

Sustainability Assurance – Respondents’ Detailed Comments to EM Question 9

Does ED-5000 appropriately address the practitioner’s consideration of the entity’s “materiality process” to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?

9.2 Agree with comments

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee agrees with the IAASB that an entity’s materiality process to identify topics and aspects of topics to be reported is critical to determining whether their reporting complies with the requirements set by the relevant framework and entity-developed criteria.

We have identified specific areas where the requirements of the exposure draft could be clarified or strengthened:

In the Committee’s view, the practitioner “should” consider whether management’s process is appropriate to obtain a preliminary knowledge of the sustainability information expected to be reported (paragraph A156). It seems difficult to understand the information to be reported without considering the entity’s process for identifying that information.

The Committee believes that it would be helpful if the risk assessment guidance (paragraph A292) explicitly referred to the entity’s materiality process – as well as being relevant to determining whether preconditions are met, considering the process itself in addition to the results is very relevant to the requirements set out in paragraphs 94L and 94R. That guidance could include the consequences of an inadequate process or problematic outcomes for the practitioner, for example where the entity has not identified all material sustainability topics (ie consequences of increased risk of material misstatements).

International Forum of Independent Audit Regulators (IFIAR)

The entity’s process for determining materiality

Application material in ED-ISSA 5000 covers both the entity’s processes for determining materiality, and the way in which the assurance provider considers and determines materiality for the purposes of the assurance engagement. It would be helpful if this application was clearly separated by adding a header “entity’s materiality process”.

The importance of the materiality assessment of the preparer in the sustainability information should be emphasized. Relevance and reliability (in particular the attribute of completeness) are essential for sustainability information that assists decision-making by the intended users. As such, emphasis should be put on the procedures the practitioner is required to perform on the process by which the preparer identifies material information to be reported. To get a level of assurance that this process would not lead the preparer to disregard or omit (by error or fraud) material matters, clearer provisions are needed to define how the process for determining material matters should be examined by the practitioner. Guidelines are present in various places in ED-ISSA 5000, dealing with those as requirements and in a more streamlined and targeted manner is needed to support understandability, for example by grouping the provisions under a specific heading.

International Organization of Securities Commissions (IOSCO)

IOSCO welcomes the IAASB's Frequently Asked Questions (FAQ) on The Application of Materiality by the Entity and the Assurance Practitioner, published in October 2023 in response to stakeholder demand.

We generally support the approaches in the Proposed ISSA 5000 regarding the practitioner's consideration of the entity's "materiality process"

2. Preparer and Users of sustainability information

Ceres, Inc.

Although we generally agree with ED-5000's treatment of the entity's "materiality process," we are uncertain of the meaning and significance of the sentence in paragraph 55 stating that "the engagement may not have a rational purpose if, for example, the scope of the engagement includes only part of the sustainability information expected to be reported, and that would be misleading to intended users." Currently, many companies only obtain assurance on a portion of a report, such as on GHG emissions. Given the breadth of sustainability issues that companies disclose, and the wide range of maturity of reporting metrics for different sustainability issues, it seems likely that going forward companies may continue only to seek assurance on a portion of their sustainability reporting, which may be rational in some cases. Is the IAASB suggesting that this approach may be contrary to a "rational purpose"? Some additional clarity here would be helpful.

Corporate Reporting User's Forum (CRUF)

CRUF's View

Yes, with comments below

We have serious concerns on the sentence at the beginning of A275 of ED-5000 saying that "management's materiality process" differs from materiality considered or determined by the practitioner. We were concerned that this sentence may confuse the users if management and the assurance practitioner use the definition of materiality differently.

Materiality in financial and sustainability reporting is defined as a concept that determines whether omissions or misstatements of information would impact a reasonable user's decision making as stated in A271. We believe that the management and assurance practitioner should apply the same concept of materiality but the consequential materiality judgement could be different initially. We understand this initial difference would be eliminated to determine which sustainability information is material enough to be disclosed through the assurance engagement and the dialogue between management and assurance practitioners.

We raised this concern in the roundtable held on 5th October in Tokyo. We have found that the FAQ material published on 25 October 2023, "The Application of Materiality by the Entity and the Assurance Practitioner" addresses our concern directly and persuasively. We appreciate the IAASB's very prompt response to our concern and hope this clarification is reflected in the final ISSA 5000.

In the meantime, some CRUF members believe that any differences of materiality judgements should not necessarily be eliminated. They point out that it will be more important for users to know what the differences are and these should come out in the reporting, probably the assurance report. We generally

agree with their view that this type of information would be very useful if disclosed in the KAM-like disclosure of the assurance report in the future. Please also see our comments on Q22.

Link Asset Management Limited

While ED-5000 touches on the practitioner's evaluation of the entity's materiality process, it could be more detailed. The standard should provide criteria for assessing the materiality process, ensuring it comprehensively identifies significant sustainability topics and aligns with recognized sustainability frameworks for more meaningful disclosures.

MFI's Internal Audit ESG Working Group

It is not clear how materiality is being determined, and it seems to be subject to interpretation.

Detailed comments (if any): Linked to comment #1 i.e., clarify definition of sustainability/sustainability development as this will help set the context in setting the information requirement and scoping of an sustainability information assurance engagement.

4. Regulators and Audit Oversight Authorities

Accounting and Auditing Board of Ethiopia

We suggest the use of "process to identify reporting topics," only instead of using the three phrases interchangeably. Because this may create confusion.

European Securities and Markets Authority (ESMA)

Practitioner's consideration of the entity's "materiality process" (Q9) and differences between preparers' and practitioners' consideration to materiality (Q11)

The assessment of materiality – or double materiality in the CSRD context – is a fundamental aspect for the preparer of the sustainability information. As the (double) materiality determination by the preparer is a critical component to be scrutinised during the assurance engagement, ESMA considers that ED-5000 could be enhanced by incorporating further requirements for the practitioner to understand and scrutinise the process followed by the preparer to define and identify information to be reported following the (double) materiality perspective. In particular, it is crucial that ED-5000 better describes the practitioner's work to be performed on the process and associated internal controls put in place by the preparer in this area.

ED-5000 would also benefit from further clarifying that the concept of "materiality" in the context of the sustainability information to be reported by the preparer ("double materiality" in the CSRD context) is different from the concept of "materiality" in the context of an assurance engagement which is based on the notion of the absence of material misstatement in the sustainability information.

Irish Auditing and Accounting Supervisory Authority (IAASA)

The importance of the preparer's materiality assessment should be emphasized. Relevance and reliability (particularly, the attribute of completeness) are essential for sustainability information that assists decision-making by the intended users. Consequently, the standard should clearly identify the procedures the practitioner is required to perform on the preparer's process to identify the material information to be reported. While there are some provisions on this topic in ISSA 5000, it would be helpful to include them in as requirements in a more streamlined and targeted manner to enhance understandability and consistency of approach by practitioners.

The application material in ED-ISSA 5000 covers both the entity's processes for determining materiality and how the assurance provider considers and determines materiality for the purposes of the assurance engagement. It would be helpful to clearly distinguish between these two topics, for example through the use of appropriate headings in the application material.

5. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Comments as per Question 8 above – both questions have been dealt with together.

Comite Brasileiro de Sustentabilidade (CBPS)

The distinction between the process of identifying material issues by management ("management's materiality process) and the process of defining materiality by the auditor is clear in ED-5000 (under paragraph A275). Nevertheless, we consider that additional details on how the assurance practitioner shall evaluate the preparer's materiality process is necessary. In particular, we suggest that paragraphs 97 and 98 of ED-5000 are amended to provide detailed guidance on these procedures, so that there are minimum requirements for the evaluation of this process, regardless the sustainability framework used by management.

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

We understand that ISSA 5000 covers the whole process of producing sustainable information and not just the information itself, but this point should be expressed more explicitly, as mentioned in our response to question 5.

In addition, we believe that the standard should further clarify the nature and extent of the procedures to be performed on the materiality assessment process.

We appreciate the issuance by the IAASB of the FAQs on ED-5000: The Application of Materiality by the Entity and the Assurance Practitioner. These FAQs however should be updated to align with final ISSA 5000 when it is issued and the content of the FAQs also should be embedded into the EER Guidance, when revised.

We do not believe that the statement made in paragraph 52 of the EM, "the entity's process to select sustainability matters to be reported may be straightforward (e.g., when the reporting topics are specified by the criteria, such as under law and regulation)" is correct. Even when the criteria are defined in law and regulation, which will be the situation with ESRS in Europe, how the company will apply the materiality process will probably not be straightforward, will involve judgment and will be specific to the entity and its activity and organization.

New Zealand Auditing and Assurance Standards Board

The NZAuASB supports a proportionate approach in obtaining a preliminary knowledge of the engagement circumstances at the pre-engagement stage. However, it is important that the practitioner has enough information about what is expected to be reported and how the entity went about making that judgement, how the entity will measure or evaluate the information and context about the entity and the condition of the relevant environmental, social, economic, or cultural context of what is to be reported on. Understanding the

entity's processes and the sustainability information to be disclosed and assured is fundamental to the initial planning of the engagement.

We found the application material in A157 confusing. Referencing the assurance practitioner's materiality judgement at the pre-engagement stage is unhelpful. We recommend that different application material be developed to assist the practitioner to obtain enough preliminary knowledge to be able to make the engagement acceptance decision.

Paragraphs A156 and A157 acknowledge that there may be a something in the reporting framework or the entity's own process about "what" and "how" to report. In our domestic project on service performance information, we added more application material to prompt the practitioner to gain a better preliminary understanding, noting that this is likely to be an iterative process. Prompts may include asking the client:

how the entity is applying the qualitative characteristics of the reporting framework and the characteristics of suitable criteria, especially where criteria may be entity developed.

whether users or stakeholders were involved in the selection of what and how to report.

what information does the entity have to support what it will report.

how and where does the entity plan to present and disclose its information.

what laws or regulatory requirements are there for the information being reported

is there any information not reported that should have been due to difficulties in obtaining the information.

Public Accountants and Auditors Board Zimbabwe (PAAB)

The PAAB believes that framework may be proposed by the IAASB as a guideline to ensure uniformity and understandability (since this is a topic in its relative infancy) as materiality is inherently more challenging to determine as opposed to financial information. The practitioner will have to summon appropriate judgment, evaluate risks, avoid subjective bias and obtain a thorough understanding of the scope and nature of the engagement.

7. Accounting Firms

Altaf Noor Ali Chartered Accountants

9.1 Yes.

9.2 Use of the term 'materiality process' creates confusion when there may be two other types of 'materiality'. One is the concept of 'double materiality' and the other is simple 'materiality' from which 'performance materiality' is derived. Materiality is the threshold of significance to user decision making in relation to the potential and identified misstatement considered by the practitioner.

9.3 The Practitioner evaluates the scope of the sustainability information expected to be reported. The Explanatory Memorandum adds: 'the extent of preliminary knowledge needed in paragraph 69 of ED-5000 would be limited to what is sufficient for acceptance or continuance of the engagement'. Is this so stated in the ED?

9.4 The question of the topics and the aspects of topic would arise only when there is no reporting framework given in the laws and regulations in a jurisdiction. We remain aware that even in such situation, the question of proper interpretation of law remains.

9.5 The requirement is to specifically consider the scope of the engagement at the preliminary knowledge stage. Evaluate if the engagement exhibits a rational purpose. If not, that would be misleading for the intended users. Example: scope-limitation equivalent in the audit where only part of the sustainability information is expected to be reported.

BDO International Limited

In general, ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. However, there are certain aspects we would like to draw your attention to:

ED-5000 is relatively brief on the entity's materiality process to identify topics and aspects of topics to be reported, especially if the criteria is internally developed or developed by management. We recommend that more guidance is added relating to the entity's materiality process when the reporting topics are not specified by widely accepted criteria or criteria under law or regulation.

Paragraphs A156 and A157 are included in the section relating to obtaining a preliminary knowledge of the sustainability information expected to be reported and are thus part of the preconditions for an assurance engagement. As this occurs before acceptance of an engagement, we recommend clarifying the extent of work to be performed by the practitioner in considering the entity's materiality process.

Ernst & Young Global Limited

We believe that ED-5000 appropriately addresses the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. We also believe that it is important that ED-5000 remain framework neutral in order to be globally operable and adaptable to the different conditions prevalent in different jurisdictions. However, as stated in our response to Q8, some aspects of the preliminary knowledge may be difficult to obtain before the acceptance of the engagement, especially when the entity is preparing the sustainability information for the first time in accordance with a given criteria. An example of this includes obtaining a detailed understanding of the materiality process that the entity will apply, as this materiality process may still be under development.

We do not believe that the statement made in paragraph 52 of the EM, "the entity's process to select sustainability matters to be reported may be straightforward (e.g., when the reporting topics are specified by the criteria, such as under law and regulation)" is correct. Even when the criteria are defined in law and regulation, which will be the situation with ESRS in Europe, how the entity will apply the materiality process will probably not be straightforward, will involve judgment and will be specific to the entity and its activity and organization.

We appreciate the issuance by the IAASB of the FAQs on ED-5000: The Application of Materiality by the Entity and the Assurance Practitioner. These FAQs however should be updated to align with final ISSA 5000 when it is issued and the content of the FAQs also should be embedded into the EER Guidance, when revised.

KPMG International

Overall, we believe that ED-5000 does appropriately address the practitioners consideration of the entity's "materiality process". We consider that this is a critical part of the assurance engagement, and we are supportive of the development of sustainability-specific requirements and guidance to address this area. In particular, we welcome the requirements at paragraphs 69 and 70 for the practitioner to obtain a preliminary knowledge of the sustainability information expected to be reported, and to evaluate whether management has a reasonable basis for the sustainability information, with related application material.

However, we have certain concerns regarding the approach taken by ED-5000, particularly that such considerations are addressed explicitly within the Preconditions for an Assurance Engagement section of the proposed standard, whereas we believe a preliminary understanding would be obtained at this stage, and that understanding would be developed further when designing and performing risk procedures. Accordingly, we set out certain recommendations below to enhance or improve the clarity of ED-5000 itself, as well as to develop accompanying guidance.

Clarify the extent of understanding required in the Preconditions for an Assurance Engagement section versus the Risk Procedure sections of the proposed standard

We highlight that the extent of understanding that the practitioner would need to obtain in order to make the evaluation required at paragraph 70 would likely need to be more detailed than would be expected to be obtained from a preliminary understanding. We note that the application material at paragraph A162 describes how this may involve consideration as to “whether the entity has a formal process with robust controls to enable the preparation of the sustainability information that is free from material misstatement”, which appears to go beyond what would be required to determine that management has a “reasonable basis” for the sustainability information. Accordingly, we recommend that the Preconditions for an Assurance Engagement section of the standard include pared back requirements and application material that would be more aligned to determining that management has a “reasonable basis” for the sustainability information, and that there be an explicit requirement, within the Risk Procedures section of the standard, for the practitioner to understand management’s “materiality process”, where applicable, which would build on this preliminary understanding of management’s process. We consider this to be important in light of the fact that the entity’s “materiality process” is a key feature of a number of sustainability reporting frameworks, and that certain frameworks may require practitioners to conclude explicitly in respect of the entity’s “materiality process”. For example, we suggest that such reference be made within the requirements at paragraphs 98-99, and also within 102L and 102R in respect of understanding the entity’s system of internal control, with related application material to guide practitioners as to factors to consider. These factors may include:

Developing an understanding of intended users and their information needs;

Consideration of the reporting framework criteria, and whether these have been applied appropriately, including with respect to the intention of the relevant requirement, and including consideration of matters such as scope outs/limitations;

Consideration of management bias and fraud risks in this area, and, therefore, the need for the practitioner to exercise professional skepticism and professional judgement.

Clarify that understanding the entity’s materiality process is a two-step exercise

In connection with the above, we recommend that the practitioner’s required understanding of the entity’s “materiality process” be more clearly addressed within the standard as a two-step exercise, i.e. understanding management’s process to determine topics and aspects of topics about which to report, as a first step, and understanding management’s process to determine/develop the information to include in the form of disclosures about such topics and aspects of topics, as a second step. We consider that addressing this as a two-step process would be clearer for practitioners, and would provide practitioners with a more appropriate basis to identify and assess risks of material misstatement. It would also be more closely aligned to the criteria set out within certain of the established frameworks, which are focused on the identification of sustainability-related risks and opportunities, with less prescriptive direction in terms of the information to report about these risks and opportunities.

Clarify the extent of understanding required in the Preconditions for an Assurance Engagement section versus the Risk Procedure sections of the proposed standard (continued)

Accordingly, we also recommend that the preliminary understanding of the practitioner, when determining whether the preconditions for an assurance engagement are present, be more clearly directed at a higher-level understanding focused on the topics and aspects of topics about which to report, and the reporting boundary. We also recommend that a more detailed understanding be obtained at the planning/risk assessment stage, which would build on the preliminary knowledge and focus on management's process to develop the sustainability information itself. These risk assessment procedures would include obtaining a more in-depth understanding of the intended users and their information needs, as well as an understanding of the requirements or principles set out in the applicable criteria in this regard. This understanding may involve:

More detailed procedures, such as more in-depth inquiry of relevant parties;

Reading stakeholder engagement studies that have been conducted;

Evaluating the work of a management's expert, if one has been involved, e.g., to assist management in identifying the intended users and their needs;

Considering qualitative factors to identify aspects of the sustainability information that may be more significant to different intended users;

Considering whether the extent of aggregation/disaggregation and grouping of the disclosures is appropriate; and

Understanding management's system of internal control over the development of the sustainability information.

Application material, e.g., at A268-A269, addresses aspects of the above, but not necessarily in the context of understanding/evaluating management's processes in this area. We also highlight that a two-step approach would be clearer in terms of where and why there is an overlap between preparer and practitioner considerations of "materiality", which is primarily regarding the disclosures about the topics and aspects of topics, and would help to improve understanding of this overlap. Please refer to our responses to Questions 11 and 12 regarding materiality and "double materiality".

Requirement for the practitioner to determine whether the requirements of the criteria (if any) regarding management's materiality process have been met

Furthermore, we refer to our comments elsewhere in this response regarding the consideration of the interlinkage of the preconditions, noting that considerations in respect of management's materiality process are connected to considerations as to whether the subject matter is appropriate, and whether the criteria are suitable. If the practitioner does not consider that the sustainability information would meet the information needs of intended users, this may indicate that the criteria are not suitable, or that there is not a rational purpose to the engagement. For example, where the reporting criteria are high level and are focused on topics/aspects of topics, the entity may need to develop their own criteria in respect of determining what information to report regarding these topics/aspects of topics. The practitioner would need to consider whether the criteria as a whole are suitable and whether they are described appropriately as part of the sustainability information, and whether they will be made available to the intended users. We highlight that the proposed standard does not make reference to the requirements of the criteria in terms of the entity's "materiality process" and we recommend that the standard explicitly require the practitioner to determine

whether the requirements set out within the criteria, if any, regarding management's materiality process, have been met.

Address conceptual differences across different sustainability reporting frameworks

In addition to the above, we recognise that the requirements and guidance in the proposed standard in respect of management's "materiality process" are high-level, appropriate to the standard as a principles-based, foundational standard, which is reporting framework-neutral.

However, we highlight that certain key reporting frameworks envisage an entity's materiality process as being either "process-based" (for example, dependent on consultation with users about their needs) or "outcome-based" (for example, dependent on whether a piece of information is expected to influence users' assessments of an entity's prospects sufficiently to influence their decisions) and we note that the practitioner would therefore focus on different aspects of management's process when evaluating each type. We recommend that the application material to ED-5000 or accompanying guidance (such as the EER Guidance) describe and discuss these conceptual differences in more detail, as examples of how reporting frameworks may address the materiality process, with illustrated examples of practitioner considerations and judgements in respect of each.

Clarify relationship of the materiality process to the concept and definition of "materiality"

Furthermore, we note that paragraph A157 also states that "the concept of materiality in this regard is not the same as the practitioner's materiality" and refers to the definition of materiality at paragraph 91 in respect of practitioners. We believe this statement may confuse practitioners and other stakeholders, as we consider that the concept of "materiality" for both preparers and practitioners is fundamentally based on the consideration of the information needs of the intended users for their decision-making purposes. Therefore, there is significant overlap between "materiality" applied by the entity both in identifying reporting topics/aspects of topics, particularly in developing the sustainability information in the form of disclosures about these topics/aspects of topics, and the application by practitioners of "materiality" in planning and performing the engagement and in evaluating whether the disclosures within the sustainability information are free from material misstatement. The entity's "materiality process" as described in the standard currently does not appear to envisage the second step of that process, i.e., the development of the information to be reported at a more granular level in the form of disclosures about the topics/aspects of topics, which is the level at which practitioners would identify and assess material misstatements. Accordingly, we recommend that the sentences which state that the concepts are different be clarified further, to explain instead the difference is in the granularity of the considerations, and that the second step of the entity's "materiality process" that we recommend addressing has significant overlap with the practitioner's application of the concept of "materiality" as opposed to these being fundamentally different concepts. We also note that the application material that is linked to paragraph 91, addressing the concept of "practitioner's materiality", may also be relevant and helpful to practitioners when considering the second step of the entity's materiality process, particularly the guidance regarding qualitative materiality considerations at paragraph A278, and we therefore suggest that such material is cross-referenced.

Requirement to evaluate management's materiality process at the "stand back" stage of the engagement

We also recommend that, in addition to the evaluations of management's materiality process when determining whether the preconditions for an assurance engagement are present and when designing and performing risk procedures, the practitioner evaluate management's materiality process at the "stand back" stage of the engagement, as we consider this to be a fundamental aspect of the engagement and it involves highly iterative considerations.

MNP LLP

Refer to our response in question 11 on how the standard should address situations where the reporter uses double materiality to identify topics and aspects of topics to report.

Mo Chartered Accountants (Zimbabwe)

Materiality is inherently more challenging to determine as opposed to financial information. The practitioner will have to summon appropriate judgment, evaluate risks, avoid subjective bias and obtain a thorough understanding of the scope and nature of the engagement. A framework may be proposed by the IAASB as a guideline to ensure uniformity and understandability (since this is a topic in its relative infancy). The standalone explanatory document on materiality is helpful but additional practical examples and considerations will provide a clearer basis of understanding and ease of application.

RSM International

We suggest that the IAASB include the following from paragraph 52 of the Explanatory Memorandum to clarify the intent and effort required in obtaining the understanding in paragraph A157 of ED-5000: 'understanding the entity's process to identify topics and aspects of topics to be reported, and the reporting boundaries, is critical to determining whether the reporting complies with certain frameworks or entity-developed criteria.'

We also suggest that the IAASB clarify the extent of understanding obtained as a precondition and the extent the practitioner builds on the preliminary knowledge during the engagement by adding the following from paragraph 53 of the Explanatory Memorandum to paragraph A157 of ED-5000: 'the extent of the preliminary knowledge needed in paragraph 69 of ED-5000 would be limited to what is sufficient for acceptance for continuance of the engagement. The practitioner builds on the preliminary knowledge throughout the engagement.'

The revised paragraph A157 of ED-5000 would read as follows (bold, underlined text indicates the added language):

Understanding the entity's process to identify topics and aspects of topics to be reported and the reporting boundaries is critical to determining whether the reporting complies with certain frameworks or entity-developed criteria. The entity's process to identify and select topics and aspects of topics to be reported may be established by management or applied pursuant to the requirements of a sustainability reporting framework. Such a process may often be referred to as the "process to identify reporting topics," "materiality assessment," or "materiality process", among other terms. However, the concept of materiality in this regard is not the same as the practitioner's materiality. For the purposes of this ISSA, materiality refers only to a threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement (see paragraph 91). The extent of the preliminary knowledge needed in paragraph 69 would be limited to what is sufficient for acceptance for continuance of the engagement. The practitioner builds on the preliminary knowledge throughout the engagement.

We believe it would be useful to clarify that certain jurisdictions may require the practitioner to challenge the materiality process applied by the entity, so procedures performed may go beyond just understanding the process.

8. Assurance Practitioner or Firm - Other Profession

ERM Certification and Verification Services Limited

In direct response to the question, 'yes' with no comments; however, we have a comment regarding A272 as referenced under Materiality Para 91. Usually, the sustainability information subject to the assurance engagement addresses the information needs of various users and stakeholders. Sustainability information that is subject to assurance is usually within the public domain, and there are intended and unintended users of the sustainability information. As such, one should consider the broadest set of users. For example, section 2.4 of GRI 1: Foundation 2021 describes stakeholders as 'individuals or groups that have interests that are affected or could be affected by an organization's activities.' The GRI Standard expects organizations to prepare their disclosures covering material topics that have been determined through a specific materiality determination process. Examples of stakeholders (intended users) of ONE disclosure and Assurance Report include: customers, suppliers, employees, prospective employees, community/society, regulators, shareholders/investors.

Another example is within Corporate Sustainability Reporting Directive (CSRD), where organizations are required to undertake a 'double materiality' assessment process to determine which reporting standards, disclosures and data points should be included in their sustainability reporting.

As such, please remove the following inaccurate statement which is found at the end of A272:

'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 widely, is not ordinarily considered.

We also suggest a correction to A273. Related to the above, current and accepted practice in conducting a materiality assessment process includes management as ONE of the many stakeholders in the process (please see comment above):

As such, please remove the bolded language and add the green language:

A273. The applicable criteria may include principles to assist the entity in identifying information relevant to users, which may include terms that refer to materiality. Such principles or terms, if present in the applicable criteria, may provide a frame of reference to the practitioner in considering or determining materiality for the engagement. However, the process applied by the entity to determine the sustainability matters to be reported, are often referred to as the entity's "process to identify reporting topics," "materiality assessment," or "materiality process," and relates to management's determination of the topics and aspects of topics that may be relevant for intended users.

10. Member Bodies and Other Professional Organizations

ACTEO AFEP MEDEF

The materiality concept is very well explained in the ED-5000, illustrating the different approaches of financial, impact and double materiality. It also describes how the concept is applied both by the practitioner and the preparer. However, the connection between the two applications, by the preparer on the one hand, and by the practitioner on the other hand, is not sufficiently clear.

Indeed, the materiality assessment process performed by the preparer is of fundamental importance because it determines the scope of the assurance engagement. All EU companies subject to ESRS will

have to disclose the description of methodologies and assumptions allowing them to identify and assess their material risk, impacts and opportunities (materiality assessment process). This process will also be subject to a limited assurance statement by the practitioner.

Although the materiality assessment is addressed in different parts of the ED-5000, the language is too vague and not explicit enough on the procedures the practitioner will have to perform in this context.

§ 69a ED simply indicates, as a precondition for an assurance engagement, and in conjunction with A156 ED, that the practitioner may consider “whether the topics and aspects of topics to be reported have been or will be determined by management through an appropriate process”.

ED-5000 should be more specific, clarifying that the assurance engagement also explicitly concerns the performance of the materiality assessment by the preparer and which procedures will have to be conducted in this respect. French companies consider in this respect that the practitioner should express an opinion only on the robustness of the materiality analysis process, but not on the relevance of the selected or discarded topics of reporting.

ASSIREVI – Association of the Italian audit firms

We agree with the approach set out in ED-5000 for the practitioner's assessment of the entity's materiality process as part of their activities to acquire a preliminary knowledge of the engagement circumstances.

However, given the importance of the materiality assessment performed by the preparer for sustainability reporting purposes, this aspect should be dealt with in greater detail in the ED in order to provide clarity to the practitioner about the procedures to be adopted to evaluate how the assessment was performed and how the entity included its results when preparing the sustainability report. Specifically, such procedures should be performed during the risk assessment process, when the practitioner is required to understand the entity's system of internal control relevant for the preparation of the sustainability information. We recommend that the standard include in the 102L and 102R requirements specific guidance about this issue, with the related application material to guide the practitioner about the factors to be considered, including the understanding of the intended users and their information requirements, consideration of the reporting criteria and how they are applied by the preparer, given the need to also consider management bias, fraud risks and the practitioner's exercise of professional judgement and maintenance of professional skepticism.

Chamber of Financial Auditors of Romania (CAFR)

We appreciate IAASB's effort to strike a balance, avoiding imposing overly burdensome requirements on practitioners prior to the acceptance or continuation of an engagement. Limiting the preliminary knowledge to what's necessary for engagement acceptance aligns with efficiency in the engagement process.

Differentiation between terms like "materiality process" and "materiality considered by the practitioner" avoids confusion and ensures a clear understanding of each concept's role within the assurance engagement.

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

The application material refers to the entity's process to identify and select topics and aspects of topics to be reported may be established by management or applied pursuant to the requirements of a sustainability reporting in a number of different ways. While we acknowledge that different reporting frameworks use different terminology for this process, it would be simpler for the standard to simply define the term once and

use that term consistently. Guidance may be provided on common terminology for this process in established reporting frameworks. On review of the recently published Materiality FAQs, we commend the IAASB for developing a much-needed clarification on the application of materiality and the associated materiality process for the entity in sustainability assurance engagements. We agree the 'bi-furcated' approach is appropriate because it is impracticable for practitioners to determine materiality for qualitative disclosures given the nature of those disclosures, and 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. Specifically in relation to the materiality process, we suggest that further practical examples be provided to assist practitioners in applying these materiality principles consistently across different sectors and entities.

Chartered Accountants Ireland

The requirement for the practitioner to consider the entity's materiality process as part of the pre-conditions is relatively clear in the application guidance but we feel it should also be referred to in the standard itself in paragraph 69.

In addition, we would welcome additional guidance on how to perform an assessment of the entity's materiality process, including the assessment of both quantitative and qualitative materiality considerations. In certain types of engagement, the entity's materiality process will determine the sustainability information to be reported under the applicable sustainability framework. The materiality process should be subject to procedures during the engagement not just at the acceptance stage.

Following an assessment of the entity's materiality process, it is unclear what the practitioner should do and report in the situation where they have disagreements on the entity's materiality process or identified weaknesses (i.e., when an error is identified, how do you accumulate and what additional considerations are required from the practitioner).

We would suggest that perhaps guidance from the recently issued FAQ ("Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner") be imbedded in the standard itself, as it addresses the assurance practitioner's consideration of the entity's materiality process throughout the engagement.

Chartered Professional Accountants of Canada (CPAC)

In our outreach there were a number of questions related to materiality determinations that will be conducted both by the entity and the practitioner, across the standard. We believe this is an area where education is needed for preparers, as well as related guidance for practitioners. We also think there is a need for further field testing in this area to determine challenges faced by practitioners. See comments included in question 12 below.

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

We concur that the understanding of materiality for the entity in identifying topics to be reported is fundamental for practitioners providing sustainability assurance. However, it's important to recognize that the entity's materiality process represents the crucial step in determining what information is material for disclosure. Reviewing this process and associated documentation is a valuable component of the practitioner's risk assessment. By doing so, the practitioner can gain insights into the entity's engagement with its stakeholders and its broader due diligence practices, providing a deeper understanding of the entity's approach to sustainability reporting. This understanding, in turn, enhances the practitioner's ability to identify potential disclosures where material misstatements are likely to occur or to assess the risks of

material misstatement at the assertion level for these disclosures. In other words, the practitioner's assessment of the entity's materiality process can help focus assurance efforts on areas that are more likely to present material misstatements. Consequently, we recommend that the practitioner should be mandated to obtain a thorough understanding of the entity's materiality assessment process during the planning stage of sustainability assurance. Some guidance on this subject matter would be very useful to practitioners.

To illustrate the difference in materiality between a firm and the practitioner, consider the following example: A company may consider its greenhouse gas emissions as immaterial for disclosure because they represent a small fraction of the overall environmental impact. However, from a broader societal perspective and in the context of climate change concerns, these emissions might be highly material to stakeholders and investors. In this case, the practitioner's materiality assessment would likely prioritize the greenhouse gas emissions as a topic for assurance due to the potential impact on the sustainability report's users, despite the entity's different perspective. This example underscores the need for practitioners to consider the broader context and stakeholder expectations when determining materiality for assurance engagements on sustainability reports.

European Federation of Accountants and Auditors for SMEs (EFEAA)

We believe ED-5000 appropriately addresses the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported.

When the ED was first issued, we had concerns that there might be confusion between the materiality assessment by the entity and the consideration of materiality by the assurance practitioner. These concerns have largely been alleviated by the IAASB issuing the FAQs Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner. Notwithstanding this, the terminology used in this area may still pose scalability challenges for those working with SME clients. SMEs may not have a formal "materiality process" and their management have limited or no understanding of the concept.

We note that the IAASB considered whether understanding the materiality process would form part of the practitioner's preliminary knowledge of the engagement circumstances and concluded that the entity's process could be addressed in the application material (see paragraphs A156-A157). The FAQs stress that there is no single evaluation of the "materiality process". Rather, the practitioner obtains evidence about the entity's "materiality process" at various times throughout the assurance engagement. We support the approach in the ED-5000 and welcome this guidance.

Institute of Chartered Accountants of Ghana

Yes. The guidance considers both qualitative and quantitative. ED paras. A278 – A285 are most informative. However, the suggestion is for the IAASB to provide continuing guidance in the form of regularly updated application material to assist PAOs and practitioners, especially in developing and emerging jurisdictions to address this area due to the evolution and dynamism of sustainability reporting frameworks and criteria (paragraphs A156-A157 of ED-5000, Explanatory Memorandum Section 1-F, paras. 55).

Institute of Chartered Accountants of Pakistan (ICAP)

We understand that more guidance/application material is needed for the practitioner to get to know the entity's process to identify disclosure of material reporting topics/aspects of topics, materiality assessment and materiality process, considering the criticality of the matters for the practitioner to determine whether the reporting complies with the certain frameworks /entity-developed criteria.

Institute of Chartered Accountants of Sri Lanka

It is vital that preparers and users understand the materiality process and how to apply it in practice. Further, the type of materiality needs more guidance and selection of the method would need to be validated. Therefore, a more detailed guide for preparers to follow when assessing materiality in relation to this regard is required.

Further, as stated in our response to Q8, some aspects of the preliminary knowledge may be difficult to obtain before the acceptance of the engagement, especially when the entity is preparing the sustainability information for the first time in accordance with a given criteria. An example of this includes obtaining a detailed understanding of the materiality process that the entity will apply, as this materiality process may still be under development.

Instituto de Auditoria Independente do Brasil - Ibracon

In general, ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. However, the standard is relatively brief on the entity's materiality process to identify topics and aspects of topics to be reported, especially if the criteria is internally developed or developed by management.

Instituto Mexicano de Contadores Publicos (IMCP)

We agree and support the content of proposed ISSA 500 regarding this topic. The understanding of the reporting framework should be emphasized in the proposed standard to assist practitioners with these considerations and make the linkage to the concept of rational purpose.

International Federation of Accountants (IFAC)

We note the distinction made between the entity's process to select and identify topics for reporting (entity materiality) and practitioner's materiality, and we agree with the basis of such a distinction being made. However, where assurance is being provided, the practitioner's consideration of user's decision making when reporting (i.e., practitioner materiality) would incorporate consideration of material omission—perhaps making the entity's materiality consideration a factor in the practitioner's materiality. It would be useful for some clarification of this relationship to be included within ISSA 5000 or application guidance.

The terminology used in relation to this area may also create challenges for those working with SME clients, who may not have a formal 'materiality process' while the term would not be understood or used by management informally either. This may create some scalability challenges for small entities and those providing assurance services to them.

Pan African Federation of Accountants

The importance of the materiality assessment of the preparer in sustainability information should be emphasised. Relevance and reliability (particularly the attribute of completeness) are essential for sustainability information that can assist decision-making by the intended users. As such, emphasis should be put on the procedures the practitioner is required to perform on the process by which the preparer identifies the material information to be reported. To get a level of assurance that this process will not lead the preparer to disregard or omit (by error or fraud) material matters, clearer provisions are needed to define how the practitioner should examine the process for determining material matters. Though there are guidelines in various places in ED-5000 that deal with those as requirements, a more streamlined and targeted manner is needed to support understandability, for example, by grouping the provisions under a specific heading.

In ED-5000, it is clear that the process the client undertakes needs to be considered in the practitioner's determination of the assurance approach. However, caution should be exercised in the amount of emphasis that is placed on the client's materiality process, so as not to confuse the "materiality" set by the assurance practitioner for evaluating the misstatements identified with the process undertaken by the client. Rather, the standard should clearly distinguish management's materiality process from that of the practitioner. In this regard, we suggest that ED-5000 should not reference "double materiality", as the IAASB's standards are framework neutral.

The application material in ED-5000 covers both the entity's processes for determining materiality and the way in which the assurance practitioner considers and determines materiality for the purposes of the assurance engagement. As stated above, it would be helpful if this application was clearly separated by adding a header such as "Entity's Materiality Process".

Saudi Organization for Chartered and Professional Accountants (SOCPA)

SOCPA believes ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. However, ED-5000 could be improved by providing more specific guidance on how the practitioner should consider the entity's materiality process. For example, ED-5000 could provide guidance on the following:

How to identify the entity's sustainability objectives and strategies.

How to identify and assess the entity's sustainability risks and opportunities.

How to consider the needs of the intended users of the sustainability information.

This guidance would help practitioners ensure that they are identifying the sustainability information that is most relevant and useful to the intended users, and that they are doing so in a consistent and transparent manner. Additionally, more specific examples related to sustainability's topics and aspects of topics (as those limitedly used in para A.277 and A.278; "food or drug safety", "hazardous waste spill") could add to the readability of ED-5000 requirements and application materials in relation to the materiality process.

Virginia Society of CPAs

Yes. However, it would be prudent to use and define a different term to avoid confusion with the traditional materiality process in a financial statement audit.

World Federation of Exchanges

The guidance provided is helpful in terms of making sure the standards are applicable to a wide range of entities. There is a little concern around the proposed definition of materiality; examples of qualitative and quantitative factors are a helpful guide.

Clarification would be helpful around whether materiality is to be used for defining what content the preparer should report to investors or for defining what the assurance scope is.

11. Academics

Deakin University

In our view ED-5000 appropriately addresses the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. We believe that the application guidance in ISSA 5000 should include an example of how to evaluate a description of the materiality process (which will

always in itself be material and therefore described as part of the description of a business) in a basis of preparation in a report containing a whole or partial description of a business and sustainability-related financial and other metrics (determined through a standard or self-determined). The Deakin Integrated Reporting Centre offers to draft this example for the IAASB.

In our view, the Integrated Reporting Framework provides a sound basis for a materiality determination process and its description in a report containing a description of the business. The Framework itself does not need to be mentioned in ISSA 5000. Rather, the way in which this is approached in the Framework can be included in an example in non-framework specific terms. Materiality is defined in the Integrated Reporting Framework:

The primary intended audience of an integrated report is providers of financial capital. A matter is material if it could substantively affect the organisation's ability to create value in the short, medium and long term. This is equivalent to the definition of material in IFRS Sustainability Disclosure Standard S1.

Paragraph 2.2 of the Integrated Reporting Framework notes that value is not created by or within an organisation alone. It is influenced by the external environment; created through relationships with stakeholders; and is dependent on various resources.

Paragraph 4.43 of the Integrated Reporting Framework requires that an integrated report include a summary of the organisation's materiality determination process in its Basis of Preparation and Presentation under paragraph 4.41 and key judgements, including a brief description of the process ('materiality process' in ISSA 5000) used to:

determine material matters,
evaluate their importance, and
narrow them down to material matters.

Delivering an assurance report expressed in terms of both IFRS Sustainability Disclosure Standards S1 and S2 and GRI Standards will require that the assurance practitioner is able to distinguish between S1 / S2 and GRI disclosures.

2. Individuals and Others

We Mean Business Coalition

From whose perspective? This is the question at the crux of all materiality assessments. Which stakeholders must be included to identify the relevant topics, especially for impact materiality? How will/should the practitioner evaluate whether all relevant stakeholders have been considered in the assessment – especially also in cases of stakeholders with limited ability to say anything directly (for instance nature)? Should anyone with an opinion be considered? Or how should this work?

We cannot see any guidance for validation of identifying relevant stakeholders in ED §§91-92, ED A270-A277 or Ex Memo §§52-55. Both users and stakeholders appear to be a given – and hence the preparer can begin to identify topics and aspects of topics simply based on this given, which the practitioner then can verify. We would like to raise a concern, as in reality stakeholders are not a given and, in fact, stakeholder-identification is probably the most difficult part of the process. We have also looked into the draft implementation guideline for materiality assessment from EFRAG to see if they have identified a method and/or documentation demands, which could be validated by the practitioner. EFRAG simply indicates (see

for instance FAQ 15-17) that all affected stakeholders, including silent stakeholders, should be considered. But “all affected stakeholders” is also a very imprecise and impractical term and not really a useful guideline. We would instead recommend that IAASB develops documentation demands for identifying relevant stakeholders to consider in the materiality assessment – perhaps in conjunction with the due diligence principles from UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

9.3 Neither agree or disagree

2. Preparer and Users of sustainability information

Keidanren (Japan Business Federation)

In ED-5000 and its Explanatory Memorandum, it is difficult to understand the difference between the concepts of management’s “materiality process” and the assurance engagement provider’s “materiality.” In October, FAQ on this issue was released, but we are concerned that confusion could still arise in practice as a result of mixing up the provisions regarding materiality for assurance engagement providers and the provisions that preparers of sustainability information must comply with during their materiality process. We hope the IAASB will conduct another information campaign including distribution of an additional explanatory memorandum, guidance, and other references to explain both concepts through specific examples illustrating materiality and the materiality process.

5. National Auditing Standard Setters

American Institute of Certified Public Accountants (AICPA)

We believe that ED-5000 has the appropriate requirements relating to the practitioner’s consideration of the entity’s materiality process in identifying topics and aspects of topics to be reported. However, that is a different question than whether ED-5000 appropriately addresses this issue. While we agree that the proposed standard needs to be framework neutral, there are likely several frameworks, including the CSRD, that will require assurance practitioners to express an assurance conclusion on the entity’s process. We understand the standard likely can’t go as far as addressing specific work effort necessary to form a conclusion when those conclusions are required. However, consideration of the entity’s materiality process is a critical element to acceptance, planning and performance of the engagement, and we think further attention is needed on the topic of materiality in the proposed standard, both in the context of the entity’s materiality process and in the context of how the practitioner considers and determines materiality (see question 11).

ED-5000 is unclear about when the practitioner’s more detailed understanding of the entity’s materiality process, beyond the initial preliminary understanding, is obtained. It may be implicit in the requirements in paragraphs 94-99, together with the required understanding of the components of the system of internal control, but it is not clear. We suggest that application material linked to paragraph 97 be added to create a more logical flow from the preliminary understanding requirement and address expectations for the level of the practitioner’s further understanding of the entity’s process to identify reporting topics.

The IAASB could also include guidance on how the practitioner might go about understanding the entity’s materiality process, including the guidance on potential practitioner considerations and inquiries, as outlined below:

Considerations

Whether the users or groups of users identified by the entity are consistent with those that the practitioner would consider to be intended users of the assurance report

The significance of the potential reporting topics in the context of their impact on the entity and its performance in achieving its strategic objectives or their impact on external parties

Inquiries

How has the entity identified its reporting purpose and the related intended users of the sustainability information?

Has the entity documented its process and the decisions and judgments it made?

How the entity identified reporting topics that are relevant to users' decision-making and what is the entity's basis for its judgments in doing so?

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

We believe that there is considerable confusion among practitioners as to the difference between the “materiality process” and the concept of materiality. This results from sustainability reporting standard setters and sustainability reporting legislation not doing preparers and assurance practitioners a favor by using the term “materiality” for a process (i.e., the process used to identify the information to be reported) that is actually embedded in the determination of the applicable criteria to be used and then using those criteria and the concept of materiality to choose which information to report in a sustainability report. This implies that practitioner consideration of this process needs to take place in a number of phases throughout the engagement. The IAASB FAQ on materiality shows that more guidance is needed on this issue within the ISSA 5000. However, we note that some of the guidance on this issue in the draft can easily be misinterpreted or that, upon closer examination, does not bear up, which fuels further confusion.

In particular paragraph A157 states:

“The entity’s process to identify and select topics and aspects of topics to be reported may be established by management or applied pursuant to the requirements of a sustainability reporting framework. Such a process may often be referred to as the “process to identify reporting topics,” “materiality assessment,” or “materiality process”, among other terms. However, the concept of materiality in this regard is not the same as the practitioner’s materiality. For the purposes of this ISSA, materiality refers only to a threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement (see paragraph 91).” [Underlining added]

The concept referred to in the underlined sentence is not the concept of materiality, but the concept of the materiality process, which added to readers’ confusion. Consequently, the term “the concept of materiality” needs to be replaced by “the materiality process”.

Additional confusion is fueled by paragraph A275 which states:

“Management’s “materiality process” differs from materiality considered or determined by the practitioner. The practitioner considers or determines materiality in determining the approach for obtaining evidence and when evaluating identified misstatements of the sustainability information within the scope of the assurance engagement. As a result, qualitative factors considered by the entity and the practitioner may overlap but need not be identical. For quantitative disclosures, the practitioner and entity will not necessarily arrive at the same materiality threshold.” [Underlining added]

Again, this paragraph appears to confuse the “materiality process” of the entity with the concept of materiality. The last two sentences appear to address the concept of materiality, rather than the materiality process, and then goes on to suggest that materiality can be different for preparers and practitioners, which is not the purpose of distinguishing the materiality process from materiality. We therefore recommend that the last two sentences be deleted. We believe that the discussion of the difference between the concept of materiality and the materiality process should not be done in the section on materiality, but ought to be done a separate section of ISSA 5000 that explains the materiality process. Along these lines, with one major exception, we believe that the FAQ on the application of materiality is well-done and helps reduce some of the confusion. The one major exception relates to the same issue addressed above in paragraph A275 – that is the difference between the materiality used by practitioners and that used by the entity. We believe that the IAASB might be better off not seeking to address the issue of whether materiality for entities and practitioners are the same or different (we note that this is not done in the ISAs).

From a conceptual point of view, since materiality is a user-driven concept, then differences in management’s and the practitioner’s perception of user needs need to be reconciled. Such a reconciliation would be needed because if management uses a lower threshold, then it begs the question as to why the practitioner would use a higher one and whether the practitioner is performing assurance work with the appropriate level of granularity. If management’s threshold is higher than the practitioner’s, then management may not be preparing the quantitative information with the needed precision and the auditor may need to ask management to use a lower threshold (in which case the thresholds would be reconciled).

It is true that pursuant to current sustainability frameworks the entity uses the materiality threshold within the “materiality process” to determine whether certain metrics or targets should be reported, but the practitioner also needs to determine whether management’s decisions in this regard are appropriate, so this would not lead to a different materiality threshold between practitioners and management. Likewise, while the entity uses the threshold to determine whether certain metrics or targets are appropriately disclosed, the practitioner would need to determine, using a threshold, whether the entity has appropriately disclosed these. Again, this does not lead to different thresholds between management and the practitioner.

It is also true that the practitioner uses the materiality threshold when obtaining evidence about metrics and targets reported by the entity, but the fact that practitioners gather evidence to support metrics and targets does not affect the materiality threshold because materiality is user-driven, which means materiality is determined independently of the work the practitioner needs to do. Decisions about the evidence needed due to aggregation risk would be covered by performance materiality.

There also appears to be considerable confusion in the use of materiality thresholds in the preparation and audit of

financial statements, which probably exacerbates the confusion for sustainability reporting. When designing controls to prevent or detect misstatements in entity books and records used to prepare the financial statements, management uses much lower thresholds than the quantitative materiality thresholds used by auditors because management also has a responsibility to safeguard assets (not just from fraud, but also from lack of care or due to lack of efficiency, economy or effectiveness) and prevent or detect noncompliance with laws, regulations and entity policies, etc. These lower thresholds are not related to materiality, since materiality is a user-driven, external reporting concept. The same considerations – to the extent relevant – ought to apply to sustainability reporting (e.g., the thresholds used by management to prevent or detect noncompliance with laws, regulations our entity policies related to sustainability matters or to manage sustainability matters beyond external reporting would be lower than any materiality thresholds used for external reporting purposes).

Overall, our conclusion is that the IAASB may need to do more in the standard to properly distinguish the concepts noted and to explain how practitioners deal with management's "materiality process", but not make assertions about differences between entity and practitioner materiality or materiality thresholds.

6. Global Standard Setter

Global Reporting Initiative (GRI)

Ensure that the materiality assessment start with determining the most significant impacts before assessing financial materiality to safeguard against potential financial risks are overlooked

Even if not financially material at the time of reporting, most, if not all, of the most significant impacts of an organization's activities and business relationships on the economy, environment, and people will eventually become financially material issues. Further, these most significant impacts and the cumulative impacts of many organizations over time affect the availability of natural resources and relationships on which the organization depends.

For assurers to be able to safeguard and adequately consider that companies have assessed all potential risks, the assurance standard should recognise the importance of sequencing the materiality assessment by adopting an approach that requires the assessment of the organization's most significant impacts to precede the assessment of the risks, opportunities, and their financial consequences. We suggest the IAASB to consider and refer to the guidance provided by GRI Standard, GRI 3: Material Topics 2021 on determining the most significant impacts on the economy, environment, and people, including impacts on their human rights.

8. Assurance Practitioner or Firm - Other Profession

Mincore CEO

Critical Analysis of the Consistency of Materiality Paragraphs:

The process of determining materiality is crucial to ensuring that sustainability reports are relevant and valuable to stakeholders. However, we've identified significant concerns about the consistent understanding and application of materiality. Specifically, environmental specialists tend to confuse with financial materiality, while financial professionals often overlook the importance of double materiality and how it interrelates.

In the current texts on materiality, there's a clear lack of structure and a potential risk of omissions, errors, and potential fraud due to the absence of a robust analytical method like AHP. The integration of the AHP method can provide a systematic and quantitative approach, offering advantages such as a clear hierarchical structure, the ability to handle qualitative and quantitative data, and the inclusion of multiple perspectives. However, it's essential to consider the limitations of AHP, like its increasing complexity with the addition of more criteria, the inherent subjectivity in pairwise comparisons, and the need for expertise to apply it effectively.

The paragraphs on materiality, as presented, raise significant concerns about their consistency and robustness. Without a structured and quantitative method of analysis, such as the Analytic Hierarchy Process (AHP), it is challenging to ensure that the topics and aspects chosen for reporting are genuinely material. This lack of structure can lead to omissions, errors, and in the worst case, fraud. Without a

systematic and quantified approach, selection criteria and underlying decisions can be easily influenced by biases, misconceptions, or specific interests, jeopardizing the integrity and relevance of the reported sustainability information.

Integration of the AHP Method in Materiality Analysis:

To overcome these limitations and strengthen the process of determining materiality, the integration of the AHP method is proposed. The following outlines an approach to do so:

Objective Definition: Set the primary goal, which is to identify and prioritize the most material topics and aspects for the entity and its stakeholders.

Hierarchical Structuring: Break down the materiality analysis into different levels:

Objective level: Determine the most material topics.

Criteria level: Factors affecting materiality, such as financial impact, social impact, environmental impact, among others.

Alternatives level: Listing of possible topics and aspects to report.

Pairwise Comparisons: Assess the relative importance of each topic or aspect in relation to each criterion, using experts and stakeholders to ensure a comprehensive evaluation.

Determination of Weights: Derive the relative importance of each criterion and topic, ensuring they reflect the perspective of stakeholders and the operational reality of the entity.

Consistency: Assess the consistency of the comparisons to ensure there are no contradictions or evident biases.

Synthesis and Selection: Combine the weights to identify the most material topics and aspects, which will then be included in sustainability reports.

By adopting the AHP method in materiality analysis, entities can ensure that their selection process is rigorous, quantitative, and based on consistent judgments. This not only improves the quality and relevance of the reported information but also strengthens stakeholder trust in the integrity of the reporting process.

I hope this analysis and proposal are helpful to you. If you have any additional comments or concerns, I'll be delighted to assist you.

Pros of the AHP Method in Materiality Analysis:

Systematic Structure: AHP provides a hierarchical structure that allows breaking down a complex problem into more manageable components, facilitating analysis and decision-making.

Flexibility: It can handle both qualitative and quantitative data, particularly useful when determining materiality in contexts where quantifiable data is not always available.

Inclusion of Multiple Perspectives: AHP allows the participation of multiple stakeholders, which can result in a more comprehensive and representative materiality analysis.

Consistency: The methodology includes a consistency check that helps ensure pairwise comparisons are consistent and not contradictory.

Transparency: By following a structured process, decisions made are more transparent and can be easily justified to stakeholders.

Cons of the AHP Method in Materiality Analysis:

Complexity: As the number of criteria and alternatives increases, the number of pairwise comparisons increases exponentially, which can make the process tedious and complicated.

Subjectivity: Despite its mathematical structure, AHP still relies on subjective judgments during pairwise comparisons, which can introduce biases.

Requires Expertise: To effectively apply AHP, some experience and understanding of the method are needed, which may require training and time.

Time Consumed: Due to its detailed and structured nature, the process can be longer compared to other more simplified methods.

Difficulty in Interpretation: If not done correctly, the results can be hard to interpret or may not adequately reflect actual priorities.

Using AHP in materiality analysis can be a powerful tool, but it's essential to be aware of its limitations and ensure it's applied correctly. By weighing these pros and cons, organizations can determine if AHP is suitable for their specific context and needs.

Recommendation on the Application of Materiality in Sustainability Reporting:

My recommendation are the following:

Cross-Training: It's essential to offer training to both groups, environmental specialists and financial professionals, to ensure a comprehensive understanding of all aspects of materiality, including double materiality.

Integration of the AHP Method: Adopt the AHP method for materiality analysis, ensuring it's conducted rigorously and under the guidance of experts who understand both the method and the sustainability context.

Participation of Stakeholders: Involve a variety of stakeholders in the materiality determination process to ensure a broad representation of perspectives and reduce biases.

Periodic Reviews: Establish a process to review and update materiality criteria and the determination process regularly to reflect changes in the environment and stakeholder expectations.

Transparency: Clearly communicate the process and criteria used to determine materiality, along with any changes made in the process over time.

By implementing these recommendations, organizations can enhance the quality and relevance of their sustainability & financial reports, strengthening stakeholder trust and ensuring materiality is applied and understood correctly throughout the process.

9. Public Sector Organizations

Office of the Auditor General (New Zealand)

We agree that the auditor should consider how the entity identified topics and aspects of topics to report on, when obtaining a 'preliminary understanding'. See our response to question 8 on the 'preliminary understanding' material.

Also see our response to question 11 on 'double materiality', which refers to the entity's materiality process.

10. Member Bodies and Other Professional Organizations

South African Institute of Chartered Accountants (SAICA)

SAICA heard conflicting views from the stakeholders on whether it is the assurance practitioner's role to provide assurance on whether the material topics covered by the sustainability report are complete, in engagements where assurance is being provided over the whole report as opposed to selected sustainability information / KPIs. Our concern is that a user of the assurance report will reasonably assume that the assurance extends to the completeness of the issues covered. Where the opinion being provided is a "fairly present" opinion, this will almost certainly be assumed. If this is the intention, further guidance could be included in the standard to clarify that appropriate assurance procedures need to be conducted to assess whether any material sustainability matters have been omitted.

The counterargument that we heard suggests that this confuses the materiality concepts and responsibilities of the preparer and the assurance practitioner and that it is the responsibility of the preparer to identify and include all relevant material matters, whereas the responsibility of the assurance practitioner is merely to obtain an understanding of the entity's materiality assessment process as part of the engagement acceptance considerations (i.e. assessing the preconditions - rational purpose and suitability of criteria). If this is indeed the intention of the IAASB, then the assurance report will need to clearly scope out assurance over the materiality assessment process to ensure users are aware of this limitation, and consideration should be given to the issue of whether it will still be appropriate to refer to fair presentation in such cases. (Either way – para 1, or para 2, the standards would need to provide clarity or examples.

Currently the ED is not clear on the intended approach. It is recommended that the IAASB investigate the experience from certain jurisdictions such as the Netherlands, which already has a local sustainability assurance standard and where assurance over the entire sustainability report is provided. The practice there seems to be aligned to the first argument above, namely they perform procedures to obtain assurance over the materiality assessment process of the entity so that they can provide a "true and fair" conclusion on the overall report including completeness of the topics covered.

12. Individuals and Others

Dr. Prachi Ugle Pimpalkhute

Matrix overlay, multi criteria Analysis for stakeholder materiality is required

9.4 Disagree with comments

2. Preparer and Users of sustainability information

Philip Morris International INC.

The relevant content is enhanced within the FAQ on Materiality document that has been issued by IAASB which clarifies the relationship between entity's sustainability materiality assessment and the assurance engagement. Incorporation of the FAQ into the actual standard would make the standard itself a single source of truth when it comes to sustainability assurance.

World Business Council for Sustainable Development (WBCSD)

Materiality

Members highlighted several challenges they envisage with respect to future assurance requirements around the materiality process by reporting entities:

There are concerns that there is no clear standard or binding guidance for the development of materiality assessments. Absent such clarity, members highlighted the challenge of developing and delivering a process that they can be sure will meet the requirements of the assurance standard, or that assurance practitioners can objectively judge against.

Materiality processes involve subjective judgements, in particular in relation to sustainability topics that are less well-established, where data may be sparse. Further clarity on expectations of assurance practitioners on how they will evaluate an entity's process would be welcomed.

Members agreed that a focus on the materiality process, and ensuring the robustness of the process, is a better approach than seeking to assure the outcomes of a materiality process.

Members highlighted the importance of ensuring a clearly defined process, the development of appropriate criteria, transparency of qualitative and quantitative data inputs, and clear management and governance structures as ways of building confidence in the materiality process.

Members noted that, having asked their assurance providers about developing future-proof materiality processes, they receive different answers from different individuals, as well as different firms, demonstrating the lack of clarity on the topic.

4. Regulators and Audit Oversight Authorities

Committee of European Audit Oversight Bodies (CEAOB)

Process

Firstly, given the scope and coverage of matters that may need to be reported on through sustainability disclosures, subject to their materiality (and more especially their “double materiality” in a CRSD context), the assessment of this materiality by the preparer of the information is a fundamental aspect of sustainability reporting, and, as a consequence, a fundamental element to be scrutinized during the assurance engagement.

This difference to financial reporting is of such importance that ED 5000 should be enhanced to incorporate requirements for the practitioner to specifically scrutinize the entity's process put in place to define and identify information to be reported following the materiality perspective, which includes stakeholders engagement requirements. In order to be able to assess the completeness and relevance of the information reported, the process put in place by the entity needs to be scrutinized by the practitioner. We understand that the IAASB proposes to integrate some provisions as preconditions for the acceptance of the engagement, but we are of the view that relocating the provisions on the requested work to be performed on the process is needed, to explain how and to what extent the entity's process needs to be understood and assessed by the practitioners.

Par A273, A275 of the ED discuss and recognize this process but do not link it to requirements or work expected from the practitioner. This should be done. For example, par A333, describes a list of activities which “may” be relevant to understand the entity's information processing, that includes in (iii) “the

processes used to prepare the sustainability information". The latter should be elevated to a requirement, at least for the key process used to determining material matters to be reported.

Financial Reporting Council – UK (FRC)

We believe that the contents of A156 of ED-5000 should be a requirement, rather than something the assurance practitioner "may" consider. This would require the assurance practitioner to ascertain what the "materiality process" at the entity is, and consider if it is appropriate.

Independent Regulatory Board for Auditors (IRBA)

The importance of the materiality assessment of the preparer in sustainability information should be emphasised. Relevance and reliability (particularly the attribute of completeness) are essential for sustainability information that can assist decision-making by the intended users. As such, emphasis should be placed on the procedures the practitioner is required to perform on the process by which the preparer identifies the material information to be reported. To get a level of assurance that this process will not lead the preparer to disregard or omit (by error or fraud) material matters, clearer provisions are needed to define how the practitioner should examine the process for determining material matters. Though there are guidelines in various places in ED-5000 that deal with those as requirements, a more streamlined and targeted manner is needed to support understandability, for example, by grouping the provisions under a specific heading.

In ED-5000, it is clear that the process the client undertakes needs to be considered in the practitioner's determination of the assurance approach. However, caution should be exercised in the amount of emphasis that is placed on the client's materiality process, so as not to confuse the "materiality" set by the assurance practitioner for evaluating the misstatements identified with the process undertaken by the client. Rather, the standard should clearly distinguish management's materiality process from that of the practitioner.

In this regard, we further suggest that ED-5000 reconsider the reference to "double materiality", as the IAASB's standards are framework neutral, and the usage of such a term suggests an endorsement of the double materiality concept.

Application material in ED-5000 covers both the entity's processes for determining materiality and the way in which the assurance practitioner considers and determines materiality for the purposes of the assurance engagement. As stated above, it would be helpful if this application was clearly separated by adding a header such as "Entity's Materiality Process".

5. National Auditing Standard Setters

Auditing and Assurance Standards Board Canada (AASB)

We agree with several of the approaches in ED-5000 to address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. Including:

Not referring to double materiality in the requirements of the standard; presenting it clearly as a preparer's concept in the application material and explaining the link between double materiality and the intended needs of the users of the sustainability information (A180, A274).

Distinguishing clearly between the practitioners' and management's materiality (A275).

However, in considering the requirements and application material in paragraphs 69(a), A156-A157 (preconditions) and paragraphs 97-98, A295-A301 (understanding the sustainability matters, information, and the applicable criteria), in ED-5000, we noted some concerns.

Concern: Preliminary knowledge of management's process to identify topics and aspects of topics to be reported (paragraph 69(a)) and A156)

We heard the following during our outreach:

The requirement to obtain a preliminary knowledge of the sustainability information expected to be reported should be strengthened to require an understanding of the entity's materiality process as it is a critical component to accepting the engagement.

Those who suggested this change to the standard understood the argument for not placing a higher work effort on this process at the acceptance stage (explanatory memorandum paragraph 52) (i.e., it may be a straightforward process for some engagements, and the resulting work effort and documentation will be straight forward).

However, in their view de-emphasizing the knowledge required of the entity's 'materiality process' in the acceptance stage discounts the importance of that understanding in the practitioner's decision to accept the engagement and minimizes its prominence in subsequent stages of the assurance engagement.

In contrast, results from our field-testing supported the position in ED-5000 and indicated that there are practical challenges in evaluating the entity's 'materiality process' at the preconditions stage of the engagement. Including:

The client may be unwilling to share such information with the practitioner at the acceptance stage.

An understanding of the entity's materiality process may be irrelevant to a practitioner unless they are providing assurance on the entity's entire sustainability report.

Where the practitioner is providing assurance on the whole report, this evaluation may look different for a limited vs. reasonable assurance engagement.

Lastly, additional feedback indicated that the practitioner should be required to gain preliminary knowledge of how the entity plans to use the sustainability information at the acceptance stage. This understanding of its intended use may provide early insight for the practitioner on whether the entity's 'materiality process' reflects the needs of their intended users. For example, whether it is intended to be used as marketing materials, to solicit new customers, to meet a regulatory or legislative requirement, or other reasons.

We concluded, after considering feedback received:

We agree with the views of our field-testers and the IAASB to not overburden the practitioner with an understanding of the entity's 'materiality process' at the preconditions stage. Therefore, we agree with the extent of work in paragraph 69(a) to 'obtain a preliminary knowledge of the engagement circumstances, including the sustainability information expected to be reported.'

However, we believe that during the risk procedures stage the practitioner should be required to understand the entity's process to identify reporting topics given the entity's process is a key process within the preparation of sustainability information. Not all suitable criteria or frameworks require a 'materiality process'; however, all entities should have a 'process to identify sustainability information expected to be reported' regardless of their size, reporting maturity, or whether their reporting is voluntary or mandatory.

Suggest:

At the risk procedures stage, in paragraph 97:

Expand the requirement to state that the practitioner should obtain an understanding of the entity's process to identify sustainability information reported.

"The practitioner shall obtain an understanding of the entity's process to identify sustainability information reported sustainability matters and the sustainability information, including the characteristics of events or conditions that could give rise to material misstatement of the disclosures."

Additionally, to address comments around understanding the intended use:

Expand A156-A157 to include that the practitioner may gain preliminary knowledge of how the entity plans to use the

sustainability information.

Expand A295-A298 to include that the practitioner may obtain an understanding of how the entity plans to use the sustainability information and whether the relevant users have been identified.

Add application material before paragraph A295 that describes what the practitioner may consider when obtaining an understanding the entity's process to identify sustainability information reported. This application material could leverage GRI 3, Material Topics.

Concern: Gap in considering sustainability information expected to be reported

In jurisdictions where the reporting, and the assurance thereon, is not mandatory, concerns were raised on the risk of 'incomplete' reporting of topics and aspects of topics that are material to intended users.

This risk places increased importance on the practitioner's evaluation of the entity's materiality process to consider the completeness of the entity's reporting. In performing the evaluation, the practitioner should be thinking, based on its knowledge of the entity, about "what they would expect to be covered in the report".

Then they can ask questions about why certain topics or aspects were excluded. For example, a sustainability report from a national contact sports league (e.g., hockey, American football) where there were no disclosures around player concussions.

Suggest:

Adding application material to paragraphs A156-A157 for the practitioner to consider what information they expected to see in the entity's circumstances, but that has been omitted, and then following-up with management as to why this information was omitted.

The same consideration as above could be added as application material to:

Paragraph 96, the engagement team discussion on the susceptibility of disclosures to material misstatement, or

Paragraph 97, understanding the sustainability matters and sustainability information.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Regarding the evaluation of the company's materiality process, the standard does not include specific instructions how to assess the company's materiality process in order to ensure that the reporting will likely include all material matters. Furthermore, the standard does not address the different work effort to be performed for evaluating the company's materiality process in connection with limited vs reasonable

assurance. Therefore, we recommend to publish FAQs/guidance on the work effort and the specific procedures required for obtaining limited versus reasonable assurance.

An entity's materiality assessment process is the starting point to determine the material information to be disclosed, and as such, reviewing the process and relevant documentation would provide useful information for the practitioner's risk identification and assessment. For example, the practitioner may have a better view on entity's engagement with its stakeholders and broader due diligence practices. This would support the practitioner's identification of disclosures where material misstatements are likely to arise (limited assurance) or the risks of material misstatement at the assertion level for the disclosures (reasonable assurance).

Hence, the practitioner should obtain an understanding of the entity's materiality assessment process as part of planning for both limited and reasonable assurance engagements. The practitioner also needs to evaluate if the process is conducted in accordance with the sustainability reporting framework. Such understanding and evaluation could support practitioner's conclusion on the faithful representation of reported sustainability information and whether the omitted information may indicate management bias.

Therefore, we believe that the standard should further clarify the nature and depth of the procedures to be conducted on the materiality assessment process.

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

We are of the view that ED-5000 does not provide sufficient guidance on determination, consideration and application of materiality in the engagement. The Explanatory Memorandum stated the entity's process to identify reporting topics may often be referred to as the "process to identify reporting topics," "materiality assessment," or "materiality process" and these terms are differentiated from materiality considered or determined by the practitioner, which refers only to a threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements. However, this statement seems irrelevant as the relationship between the entity's materiality process and materiality considered or determined by the practitioner, if any, is not further clarified in ED-5000.

With respect to materiality, we have the following suggestions:

Further clarification, more examples and guidance needed on applying the concept of double materiality.

As 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, it is useful to include more application materials to ED-5000 to provide more examples for practitioners' reference.

Royal Dutch Institute of Chartered Accountants

The entity's 'materiality process' is a cornerstone in driving company sustainability re-ported. It is therefore essential that the practitioner pays close attention to the entity's materiality process, in order to ensure that sustainability reporting includes the relevant information. We have provided some comments on the entity's materiality process in our responses to Questions 2 and 8. In addition to these comments, we have the following observations and suggestions:

- We observe that requirements on the entity's materiality process are scattered around in ED-5000.

This does not contribute to practitioners giving the entity's materiality process the focus it deserves.

Therefore, we suggest that the requirements regarding the company's materiality process are brought together and clearly linked to each other in the standard.

- We also emphasize that only a high-level assessment of the materiality applied by the entity, will likely not suffice stakeholder's needs. We call upon IAASB to prevent the creation of a new expectation gap, by requiring appropriate procedures in regards the entity's materiality process.
- Paragraph 71 on 'appropriate sustainability matters' focuses on those matters that the entity intends to include in its reporting. We suggest to also address in that requirement that the practitioner should assess that all items on which the entity would be required to report, are indeed included in its sustainability reporting. The requirement only seems to suggest that the practitioner should assess the appropriateness of what is reported, but the completeness of sustainability matters also requires procedures to be performed by the practitioner.
- We seek further clarification that the entity's materiality process and its impact (in the EU's CSRD and ESRS framework, the entity's materiality process drives the required disclosures) on what needs to be reported, should be addressed in also limited assurance engagements (A157 addresses the need to obtain a preliminary knowledge thereon, but otherwise there is little guidance on what the practitioner is supposed to do on the entity's materiality process). Most guidance in the standard is about the practitioner's own materiality assessment for audit purposes, which is (as also stated in the standard) different from the entity's materiality process.
- Finally, understanding who the stakeholders are, is a key part of the entity's materiality process, especially when reporting under CSRD and ESRSs, as well as a crucial consideration for the practitioner's assessment of assurance materiality. It requires more attention in the standards. This is also because the sustainability reporting requirements have increased the scope of stakeholders as compared to the stakeholders practitioners are used to consider, primarily investors.

6. Global Standard Setter

Social Value International

In general the consideration of the materiality process should cover:

an understanding of the information required to address a scope that was based on the international definition of sustainability (and sustainable development as per Brundtland, 1987) and the requirement for information on performance

an understanding of stakeholder identification and engagement process.

an understanding of the process by which the resulting information has been filtered to a particular scope; and

the nature and quality of the evidence that underpins the assessment

We recommend that this approach is used in the ED because anything other than this approach would not represent a 'rational purpose' for sustainability assurance.

7. Accounting Firms

Deloitte LLP

We do not believe that ED-5000 sufficiently addresses the assurance practitioner's consideration of the entity's "materiality process" in identifying topics and aspects of topics to be reported, particularly in situations where the entity's process itself is subject to assurance. As noted in the materiality FAQ recently released by the IAASB: Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner ("the materiality FAQ"), sustainability reporting frameworks ordinarily will include requirements for the entity to disclose information about sustainability matters when such information is material. The assurance practitioner evaluates those disclosures as part of overall sustainability reporting or may be required to perform and report on a separate evaluation of the entity's process. Within the proposed standard, discussion of the practitioner's consideration of the entity's materiality process is currently included in the application material (i.e., paragraph A157 in the context of obtaining preliminary knowledge of the sustainability information to be reported as part of determining preconditions for an assurance engagement and paragraph A273 in the context of considering materiality for the engagement).

However, certain frameworks or standards (e.g., the European Sustainability Reporting Standards) require additional reporting by the assurance practitioner on the entity's "materiality process" itself. Although we agree that ED-5000 needs to be framework neutral, given the different lenses applied in the

different frameworks with respect to materiality, we believe the IAASB should incorporate additional application material in the standard to clarify the practitioner's responsibilities in relation to understanding the entity's materiality process to identify topics and aspects of topics to be reported. For example, we suggest that the IAASB embed guidance from the materiality FAQ into ED-5000 related to the assurance practitioner's consideration of the entity's materiality process at different times throughout the assurance engagement and consider providing example procedures for the different approaches outlined above.

European Contact Group (ECG)

Sustainability reporting frameworks ordinarily include requirements for the entity to disclose information about sustainability matters when such information is material. The identification of what is material calls for a so-called materiality assessment process. This process is specific to the entity's facts and circumstances. The entity's materiality process also includes consideration of whether the reporting framework is sufficiently specific on its own or whether it needs to be supplemented with entity-developed criteria. Thus, the respective sustainability reporting framework criteria will normally be supplemented with entity-developed criteria. A materiality assessment process is supplemented by the process for preparing and presenting sustainability information in accordance with the reporting framework and the entity-developed criteria. This separate process implemented at the entity involves the establishment of controls to drive the appropriate application of the criteria and to generate sustainability information that is not materially misstated (ref. IAASB: FAQ Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner, Question 2 and 4).

In terms of CSRD ESRS 2, Disclosure Requirement IRO-1 requires a description of the materiality assessment process and the CSRD assurance opinion explicitly needs to refer to the materiality assessment process.

In our view, it is not clear what procedures the practitioner is expected to perform on the materiality assessment process in a limited assurance engagement and in a reasonable assurance engagement (see reply to Q7). Also, within the proposed standard, discussion of the practitioner's consideration of an entity's

materiality assessment process, including the double materiality approach, currently seems to only be dealt with in the application material. We believe that the practitioner's minimum procedures with respect to an entity's materiality assessment process should also be addressed in the requirements-section of ISSA 5000.

Furthermore, regarding the sustainability assurance report in accordance with the CSRD, it would be very helpful to include (conditional) requirements to be met in order to address the materiality assessment process in the sustainability assurance report. This again concerns both limited assurance and reasonable assurance.

Grant Thornton International

We do not believe ED-5000 appropriately addresses the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported as a precondition for an assurance engagement, as evidenced by the as evidenced by the IAASB's October 2023 Frequently Asked Questions Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner (IAASB October 2023 ISSA 5000 FAQ on Materiality) released during the ISSA 5000 comment period. We identified several areas where additional requirements and guidance are needed.

We believe certain baseline information is missing from the standard. In practice, the practitioner will obtain an understanding of management's "materiality process" that was used to identify in-scope disclosures for purposes of the assurance engagement as part of the preconditions for acceptance and continuance (as noted in ED-5000, paragraph A157). We propose the IAASB:

Add the formal definition of management's "materiality process" within ED-5000, paragraph 17 where other terms relevant to the standard are defined.

Revise the guidance in ED-5000, paragraph A275 to include the full response to Question 2 in the IAASB October 2023 FAQ on Materiality. Add a reference to A275 to the new definition of management's "materiality process" in ED-5000, paragraph 17.

Guidance is needed on the practitioner's responsibilities related to management's "materiality process" and how the work effort may differ for limited and reasonable assurance engagements.

Add a requirement to ED-5000, paragraph 71 to obtain an understanding of management's "materiality process" to evaluate whether the sustainability matters within the scope of the engagement are appropriate.

Add further guidance to the requirements in ED-5000, paragraphs 97 and 98, to determine whether the items in management's "materiality process" are captured in the report and evaluate the suitability of the criteria used as part of the understanding risk procedures performed during the engagement.

Add a requirement for the practitioner to stand back and look at other information in the report to determine whether the report includes the right information as part of the acceptance and continuance process:

Revise ED-5000, paragraph 69 to include a requirement to determine if the information the practitioner will provide assurance on is appropriate and add application material describing the stand back concept.

Revise ED-5000, paragraph 69 to include a requirement for the practitioner to understand management's process to identify key stakeholders and those stakeholders' needs.

We also believe ED-5000 is missing a requirement for the practitioner to determine if the information they are requested to provide assurance on is appropriate. As currently written, the requirements can be broadly interpreted and inconsistently applied. For example, sustainability information could be unsuitable in the context of the broader information reported but consistent and capable of being measured such that the

sustainability information can be subjected to procedures for obtaining sufficient appropriate audit evidence in accordance with ED-5000, paragraph 71. Alternatively, the criteria applied could be suitable in the preparation of sustainability information in accordance with ED-5000, paragraph 72, but not as it relates to the sustainability matters within the scope of the engagement. We propose the IAASB to:

Revise the requirements in ED-5000 so that the considerations in ED-5000, paragraph 72(a)-(d) are also applied to evaluating the suitability and appropriateness of sustainability matters.

Mazars

The materiality process is key to determining what is disclosed in the sustainability report and is important under both ISSB and ESRS standards. ED-5000 isn't sufficiently clear as to the assurance practitioner's role in evaluating the entity's materiality process. Guidance on how to undertake the assessment of management's process and clarity on whether the practitioner's role relates to the process, the outcome from the process or both, would be helpful including the consequences if the practitioner doesn't agree on the material topics identified by the preparer. Although we note the release of recent non-authoritative guidance, more details about the practical application, including examples, is required particularly in relation to any consideration of the outcomes from management's process.

We note that the CSRD includes a requirement for practitioners to report on the materiality assessment process. As the materiality assessment process is such a fundamental part of the entity's process under any sustainability reporting standards, we suggest that a requirement to evaluate the entity's materiality assessment process is added as a requirement to ED-5000. The requirement should refer to evaluation of the materiality process as set out in the applicable criteria such that the practitioner's response would be focused on whether the entity had met the requirements of the relevant reporting standards, focusing on financial or impact materiality, or both (i.e. double materiality) without the need for a specific reference to double materiality in the framework-agnostic standard.

Introducing such a requirement may impact the procedures required in both the risk procedures and responding to risks phases of the engagement, such as:

Risks procedures: obtaining an understanding the materiality assessment process (LA/RA) plus evaluation of design and implementation (RA only?)

Responding to risks: challenging the outcome of the materiality process (both LA and RA) including the outcome from different steps in the process (e.g. assessing the list of stakeholders identified by the entity) as well as the identification of material topics.

A clearer distinction between the entity's materiality assessment and the practitioner's materiality, which are used in different ways despite the similarity in terminology, would be helpful. We note that neither term is currently included in the definitions (ED-5000.17) and suggest that the IAASB may wish to include definitions of both terms to clarify the purpose of each, and the differences between them.

MHA

The proposed standard does not adequately explain the distinction between materiality as defined by the reporting entity and materiality as defined by the assurance practitioner, causing confusion. We agree it is appropriate for the assurance practitioner to consider the reporting entity's materiality process in identifying topics and aspects of topics to be reported, but believe it appropriate for the assurance practitioner to form an independent assessment of materiality for the purpose of performing the assurance engagement. We are disappointed to note that the proposed standard does not address what should happen when the assurance practitioner disagrees with the reporting entity's assessment of topics it considers material.

It is crucial to have a specific requirement in the standard that addresses the reporting entity's materiality process, which is a fundamental aspect of the practitioner's approach. This requirement should refer to materiality based on applicable criteria, meaning assurance providers must consider both assessments in reporting standards with double materiality. It is important to understand how management identifies topics and aspects of topics to be reported on, aiding in detecting management bias and potential instances of greenwashing. This consideration should be added during risk identification and assessment for reasonable assurance engagements and areas where material misstatements are likely to arise for limited assurance engagements. Although the proposed standard mainly considers the entity's materiality process, further refinement may be necessary given that ISSA 5000 is principles-based and intended to be framework-neutral.

We encourage replacing the term "double materiality" in the application material with the interoperability concept (referring to financial materiality and impact materiality) used in corporate reporting frameworks such as GRI. This would make ISSA 5000 a framework-neutral assurance standard that aligns with evolving corporate reporting practices, including mandatory requirements such as ESRS.

PKF International Limited

There is no explicit requirement in ED-5000 to consider this. The relevant part of ED-5000 on the entity's "materiality process" is restricted to a reference in the application guidance in paras A156 – A157. The applicable wording in those paras implies that obtaining knowledge of the entity's "materiality process" is an optional procedure for the practitioner rather than it being a requirement of the standard.

In our view the entity's "materiality process" is a foundational aspect of sustainability reporting standards, for which the practitioner's understanding is of critical importance to the process of planning and performing a sustainability assurance engagement. Of significant concern, is that if a practitioner does not obtain an understanding of the entity's "materiality process", the practitioner is less likely to identify risks of material misstatement and to design appropriate responses. In particular, the type of risks that might not be identified without sufficient understanding of the reporting entity's "materiality process" include:

risks that disclosures are materially incomplete, or

risks of fraudulent or misleading reporting.

In response to our points above, we recommend the following:

ED-5000 is revised to include requirements for the practitioner to gain an understanding of, and evaluate, the entity's "materiality process".

The practitioner is required to design and perform further procedures in response to the outcome to (i).

The requirements in (i) and (ii) are included as part of the practitioner's procedures to identify and assess risks of material misstatement.

The requirements in (i) and (ii) are relevant to both limited and reasonable assurance engagements.

PricewaterhouseCoopers International Limited

Further to our comments with regard to obtaining a preliminary knowledge of the engagement, we believe that the exposure draft does not sufficiently address the practitioner's consideration of the entity's 'materiality process' in identifying topics and aspects of topics to be reported. While we support the overarching premise that the ISSA needs to be framework neutral, there may be several frameworks, including the CSRD, that will require assurance practitioners to express an assurance conclusion on the entity's process to identify

the information to be included in its sustainability reporting. While it may not be possible to go as far as addressing the specific work effort and form of conclusion when such conclusions are required, the practitioner's consideration of the entity's process forms such a critical element to the acceptance, planning and performance of an assurance engagement that we believe further attention is needed on this topic within the standard.

It is unclear, where in the standard, the practitioner's more detailed understanding of the entity's materiality process, beyond the initial preliminary understanding, is obtained. It may be implicit in the requirements in paragraphs 94-99, together with the required understanding of the components of the system of internal control, but it is not sufficiently clear. For example, while we agree with the IAASB's guidance that distinguishes between the entity's materiality process and the practitioner's determination/consideration of materiality we find it unhelpful that the primary application material referring to the entity's materiality process (paragraphs A273-274) is attached to the requirement addressing the practitioner's determination of materiality.

We suggest paragraph 97 and/or 98 could be expanded to create a more logical follow on from the preliminary understanding requirement and more directly address expectations for the level of the practitioner's further understanding of the entity's process to identify reporting topics, with appropriate supporting application material. For example, procedures to understand management's assessment of material topics may need to be as detailed as procedures performed over estimates, as this is essentially management's judgement of their material topics. This includes testing inputs, assumptions, external evidence, and considering previous reporting, stakeholder or market expectations, as well as the requirements of the applicable criteria. In our view, the practitioner's procedures to obtain an understanding of the entity's process may commonly include making inquiries about:

How the entity has identified its reporting purpose and the related intended users of the sustainability information.

Whether the entity has documented its process, as well as the decisions and judgements it has made.

How the entity has identified reporting topics that are relevant to users' decision-making and the entity's basis for its judgements in doing so.

Additionally, in understanding the entity's process, the practitioner may consider:

Whether the users or groups of users identified by the entity are consistent with those that the practitioner would consider to be intended users of the assurance report.

The significance of the potential reporting topics in the context of their impact on the entity and its performance in achieving its strategic objectives or their impact on external parties.

We also believe that a stronger connection could be made between the entity's 'information system and communication' component of the system of internal control and the critical importance that plays in supporting the effective application of the entity's materiality process. Application material should also emphasise the important principle that if management's process to identify reporting topics is deficient, the practitioner cannot overcome or compensate for these deficiencies. We suggest the standard explicitly addresses the implications of such circumstances.

We would be happy to share further insight and to support the development of further guidance on understanding the entity's materiality process.

8. Assurance Practitioner or Firm - Other Profession

SGS

The standard addressed much on “materiality considered or determined by the practitioner” , but not “materiality assessment” of the entity or “double materiality”. Explanatory Memorandum paras.52-55 could be also addressed by Para. 72(c)), A172.and A179: “Relevance of the Criteria”. Yet these parts haven’t been connected and aligned in the current drafts.

In addition, there are different definitions of materiality and only the double materiality is highlighted. This is one of the newest concepts, but a more neutral wording of paragraphs 59 and 60, open to other definitions of materiality, would make the document more inclusive. Not all organization needs to comply with CSRD, so broad the concept. We have GRI, AA1000 AccountAbility Principles and SASB with their own definition.

The materiality of the client should be part of the assurance engagement if it is part of the scope of the audit. Otherwise, the auditor develops his own materiality study to define the assurance process, and this should be the focus of the ED-5000. Emphasize the importance of the materiality in the engagement, what value it has for the project, how it is to be used and how it is to be performed independently of the client’s materiality.

If the client has done a double materiality, good for them. But it does impact the assurance materiality that still need to be performed.

And if the scope of the assurance is just few KPIs, how the materiality impact it? It is not answered in the document.

We recommend an approach to give a clear description of the entity’s “materiality process” in the ED-5000, which should cover a process of materiality identification and prioritization involving stakeholder engagement. The practitioner should include the evaluation of the entity’s “materiality assessment” as part of the scope of the assurance, in order to fulfill the evaluation of “Relevance of the Criteria”.

TIC Council

The standard addressed much on “materiality considered or determined by the practitioner”, but not “materiality assessment” of the entity or “double materiality”. Explanatory Memorandum paras.52-55 could be also addressed by Para. 72(c)), A172.and A179: “Relevance of the Criteria”. Yet these parts haven’t been connected and aligned in the current drafts.

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We recommend an approach to give a clear description of the entity's "materiality process" in the ED-5000, which should cover a process of materiality identification and prioritization involving stakeholder engagement. The practitioner should be including the evaluation the entity's "materiality assessment" as part of the scope of the assurance, in order to fulfill the evaluation of "Relevance of the Criteria".

9. Public Sector Organizations

First Nations Financial Management Board

Practitioners may need to gain an understanding of how the entity plans to use the information covered by the engagement. This is because sustainability reporting will be used differently and by a broader group than traditional financial reporting. Materiality considered or determined by the practitioner should include consideration of impacts by the entity or the entity's operations on Indigenous Peoples' rights, titles and interests. Practitioners therefore must have a minimum accepted level of knowledge about the current and historical relationship between the state, economic players (businesses) and Indigenous Peoples. It is this relationship that will influence the expectations that Indigenous Peoples will have. These expectations could directly impact the value of a business enterprise as measured by investors and rating agencies. More illustrative and qualitative explanations should be provided in the standard to help practitioners understand this aspect of sustainability reporting.

Sustainability reporting will have a broader group of users than financial reporting. Thus, when a practitioner is providing assurance relating to a sustainability report, the practitioner should assume that the information reported on, in whole or in part, will be made public by the entity. This could extend to promotional or marketing purposes as well as fulfilling regulatory requirements.

By way of example, we think it is possible, if not likely, that an impacted Indigenous group will have an interest in sustainability reporting. Entities that fall into these categories include all of those operating in Indigenous-intensive industries, or industries that disproportionately affect Indigenous Peoples, by operating on their lands or otherwise. These industries include mining, energy (including oil and gas pipelines and electricity transmission rights of way corridors), telecommunications, clean technology and financial services.

The same would likely be true of customers and of impacted residents.

Government Accountability Office - US

ED-5000 does establish the concept of the entity's process to identify and select topics to be reported. In addition, it allows for the flexibility to informational needs for the user's decision-making purposes. However, we believe ED-5000 could be more specific regarding for the practitioner's consideration of the entity's "materiality process". For example, describing meaningful procedures and requiring appropriate documentation of key decisions, engagement objectives, and the scope and methodology may allow the materiality process to be more consistently applied by practitioners.

Office of the Auditor General of Alberta

Evaluation of the entity's materiality process should be a "shall" requirement. The evaluation should be a precondition and done to determine that the entity's materiality process identifies external impacts, ranks them, and focuses on negative impact reduction. The materiality process is a demonstration of management's understanding of and responsibility for sustainability matters and is akin to evaluating the entity's applicable financial reporting framework and accounting policies. If the entity's materiality process

does not identify and rank external impacts, and is not multi-stakeholder, the practitioner should determine the impacts on the engagement and assurance report, including if a scope limitation exists. The evaluation of the process should also include whether it is appropriately linked to and determinate of strategies, processes, plans and feasible and realistic actions (governance and internal control) to mitigate negative impacts. The requirement should be stronger than “understand” and be “evaluate” because specific further steps are needed by the practitioner if there is an insufficient materiality process, including updating assurance report to include scope limitation (e.g. due to only financial materiality considered) or not accept or continue the engagement if the criteria are not considered suitable. We note “evaluate” includes “understand,” “understand” does not include “evaluate.”

We suggest ISSA 5000 draw from GRI 3 for requirements or application material for evaluating the entity’s materiality process.

ISSA 5000 should specify that suitable criteria are not relevant if they do not arise from a materiality process that considers external stakeholders, impacts of the entity on external stakeholders and the environment, and mitigation of negative impacts. Such requirements would avoid practitioners being associated with misleading sustainability performance of an entity.

10. Member Bodies and Other Professional Organizations

Accountancy Europe

We agree that materiality process for the reporting entity in identifying topics and aspects of topics to be reported is not exactly the same as the practitioner’s consideration of materiality. However, an entity’s materiality assessment process is the starting point to determine the material information to be disclosed, and as such, reviewing the process and relevant documentation would provide useful information for the practitioner’s risk identification and assessment. For example, it may give the practitioner a better view on entity’s engagement with its stakeholders and broader due diligence practices. This would support the practitioner’s identification of risks of material misstatement.

Hence, the practitioner should obtain an understanding of the entity’s materiality assessment process as part of planning for both limited and reasonable assurance engagements. The practitioner also needs to evaluate if the process is conducted in accordance with the sustainability reporting framework. Such understanding and evaluation could support the practitioner’s conclusion on the faithful representation of reported sustainability information and whether the omitted information may indicate management bias.

Therefore, we believe that the standard should further clarify the nature and extent of the procedures to be performed on the materiality assessment process.

ASEAN Federation of Accountants

We are of the view that ED-5000 does not provide sufficient guidance on the determination, consideration, and application of materiality in the engagement. We would like to suggest the following:

- 1) To provide further clarification, more examples and guidance on applying the concept of double materiality.
- 2) As 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, it is useful to include more application materials to ED-5000 to provide more examples for practitioners’ reference.

Belgian Institute of Registered Auditors

The standard does not sufficiently address the concept of entity's materiality. We propose to add more (practical) guidance to address the practitioner's consideration of the entity's materiality:

Concerning the concept of double materiality, we suggest additional guidance with examples on how to consider and evaluate the entity's process of identifying materiality.

on the entity's materiality process, we suggest additional guidance to identify topics and aspects of topics to be reported on if the criteria is internally developed.

We also find that more guidance on the type of questions to ask to the client on the entity's double materiality assessment process is needed.

Center for Audit Quality

We believe that the exposure draft does not sufficiently address the practitioner's consideration of the entity's 'materiality process' in identifying topics and aspects of topics to be reported. While we support the overarching premise that ED-5000 needs to be framework neutral, there may be several frameworks, including the CSRD in Europe, that will require assurance practitioners to express an assurance conclusion on the entity's materiality process. While it may not be possible to go as far as addressing the specific work effort and form of conclusion when such conclusions are required, the practitioner's consideration of the entity's process forms such a critical element to the acceptance, planning and performance of an assurance engagement that we believe further attention is needed on this topic within the standard.

It is unclear where in the standard the practitioner's more detailed understanding of the entity's materiality process, beyond the initial preliminary understanding, is obtained. It may be implicit in the requirements in paragraphs 94-99, together with the required understanding of the components of the system of internal control, but it is not clear. For example, while we agree with the IAASB's guidance that distinguishes between the entity's materiality process and the practitioner's determination/consideration of materiality, it is not helpful that the primary application material referring to the entity's materiality process (paragraphs A273-274) is attached to the requirement's addressing the practitioner's determination of materiality.

We suggest para. 97 and/or 98 be expanded to create a more logical follow on from the preliminary understanding requirement and more directly address expectations for the level of the practitioner's further understanding of the entity's process to identify reporting topics, with appropriate supporting application material. Any requirements would need to be conditional as the materiality process may not be relevant in all instances, for example, if the disclosures to be reported are specified in the criteria, then there may not be a need for an in depth understanding and documentation of this process versus when the criteria allow for the entity to determine what should be reported.

CPA Australia

Sustainability information reported can be very narrow or cover a wide range of sustainability matters. ED-5000 is developed on the basis that it can be applied to reporting on all sustainability topics and aspects of topics. As an entity's "materiality process" is a user-driven concept, it can be a complex exercise, especially if the sustainability report covers a wide range of sustainability matters. The consensus view from our stakeholders is that the IAASB should include in its workplan, a project to develop a separate ISSA for Materiality. This standard would address both the assurance practitioner's consideration of the entity's "materiality process" and the practitioner's own materiality considerations in respect of the assurance engagement. We suggest the IAASB leverage the content in the EER Guidance, Chapter 4: Considering the Entity's Process to Identify Reporting Topics when developing the standard on Materiality.

ED-5000 requires the assurance practitioner to consider the entity's "materiality process" at various stages of the assurance engagement including at precondition assessment, planning, and the risk assessment stage. We are concerned about the extent of work required for assurance practitioners to consider and assess the entity's "materiality process" at each stage of the engagement as noted below:

at the preconditions assessment stage, the assurance practitioner is required to evaluate the appropriateness of the sustainability matters (paragraphs 71, A164 to A165)

when conducting risk assessment, the assurance practitioner is required to obtain an understanding of the sustainability matters and the sustainability information (paragraphs 97, A295 to A298)

in the context of applicable criteria, at preconditions, the assurance practitioner is to evaluate the suitability and availability of criteria (paragraph 72, A166 to A186) and when conducting risk assessment, the assurance practitioner is required to obtain an understanding of the applicable criteria by evaluating the appropriateness of the entity's policies or procedures to identify or develop, evaluate the suitability of, and apply the applicable criteria (paragraphs 98, A299 to A301).

There appears to be more work effort (evaluate) at the precondition assessment stage compared to the work effort (understand) at the risk assessment stage. We are of the view that there is an opportunity for the IAASB to streamline the requirements between precondition and risk assessment and to clearly distinguish the extent of work required at each distinct stage of the assurance engagement. In particular, we believe the IAASB needs to ensure any work effort at this stage of the assurance engagement does not exceed the work effort currently expected for financial statement audits. Expected work effort at the preconditions assessment stage for sustainability information assurance should therefore be consistent with the requirements in ISA 210, unless there is a compelling reason to deviate. The reasoning for any deviation from the approach in ISAs' should be included in the Basis for Conclusions of the ISSA.

We have also heard from stakeholders that more guidance and examples are required especially dealing with more challenging aspects of the engagement in relation to the practitioner's consideration of the entity's "materiality process" as follows:

How to deal with a situation when the entity and the assurance practitioner cannot agree on what is deemed to be material sustainability matters.

When dealing with a combination of framework criteria and entity-developed criteria.

Reporting framework-specific considerations. For example, how to apply ED-5000 requirements in the GRI reporting framework that deals with "double-materiality" in contrast to IFRS S1 and S2 which deals with single materiality.

We also understand there is some confusion about the terms "materiality process" (entity) versus "materiality" (practitioner). The IAASB may wish to provide educational material. ED-5000 assigns three terms ("process to identify reporting topics," "materiality assessment," or "materiality process") and highlights these by using quotation marks for the entity's process to identify and select topics and aspects of topics to be reported (paragraphs A157, A273 of ED-5000). These three terms are used interchangeably in ED-5000. For example, "materiality process" is used in paragraph A275, and "materiality assessment" is used in paragraph A400. Furthermore, "materiality process" is a term used in the Global Reporting Initiative (GRI) reporting framework whilst ED-5000 is designed to be framework-neutral. Additionally, the term "materiality assessment" is a common term used in an assurance engagement.

To address any confusion and inconsistencies that may arise from the above, we recommend the IAASB only uses one term in the standard. Our preference is to retain the entity's "process to identify reporting

topics” but with a slight tweak to the entity’s “process to identify material reporting topics” and remove the other two terms. The term “materiality process” could be repurposed as an example of the term used in the GRI reporting framework to describe the entity’s process to identify reporting topics.

We also found the IAASB’s FAQs for Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner (Materiality FAQs) to be helpful. The explanation provided for question 2 in the Materiality FAQs on the entity’s process for identifying the matters to disclose is particularly helpful. We encourage the IAASB to include this content in the standard or alternatively, we suggest paragraph A157 of ED-5000 is rewritten so that it’s more consistent with the Materiality FAQs. We are of the view that this important guidance should be moved to the Requirements section of the standard, and not included in the application paragraph.

Additionally, we suggest the IAASB create a resource hub where all existing resources including the Materiality FAQs and future resources be made available at a central location that is easily accessible to all.

European Commission Platform on Sustainable (PSF)

The Platform’s response to question 9 should be considered in conjunction with other materiality consultation questions. Considering that the proposed ISSA 5000 is a comprehensive standard, the Platform observes a gap and a lack of sufficient guidance on how assurance providers should evaluate the relevance and completeness (i.e., correctness) of various topics to determine their materiality. This concern is pertinent to all three questions related to materiality in the consultation.

The Platform expresses its concern about leaving materiality assessment at the discretion of either assurers or corporates. The current proposal lacks detailed guidance on how to assess materiality, leaves room to differing interpretation and denotes ambiguity. This position is consistent with the Platform’s response to the Consultation on the European Sustainability Reporting Standards (ESRS) regarding materiality assessment, in which it recommended the European Commission to issue proper guidance. Currently, in the EU materiality assessments are allowed to be carried out in various ways, without explicitly prescribed right or wrong approaches.

In the absence of such guidance, the Platform foresees challenges when assurance providers are tasked with considering or determining materiality for qualitative and quantitative disclosures during both the planning and execution phases of the assurance engagement. Users of information may have diverse opinions on what may be material and at what level a topic is material to their decision-making, leaving room for variability, especially in quantitative disclosures.

The Platform disagrees with assigning this task to assurance providers in the planning and signing-off stages. It might place assurers in conflicting positions vis-à-vis their clients.

Diverging opinions might also emerge between assurers or be determined exclusively by those owning the largest shares of the assurance market.

The Platform therefore stresses the need for:

defining a detailed materiality process with clarity on relevance and completeness or at least a minimum expected level of activities carried out to define double materiality with reasonable accuracy, and, setting a baseline framework at sectoral level to determine material Sustainability issues.

The European reporting framework is subject to double materiality, as opposed to ISSB and other standards.

While guidance on financial materiality is welcome and needed, much more critical is to develop specific and clear guidelines when assessing impact-materiality. The latter ought to be science and evidence based. The Platform reiterates its strong belief that impact materiality ought to be the subject of guidance issued by the European Commission.

The Platform believes that it is the role of the European Commission alongside EFRAG, in the European context, and the ISSB, when referring to the international standards to develop such guidance for double materiality in the case of the former and on financial materiality in the case of the latter.

The Platform recommends ISSB to work together with standard setters from regional and national jurisdictions, notably EFRAG to develop an assurance framework for financial materiality.

Detailed guidance on how to conduct (double) materiality brings multiple benefits. It ensures comparability, consistency and standardisation not only on the assessment but in reporting, allowing to compare apples to apples. Additionally, such guidance helps minimize costs, as obtaining assurance may become expensive if assurance providers have to invest considerable time in assessing the relevance and completeness of criteria without standardised guidance.

Institute of Chartered Accountants in England and Wales (ICAEW)

Materiality is a key topic for assurance engagements, regardless of the degree of assurance involved. This is an area that has attracted much attention throughout the development of ED 5000. As a keystone concept it is crucial that the standard is as clear and straightforward as possible.

We believe that the distinction between the entity's and the assurance provider's materiality is not made sufficiently clear in ED 5000. There is also scope for clarification on the role of the assurance provider in evaluating the entity's materiality assessment process and/or the outcome of that process. This is especially true where double materiality and a wider range of intended users applies. In particular, we believe that the question as to the implications if the practitioner disagrees on the material topics identified by the entity is not sufficiently addressed in ED 5000.

We believe it is necessary to identify a specific requirement in the proposed standard, as part of the practitioner's risk assessment, addressing evaluation of the entity's materiality assessment process. Such a requirement should refer to materiality as defined in the applicable criteria relating to the engagement. This would mean that in double materiality frameworks, the assurance provider would need to consider both materiality assessments.

In our view, consideration of the materiality assessment process should require risk assessment and substantive procedures for example:

risk assessment: understanding the process (limited assurance) or design and implementation (reasonable assurance)

substantive: challenging the outcome of the materiality process and documenting the outcome from different steps in the process and challenging these (both limited and reasonable assurance)

We believe that 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 or 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).

Institute of Chartered Accountants of Scotland (ICAS)

This is a very challenging area and one in which we believe further consideration is required by the IAASB as we believe that further clarification is required between the entity's materiality assessment and the assurance provider's determination of materiality.

Instituto de Censores Jurados de Cuentas de España (ICJCE)

Discussion of the practitioner's consideration of the entity's materiality process is currently limited to the application material (A157 and A273) but given that the entity's materiality process is fundamental for the sustainability information upon which we are opining, a clearer requirement in the body of the standard needs to be included to clarify the practitioner's responsibilities in relation to understanding the entity's materiality process to identify topics and aspects of topics to be reported.

The suggested approach will consider the responsibilities of the process according to Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, Article 34 is amended as follows: (a) (ii) (aa) where applicable, express an opinion based on a limited assurance engagement as regards the compliance of the sustainability reporting with the requirements of this Directive, including the compliance of the sustainability reporting with the sustainability reporting standards adopted pursuant to Article 29b or Article 29c, the process carried out by the undertaking to identify the information reported pursuant to those sustainability reporting standards, and the compliance with the requirement to markup sustainability reporting in accordance with Article 29d, and as regards the compliance with the reporting requirements provided for in Article 8 of Regulation (EU) 2020/852.

Malta Institute of Accountants (MIA)

When conducting such engagements, there are two aspects to materiality at play: the entity which is adopting the double materiality approach when reporting, and the auditors who need to have their own materiality set for testing/procedural reasons. While both concepts are clear, the proposed ISSA 5000 does not seem to go into any details and/or provide any guidance on the process to be adopted by the auditor in auditing the double materiality concept. We suggest that more guidance is provided in relation to the procedures that need to be performed in this regard.

Furthermore, the scope of work for financial reporting purposes is different (narrower) than that for reporting under the Corporate Sustainability Reporting Directive (CSRD), with the latter having the consideration of upstream and downstream. This means that there might be the need to place reliance on other auditors, which might result in possible misalignments between materialities. A further challenge might also be created when placing reliance on expert reports. Materiality is typically allocated to component parts, but it is currently unclear what will happen in this case.

One final comment would be in relation to qualitative disclosures, which feature more than quantitative ones when it comes to sustainability, and more specifically the fact that, without further guidance and clarification, it will be challenging to determine where to cross the line in this regard.

New York State Society of Certified Public Accountants (NYSSCPA)

Response: No. It does not appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported. Although we agree with the IAASB's view on avoiding imposing requirements on the practitioner that may be unnecessarily onerous prior to acceptance or continuance of the engagement, we recommend incorporating the existing current guidance for

materiality from ISAE 3000 (Revised) to make it clearer and more consistent. We believe this change will not only create consistency with existing requirements, with which practitioners are already familiar, but it will also help avoid any potential doubt or inconsistency in the application of the Standard by practitioners.

We further note that the conditional requirement in paragraph 107L is confusing. We understand that the IAASB's intent is for practitioners to obtain an understanding of only relevant scope controls when performing limited assurance and recommend that the IAASB revise the wording accordingly to make this clearer.

Nordic Federation of Public Accountants (NRF)

We appreciate the IAASB has made big efforts in providing definitions, requirements, and application material, to address the matter of material topics and the entity's materiality process. However, due to the use of the same wording having different meaning in assurance- versus reporting standards, the concepts are still unclear among stakeholders.

In many reporting frameworks, the materiality process is central to identifying the information that should be reported on. The double materiality assessment is central in the European Sustainability Reporting Standards (ESRS) and according to EU-law a practitioner is required to express a conclusion on the entity's process to determine material topics. ED-5000 focuses on the practitioner's understanding of the process, but due to the requirements in some jurisdictions to express a conclusion on the process, the practitioner also need to evaluate the process performed against criteria in the reporting framework. The ED-5000 touches upon this in the Preconditions for an Assurance Engagement section (A156-157) but doesn't cover the necessary considerations to be made in the evaluation phase nor how to express a conclusion on the process in the reporting section of the standard. The practitioner's considerations could be elaborated in the section on materiality (para 91-92/A273) and in the section covering "Other Misstatement Consideration" (para 144/A417 a).

According to A403 the scope of the engagement may cover an opinion on a) the entity's description of the process and b) whether the processes, systems and controls are suitable, or operated effectively throughout the period. A403 should be complemented by c) the process carried out by the entity to identify the information reported pursuant to the sustainability reporting framework.

A275 states "Management's "materiality process" differs from materiality considered or determined by the practitioner.". This is correct and crucial, but the paragraph could be elaborated by adding: "...however the practitioner may need to evaluate if the management's materiality process is conducted, in all material respect, according to the sustainability reporting framework".

Securities Analysts Association of Japan

We did not initially believe that ED-5000 appropriately addressed the concept of materiality. This is because, while paragraph A157 of ED-5000 and paragraph 54 of the EM state that the entity's "materiality process" is not the same as the application of materiality by the practitioner, they do not state that the concept of materiality is the same for the entity and the practitioner. Therefore, we were concerned that this would make it difficult for users to understand the concept of materiality.

However, our concern has already been addressed by the "Frequently Asked Questions - Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance" (FAQ) published by the IAASB on October 25, 2023. As explained in the FAQ, ISSA 5000 should clearly state that the concept of materiality is the same for the entity and the practitioner (i.e., it is a user-driven concept, that is, it is affected by

perceptions of the information needs of intended users of the sustainability information), and then should state that the entity's "materiality process" is not the same as the application of materiality by the practitioner.

With respect to the application of materiality, we believe that the key issue is to ensure confidence in the process of identifying material sustainability information. The ISSB Standards require a preparer to ① identify sustainability-related risks and opportunities and ② disclose information that is material with respect to the identified risks and opportunities. From users' perspective, the most important issue is to ensure that these processes are established and properly operated by an entity so that material sustainability information is disclosed in a comprehensive and complete manner. Because ISSA 5000 is an overarching standard, it may be difficult to provide detailed requirements for the processes used to identify material sustainability information. However, we believe that guidance should be developed to address this issue and that a specific standard should be developed in the future.

11. Academics

Accounting and Finance Association of Australia and New Zealand

We consider that the term "materiality process" is likely to cause confusion and should be avoided in favor of using an alternative term such as "process to identify reporting topics" which is already used in the ED.

12. Individuals and Others

Capitals Coalition

In general the consideration of the materiality process should cover:

an understanding of the information required to address a scope that was based on the international definition of sustainability (and sustainable development as per Brundtland, 1987) and the requirement for information on performance

an understanding of stakeholder identification and engagement process.

an understanding of the process by which the resulting information has been filtered to a particular scope; and

the nature and quality of the evidence that underpins the assessment

We recommend that this approach is used in the ED because anything other than this approach would not represent a 'rational purpose' for sustainability assurance.

International Accreditation Forum (IAF)

ED-5000 addressed much on "materiality considered or determined by the practitioner", but not "materiality assessment" of the entity or "double materiality". Explanatory Memorandum paras.52-55 could be also addressed by Para. 72(c)), A172.and A179: "Relevance of the Criteria". Yet these parts haven't been connected and aligned in the current drafts.

ED-5000 Paras.52 – 55 does not appropriately address the practitioner's consideration of the entity's "materiality process" to identify topic and aspects of topics to be reported.

In addition, there are different definitions of materiality and only the double materiality is highlighted. This is one of the newest concepts, but a more neutral wording of paragraphs 59 and 60, open to other definitions

of materiality, would make the document more inclusive. Not all organizations need to comply with CSRD, so broad the concept. We have GRI, AA1000 Accountability Principles and SASB with their own definition.

The materiality of the client should be part of the assurance engagement if it is part of the scope of the audit. Otherwise, the auditor develops his own materiality study to define the assurance process, and this should be the focus of the ED-5000. Emphasize the importance of the materiality in the engagement, what value it has for the project, how it is to be used and how it is to be performed independently of the client's materiality.

If the client has done a double materiality, good for them. But it does impact the assurance materiality that still need to be performed.

And if the scope of the assurance is just few KPIs, how the materiality impact it? It is not answered in the document.

The materiality is addressed in general way but not helping to really determinate the engagement effort.

IAF recommends IAASB to define an approach to give a clear description of the entity's "materiality process" in the ED-5000, which should cover a process of materiality identification and prioritization including:

Stakeholders' identification and mapping

Stakeholders' analysis (consistency, relevance, dependencies, etc.)

Suitability of the stakeholders' engagement plan (channels, frequencies, sampling, etc.)

Stakeholders' engagement implementation and monitoring

Stakeholders' engagement review and analysis of results (it includes the resolution of tradeoffs among different Stakeholders' prioritization on the same material topic)

Validation of the material topics prioritization

IAF recommends IAASB to clarify if in ISSA it is suggested to conduct the assurance process only to material topics identified by client OR to all information shared by the organization.

The practitioner should be including the evaluation the entity's "materiality assessment" as part of the scope of the assurance, in order to fulfill the evaluation of "Relevance of the Criteria".

It would also be useful to clarify the deliverable and the specification of the limitation (if applied); especially when ISSA 5000 is applicable in regard to legal requirements the limitation of scope can be having a huge impact on liability (e.g. is it correct in regard to CSRD perimeter to focus only on few material topics even if the company report to more indicators)

It is also crucial to clarify if the engagement covers more than one standard, how the deliverable should look like (integrated, departed etc).

Japan Accreditation Board (JAB)

ED-5000 has a room for improvement to define the requirements how to evaluate the entity's materiality process, as to provide the consistent assurance among various practitioners and accredited assurance bodies. Otherwise, this framework may cause variation in assurance among various practitioners and accredited assurance bodies.

Without Explanatory Memorandum Section 1-F, it is difficult to conduct how the entity shall evaluate the materiality process to identify topics and aspect of topics for reporting.

JAB recommends the review of A273 and A 275 of ED 5000 to clarify how entity shall conduct the materiality process.

JAB suggests IAASB to consider the following approach:

Stakeholders' identification and mapping

Stakeholders' analysis (consistency, relevance, dependencies, etc.)

Suitability of the stakeholders' engagement plan (channels, frequencies, sampling, etc.)

Stakeholders' engagement implementation and monitoring

Stakeholders' engagement review and analysis of results (it includes the resolution of tradeoffs among different Stakeholders' prioritization on the same material topic)

Validation of the material topics prioritization