

Sustainability Assurance – Communication with Management, Those Charged with Governance and Others

This Agenda Item includes the analysis of comments received on Question 20 in the Explanatory Memorandum to ED-5000,¹ and the related SATF views and recommendations.

Background

1. Paragraph 62 of ED-5000 required the practitioner to determine whether, pursuant to the terms of the engagement and other engagement circumstances, any significant matters have come to the attention of the practitioner to be communicated with management, those charged with governance (TCWG) or others. Application material provided examples of significant matters that may be appropriate to communicate.
2. The IAASB was of the view that the requirement in paragraph 62 is consistent with ISAE 3000 (Revised)² and concluded that it remains appropriate, along with the related application material, given the evolving nature of sustainability assurance engagements and the different topics and aspects of topics that may be disclosed by the entity.

What We Asked

3. Question 20 asked respondents:

Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?

108 of 143 respondents provided a response to Question 20, including three Monitoring Group (MG) members. See **Agenda Item 2-H.6** for further details on the overall responses and **Agenda Item 2-I.6** for comments received on Question 20.

What We Heard

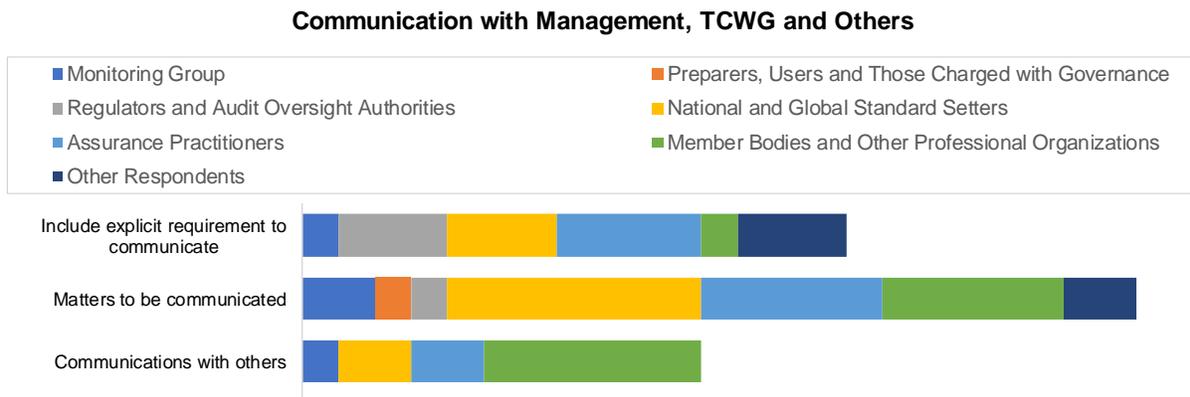
Highlights

- Calls for an explicit requirement for the practitioner to communicate with management and TCWG.
- Support for requiring the practitioner to communicate with the auditor of the financial statements, unless prohibited by law or regulation.
- Some suggestions to have a separate requirement for the practitioner to communicate with regulatory bodies.

¹ Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements, and Proposed Conforming and Consequential Amendments to Other IAASB Standards*.

² ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Statements*

4. The chart below shows a breakdown of the responses to Question 20 by theme and stakeholder group.



Monitoring Group Responses

5. Two MG members agreed with the high-level requirement in ED-5000 regarding communication with management and TCWG, given the evolving nature of sustainability assurance engagements and the different topics and aspects of topics that may be disclosed by the entity. Suggestions from these MG members included:

- (a) Certain enhancements to align with the requirements in ISA 260 (Revised),³ including:
 - i. Extending the communication requirements to the practitioner’s responsibilities in relation to the sustainability reporting, the planned scope and timing of the engagement, and the practitioner’s independence.
 - ii. Reporting practices that may be acceptable but which the practitioner considers may not be the most appropriate to the particular circumstances of the entity (similar to paragraph 16(a) of ISA 260 (Revised)).
 - iii. If internal control deficiencies have been identified, the written communication should cover information to allow for an understanding of the deficiencies and their potential impacts.

- (b) Addressing communication with regulatory bodies and financial statement auditors.

6. One MG member suggested moving the matters in paragraph A137 of the application material to the requirements, with the exception of identified deficiencies in internal control.

Other Respondents’ Comments

Explicit Requirement to Communicate with Management and TCWG

- 7. Some respondents highlighted the importance of the practitioner communicating with management and TCWG and that the current requirements in paragraph 62 of ED-5000 should be strengthened.
- 8. Respondents noted that the practitioner should engage and communicate with TCWG more directly rather than rely solely on interactions with management. Accordingly, these respondents (in addition to one MG member) supported an explicit requirement in ED-5000 to communicate with TCWG and

³ ISA 260 (Revised), *Communication with Those Charged with Governance*

proposed several matters that should be required to be communicated (see the following section of this paper).

9. A few respondents suggested that the communication requirements with management and those charged with governance be more consistent with the communication requirements in ISA 260 (Revised) or ISA 265.⁴
10. One respondent noted that an explicit requirement to communicate with management and TCWG (such as the requirement in paragraph 42 of ISRE 2400 (Revised))⁵ would be inherently scalable. If the sustainability matter is relatively less complex or narrow in scope, or the system of internal control is less mature, then any related communications would also likely be less extensive, or it would be less likely that the practitioner would identify a significant matter that would need to be communicated.

Matters to Be Communicated

11. Some respondents provided suggestions for matters to be communicated with TCWG. Respondents variously suggested that specific matters either be included as part of an explicit requirement (see the discussion in the previous section of this paper) or be added to the current application material in paragraphs A137 and A138 of ED-5000.
12. Suggestions for specific matters to communicate with TCWG were diverse and included:
 - Planned scope and timing of the engagement
 - Relevant ethical (including independence) and quality management requirements
 - Uncorrected material misstatements in sustainability information or other information
 - Identified or suspected fraud or non-compliance with law or regulation and responses thereto
 - Significant findings

Communication with “Others”

13. Similar to the view expressed by one MG member, a few respondents highlighted the connectivity between the sustainability information reported and the audited financial statements and the importance of communication between the sustainability assurance practitioner and the auditor of the financial statements. Some respondents suggested a requirement for the practitioner to communicate with the auditor of the financial statements, if not prohibited by law or regulation.
14. A few respondents requested further clarification of the term “others” and to clarify if it relates to regulators. One respondent suggested that a requirement to communicate with regulators could be for the practitioner to “determine whether” communication was necessary in the circumstances.

Other Matters

15. A few respondents considered that the requirement in paragraph 157(b) of ED-5000 contradicts the high-level requirement of communication with management and TCWG, as it seems to prioritize communicating misstatements in other information over misstatements in sustainability information.

⁴ ISA 265, *Communicating Deficiencies in Internal Control*

⁵ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

These respondents suggested moving this requirement to the application material (paragraph A137) as part of the significant matters that the practitioner should consider communicating with TCWG.

16. Some respondents supported the development of guidance and examples to enhance clarity about communication with management, TCWG and others (especially the auditor of the financial statements).

SATF Views and Recommendations

Explicit Requirement to Communicate with Management and TCWG

Relevant Paragraphs		
Introduction and Requirements Agenda Item 2-A.1	Application Material Agenda Item 2-A.2	Related Definitions
62	A137	N/A

17. The SATF noted that a majority of respondents, across all stakeholder groups, agreed with the high-level requirement in paragraph 62 of ED-5000. However, the SATF also noted that some respondents, including one MG member, were supportive of an explicit requirement to communicate with management and TCWG, given the evolving nature of sustainability assurance and the importance of effective two-way communication during a sustainability assurance engagement.
18. On balance, the SATF concluded that a more explicit requirement to communicate with management and TCWG would be appropriate, and that the requirement in paragraph 42 of ISRE 2400 (Revised) would provide an appropriate basis for such a requirement. Therefore, the SATF has proposed a revised requirement in paragraph 62 of **Agenda Item 2-A.1** based on the requirement in ISRE 2400 (Revised).
19. The SATF considered respondents' suggestions for items to be added, either in the requirements or the application material, as examples of matters to be communicated to management or TCWG. The SATF also noted the many of the matters suggested are currently included in paragraph A137 of **Agenda Item 2-A.2** but was supportive of adding the following:
 - Circumstances that affect the form and content of the assurance report, if any
 - Matters relating to estimates, forward-looking information, and inherent uncertainties, and related disclosures.

Communication with Others

Communication with the Auditor of the Financial Statements

Relevant Paragraphs		
Introduction and Requirements Agenda Item 2-A.1	Application Material Agenda Item 2-A.2	Related Definitions
158(a)	N/A	N/A

20. The SATF noted the comments in response to Question 20 regarding the importance of the connectivity between the sustainability information being reported and the audited financial statements, including calls for a requirement for the practitioner to communicate with the financial statement auditor.
21. Respondents also raised the issues of connectivity with the audited financial statements and communication with the auditors as part of their answers to Question 25 (Other Matters). As discussed with the Board in March, the analysis of the responses to Question 25 showed that the issue of connectivity between the practitioner and the auditor of the financial statements was mentioned most often in the context of responsibilities for other information. The IAASB supported a conditional requirement in proposed ISSA 5000 for the practitioner to communicate with the auditor of the entity’s financial statements if a material inconsistency is identified between the sustainability information and the audited financial statements, when the financial statements are part of the other information.
22. The SATF notes that paragraphs 157 and 158 and related application material deal with the response when the practitioner concludes that a material misstatement of the other information exists. Based on input from the Board in March that any communication with the auditor of the financial statements should be done following the required communications with TCWG about such a matter, the SATF has proposed a new conditional requirement in paragraph 158(a) of **Agenda Item 2-A.1**.

Communication with Regulatory Bodies

Relevant Paragraphs		
Introduction and Requirements Agenda Item 2-A.1	Application Material Agenda Item 2-A.2	Related Definitions
62	A139A	N/A

23. The SATF noted that only a few respondents, including one MG member, called for communication with regulatory bodies. These respondents noted that certain jurisdictions may establish requirements to report certain matters to bodies external to the entity (e.g., regulators). None of these respondents specified the matters that a practitioner should be required to report to a regulatory body.
24. The SATF also noted that the application material in paragraphs A131–A136 of **Agenda Item 2.A.2** states that laws, regulations, and relevant ethical requirements may require the practitioner to report

identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.

25. Although not supportive of adding a requirement for the practitioner to communicate with regulatory bodies, the SATF is of the view that targeted revisions could be made to clarify communications with “others.” Therefore, the SATF has:
- (a) Changed the subheading above paragraph 62 of **Agenda Item 2-A.1** to “Communication with Management and Those Charged with Governance.”
 - (b) Added application material (see paragraph A139A of **Agenda Item 2-A.2**), derived from paragraph A148 of ISA 540 (Revised).⁶

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 above.

⁶ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*