

Sustainability Assurance ED-5000 Feedback and Issues

Josephine Jackson, Sustainability Assurance Task Force Chair

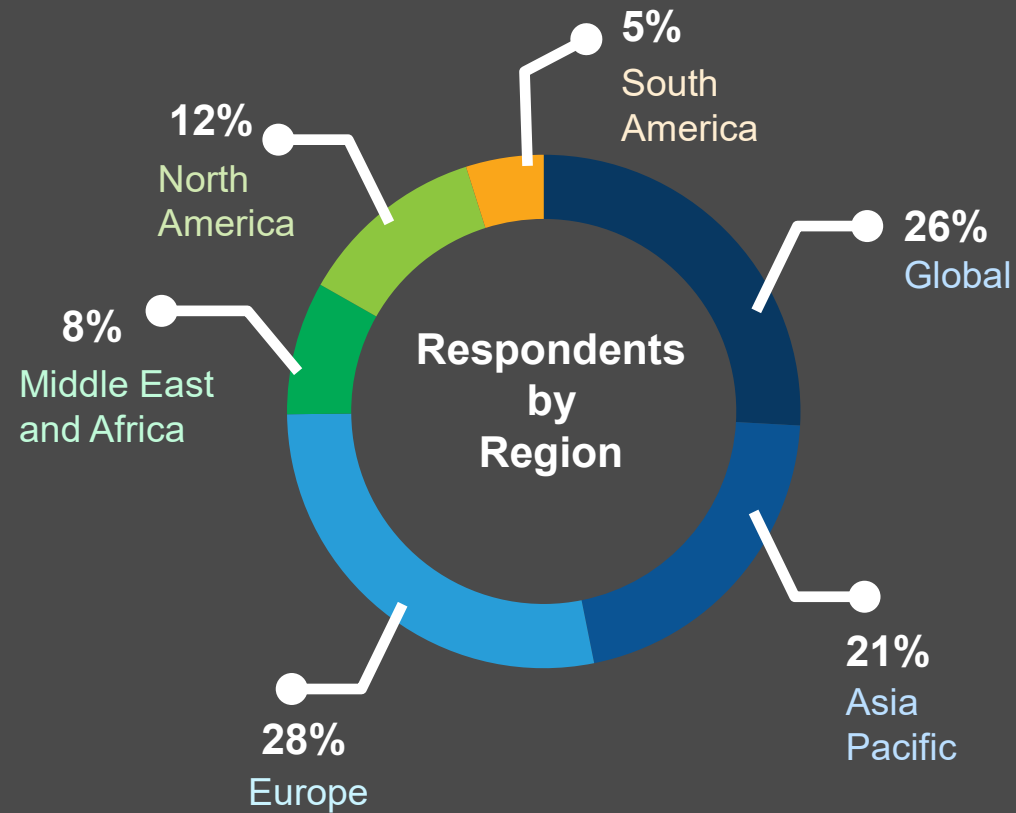
IAASB Meeting
March 18, 2024
Agenda Item 3

Sustainability Assurance Task Force



Dublin

ED 5000 – Responses Spread across Regions and Stakeholders



Stakeholder Type	Number
Monitoring Group	4
Preparers, Users and Those Charged with Governance	15
Regulators and Audit Oversight Authorities	11
National Auditing Standard Setters & Global Standard Setters	16
Assurance Practitioners (Accounting Profession & Other Profession)	26
Member Bodies and Other Professional Organizations	53
Other Respondents, including: Public Sector Organizations, Academics or Academic Body, Individuals and Others	18
Total	143*

* 3 late comment letters were received that were not included in the comment analysis but will be considered in finalizing the standard.

What We Heard

Strong support for ED-5000

Rapid speed of
development



Broad global
baseline



Underpinned by
ethics and quality
management



Covering entire
engagement



Overarching Themes from the Responses

March 2024 - Significant Comments

Scope and Applicability of Proposed ISSA 5000 

Sustainability Matters, Sustainability Information & Disclosures 

Relevant Ethical Requirements & Quality Management Standards 

Materiality 

Engagement Team, Using the Work of Others & Group Engagements 

Limited Assurance vs. Reasonable Assurance 



Educational Materials

June 2024 – Remainder

Public Interest Responsiveness

Preconditions

Estimates & Forward-Looking Information

Fraud (including “Greenwashing”)

Reporting and Communication

Other Matters

Analysis of Respondents' Feedback on ED-5000

Analysis provided for each Explanatory Memorandum question:

- Numbers of responses, including Monitoring Group members
- Highlights
- Descriptive summary of comments under themes identified
- Supplemental material with response data and detailed comments

“What We Heard” Sections in:

- Agenda Items 3-A to 3-G
- Agenda Item 3 (Appendix 4)

Supplemental materials:

- Agenda Items 3-I and 3-J

General question across all topics:

- Does the IAASB agree with the SATF summary of respondents' feedback presented?
- Are there any other significant issues raised by respondents that should be discussed?

Respondents' feedback on specific questions to be raised in the discussion under each Agenda Item

Agenda Item 3-A

Scope and Applicability of Proposed ISSA 5000

Dan Montgomery,
Project Co-lead

IAASB

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and Assurance
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Agenda Item 3-A Scope and Applicability of Proposed ISSA 5000

SATF Views and Recommendations:

- ISSA 5000 to apply to all assurance engagements on sustainability information (including GHG-related information, regardless of form).

Paragraphs in Agenda Item 3-H:

- 6A

Matter for IAASB Consideration:

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000, as described in **Agenda Item 3-A**. In particular, the SATF seeks the Board's input on the recommendation for proposed ISSA 5000 to apply to all sustainability assurance engagements.

Agenda Item 3-B

Sustainability Matters, Sustainability Information and Disclosures

Dan Montgomery,
Project Co-lead

IAASB

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Agenda Item 3-B Sustainability Matters, Information and Disclosures

SATF Views and Recommendations

- Targeted revisions to definition of sustainability matters
- Slight revision to definition of sustainability information
- Retained reference to disclosures (vs. “sustainability disclosures”)

Paragraphs in Agenda Item 3-H

- 17(a2), 17(h), 17(i), 17(uu), 17(vv)
- 4, A16, A32
- Appendix 1

Matters for IAASB Consideration:

1. The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000, as described In Agenda Item 3B, and in particular:
 - (a) The definition of sustainability matters
 - (b) The definition of sustainability information
 - (c) The definition of and reference to disclosures

Agenda Item 3-C

Relevant Ethical Requirements and Quality Management Standards

Jamie Shannon,
Drafting Team

IAASB

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Agenda Item 3-C Relevant Ethical Requirements & QM Standards

SATF Views and Recommendations:

- Clarified requirements and added guidance on “at least as demanding”
- Streamlined the definition of relevant ethical requirements
- Acknowledged the key role of regulators and standard setters
- Transparency about ethical requirements applied in the assurance report
- Require documentation of the basis for the practitioner’s determination of “at least as demanding”

Paragraphs in Agenda Item 3-H

- 17(nn)
- 29, 68(aa)
- A48, A58A-A58B

Matter for IAASB Consideration:

1. The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000, as described in Agenda Item 3-C

Agenda Item 3-D

Materiality

Claire Grayston,
Project Co-lead

Kazuko Yoshimura,
Staff

Agenda Item 3-D Entity's Materiality Process

SATF Views and Recommendations

- Proposed term “entity’s process to identify sustainability information to be reported”
- New requirement and application material to consider whether the entity has a process in acceptance and continuance phase
- New requirement to include the entity’s process when obtaining an understanding the entity’s information system and communication
- New application material on understanding the process.

Paragraphs in Agenda Item 3-H

- 3A, 70(a), 105A(a)
- A1A, A163A, A344A–A344C
- Deleted: A191, A192, A271, A273, A280A

Matters for IAASB Consideration:

1. The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000 with respect to the entity’s “materiality process,” in particular:
 - (a) Use of the term “entity’s process to identify sustainability information to be reported”.
 - (b) The practitioner’s consideration of the entity’s process to identify sustainability information to be reported in acceptance and continuance.
 - (c) The practitioner’s work effort during the engagement on the entity’s process to identify sustainability information to be reported when understanding of the entity’s information system and communication.
 - (d) Whether further guidance is needed on the entity’s process to identify sustainability information to be reported in the performance of the engagement, in application material, a diagram in an appendix or implementation guidance.

Agenda Item 3-D The Notion of “Double Materiality”

SATF Views and Recommendations

- Clarified and simplified the terminology
- Clarified practitioner’s considerations in addressing double materiality
- Further application material and guidance

Paragraphs in Agenda Item 3-H

- 17(vv)
- A180, A274, A274A

Matters for IAASB Consideration:

2. The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000 with respect to the notion of “double materiality,” in particular:
 - (a) The description of double materiality.
 - (b) Guidance on practitioner’s work effort when double materiality applies.

Agenda Item 3-D Practitioner's Approach to Materiality

SATF Views and Recommendations

- Clarified the bifurcated approach (“considering” and “determining”)
- Clarified the practitioner’s application of performance materiality
- New requirements on:
 - Documentation for accumulation of misstatements and determination of material uncorrected misstatements
 - Revision of materiality

Paragraphs in Agenda Item 3-H

- 91-93, 144A
- A270, A271, A278, A279, A280, A280A, A282, A284A, A284B, A411A, A413, A416A, A423

Matter for IAASB Consideration:

3. The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000 with respect to the practitioner’s approach to materiality, in particular:
 - (a) The required work effort and documentation for the bifurcated approach.
 - (b) Application of performance materiality.
 - (c) Additional requirements and application material on materiality.

Agenda Item 3-F

Engagement Team, Using the Work of Others, and “Group” Engagements

Dan Montgomery,
Project Co-lead

Jamie Shannon,
Drafting Team

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Agenda Item 3-E Engagement Team and Using the Work of Others

SATF Views and Recommendations

- Added definition of “another practitioner” and revised definition of engagement team
- Clarified the concept of sufficient involvement
- Requirements for using work of experts apply to both internal and external
- Separate requirement for evaluating the work of a practitioner’s expert
- Application material on referencing an expert’s work in the assurance report
- New application material for overall engagement strategy
- Evaluating another practitioner’s independence and adequacy of their work
- Conditional requirement re: “one-to-many” assurance reports

Paragraphs in Agenda Item 3-H

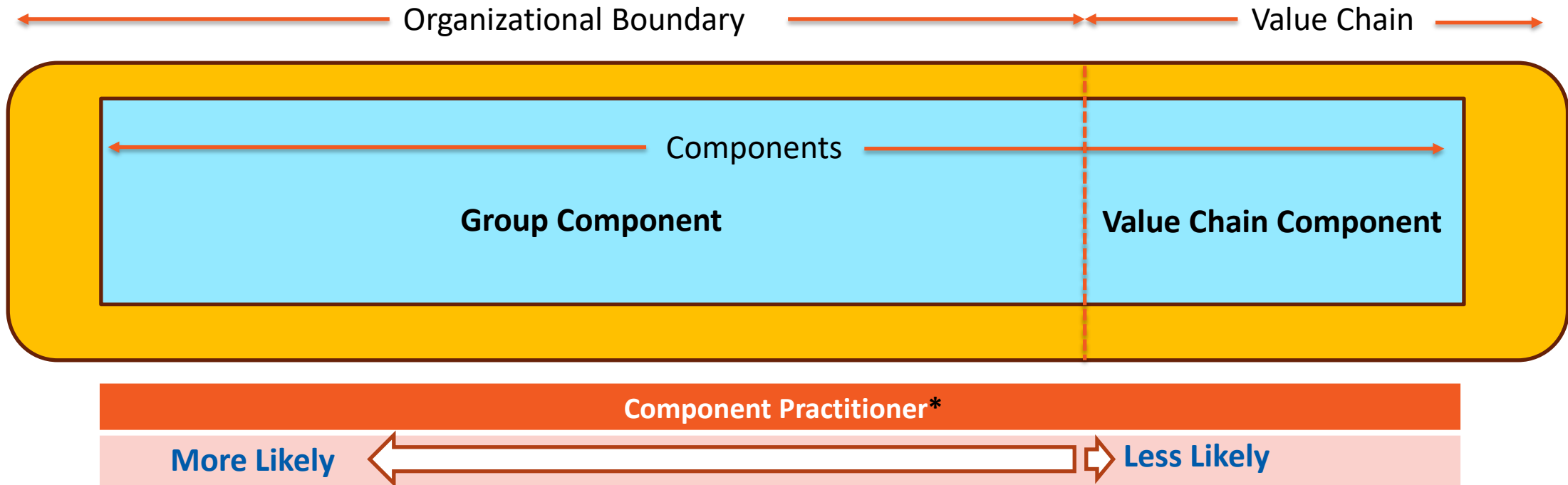
- 17(a1), 17(p)
- 41, 42, 51, 51A, 51BR, 53, 54A, 54B, 89A
- A22, A83, A87-A91, A111A-A111C, A114A-A115C, A269B, A494A

Agenda Item 3-E Engagement Team and Using the Work of Others

Matters for IAASB Consideration:

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000, as described in Agenda Item 3-E, and in particular the:
 - a) Definition of another practitioner, clarifications to the concept of sufficient involvement, and revisions to the definition of engagement team.
 - b) Revisions related to using the work of practitioner's experts.
 - c) Revisions related to using the work of another practitioner.

Agenda Item 3-E Group Engagements - Using Work of Others



Component – An entity, business unit, function or business activity, or some combination thereof, determined by the practitioner for purposes of planning and performing procedures on the sustainability assurance engagement.

** If the “group” practitioner is unable to be sufficiently and appropriately involved in the work, the other firm is “another practitioner” for purposes of this ISSA. This is more likely to be the case for a value chain component.*

Agenda Item 3-E Group Engagements

SATF Views and Recommendations

- New definitions specific to group engagements
- Added requirements
 - Overall engagement strategy and approach, including conditional requirement if information is aggregated from multiple entities or business units
 - Communications
 - Entity's "consolidation" or aggregation process
- Evidence from the value chain to be further considered

Paragraphs in Agenda Item 3-H

- 17(g1), 17(g2), 17(u1), 17(u2), 17(u3)
- 55A, 88, 89, 89A, 135AL, 135AR
- A128A-A128E, A269A-A269C

Matter for IAASB Consideration:

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000, as described in Agenda Item 3-E, and in particular the:
 - d) Requirements and application material related to "group" engagements.

Agenda Item 3-F

Limited and Reasonable Assurance

Susan Jones,
Drafting Team

Agenda Item 3-F Understanding the System of Internal Control

SATF Views and Recommendations

- Retain the understanding of the components of internal control for RA and LA engagements, but differentiate in separate side-by-side requirements
- New requirements to understand the results of both the entity's risk assessment process and the monitoring of controls for both LA and RA
- Relocation and clarification of the conditional requirement to understand control activities for LA
- Application material for a range of matters

Paragraphs in Agenda Item 3-H

- 102L/R, 103L/R, 104L/R, 105L/R, 106, 107R, 108L, 108R
- A339A-339C, A345LA, A349

Agenda Item 3-F Understanding the System of Internal Control

Matters for IAASB Consideration:

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000 for understanding the system of internal control, including:
 - a) Separate requirements for each component of internal controls in the columnar format (see paragraph 38 in Agenda Item 3-F).
 - b) Requirements for the results of both the entity's risk assessment process and monitoring of controls for both limited and reasonable assurance engagements (see paragraphs 39-40 in Agenda Item 3-F).
 - c) Relocation and clarification of the conditional requirement to understand control activities for limited assurance (see paragraph 41 in Agenda Item 3-F).
 - d) Application material (see paragraph 43 in Agenda Item 3-F)

Agenda Item 3-F Risk Procedures for Limited Assurance Engagements

SATF Views and Recommendations

- Requiring the practitioner, in a LA engagement, to identify and assess the risks of material misstatement for disclosures
- Clarifying the “spectrum of inherent risk”

Paragraphs in Agenda Item 3-H

- 94L, 110L, 111, 114L, 115, 125(c), 126L
- A349
- Conforming amendments – see paper

Matters for IAASB Consideration:

The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000 to require a risk assessment at the disclosure level for limited assurance.

Agenda Item 3-F Limited Assurance vs Reasonable Assurance

SATF Views and Recommendations

- Clarification of LA requirements for the “deep dive” and the depth of the understanding of the entity and its environment
- New requirement to determine whether the criteria are suitable
- New requirement for the revision of the risk assessment due to new information

Paragraphs in Agenda Item 3-H

- 98A, 132LA, 132RA, 133L
- A303, A385

Matters for IAASB Consideration:

1. The IAASB is asked for its views on the SATF’s recommendations and proposed revisions to ED-5000, with respect to the specific matters described in paragraphs 17 and 18 of Agenda Item 3-F.

Agenda Item 3G

Other Matters

Fadi Mansour,
Staff



Agenda Item 3-G Other Matters

SATF Views and Recommendations

Consider approach to:

- Connectivity between the sustainability information and audited financial statements
- Whether ISA 720 (Revised) remains an appropriate basis for the requirements related to other information

Matters for IAASB Consideration:

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

Way Forward to Finalization of ISSA 5000

Co-ordination with IESBA



March 2024 meeting

Q2 2024

Revisions to ED and
commence drafting
of first-time
implementation
guidance

Q3 2024

Development of final
pronouncement and
continue drafting
implementation
guidance

Q4 2024

PIOB approval of due
process for ISSA 5000
Finalization of first-
time implementation
guidance

June 2024 meeting

- ED-5000 analysis of remaining themes
- First full read of revised ED-5000

September 2024 meeting

- Second full read and approval of ISSA 5000



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