

## Sustainability Assurance – Other Matters

This Agenda Item includes the analysis of comments received on Question 25 in the Explanatory Memorandum to ED-5000, and the related SATF views and recommendations. Two matters in particular were identified by the SATF for discussion with the Board in March:

- The connectivity between the sustainability information and the audited financial statements; and
- Other information.

The SATF will further discuss and consider the other matters noted by respondents in connection with the analysis of the remaining questions following the March 2024 IAASB meeting.

### What We Asked

1. Question 25 asked respondents:

*Are there any other matters you would like to raise in relation to ED-5000?*

91 of 143 respondents provided a response to Question 25, including three MG members. See **Agenda Item 3-I.15** for further details on the overall responses and **Agenda Item 3-J.15** for comments received.

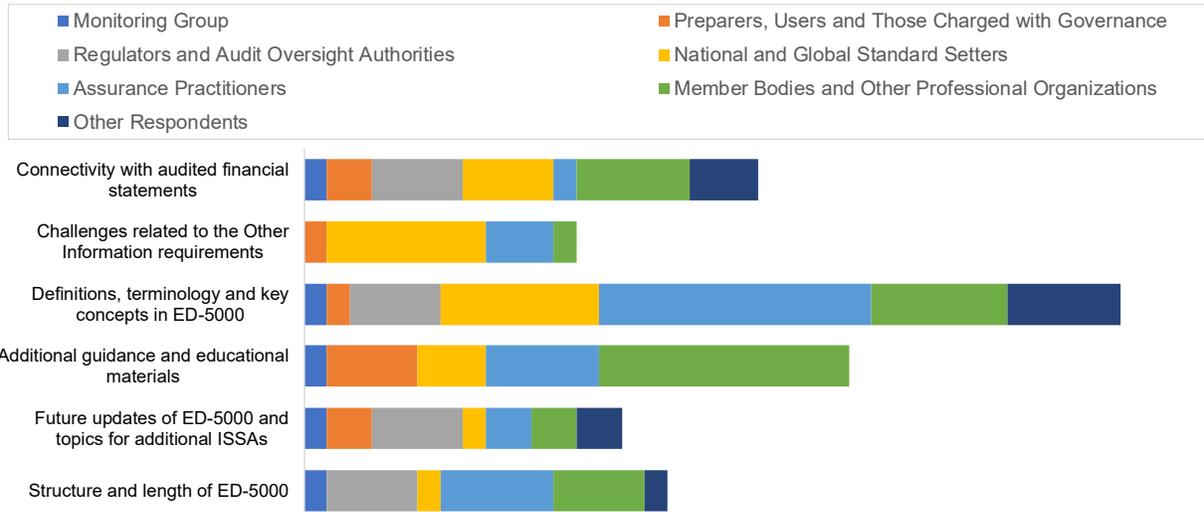
### What We Heard

#### **Highlights**

- Suggestions for a requirement for the practitioner to communicate with the auditor of the financial statements, unless prohibited by law or regulation.
- Challenges were noted arising from the requirements for the practitioner's responsibilities in relation to "other information." There were calls for additional clarity and guidance, and requests for the IAASB to consider whether ISA 720 (Revised) is the appropriate base on which to build the requirements for other information for sustainability assurance engagements.

2. The chart below shows a breakdown of the comments on Question 25 by theme and stakeholder group.

**Other Matters**



**Monitoring Group Comments**

3. One MG member noted the need to add a requirement for the communication between the sustainability assurance practitioner and the auditor of the financial statements, unless prohibited by law or regulations. This MG member noted that if law or regulation prohibits such communication, a requirement should be added for the assurance practitioner to consider the impact on the ability to accept or continue with the engagement.
4. One MG member highlighted that ED-5000 includes few references to the communication with regulatory authorities. This MG member noted that, in certain jurisdictions, the practitioner may be required, or have the right, to communicate with regulatory authorities and supported the inclusion of materials in ED-5000 to cover this area.
5. One MG member recommended that the IAASB carry out early implementation support and monitoring activities once ED-5000 is in effect. This will facilitate identifying practical challenges and evaluating whether ED-5000 is achieving its objectives.
6. Two MG members supported the continued coordination between IAASB and IESBA to ensure consistency in the use of definitions and terminology.
7. One MG member noted a number of other issues and provided recommendations on a number of matters, including:
  - Concerns that the lack of specific provisions on how to assess materiality will result in a wide variety of practices.
  - Encouragement for the IAASB to consider including requirements in proposed ISSA 5000 in relation to “Key Sustainability Assurance Matters” in the assurance report.
  - Support for adding further materials to the final standard and developing a specific standard in the future to deal with assurance over sustainability information in digital format.
  - Recommendations for the enhancement of certain concepts and terms in ED-5000.
  - Suggestion that the competency requirements for engagement leaders should be linked to

regulatory requirements.

### *Other Respondents' Comments*

#### Connectivity Between Sustainability Information and Audited Financial Statements

8. Consistent with the views of the MG member mentioned in paragraph 3 above, respondents highlighted the connectivity between the sustainability information being reported and the audited financial statements and the importance of communication between the sustainability assurance practitioner and the auditor of the financial statements.
9. Some respondents suggested the addition of a requirement for the practitioner to communicate with the auditor of the financial statements, if not prohibited by law or regulations. Other respondents called for further clarification and the development of guidance.
10. Other respondents noted the need for clarification and guidance on the procedures to be performed when reading the audited financial statements as part of the responsibilities for other information, also noting the need for the practitioner to understand the financial reporting frameworks (e.g., IFRS).

#### Challenges Related to the Other Information Requirements

11. Respondents highlighted a lack of clarity around what constitutes other information and the challenges in interpreting the requirements of ED-5000 concerning the responsibilities of the practitioner for the other information and called for additional implementation guidance. Some respondents highlighted the situation where the practitioner is also the auditor of the company's financial statements and requested the IAASB to consider how this may impact the statement in the assurance report that the practitioner's conclusion does not cover the other information (see paragraph 182(c) of **Agenda Item 3-H**).
12. Respondents (including one MG member) found that ED-5000 does not require the practitioner to communicate with the auditor of the entity's financial statements when the practitioner identifies inconsistencies between the sustainability information and the audited financial statements. These respondents stressed that with the evolving sustainability reporting requirements at the global level, financial and sustainability reporting are becoming integrated. Therefore, communication between practitioners and the auditors of the financial statements is essential to achieve consistency between the different reporting requirements.
13. Some respondents questioned whether ISA 720 (Revised)<sup>1</sup> was the appropriate base on which to develop the requirements in ED-5000 for other Information, highlighting the practical challenges and issues revealed by the post-implementation review conducted for ISA 720 (Revised).
14. Some respondents also questioned the requirement to include an Other Information section in the sustainability assurance report. Suggestions included following the requirements and guidance in ISAE 3000 (Revised)<sup>2</sup> or ISAE 3410.<sup>3</sup>

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<sup>1</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>2</sup> ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>3</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

## Other Matters

### Definitions, Terminology and Key Concepts in ED-5000

15. Some respondents emphasized the need for clarity, revision, or additional application material and implementation guidance to address concepts such as the value chain, group or “consolidated” sustainability information, materiality (including the concept of double materiality), and assurance skills and techniques.

### Additional Guidance and Educational Materials

16. Respondents supported the development of additional guidance and educational materials. Topics cited most often by respondents included group or “consolidated” sustainability information, value chain, materiality, the difference in work effort between limited and reasonable assurance and the accumulation and evaluation of misstatements.

### Future Updates of ED-5000 and Topics for Additional ISSAs

17. Some respondents provided suggestions for future updates as well as topics for additional standards in the ISSA suite:

#### *Future updates*

- Add provisions to address the assurance of sustainability information available in digital format.
- Update ISSA 5000 after conducting a post-implementation review and collecting practitioners’ feedback.

#### *Topics for future ISSAs*

- Estimates and forward-looking information
  - Using the work of other practitioners
  - Group/consolidated sustainability information
  - Materiality
  - Value chain
  - Revising ISAE 3410 as a separate standard under the ISSAs
18. Some respondents highlighted that ED-5000 was developed based on materials from other IAASB standards. These respondents asked the IAASB to provide clarity about the future of ISAE 3000 (Revised), ISAE 3410 and the EER Guidance.

### Structure and Length of ED-5000

19. Some respondents noted concerns about the length of the standard and the application material in particular, and the balance of examples in ED-5000, which mostly relate to quantitative disclosures.

### Implementation Considerations, Coordination and Editorials

20. Other matters mentioned by respondents included the following:
  - Transitional provisions for initial sustainability assurance engagements

- Competencies of the engagement leader and team members
- Coordination with IESBA and other standard setters
- Comments and editorial suggestions on specific paragraphs in ED-5000

#### *Observations from the Survey*

The survey asked respondents whether they had any other matters that they would like to raise in relation to ED-5000.

Matters identified were consistent with those mentioned by respondents to the exposure draft, including:

- Need for more clarification and guidance on topics such as value chain and materiality
- Structure and length of the standard
- Language in the standard being aimed more at professional accountants, and therefore not very practitioner-agnostic

#### **SATF Views and Recommendations**

21. The SATF noted that respondents' comments on Question 25 highlighted two matters in particular:
- (a) The connectivity between the sustainability information and the audited financial statements; and
  - (b) Other information.

#### Connectivity Between the Sustainability Information and the Audited Financial Statements

22. The SATF noted that the issue of connectivity between the practitioner and the auditor of the financial statements was mentioned most often in the context of responsibilities for other information.
23. The SATF is seeking the IAASB's views and direction on ways to address communication with the financial statement auditor, to inform further SATF discussions and revisions, if necessary, to proposed ISSA 5000 to be presented to the Board in June 2024. Specifically, the SATF considered whether:
- (a) A conditional requirement may be appropriate for the practitioner to communicate with the auditor of the entity's financial statements if a material inconsistency is identified between the sustainability information and the audited financial statements, when the financial statements are part of the other information under proposed ISSA 5000, or
  - (b) A broader requirement for communication with the financial statement auditor is appropriate.
24. The SATF noted that IESBA has included requirements in the exposure draft of the Proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (ED-IESSA) for the practitioner to consider whether to communicate non-compliance or suspected non-compliance to the sustainability assurance client's external auditor (see ED-IESSA paragraph R5360.18a). The IESBA has also included in the Other Revisions to the Code Relating to Sustainability Assurance and Reporting (ED-Revisions to the Code) a corresponding new requirement in Part 3 of the Code for the professional accountant in the audit of financial statements to consider communicating non-compliance or suspected non-compliance to the client's

practitioner(s) performing a sustainability assurance engagement (see ED-Revisions to the Code paragraph R360.18a). The SATF further noted that ED-IESSA provides an exception to the confidentiality requirements that allows the practitioner to disclose or use confidential information where there is a legal or professional duty or right to do so, or this is authorized by the sustainability assurance client unless prohibited by law or regulation (see ED-IESSA paragraph R5114.3).

#### Challenges Related to the Other Information Requirements

25. More broadly, the SATF acknowledged and discussed the concerns raised by respondents about the requirements in ED-5000 for other information, and whether the ISA 720 (Revised) model (including reporting requirements) is appropriate for sustainability assurance engagements, at least at this point in time.
26. The SATF is therefore seeking the IAASB's views and direction regarding whether ISA 720 (Revised) remains an appropriate basis for the requirements related to other information in proposed ISSA 5000, in view of comments received on exposure, including that following the requirements and guidance in ISAE 3000 (Revised) or ISAE 3410 may be more appropriate.

#### Other Matters

27. Respondents' comments on the other matters raised have been addressed in the related themes as follows:
  - (a) The definitions of sustainability matters, sustainability information and disclosures are addressed in **Agenda Item 3-B**.
  - (b) Key concepts, including the value chain, group or "consolidated" sustainability information, are addressed in **Agenda Item 3-E**.
  - (c) The need for additional guidance and educational materials has been addressed in the analysis of relevant questions in other Agenda Items.
28. Suggestions for future updates of ED-5000, as well as topics for additional standards in the ISSA suite, will be considered as part the IAASB's future strategy and work plan.
29. In addressing the length of the standard, the SATF has applied the approach of including only requirements and applicable material appropriate for an overarching standard. Guidance of an educational nature, or more specific guidance and examples on certain matters, can be included in the first-time implementation guidance or other guidance material (such as FAQs). Engagement-specific matters (e.g., materiality, estimates and forward-looking information) can be addressed in future standards.
30. Implementation considerations will be addressed following the approval of proposed ISSA 5000. Coordination with IESBA and other standard setters is ongoing throughout the development of ISSA 5000 (see **Agenda Item 3**). Editorial comments offered by respondents will be considered by the SATF in the first full draft of proposed ISSA 5000 to be presented to the Board in June.

**Matters for IAASB Consideration**

1. The IAASB is asked for its views and direction on:
  - (a) How best to address the connectivity between the sustainability information and audited financial statements, including communication between the practitioner and financial statement auditor (see paragraphs 22-24 above).
  - (b) Whether ISA 720 (Revised) remains an appropriate basis for the requirements related to other information in proposed ISSA 5000. If not, what specific suggestions or direction would the Board propose regarding the assurance practitioner’s responsibilities for the other information (see paragraphs 25-26 above)?