however, as noted above, some users of ISSA 5000 will not be previous users of IAASB standards.

At the least there should be more practical guidance material (not part of the standard, but rather additional guidance) to appropriately demonstrate, with examples, what each term means in this context. This guidance might also be helpful for the intended users of assurance reports.

Practitioners will need to obtain some depth of understanding of users' decision-making needs in order to plan the engagement and make materiality judgements. For financial materiality, the practitioner will need a clear understanding of what could affect a user's assessment of the entity's prospects. For reporting frameworks requiring an assessment of impact materiality, the practitioner will need a basis for determining

who the intended users are and how the decisions they are expected to take with the information being reported. We believe further guidance is required to address the more complex judgements required for this type of information compared to the financial statements.

We struggle to see how the concept of performance materiality will work in practice for sustainability assurance engagements. We believe that the concept of performance materiality is designed for a subject matter expressed in one single metric and therefore, performance materiality to address aggregation risk in the traditional sense can only be used for individual disclosures (or classes of disclosures). We would like to see more guidance addressing when and how to set performance materiality to address aggregation risk with practical examples included.

Accumulation and aggregation of misstatements is linked to materiality and we believe this will be challenging given the potential range of materialities (determined by disclosure) and differences in units, and also the qualitative issues identified. More practical guidance will be needed to help with accumulating and evaluating misstatements.

We are also concerned that there is insufficient guidance relating to sampling and we believe this may add to consistency risk across the potentially diverse range of assurance practitioners.

Given the likely complexity of the materiality determination, we also believe the IAASB should consider if there is a case to be made for enhanced reporting on the materiality approach in the assurance report.

Institute of Chartered Accountants of Scotland (ICAS)

Whilst we are supportive of the approach we believe that further examples to better illustrate the concepts are necessary. These could be included in separate guidance and do not necessarily have to form part of the finalised standard.

Institute of Chartered Accountants of Sri Lanka

Because the difference in work effort between “determine” and “consider” may be difficult to understand, especially in translation, we encourage the IAASB, to further explain these in the application material.

We also agree with the need to determine performance materiality for quantitative disclosures as applicable in the circumstances to reduce aggregation risk to an appropriately low level. We suggest that the IAASB clarify in ED-5000 that the determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment.

Therefore, we believe that including illustrative examples would be helpful to demonstrate the requirements of consideration and determination of materiality, including determination of performance materiality.

Institute of Singapore Chartered Accountants (ISCA)

We agree with the bifurcated approach taken but have further comments.

Below are some challenges in applying materiality to sustainability information:

Materiality is driven by the information needs of primary users. As sustainability information is wide-ranging, user groups are diverse with separate groups having different needs and expectations. Identification of primary users could be driven by the sustainability reporting framework and management’s materiality process, which correspondingly affects how the practitioner determines materiality. It can be further specified in the ED-5000 that materiality considerations should take into account the information needs of primary users. For example, sustainability information prepared under IFRS Sustainability Disclosure

Standards is investor-focused and the practitioner's materiality would correspondingly be applied from a financial perspective.

In addition, there may be situations where the reporting frameworks do not specify who the primary users are. ED-5000 also potentially addresses a broader intended use base, with a wide range of interests in sustainability information, which may lead to different areas of focus / granularity for different users. We recommend that the standard include guidance on identification of intended users when this may be a broad group, and legal precedents regarding the duty of care owed to such users and reliance they may place on the assurance report.

When determining materiality for quantitative information, the appropriate benchmark to apply should be linked to what users are most concerned about in the sustainability information. As an extension to point 1 above, due to the varying nature of sustainability information, the identification of an appropriate benchmark may not be straightforward. Practical guidance on selecting the appropriate benchmarks for different sustainability subject matters would be helpful.

More guidance would be needed to address:

Materiality in the context of "consolidated" sustainability information;

Concepts such as establishing a lower level of materiality (similar to performance materiality on an audit) to address aggregation risk; and

Other considerations unique to sustainability information such as how to address materiality when such information is "consolidated" from different sources, using different processes to develop, and in some cases, different criteria.

The concept of aggregation risk is challenging to apply in sustainability assurance given that the scope of assurance may cover various sustainability topics or subject matters and accordingly, may have varying implications for different groups of users. Further clarity in the standard would be useful on how materiality and misstatements can be assessed on an aggregate level to address aggregation risk, assessing whether misstatements are individually or in aggregate material, and evaluating and concluding on reporting implications.

When considering materiality for qualitative information, practical guidance would be helpful to guide practitioners in determining the effects of non-disclosure on the practitioner's conclusion and applying the factors under A278, which are quite subjective.

Instituto de Auditoria Independente do Brasil - Ibracon

Although we agree that separate materiality levels can be applied for qualitative disclosures and quantitative disclosures, we believe that more guidance is needed on the distinction between situations and information where materiality needs to be considered and when it needs to be determined and evaluated. The definition of materiality can be also considered (not only performance materiality).

Instituto de Censores Jurados de Cuentas de España (ICJCE)

It would be necessary to create additional guidance in order to clarify materiality for qualitative disclosures and determine materiality for quantitative disclosures.

We recommend to further clarify the difference between the work effort for considering and determining materiality, using the 'Work Effort Spectrum' from the IAASB's CUSP (Complexity, Understandability, Scalability and Proportionality) Drafting Principles and Guidelines

The concept of “performance materiality” is important when applied to “groups” and “consolidated” sustainability information, similar to component performance materiality when performing an audit of group financial statements in accordance with ISA 600, to address aggregation risk. The standard explicitly must address the application of performance materiality to sustainability information that is “consolidated” from different sources, including when such sources are upstream or downstream within the entity’s value chain, but outside its system of internal control, to address aggregation risk, with examples of factors a practitioner may consider.

Additionally, the concept of “performance materiality” to qualitative information may assist the practitioner in addressing aggregation risk. However, we consider that the concept does not translate well to sustainability assurance engagements, including in respect of quantitative information, because this interacts with considerations of the presentation, grouping and aggregation/disaggregation of information, different sub-types of information, including, in respect of quantitative information, different units of measure, the application of qualitative factors, and the consideration of the needs of the intended users. The interaction of these matters further, including consideration as to how multiple material misstatements may relate to concept of “pervasiveness”, which would have reporting consequences also and how a practitioner may consider this, with practical examples of common scenarios should be developed.

Instituto Mexicano de Contadores Publicos (IMCP)

Recognizing that materiality is one of the most challenging concepts in the execution of this type of work we support the approach taken by the proposed ISSA 5000 for splitting the requirement and the applicability to qualitative and quantitative information. Identification of the users and stakeholders that could be influenced by the sustainability reports still would represent a challenge for the practitioner in considering materiality for the assurance purposes.

International Federation of Accountants (IFAC)

We agree with the approach for determining materiality, but caution that there may be the potential for an expectation gap in this area. Sustainability assurance engagements will be conducted on a risk-based approach. As is the case in financial audits, a risk-based approach may not respond to some of the risks users may deem to be important. As such, there may be a need for some clarification to manage expectations in relation to materiality (especially with respect to matters of impact materiality). As we note above, there would generally be some parallel between the entity’s materiality process and practitioner materiality, but it would never be possible to include all considerations that every individual user would deem to be significant within a risk-based approach.

Korean Institute of Certified Public Accountants (KICPA)

The KICPA agrees with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures.

However, it is not clear what are the differences between ‘considering’ materiality and ‘determining’ materiality and which procedures should be performed to consider materiality. In particular, materiality applies to not only assessing misstatements but also planning and performing procedures. In this respect, it is hard to understand how to apply the concept of materiality in planning and performing procedures in case the practitioner ‘considers’ materiality.

Guidance is required to clarify ‘the procedure to consider materiality’ from two aspects, including planning/performing an assurance procedure and assessment of misstatement. We suggest that specific and diverse examples should be provided to enhance the practitioner’s understanding.

In addition, ED-5000 overlooks the need to apply the factors relevant to consideration of qualitative materiality to quantitative disclosure as well. For example, the factors relevant to consideration of qualitative materiality outlined in paragraph A278 of ED-5000 should be applied to quantitative disclosure as well. But it explains that they can be relevant to the consideration of materiality for 'qualitative disclosure'. The factors relevant to consideration of 'qualitative' materiality are different from the materiality for 'qualitative disclosure'. Therefore, ED-5000 should clearly distinguish the two and should require the practitioner to consider the factors relevant to consideration of 'qualitative' materiality when determining materiality for quantitative disclosure as well.

Malaysian Institute of Certified Public Accountants

The application of qualitative materiality can be difficult to practitioners. Hence, we suggest the IAASB to provide guidance, such as educational material, frequently asked questions and etc, in this area.

Nordic Federation of Public Accountants (NRF)

We agree with the approach to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures. To support the understanding of the terms "consider" and "determine", we suggest the IAASB to include in the standard the description of "consider" and "determine" as defined in Appendix 2 of the IAASB's Complexity, Understandability, Scalability, and Proportionality (CUSP) Drafting Principles and Guidance.

NOREA - Dutch Professional Association of Registered IT Auditors

While we agree with the approach to consider two types of materiality as sustainability information differentiates between qualitative and quantitative information, ED-ISSA5000 is unclear in its guidance for determining qualitative materiality. We recommend implementing further guidance for practitioners to determine qualitative materiality and its related aspects.

Pennsylvania Institute of Certified Public Accountants (PICPA)

The committee agrees that practitioners should consider materiality quantitative disclosures. [[Is it OK there is no "for" after "materiality"?]]

For qualitative disclosures, the committee recommends establishing principles-based guidance such as the guidance included in the Code of Professional Conduct maintained by the International Ethics Standards Board for Accountants; specifically included at R220.4.

When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to: (i) Represent the facts accurately and completely in all material respects; (ii) Describe clearly the true nature of business transactions or activities; and (iii) Classify and record information in a timely and proper manner;
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;
- (e) Avoid undue influence of, or undue reliance on, individuals, organizations, or technology; and
- (f) Be aware of the risk of bias. [[Font changed for entry (f)]]

The committee finds that the following examples of misstatements of sustainability information may entail too much subjectivity :

Undue prominence to favorable by using large, bold or brightly-colored text and images or presenting unfavorable information using small or light-colored font and less extensive text. (from A355)

The impact of the presentation of the information on the perception of the user's (e.g., whether presenting different scales for the x-and y-axes of a graph may be misleading) (from A278)

The committee recommends the use of more principles-based criteria for consideration.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

In addition to the requirements proposed in ED-5000 paragraph 91, SOCPA would like to suggest a requirement to be included regarding evaluation of the presentation of qualitative and quantitative disclosures. The practitioner should be required to evaluate whether qualitative and quantitative disclosures are presented in a clear, concise, and understandable way. Additionally, the practitioner/auditor should be required to consider whether disclosures are interconnected and provide users with a complete picture of the entity's financial position and performance.

We believe that this is important because if the information is not presented in a clear, concise, and understandable way then the information is not going to be material to users. For example, if an entity discloses too much qualitative information (buried at the back of the financial statements) or too complex quantitative information about, for instance, its financials then such information would be difficult to recognize and interpret, and accordingly not be material to users.

Wirtschaftsprüferkammer (WPK)

We agree with the general approach. The requirements relating to “materiality” are basically clear, understandable and applicable.

However, the requirements and application material to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures may not be sufficient.

Recommendation:

We encourage the IAASB to include further application material and guidance in the Standard in order to ensure a consistent application by all practitioners. This relates most of all to the quantitative materiality considerations referred to in paragraphs A279 to A281 given the expected great number of different units of measure used in the sustainability reporting as well as the broad range of potential users who may have different information needs or a different tolerance for misstatement.

11. Academics

Accounting and Finance Association of Australia and New Zealand

We recommend that the materiality levels that have been determined for quantitative disclosures should be disclosed in the audit report.

Disclosing the materiality level that has been determined may require disclosure of a number of measures for disclosures that are measured in different units. A study by Moroney and Trotman (2016) shows that auditors are more likely to assess an audit difference as material when it applies to a financial case than

when it applies to some other unit. Because of this effect, the disclosure of materiality levels for non-financial items will be particularly useful.

Monash University

Materiality will depend on assumptions made in the scenarios that are considered for estimation and forward-looking information for events that are currently unknown. However, the estimation of asset values and providing forward-looking information can be subject to scrutiny. Entities may use materiality threshold at their discretion to avoid having to disclose negative information about the impact of climate change on their business. Therefore, qualitative disclosures should be encouraged even if an entity believes the impact is not material.

University of Southampton

We do agree with IAASB's position to follow 'bifurcated' approach to 'consider' or 'determine', as it seems rational for the practitioners to 'consider' materiality for qualitative disclosure and 'determine' materiality for quantitative disclosure.

However, we recommend that the practitioner should also 'determine' materiality for some of the quantitative disclosure, especially in relation to issues such as corporate actions human rights, equality diversity and inclusion (EDI), workplace condition, modern slavery, and child labour etc, as there might be little or no quantitative disclosure on some of those critical sustainability issues even though they might be quite significant for certain firms/industries from a materiality point of view. It is also important to outline the likely courses of actions for the practitioners if there is a discrepancy between the 'determined' material topics/issues by the practitioner and the disclosed material topics through management's 'materiality process'. It is important to address this, given numerous scientific studies observe that a group of opportunistic managers' preference to 'cherry pick' material topics and disclosure that suit their purposes, as opposed to selecting material topics that demonstrate more significant impact of firms' actions on economy, environment and people.

Based on our preceding arguments, we also recommend that 'performance materiality' should also capture some of qualitative disclosure such as companies actions human rights, equality diversity and inclusion (EDI), modern slavery, and child labour. Moreover, the practitioners should also assess the materiality component of a firm's process-oriented sustainability performance (such as policies, procedures, initiatives that are reflected through qualitative disclosure) and outcome-oriented sustainability performance (reflected through quantitative disclosure of metrics and targets) and to comment on the discrepancies (if any), as many recent studies (e.g., Haque and Ntim, 2018, 2020) find evidence of green washing/symbolic rather than substantive sustainability performance.

Please note that reference list is at the end of this document.

Codes\Part B - Specific Questions\Question12 - Do you agree with the approach in ED-5000 to consider materiality for qualitative disclosures and determine materiality for quantitative disclosures\12.3 Neither agree or disagree

Files\1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Materiality determined by the practitioner

One of the key topics to be addressed more comprehensively in ED-ISSA 5000 is the application of materiality. It is unclear in paragraph 91, for example, what the distinction is between “determining” quantitative materiality and “considering” qualitative materiality. We ask that these concepts be revisited to support a consistent understanding and application, especially when translated.

Due to the different metrics and targets used in sustainability reporting (e.g. greenhouse gas emission, gender equality, adequate wages, number of days lost to injuries, accidents, fatalities, units of area) more comprehensive guidance for practitioners as to how to approach the materiality for quantitative disclosures is needed. While we understand that ED-ISSA 5000 follows a similar principle-based approach as in International Standard on Auditing (ISA) 320, Materiality (ISA 320), we highlight that the materiality standard under the ISAs was identified in IFIAR’s response to the IAASB’s proposed strategy and work plan for 2024-2027 as an area requiring urgent priority. While the frequently asked questions recently published for materiality is helpful, this is not authoritative so is unlikely to fully address our concerns.

Additional provisions explaining materiality in the context of narrative and qualitative information should also be included in the requirements.

Considering the different nature of sustainability matters ED-ISSA 5000 should expand guidance on how to “accumulate” misstatements identified in quantitative as well as qualitative sustainability information beyond what is provided in the related application material to paragraph 137.

The requirement to set performance materiality in paragraph 92 should be clarified. As currently drafted, the paragraph could be interpreted to be a requirement, but then references to “applicable in the circumstances” and application material, use the term “may consider”. This may lead to inconsistent understanding and application.

Files\10. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants

In practice, the application of the concept of performance materiality may not be practicable or easily applied for certain quantitative disclosures involving certain subject matters or topics which include sustainability metrics which are expressed in percentage or ratios terms (which may be binary or linked to certain legal or contractual sustainability performance targets). Therefore, we suggest that the IAASB provide additional application guidance on this area to enable the practitioners to effectively apply the concept of performance materiality in practice in a number of different sustainability matters or topics.

Further clarity may be required to consider when misstatements can or cannot be aggregated and how this would need to be considered in determining the final opinion.

Center for Audit Quality

In practice, disclosures may comprise a mix of qualitative and quantitative information. Para 91 of ED-5000 could inadvertently drive a very granular level of disaggregation of the subject matter information, because it effectively requires bifurcation of the information into elements that are qualitative and elements that are quantitative. For example, there may be disclosures on pollution that comprise a mix of metrics and qualitative descriptions, and the metrics may all be in different units of measure. The requirement to “determine” materiality for quantitative disclosures could be interpreted in a way that practitioners would determine materiality for each metric because they are quantitative, and in different units of measure (i.e., it is not possible to aggregate quantitatively). This seems to be inconsistent with para A269, which suggests

that the information can be aggregated or disaggregated in various ways and at various levels of granularity. Furthermore, in some instances, after considering qualitative factors, it may be highly unlikely that there is a risk of material misstatement associated with a quantitative disclosure, and therefore it may be unnecessary to determine a quantitative materiality for that disclosure (e.g., this may be the case when the disclosures are disaggregated at a very granular level for purposes of performing the engagement). We believe professional judgment is necessary given the various topics that can be covered in an engagement.

The ISAE 3000 (Revised) approach may be more appropriate since it requires the practitioner to “consider” materiality for all subject matter information, regardless of whether it is quantitative or qualitative. Adopting a more principles-based approach such as this would enable practitioners to develop methodologies that provide appropriate flexibility to accommodate varying engagements and subject matter information. This flexibility is also particularly important given the rapid evolution of sustainability reporting and reporting standards, and how information is aggregated and presented.

If the ISAE 3000 (Revised) approach (suggested above) is not adopted, we encourage the IAASB to make reference in ED-5000 to Appendix 2 of the IAASB’s CUSP Drafting Principles and Guidelines document (April 2022) to clarify the difference in work effort between “determine” and “consider”.

Chartered Professional Accountants of Canada (CPAC)

Overall response: Neither agree/disagree, but see comments below

Detailed comments (if any):

We believe additional guidance is needed on how to apply the requirements for materiality in practice. It would also be helpful to include information from the IAASB’s FAQs on “The Application of Materiality by the Entity and the Assurance Practitioner” in the application material accompanying the standard.

Common concerns we heard included what “consider materiality” means for qualitative disclosures and whether such considerations are always required. In addition, there are practical challenges with having different materiality levels and approaches for different types of information. In our view, the differing materiality approaches for qualitative and quantitative disclosures is confusing and creates an additional level of complexity that we do not think is necessary. We also note that this distinction is not made in ISAE 3000.

In financial reporting, there are both quantitative and qualitative disclosures and there is not generally a distinction made in the practitioner’s materiality assessments. In practice, sustainability reporting also involves both qualitative and quantitative disclosures and the considerations outlined in paragraph A278 are relevant to both qualitative and quantitative disclosures. We caution against giving the impression that the concept of materiality is distinct for qualitative and quantitative disclosures.

We found that the application guidance related to materiality is helpful and should be brought into the standard itself (e.g., paragraphs A271, A278, A277, A276). It would also be helpful to elaborate on the existing application materials in certain areas, for example aggregation of misstatements. We also note that some of the terminology related to materiality is not clear in the standard. For example, performance materiality is not intuitive and may require further explanation in the standard and related guidance material.

Within the context of sustainability reporting standards (e.g., as part of ISSB consultation on IFRS S1 and IFRS S2 and the EU Corporate Sustainability Reporting Directive), materiality has been flagged as a key area where guidance is needed. The IAASB should closely monitor the standards and guidance for sustainability reporting to determine how it may affect the related sustainability assurance requirements and guidance.

Files\11. Academics

Deakin University

Refer to our answer to Question 9.

Files\2. Preparer and Users of sustainability information

Climate Accounting & Audit Project

Overall response: Neither agree/disagree, but see comments below

Detailed comments (if any):

Considering the materiality of information to be disclosed is a critical element of any principle-based system of reporting. We share below a number of concerns on this topic, stemming from deficiencies in information seen in audited financial statements that, due to the same or similar definitions being used in sustainability reporting, may become at least as problematic for assured sustainability reporting.

We note that the IASB has conducted initial work in its project on Climate-related and Other Uncertainties in the Financial Statements, which was initiated following its latest agenda consultation and considerable input from stakeholders on its standards being applied inconsistently and in a manner that resulted in insufficient information in the financial statements about climate-related risks.

In general, it appears to have concluded that its standards are sufficient. It plans to consider a number of targeted actions to improve application of IFRS accounting requirements, potentially including additional guidance via agenda decisions of its Interpretations Committee, additional educational materials and/or examples and illustrations. Potential changes to requirements in only one area, the disclosure of estimates and assumptions. In July 2023 it re-published its 2020 Educational Material 'Effects of climate-related matters on financial statements' alongside publication of the ISSB's first two standards (general requirements and climate).

Recommendations:

We urge the IAASB to also consider whether such issues of inconsistency and insufficient financial statement information are enabled by deficiencies in its standards on the audit of financial statements or how those standards are applied in practice in relation to climate-related risks. I may also be helpful to refresh its own Staff Audit Practise Alert (2020) 'The Consideration of Climate-Related Risks in an Audit of Financial Statements'. We also suggest that the IAASB consider lessons that can be taken into account in finalising ED-5000. There is particular relevance for ED-5000 on assurance of sustainability reporting, given that the ISSB very deliberately adopted the same definition of materiality as is used in the IFRS accounting standards, and other systems of sustainability reporting may also use similar approaches.

Further background:

A very real application problem has been identified in how the materiality definition is (or is not) currently applied in practice in the financial statements. There is a significant and increasingly apparent lack of material information on climate being provided in financial statements. We acknowledge that applying the concept of materiality can be a challenging and inherently judgmental process which by definition involves consideration of not only quantitative, but also the qualitative nature of information and its relevance to investors (and sometimes others) in their decision-making. However, even for the financial statements of many of the largest GHG emitters in the world, companies specifically identified by investors for their climate

exposure, there is significant evidence that disclosure of material climate-related information is largely lacking in the financial statements.

The evidence of this includes analysis published by Carbon Tracker in their report 'Still Flying Blind', which focused primarily on 2021 year-end reporting, and their previous report 'Flying Blind', which primarily looked at 2020 year-end reporting. To illustrate the extent of this concern, of the 84 IFRS financial statements reviewed for the Still Flying Blind report, only three were found to have provided sufficient information to demonstrate how their financial statements included consideration of the financial impacts of material climate matters, and only one provided a comprehensive understanding of the climate-related assumptions and estimates used to prepare the financial statements.

All of these company financial statements received clean audit reports. Carbon Tracker additionally noted that six of the 75 ISA audit reports appeared to demonstrate consideration of climate risk.

Furthermore, the initial reviews of year-end 2022 reporting again does not suggest significant progress, either in the financial statements or auditor's report. This situation persists in spite of the IASB and IAASB having provided clear confirmation of existing requirements in relation to information required in relation to climate-related matters in the financial statements and audit.

As for the materiality judgements to be made under sustainability reporting standards, such judgements on information to

be disclosed may even be more challenging. Application of such new standards lacks the decades long experience behind IFRS accounting requirements. Additionally, disclosure practices for sustainability reporting are developing and will likely continue to do so with introduction of new requirements set by the ISSB and regionally including European Sustainability Reporting Standards (ESRS). Financial statement disclosure is in effect bounded by the context of information relating to the application of accounting requirements to the facts and circumstances of the company, for example, the recognition and measurement of asset and liability amounts in the financial statements and additional disclosure to provide an understanding of those amounts, i.e. what they do and don't represent. In contrast, decisions on materiality of whether certain sustainability information should be disclosed is an even more open judgement on what information is material to investors or in some cases wider stakeholders.

Therefore, we believe it will be critical to the success of sustainability reporting standards and the related IAASB sustainability assurance standards to address from the outset, how such judgements are expected to be made, rather than allowing significant deficiencies to become embedded in practice, only to require fixing later. Thus this is an issue for the assurance of sustainability reporting as it is for the audit of the financial statements, where the evidence is already clear.

Beyond this, we are particularly troubled by a recent suggestion that the overarching requirements of IFRS (IAS 1) to provide material information not specifically required by other topical IFRS accounting standards is not ever considered by auditors to lead to additional material information such as the information that has been found by Carbon Tracker to be lacking in their company reporting assessments.

Keidanren (Japan Business Federation)

Overall response: Neither agree/disagree, but see comments below

Detailed comments (if any):

In a situation where disclosure standards relating to sustainability information are still under development and it can be assumed that a wide variety of sustainability information will continue to be disclosed, it is doubtful whether practitioners will in practice be able to determine materiality for all quantitative sustainability information. Suppose, that “determine materiality for quantitative disclosures” as stipulated in paragraph 91 of ED-5000 required practitioners to determine quantitative materiality thresholds as is the case for accounting auditing; surely there would be quantitative sustainability information for which it would not necessarily be appropriate to determine materiality. We therefore suggest that paragraph 91 of ED-5000 ought to specify that quantitative disclosures should be “considered” rather than “determined,” as is the case for qualitative disclosures.

Files\7. Accounting Firms

Nexia International

Overall response: Neither agree/disagree, but see comments below

Detailed comments (if any):

Overall, while the approach in the ED for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures appears clear, we believe there may be operational issues particularly when there are various different metrics and varying information needs of intended users that are not comparable (e.g., not all USD amounts in a GAAP financial statement for example).

We believe the “shall consider materiality” in ISAE 3000.44 may allow for an appropriate principles-based approach given the high variability in the nature of the subject matter.

Files\9. Public Sector Organizations

Government Accountability Office - US

Overall response: Neither agree/disagree, but see comments below

Detailed comments (if any): It is our view that it is practicable for practitioners to determine materiality for sustainability information, i.e., qualitative, and quantitative disclosures about several different topics and aspects of topics. (Refer to GAO detailed comments to question 11 above).

12.4 Disagree with comments

2. Preparer and Users of sustainability information

Singapore Exchange (SGX Group)

From a securities market perspective, we are of the view that materiality is looked at with the same lens for both qualitative and quantitative disclosures. In particular, the practitioner should determine materiality for both qualitative and quantitative disclosures.

We appreciate that assurance practitioners may find it more challenging to determine materiality for qualitative disclosures. However, to say that a practitioner need only consider materiality for qualitative disclosures seems to suggest that such disclosures are of lesser importance. To address the challenges mentioned above, we suggest the IAASB provides more guidance on how a practitioner may determine materiality for qualitative disclosures.

We are also of the view that assurance practitioners should consider the aggregate of both quantitative and qualitative disclosures to ascertain the overall impact of misstatements. We suggest the IAASB provide guidance on how performance materiality would apply in such circumstances.

4. Regulators and Audit Oversight Authorities

Accounting and Corporate Regulatory Authority

We anticipate the following difficulties in applying the requirements, and call for more detailed requirements or guidance to aid our practitioners:

Narrative disclosures form the bulk of disclosures in sustainability reports, and they could well be the most important disclosures to investors too. Assurance providers will need guidance (akin to setting of performance materiality) to identify disclosures that are 'material' to investors and plan for audit procedures that commensurate with the significance of identified risks and likelihood of potential misstatements;

While we can apply a percentage to compute performance materiality for quantitative disclosures with clear methodology and contained population such as Scopes 1 and 2 GHG emissions, this may not always be appropriate for Scope 3 GHG emissions, which are prepared by companies with significant estimates. For example, if Scope 3 GHG emissions prepared by companies are grossly overstated, this could lead to a disproportionately high 'performance materiality' being used. Similar challenges may also arise for the audit of anticipated financial effects from material climate risks;

Many companies invest abroad, leading to the need for 'group audit'. It is unclear how a group auditor should "determine"/"consider" materiality on quantitative/qualitative disclosures at group level, and at component level. In addition, component auditors may not be part of an audit network. It will be helpful to issue guidance to bridge the gap(s) in audit practices;

Some companies may report using ISSB and GRI standards concurrently while other companies may report using GRI and ESRS concurrently. As these standards use different materiality concepts, they are likely to impact materiality assessment by the practitioners. It will be helpful to illustrate how materiality should be "determined"/"considered" for quantitative/qualitative disclosures under the following common scenarios:

ISSB only

ISSB and GRI

ISSB and ESRS;

Assurance providers could provide 'limited assurance' in some engagements and 'reasonable assurance' in other engagements. It is unknown whether the scope of assurance should impact materiality "consideration"/"determination" during the audit process, from planning and performing the audit procedures to evaluating whether the disclosures are free from material misstatement and expressing audit opinion.

If the practitioner is conducting assurance on multiple disclosures, the practitioner would need a mechanism to 'aggregate' and assess the overall impact of misstatements. Unlike financial reporting misstatements that can be measured and aggregated using financial measures, sustainability reporting misstatements could occur in different ESG areas, different metrics and in narrative disclosures. It will be helpful if the IAASB can prescribe a model to do so, supported by factors for consideration, in ED-5000.

Canadian Public Accountability Board

Materiality

In our response to the IAASB's consultation paper: The IAASB's Proposed Strategy and Work Plan for 2024-2027, we identified materiality as an area that should be prioritized. The IAASB's extant standard on materiality ISA 320 Materiality in planning and performing an audit (ISA 320) is no longer fit for purpose and results in a wide diversity in practice in determining materiality. By leveraging principles from ISA 320 for the proposed standard, the IAASB will risk introducing similar diversity in practice for determining materiality for sustainability assurance engagements.

Sustainability reporting introduces the added complexity of a wide range of different quantitative and qualitative metrics and targets as well as a range of assurance practitioners with different backgrounds and experience performing the engagements. More comprehensive coverage and precise guidance for the topic of materiality is needed.

For example, we recommend moving some of the additional information provided in Frequently Asked Questions – Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner document into the application material in the proposed standard, including:

Discussion of why there was a need to bifurcate qualitative and quantitative materiality.

Description between entity's consideration of double materiality and of that of the practitioner.

Discussion related to practitioner's application of materiality when both financial and impact materiality apply.

In addition, to increase transparency, and because of the wide range of potential materiality levels applied, we strongly encourage the disclosure of qualitative and quantitative materiality within the Auditor's report.

Committee of European Audit Oversight Bodies (CEAOB)

Materiality

Secondly, the key notion of "materiality" that comes along with the sustainability reporting frameworks (or criteria) has major implications for the assurance approach to be taken, and creates a need to refine the provisions of ED 5000, which are currently based on the concept of an absence of "material misstatements" in the sustainability information. Clarification is needed in the ED to make clear that the "materiality" of a sustainability matter in the context of the reporting ("double materiality" in the CSRD context) is different from the "materiality" of a misstatement of the reported data for assurance purposes (materiality that may be seen as an "acceptable margin of error" in the context of an assurance engagement and the

conclusions/opinions expressed). Various explanations are provided in application material of the ED but need to be further linked and/or elevated to requirements.

The interrelations between the notions of “double materiality”, “materiality of a misstatement”, “performance materiality” for the engagement, for instance, are not sufficiently explained in the requirements. Provisions are set out in the application material, but the requirements need to be clarified in ED 5000 (e.g. par 91), to define the work and expectations vis à vis the practitioners.

More specifically, the provisions to “consider materiality” for narrative disclosures need to be explained (par 91) e.g. by elevating provisions of the application material into the requirement section.

Additional direction is needed on how the practitioners should examine specific information which is, in sustainability reporting, of different types and units, compared to monetary amounts, which is the main unit in the financial statements.

The clarification needed on the use a performance materiality (ref par 92, A283) might be achieved by elevating application material illustrations into the requirements sections.

The fact that each sustainability disclosures/information should be considered as standalone for the assessment of materiality does not appear clearly from the requirements, and how to deal with aggregation is not sufficiently clear either. A revised section on materiality in the ED should provide those enhancements.

Financial Reporting Council – UK (FRC)

We agree with the basic concepts relating to materiality set out in ED ISSA 5000, but are concerned that there is a lack of clarity as to how materiality and performance materiality are addressed in practice in the context of sustainability information.

The wide variety of different types of sustainability information and related metrics mean that there will often be different quantitative materiality measures for the different types of information presented in a single report by an entity, but the wording of the standard is often presented as though there is only one quantitative materiality.

In light of materiality being set for each disclosure, rather than for the sustainability report as a whole, it could be inferred that the assurance practitioner is required to consider a different group of intended users for each disclosure. Accordingly, we suggest that the IAASB clarify in the application material section on Intended Users that the assurance practitioner’s judgements about materiality take into account the information needs of intended users as a group.

Paragraph 144 requires the practitioner to “determine whether uncorrected misstatements are material, individually or in the aggregate” and paragraph 163 requires the practitioner to “form a conclusion about whether the sustainability information is free from material misstatement”. This section, together with the supporting application material, is quite light on guidance on how assurance practitioners should address practical difficulties, such as when different metrics cannot be aggregated. We suggest that educational material may be beneficial here.

We believe that the requirements and application material on performance materiality are not sufficient for practitioners unfamiliar with the concept. For example, neither the definition nor the application material offers any guidance on how the assurance practitioner uses performance materiality in practice to reduce aggregation risk to an acceptably low level. This might not be an issue for practitioners that have prior experience with applying the concept but for new practitioners it could be a challenge. In this regard the standard does not appear to be professionally agnostic as it is using a concept and terminology that are

derived from standards written for professional accountants, without sufficient explanation to help others. We suggest that the IAASB develop worked examples on the application of performance materiality with further explanation of aggregation risk.

Continuing with the topic of performance materiality, but as a separate point to our prior comments, we believe paragraph 92 may be enhanced by a slight rework, to “For quantitative disclosures, where appropriate, the practitioner shall determine performance materiality”. This better reflects that it is a matter of judgement as to whether the assurance practitioner determines performance materiality for a quantitative disclosure.

Independent Regulatory Board for Auditors (IRBA)

One of the key topics to be addressed more comprehensively in ED-5000 is the application of materiality. It is unclear in paragraph 91, for example, what the distinction is between “determining” quantitative materiality and “considering” qualitative materiality. Further, the IAASB’s use of the word “consider” in paragraph 91(a) of ED-5000 creates the impression or possibility that this is not a requirement. Our view is that materiality is always “determined”, irrespective of a qualitative or quantitative subject matter, as this is needed for the conclusion/opinion to reference “in all material respects”. If the use of the word “consider” is intended to capture a scenario where a practitioner may conclude that its impractical to determine a qualitative materiality, then this should be stated in the application material to the requirement in order to achieve a consistent application thereof in the marketplace.

Further, the requirement to set performance materiality in paragraph 92 should be clarified. In its current form, the paragraph could be interpreted as a requirement, but then references to “...applicable in the circumstances” and the application material in paragraph A284 use the term “may consider”. This could lead to an inconsistent understanding and application.

Due to the different metrics and targets used in sustainability reporting (e.g. greenhouse gas emission, gender equality, adequate wages, number of days lost to injuries, accidents, fatalities and units of area), we recommend more comprehensive guidance for practitioners on how to approach materiality for quantitative disclosures. Additional provisions that explain materiality in the context of narrative and qualitative information should also be included in the requirements of the standard or through guidance that supplements the standard.

Considering the different nature of sustainability matters, the IAASB may want to consider expanding guidance in ED-5000 on how to “accumulate” misstatements identified in quantitative and qualitative sustainability information beyond what is provided in the related application material to paragraph 137 (i.e. paragraphs A398-A403).

Recognising that the proposed standard is new, and there is limited precedent and experience in the market-place, it may be helpful if ED-5000 offers practitioners guidance on benchmarks and percentages that can be applied to determine materiality, performance materiality or the misstatements threshold. Guidance may also be required in circumstances where law or regulation is silent on acceptable thresholds. Practitioners may also benefit from ED-5000 giving examples of benchmarks or percentages that may be applied to evaluate misstatements in relation to the impact on the practitioner’s assurance report.

Irish Auditing and Accounting Supervisory Authority (IAASA)

“Consideration” of qualitative materiality

The requirement to ‘consider’ materiality for qualitative disclosures is not sufficiently clear as it may not be interpreted as an obligation to adequately assess materiality for qualitative disclosures. The common understanding of ‘consider’ is to think about a particular matter but it may not lead to any action by the practitioner. In this context, paragraph 91(a) should clarify that the practitioner must both consider materiality and then assess qualitative disclosures based on the outcome of that consideration.

Additionally, use of the term ‘consideration’ in the application material for both qualitative (paragraph A278) and quantitative (paragraph A279) materiality may lead to confusion for users.

The additional material provided in the explanatory memorandum and frequently asked questions issued by the IAASB in October should be incorporated into the final version of the standard to ensure consistent application of the requirement to consider qualitative materiality and so that this provision can be enforced by regulators.

Non-homogenous quantitative disclosures

The application material on quantitative materiality considerations in paragraph A279 should make it clear that, unlike for a financial statements audit, the same level of materiality for all quantitative disclosures in a sustainability assurance engagement is not appropriate given that they may relate to different matters such as headcount, future investment costs, project hours or emission levels. While there is some guidance on this topic in paragraph A412 in the context of the evaluation of uncorrected misstatements, guidance is also required in the section on setting materiality.

It is unclear from paragraph A399 how the practitioner could designate an amount below which misstatements are clearly trivial for quantitative disclosures that are not of a homogeneous nature for example financial amounts, employee numbers, hours, percentages etc.

Application materials that should in the main standard

The statement in paragraph A398 that ‘When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial’ is of such importance that it should be moved to the requirements section of the standard. In addition, there does not appear to be any guidance provided on the consideration of ‘clearly trivial’ for qualitative disclosures.

The statement in paragraph A418 that misstatements in qualitative information are as important as misstatements in quantitative information should be moved to the requirements section of ED 5000.

The statement in paragraph A270 that materiality is the same for both limited and reasonable engagements because it is based on the information needs of intended users should be moved to the requirements section of the standard.

Insufficient detail and guidance

Paragraph A409 should be expanded to note that, for both narrative and quantitative disclosures, correction of misstatements by management may involve the inclusion of information that had been omitted.

The requirements relating to planning for materiality are limited to paragraph 91 of ED5000 (with related application material in A270-A277 and A282).

The examples of factors that may be relevant to consideration of materiality for qualitative disclosures states that a practitioner may consider a potential misstatement to be material if it affected the threshold for payment of carbon tax. It would seem more likely that the misstatement in this instance would relate to a quantitative disclosure as such thresholds are normally based on figures such as emission levels.

5. National Auditing Standard Setters

Auditing and Assurance Standards Board Canada (AASB)

We do not support the approach in ED-5000 for the practitioner to 'consider' materiality for qualitative disclosures and 'determine' materiality (including performance materiality) for quantitative disclosures.

Key Concern: Consider materiality for qualitative disclosures

We heard concerns from many different parties regarding the use of 'consider' for qualitative materiality. Including, as it relates to paragraph 91(a):

That there is optionality in whether you "consider" materiality for qualitative disclosures. The use of 'consider' gave the impression that the expectation for qualitative disclosures was less than for quantitative disclosures. We realize there is a "shall" in the requirement 'to consider', but in the IAASB's CUSP Drafting Principles (CUSP), 'consider' means to "think carefully" or "reflect upon" which may imply optionality.

The use of different terms (consider vs. determine) for the work effort on materiality is confusing. In CUSP, 'consider' and 'determine' differ on the work effort spectrum. Participants were confused why there are different work effort expectations between qualitative and quantitative materiality.

We asked our field testers how they use materiality for qualitative disclosures in engagements today. They indicated that all qualitative items are scoped in at planning because they are all considered in assessing misstatements. After performing the responses to risks, they would stand-back and consider whether the qualitative disclosures are factually correct. In applying ED-5000, they indicated paragraph A278 provides factors for consideration but stops short of explaining what would make the consideration qualitatively material.

Suggest:

Revise paragraph 91 to require the practitioner to 'determine' materiality for both qualitative and quantitative disclosures. By using the term 'determine', it does not mean the practitioner has to "calculate" materiality; instead, as per CUSP 'determine' means to "conclude or ascertain as after reasoning or observation".

Expand the examples in A278 to specifically state what would make the consideration qualitatively material in each of the example bullets presented. For example, A278 bullet 4 on observed deviations could conclude that "an identified deviation in a control would be considered material if there was no other relevant control that was effective at mitigating the risk".

Concern: Determining materiality for quantitative disclosures

The requirement in paragraph 91(b) to determine materiality for quantitative disclosures is not clear on how to calculate materiality.

Although application material provides examples of factors that may be relevant to the practitioner's determination of materiality for quantitative disclosures, the application material does not provide examples of different disclosures and different ways materiality could be determined.

Suggest:

Add examples to paragraphs A279-A281 on benchmarks for determining quantitative materiality. The examples in paragraph A274 and A280 are not sufficient. Consider adding:

An equivalent paragraph to ISSA 5000 as that included in paragraph A8 of ISA 320, in relation to financial statement audits.

Application material with an example of what management determined was material to report, and then what the auditor did with that from an engagement materiality perspective.

Examples of determining materiality over climate scenario analysis disclosures. The standard is not clear on how to determine and apply materiality on forward-looking projection-based information.

Add examples to paragraphs A279-A281 of different quantitative disclosures and ways materiality could be determined. We suggest the following example:

An entity is reporting the recycled input materials used in new production, expressed as a % of the total weight/volume of recycled over input materials. In this case, the quantitative materiality could be the difference in % points that could impact the intended user with the lowest materiality threshold. For example, if incorrect by 5% points, new customers would not purchase their goods. In that case 5% points is the determined quantitative materiality.

Concern: Guidance on how to accumulate and evaluate misstatements

We heard that practitioners may find it challenging to evaluate and accumulate misstatements across the sustainability information subject to assurance, especially when that information includes qualitative disclosures or disclosures with different units of measurement.

Although the application material to paragraph A415-416 provides guidance on the accumulation of identified misstatements, it is not practically clear how the practitioner would accumulate misstatements.

There could be significant professional judgement needed to aggregate misstatements. For example:

How does the practitioner compare and connect different qualitative information?

Without overall materiality, how does the practitioner conclude on whether the sustainability information is free from material misstatement?

Suggest:

Adding illustrative examples on how to aggregate misstatements across the sustainability information in determining whether the sustainability information is free from material misstatement.

Royal Dutch Institute of Chartered Accountants

The NBA considers the proposed approach unclear. We therefore suggest the following:

- It should be made clear whether, and if so how, qualitative materiality can be disaggregated over sustainability matters.
- Furthermore, disaggregation of assurance materiality and performance materiality within the group may require further guidance, since the differing nature of sustainability reporting in comparison with financial reporting, which may require a different approach, both in terms of process and in terms of approach.

- ED-5000 provides too little clarity about how assurance materiality is applied in the evaluation of misstatements and of the sufficiency and appropriateness of assurance procedures performed. For instance, it is unclear whether when the misstatements found are close to materiality, the practitioner is expected to perform additional procedures.
- We seek clarification that 'compensation' of misstatements is not possible when aggregating the misstatements in sustainability reporting.
- We are of the view that the requirement to 'consider' materiality for qualitative disclosures needs further explanation, especially for practitioners who are not used to applying the auditing standards and hence lack familiarity with the intended (relatively narrow) understanding of the verb 'consider'.

6. Global Standard Setter

Social Value International

The entity will have past and future impacts on the world and some of these are impacts on investors in the form of financial returns. In addition, external factors will affect the entity's ability to generate impacts, including financial returns. Each of these definitions could be relevant to different users with a different purpose.

It is not clear how the bifurcation of materiality into qualitative and quantitative disclosures is helpful because the exercise of judgement is not a function of the inherent nature of the information itself but for the context it is being used to make decisions and assess accountability.

Materiality appears to be used in two ways. Firstly whether information is relevant, i.e. is in scope of useful information for a purpose and meeting a level of certainty and secondly the risk that information that would affect decisions made against that purpose is missing, not faithfully represented (or non-relevant information has been included). An assessment that excludes information that is relevant and meets a level of uncertainty, although common practice, may affect decisions against the purpose and may affect an assessment of material misstatement.

If the scope addresses a subset of impacts from which there is then a process to first identify material impacts, the assurance practitioner will not be able to form an opinion on completeness without understanding the total set of sustainability related impacts, the total subset, their interdependency and the process behind the selection.

Without a common unit, the risk of material misstatement is likely to be assessed assuming a weighting process for topics or sub-topics or any other level of granularity. Whether information that has been assessed as not material would affect decisions relating to a purpose is unknown since it is possible that either the information once collected was material or its importance relative to other topics made it material.

Different levels of certainty may be required for information required for different scopes. The level of certainty should be informed by the stated purpose of the intended users, their approach to risk tolerance and that of those experiencing any impacts. Without this, decisions may be made which exceed the risk appetite or tolerance of those being affected by any decision. It will be difficult for an assurance provider to assess the risk of material misstatement or to develop a programme of work for an acceptable level of assurance risk without this understanding. If not addressed in the ED, the assurance provider may fall back on an assumed approach to risk being used in other standards, especially in financial audit.

We recommend that the issues around uncertainty are included in the ED.

The reliance on the concept of a rational purpose, without defining rational, risks reinforcing existing cultural, gender biases, and business-as-usual mindsets. The definition could, perhaps should be that it is not rational to make decisions that contribute to climate change, nature loss and increasing inequality, or more generally, do not contribute to sustainability and the SDGs at the rate required to avoid a crisis. As we noted above, a rational purpose that fulfils the public interest perspective of assurance must also be ethically sound. Just as in a financial reporting context a rational purpose would be one where the practitioner is satisfied that the preparer is not attempting to obfuscate any material aspects of an entity's financial performance and position the same formulation holds in the case of sustainability information.

We recommend that a definition, or at the very least some examples, of a rational purpose is included.

Paragraph A171 refers to the possibility of considering a process. An assessment of completeness and fair presentation of the results of a process may also require direct engagement with those people expected to experience the consequences (impacts) and identification of criteria may require similar engagement or at least reference to the work of organisations that represent their interests.

We recommend that the requirement for appropriate stakeholder engagement with people affected is included in the process as well as a discussion of what would make this consideration a necessity rather than a possibility.

7. Accounting Firms

Baker Tilly International

The ED does not address the differences in views of materiality between the assurance practitioner and the reporting entity, which is particularly relevant where a framework mandates a 'double materiality' approach (such as CSRD/ESRS, GRI, TNFD)

UHY International

We feel this area will be one of the most challenging areas, requiring judgement and a different way of thinking for most practitioners. We believe further guidance is needed around the application of materiality to sustainability disclosures. We suggest the IAASB consider a separate document, handbook, or appendix to ED-5000 with examples that help practitioners determine materiality for various types of sustainability information, and both quantitative and qualitative. Auditing standards require qualitative and quantitative considerations in assessing and determining materiality in financial reporting, including disclosures. Is the IAASB's intent to establish a different principle for sustainability disclosures? We believe the principles should be consistent and further guidance is needed, including the application of par. A281.

8. Assurance Practitioner or Firm - Other Profession

Academy for Practical Training on Sustainability Assurance (APTISA)

In line with my comments regarding limited vs reasonable assurance, I believe for this activity there should be no distinction between the approach for limited and reasonable assurance. In fact I am not sure I understand how Par. A283 – applying performance materiality at the 'assertion level' would work in practice.

9. Public Sector Organizations

Office of the Auditor General of Canada

In our view, the use of different terminology for qualitative disclosure and quantitative disclosure materiality (“consider” and “determine”) may negatively impact understandability and application of the proposed sustainability standard in practice. We would recommend the proposed standard direct the auditor to assess materiality consistent language that reduces ambiguity to increase understandability.

10. Member Bodies and Other Professional Organizations

Chartered Accountants Ireland

We believe the ED contains a fatal flaw, being that it requires the practitioner to set many materiality thresholds, however the drafting in the standard is in terms of a singular materiality.

The standard needs to recognise (starting in paragraph 91) that there is more than one materiality threshold for the assurance provider.

Clarification is also needed regarding materiality at the entity or sustainability report level vs materiality at a sustainability information disclosure level (i.e., is the same level of materiality used for all evaluations or is materiality to be determined for different areas on a financial and impact basis?) in particular when the assurance practitioner is required to report on the sustainability reports compliance/achieving a fair presentation in accordance with a general-purpose sustainability reporting framework such as the ISSBs or ESRs.

When setting the requirements for the evaluation of errors in paragraphs 143/144 the standard refers to materiality in the singular as if it was set for the sustainability report as a whole, but there is a distinct difference between an audit of financial statements and a sustainability assurance engagement.

Therefore, it is unclear to us how a practitioner will determine whether a qualified conclusion is to be issued. For example, paragraph 144 discusses the aggregation of misstatements, but this may not be possible across different units of measurement. Forming a conclusion about a sustainability report being free from material misstatement is not possible without an overall materiality. Furthermore, if you evaluate sustainability information included within a sustainability report at an information level e.g., carbon disclosures and human resource matters, how do you evaluate the impact on the overall sustainability report when all sustainability information within the report does not carry the same relative importance.

In paragraph 91 the standard refers to the practitioner having to consider qualitative materiality and to determine materiality for quantitative disclosures. It is unclear why different levels of work are required here and we believe that the practitioner should be determining both qualitative and quantitative materiality factors at the planning stage and reassessing them as needed throughout the engagement.

We note paragraph 92 of ED-5000 states “...the practitioner shall determine performance materiality as applicable in the circumstances”. This suggests that a single performance materiality is set. Further, it is unclear what circumstances paragraph 92 is referring to and it would be helpful for practitioners to add further detail to this paragraph.

We note that the IAASB have recently published a staff paper on materiality and feel that this is indicative of the need for further guidance.

CPA Australia

We agree with the approach in ED-5000 for the practitioner to determine materiality (including performance materiality) for quantitative disclosures.

However, we have heard mixed views on the approach for the practitioner to consider materiality for qualitative disclosures. Some stakeholders are unclear how the practitioner can apply materiality for qualitative disclosures due to their inherent nature. Others are of the view that using the word 'consider' which is insufficient in addressing a fundamental concept of materiality in an assurance engagement and should be avoided (or should not be encouraged) where possible. Therefore, we recommend the IAASB replace 'consider' with 'assess' materiality for qualitative disclosures, providing a more balanced and appropriate approach that gives equal importance to both qualitative and quantitative disclosures.

Regardless of the term used ("consider" or "assess") for qualitative disclosures, stakeholders have significant concerns about the adequacy and depth the detail in ED-5000 in addressing materiality for qualitative disclosures. As outlined in our response to question 9, materiality can be very complex and a challenging area for assurance practitioners, and qualitative and quantitative materiality are not exclusive and should be assessed together.

Some of the key challenges that were identified in our outreach include:

aggregation and disaggregation of qualitative disclosures

how to accumulate misstatements across multiple areas/topics of disclosures to assess the overall impact of the assurance conclusion, including, what is considered pervasive, the line between an 'except for' and 'qualified' assurance opinion

how to deal with the entity and the practitioner disagreeing on materiality, specifically what additional procedures are required to resolve the disagreement

Consistent with our response to question 9, we strongly recommend the IAASB provide more examples in the standard to illustrate how the standard can be applied to challenging areas identified or develop supplementary resources in the form of guidance as the immediate/short-term solution in addressing the gaps in ED-5000. In the medium to longer term, we recommend the IAASB include the development of a separate ISSA for Materiality in the IAASB workplan as a matter of priority.

European Commission Platform on Sustainable (PSF)

The ISSA 5000 Explanatory Memorandum Section 1-F, paras. 68 states: "Materiality is a matter of professional judgment and is affected by the practitioner's perception of the information needs of intended users of the sustainability information."

The Platform is concerned about the capacity, skillset and need for extensive work for the assurance provider to fulfil this obligation, without further guidance and specification.

The quality of the external assurance will mostly depend on the competency and skills of the service provider. The Platform believes that all assurance service providers should demonstrate the necessary level of know how. ESG expertise is instrumental to the success of verification, not least to assess whether and the extent to an ESG indicator can be verified. For example, life-cycle emissions require sectoral and environmentally proven knowledge; or expertise in social areas namely on labour and human rights due diligence processes.

Providing assurance on sustainability reporting requires competences in both financial reporting and ESG matters.

Instituto Nacional de Contadores Públicos de Colombia (INCP)

As stated in answer to question 5, we consider that the materiality definition should be included, since only performance materiality is described. This definition must be broader since a sustainability assurance engagement requires—in many cases—a more qualitative evaluation rather than a quantitative one. Therefore, this must be related to the type of industry or relevant indicators for the entity that are in line with its nature, taking into account the opinions of internal and external stakeholders.

Malta Institute of Accountants (MIA)

Materiality in relation to qualitative disclosures necessitates further clarification. This also ties in to our other related comments under question 9.

South African Institute of Chartered Accountants (SAICA)

One of the key topics to be addressed more comprehensively in ED-5000 is the application of materiality. It is unclear in paragraph 91, for example, what the distinction is between “determining” quantitative materiality and “considering” qualitative materiality. Further, the IAASB’s use of the word “consider” in paragraph 91 (a) of ED-5000 creates the notion or impression that this is not a requirement. It is SAICA’s considered view that materiality is always “determined” irrespective of qualitative or quantitative subject matter, as this is needed for the conclusion/ opinion to reference “in all material respects.”

Given the varying nature of sustainability matters included within sustainability assurance engagements, it is suggested that the IAASB provide further guidance in respect of assessing misstatements identified in the sustainability information further to what is included in A398-403.

There are several concerns around the application of materiality including the need for clarity around the entity’s materiality process and the assurance practitioner’s materiality applied, the potential need for multiple materiality figures/measures for different types of sustainability information reported, how individual sustainability reporting frameworks deal with the concept of materiality, applying materiality to qualitative disclosures and how the auditor assesses the individual misstatements to form their overall assurance opinion/conclusion including any modifications. It is therefore suggested that the IAASB flag materiality as an area where further guidance and/or additional standards may be required to supplement this overarching standard.

12. Individuals and Others

Capitals Coalition

The entity will have past and future impacts on the world and some of these are impacts on investors in the form of financial returns. In addition, external factors will affect the entity’s ability to generate impacts, including financial returns. Each of these definitions could be relevant to different users with a different purpose.

It is not clear how the bifurcation of materiality into qualitative and quantitative disclosures is helpful because the exercise of judgement is not a function of the inherent nature of the information itself but for the context it is being used to make decisions and assess accountability.

Materiality appears to be used in two ways. Firstly whether information is relevant, i.e. is in scope of useful information for a purpose and meeting a level of certainty and secondly the risk that information that would affect decisions made against that purpose is missing, not faithfully represented (or non-relevant information has been included). An assessment that excludes information that is relevant and meets a level of uncertainty, although common practice, may affect decisions against the purpose and may affect an assessment of material misstatement.

If the scope addresses a subset of impacts from which there is then a process to first identify material impacts, the assurance practitioner will not be able to form an opinion on completeness without understanding the total set of sustainability related impacts, the total subset, their interdependency and the process behind the selection.

Without a common unit, the risk of material misstatement is likely to be assessed assuming a weighting process for topics or sub-topics or any other level of granularity. Whether information that has been assessed as not material would affect decisions relating to a purpose is unknown since it is possible that either the information once collected was material or its importance relative to other topics made it material.

Different levels of certainty may be required for information required for different scopes. The level of certainty should be informed by the stated purpose of the intended users, their approach to risk tolerance and that of those experiencing any impacts. Without this, decisions may be made which exceed the risk appetite or tolerance of those being affected by any decision. It will be difficult for an assurance provider to assess the risk of material misstatement or to develop a programme of work for an acceptable level of assurance risk without this understanding. If not addressed in the ED, the assurance provider may fall back on an assumed approach to risk being used in other standards, especially in financial audit.

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We recommend that a definition, or at the very least some examples, of a rational purpose is included.

Paragraph A171 refers to the possibility of considering a process. An assessment of completeness and fair presentation of the results of a process may also require direct engagement with those people expected to experience the consequences (impacts) and identification of criteria may require similar engagement or at least reference to the work of organisations that represent their interests.

We recommend that the requirement for appropriate stakeholder engagement with people affected is included in the process as well as a discussion of what would make this consideration a necessity rather than a possibility.

International Accreditation Forum (IAF)

ED-5000 does not specify criteria to be used by practitioners in taking a decision in the following situations:

The list of material topics identified by an entity are prioritized in a way that does not corresponds to the actual context.

A relevant material topic is omitted by the list of prioritized material topics

Performance materiality (practitioner materiality) - is included in paragraph 17 definitions section, but no link to main explanation in paragraph A283-285. No materiality level is stated, or indication of appropriate level, could include a suggested 5%, and/ or an upper materiality level of 10% (for quantitative data).

A506 - not clear why uncorrected material misstatements would be relevant her as this is for a qualified conclusion. If material misstatements existed, this would be an adverse not a qualified conclusion.

Human judgement of the assessor is not properly highlighted, and there is need for some further guidance on the approach rather than just the situations, in particular for qualitative materiality assessment (ref. A278-281).

It is not clear the benchmarks used for materiality, such as the use of revenue's X%, pre-tax net profit's X% or total asset's X%, under what conditions those benchmarks can be used as benchmarks for assessing materiality?

In addition, if the auditor obtains certain information during the audit process, and if such information will cause it to be materialistic in the audit planning to be different, will it be necessary to adjust and assess the materiality in a timely manner?

IAF recommends IAASB to specify standardized requirements for practitioner to take an appropriate decision in situation of mismatch between the material topics identified and prioritized by an entity and the real context of the entity.

Japan Accreditation Board (JAB)

JAB supports entities shall determine the materiality for qualitative disclosure.

JAB recommends to define the common criterion for assurance practitioners, accredited assurance bodies and all intended users, as to avoid the different outcome depended on the practitioners, accredited assurance bodies.

ED-5000 needs set the criterion for materiality assessment

Completeness of the list of material topics

Prioritized relevant material topics and the justification to the actual context.

Justification of the omitted by the list of prioritized material topics

World Wide Fund for Nature

The differentiated approach to materiality analysis for qualitative and quantitative elements places increased focus on quantitative elements of disclosures due to the strict language around such elements. While the determination of quantitative materiality considerations is consistent with more traditional approaches to assurance, it is important for sustainability assurance to go beyond such approaches and better include the role of qualitative elements in verifying overall coherence of sustainability disclosures. Indeed, due to the large number of topics covered in these disclosures, the interconnection between topics, the uncertainties

that exist in forward-looking sustainability analysis, and interconnection with financial and external elements, it is important that qualitative elements are determined material if they play a key role in the understanding of non-financial information. Moreover, significant risks exist for greenwashing practices within disclosed qualitative information: there is a possibility for entities to instrumentalize quantitative elements to feed a given narrative, and make claims that are more difficult to verify but may influence information users in decision-making around sustainability information.

We recommend that materiality for qualitative disclosures also be determined on the basis of the elements provided in ED-5000 paragraph A278. Moreover, the overall interconnection of information in extra-financial statements, their dependencies to internal and external factors, and the way in which quantitative and qualitative information inform the broader sustainability narrative of an entity should all be considered to determine the way in which aggregation of different elements may pose risks in terms of greenwashing.