

Sustainability Assurance – Preconditions

This Agenda Item includes the analysis of comments received on **Questions 8 and 10** in the Explanatory Memorandum to ED-5000,¹ and the related SATF views and recommendations.

Background

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement

1. Consistent with the requirements in ISAE 3000 (Revised),² ED-5000 paragraph 69 required the practitioner to obtain a preliminary knowledge of the engagement circumstances as a basis for determining whether the preconditions for an assurance engagement are present in order to accept or continue the assurance engagement. The IAASB agreed that the practitioner's preliminary knowledge needs to encompass both the sustainability information to be expected to be reported and whether the scope of the proposed assurance engagement extends to all or part of that sustainability information.

Suitability and Availability of Criteria

2. As sustainability reporting frameworks and other criteria are evolving, suitable criteria may not be available for measuring or evaluating all of the sustainability matters that the entity intends to report. Accordingly, the IAASB included additional requirements to evaluate whether there are criteria for all of the sustainability information expected to be subject to the assurance engagement and to identify the sources of those criteria (paragraphs 72(a) and (b) of ED-5000 and related application material).
3. The IAASB acknowledged that framework criteria that are embodied in law or regulation or are issued by authorized or recognized bodies that follow a transparent due process are presumed to be suitable in the absence of indications to the contrary, but may need to be supplemented by additional entity-developed criteria, if the framework criteria do not provide sufficient detail to measure or evaluate the sustainability matters (paragraph A170 of ED-5000).

What We Asked

4. Question 8 asked respondents:

Is ED-5000 sufficiently clear about the practitioner's responsibility to obtain a preliminary knowledge about the sustainability information expected to be reported and the scope of the proposed assurance engagement? If not, how could the requirements be made clearer?

106 of 143 respondents provided a response to Question 8. None of the MG members responded. See **Agenda Item 2-H.2** for further details on the overall responses and **Agenda Item 2-I.2** for comments received.

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

5. Question 10 asked respondents:

Does ED-5000 appropriately address the practitioner’s evaluation of the suitability and availability of the criteria used by the entity in preparing the sustainability information? If not, what do you propose and why?

103 of 143 respondents provided a response to Question 10, including two MG members. See **Agenda Item 2-H.3** for further details on the overall responses and **Agenda Item 2-I.3** for comments received.

What We Heard

Highlights

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement

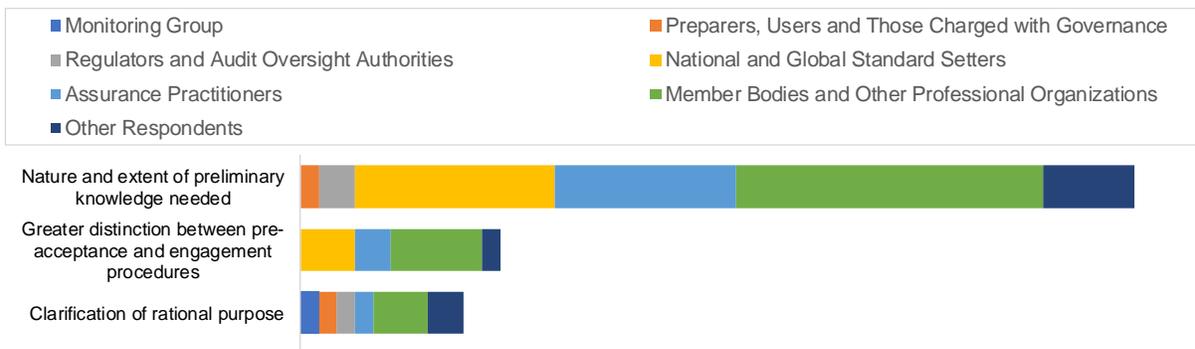
- Clarify the nature and extent of work effort needed in obtaining a preliminary knowledge to establish whether the preconditions are present.
- Clear differentiation of the work effort at the acceptance and continuance stage from the work effort during the engagement, highlighting that the preliminary knowledge obtained provides the basis for subsequent planning and risk procedures.
- Greater clarity regarding the basis for determining if the engagement has a rational purpose.

Suitability and Availability of Criteria

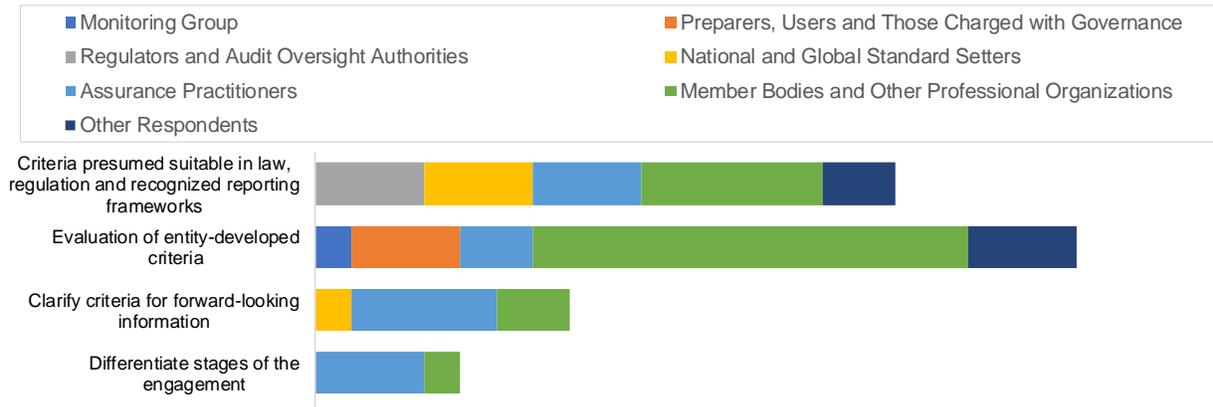
- Strengthen the presumption of the suitability of criteria provided in law, regulation and recognized reporting frameworks.
- Greater emphasis on the evaluation of the suitability of entity-developed criteria.
- Differentiation between the stages of the engagement with respect to the work effort on the suitability of the criteria.

6. The charts below show a breakdown of the comments on questions 8 and 10 by theme and stakeholder group.

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement



Suitability and Availability of Criteria



Monitoring Group Comments

7. While agreeing with the requirement for the practitioner to evaluate the suitability and availability of the criteria, the MG members that responded to Question 10 suggested that:
 - (a) Examples of criteria, in relation to both quantitative and qualitative sustainability information, may be helpful to allow for practical and consistent application.
 - (b) Clarify that when fair presentation framework criteria are supplemented by entity-developed criteria, that those criteria need to be consistent with fair presentation.
 - (c) The concept of “rational purpose” lacks specificity, particularly if the engagement is not based on a legal or regulatory requirement.

Other Respondents’ Comments

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement

8. Overall, respondents expressed strong support for the requirement to obtain a preliminary knowledge of the engagement circumstances, including the sustainability information to be reported and the scope of the proposed assurance engagement. However, some respondents were of the view that the extent of the knowledge required may be too onerous prior to acceptance or continuance of the engagement.

Nature and Extent of Preliminary Knowledge

9. Respondents considered that the nature and extent of the requirements or application material implied a level of understanding that is more appropriate in the planning or risk assessment phase. In particular, it was noted that the extent of application material implies a level of detailed understanding that is unlikely to be commensurate with what is reasonable as part of a preliminary understanding.
10. Respondents identified the following additional challenges for practitioners in obtaining information to inform their preliminary knowledge:
 - (a) Access to the information prior to acceptance may be constrained by confidentiality restrictions.

- (b) When the entity is preparing the sustainability information for the first time in accordance with relevant criteria, the entity’s reporting process may still be under development or certain matters may not yet be known.
11. Respondents suggested that the nature and extent of work effort on the preconditions at the acceptance and continuance stage could be clarified by:
- (a) Defining “preliminary knowledge” to indicate what that knowledge may include;
 - (b) Limiting the preliminary knowledge to what is “sufficient to determine whether or not the practitioner is able to accept or continue the engagement,” or information “available without undue effort or cost;”
 - (c) Requiring the practitioner to “consider” rather than “evaluate” the preconditions or limiting the procedures to inquiries such as “discussion with the appropriate party(ies);” and
 - (d) Amending paragraph 70(b) to add that management or those charged with governance are “expected to have” a reasonable basis for the sustainability information as it may not be possible at the acceptance and continuance stage to evaluate whether the entity has a reasonable basis.
12. Respondents suggested that additional application material was needed or existing application material could be expanded to:
- (a) Explain that some detailed aspects of the scope of the proposed engagement may not be known at the acceptance and continuance stage, but that may not preclude the practitioner from accepting the engagement. For example, all value chain entities within the reporting boundary may not yet be identified or the entity’s process to identify sustainability information to be reported may not yet be developed.
 - (b) Provide more specificity about what the preliminary knowledge should cover.
 - (c) Clarify the impact of the matters listed in the application material. For example, remove reference to the likelihood that sufficient appropriate evidence will be available to support an “unmodified” conclusion in paragraph A189, as it implies that the practitioner should expect to be able to provide an unmodified conclusion to accept the engagement.

Greater Distinction between Pre-acceptance and Engagement Procedures

13. Some respondents called for a clearer distinction between the work on the preconditions conducted at the acceptance and continuance stage from the work performed during the engagement planning and risk assessment.
14. Some respondents considered that the complexity and iterative nature of the practitioner’s determination of whether the preconditions for an assurance engagement are present was not sufficiently acknowledged in ED-5000. Those respondents suggested that additional requirements and related application material were needed to clarify that a more extensive understanding of the preconditions would be necessary after engagement acceptance that builds on the preliminary knowledge.

Clarification of Rational Purpose

15. Some respondents considered that the concept of a rational purpose in paragraph 74 of ED-5000 is challenging in practice under extant standards, as it is not often well-defined and lacks specificity. In addition, respondents called for clarification of how the practitioner uses the preliminary knowledge to determine the appropriateness of a narrow scope of the engagement, as well as illustrative examples of the consideration of whether there is a meaningful level of assurance for the intended users.
16. A few respondents considered that a presumption should be included in the requirements that assurance engagements required by law on specific sustainability information have a rational purpose.
17. One respondent called for clarification of the impact on the rational purpose if preconditions are met for some areas (where processes to gather information are more developed), but not others (as described in paragraph A198), that may create opportunity for management bias (see paragraphs A199(a)-(b) and A200).

Suitability and Availability of Criteria

18. Overall, a significant majority of respondents agreed that ED-5000 appropriately addressed the practitioner's evaluation of the suitability and availability of criteria used by the entity in preparing the sustainability information. Many respondents called for further guidance and examples and a number of respondents provided specific recommendations as detailed below.
19. A few respondents suggested that "evaluation" of the suitability of the criteria prior to making an engagement acceptance decision implied a more in-depth understanding of the criteria would be more appropriate in the planning and performance phase of the engagement.

Criteria Presumed Suitable in Law, Regulation and Recognized Reporting Frameworks

20. Respondents proposed that ISSA 5000 should recognize more clearly that framework criteria embodied in law, regulation, or issued by recognized bodies following due process are presumed to be suitable unless evidence suggests otherwise, and that there would be little work effort regarding the criteria in these circumstances. A number of respondents suggested that this could be done by elevating the presumption that the criteria are suitable from application material (paragraph A170 of ED-5000) to a requirement. Some respondents also suggested that this presumption be extended to other preconditions, including the evaluation of appropriateness of the sustainability matters, scope of the assurance engagement and whether the engagement exhibits a rational purpose. Under this approach the focus of any detailed work effort would be on evaluating entity-developed criteria, so some suggested the requirements could be located in a separate standard (ISSA), as it would not apply in all circumstances.

Evaluation of Entity-Developed Criteria

21. Respondents called for guidance and illustrative examples for evaluating the suitability and availability of entity-developed criteria. Some respondents sought further clarification of how such criteria, which are not available in a published framework, would be evaluated by the practitioner and the level of detail expected for the practitioner's understanding of how entity-developed criteria has been developed, although a few respondents queried if it was reasonable to expect the practitioner

to make that evaluation. Some suggested that guidance be included on how to perform the assessment of neutrality for “entity-developed” criteria that maybe vulnerable to management bias, as well as incompleteness.

Criteria for Forward-looking Information

- 22. Several respondents called for more guidance on the suitability of criteria for forward-looking information, including an example to illustrate the related application material in paragraphs A178-A179. One respondent suggested guidance to clarify that the practitioner cannot assure the outcome of such disclosures, but rather the process applied by management in accordance with the applicable criteria.
- 23. Several respondents suggested that paragraph A165 of ED-5000 needed to be amended as it may imply “that sustainability matters relating to qualitative, judgmental or forward-looking information may not be appropriate and/or that sufficient appropriate evidence may not be available for such matters.”

Differentiation between the Stages of the Engagement with respect to Work Effort on Criteria

- 24. Respondents noted that the preliminary knowledge of the criteria obtained at the acceptance and continuance stage would be relatively high level and, while appropriate to a practitioner’s decision as to whether to accept or continue with an engagement, would likely not be sufficiently detailed for purposes of concluding whether the criteria are suitable as part of the risk assessment procedures. To address this, respondents recommended the requirements for the practitioner to evaluate the suitability and availability of the applicable criteria (paragraph 72) at the acceptance stage, should be more clearly distinguished from the extent of work required at the risk assessment stage.

SATF Views and Recommendations

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement

Relevant Paragraphs		
Introduction and Requirements Agenda Item 3-G.1	Application Material Agenda Item 3-G.1	Related Definitions
3B-4, 69-71, 73-76A	A1A, A2, A154-A165, A187-A202	17(j)

Nature and Extent of Preliminary Knowledge

- 25. In considering respondents’ views that the work effort for establishing whether the preconditions are present prior to acceptance is too onerous, the SATF noted the following:
 - (a) In establishing whether the preconditions for an assurance engagement are present, the practitioner is required to “evaluate” the suitability of the roles and responsibilities and whether the engagement exhibits all of the characteristics in paragraphs 71-74. The CUSP Guidelines state that “evaluate” requires the practitioner “to identify and analyze the relevant issues or matters, to come to a specific conclusion.”

- (b) As the requirement to establish whether the preconditions are present in paragraph 70 is limited to “preliminary knowledge and discussion,” the procedures required to evaluate whether the engagement exhibits all of the characteristics in paragraphs 71-74 (see paragraph 70(c)) are likewise limited.
26. The SATF recommends providing further clarification about the nature and extent of the work that would be sufficient for preliminary knowledge and explored the following options:
- (a) Definitions – The SATF considered whether a definition of “preliminary knowledge” may assist, but concluded that it may be difficult to define and unlikely to be able to adequately reflect the wide range of engagement circumstances.
 - (b) Requirements – The SATF considered whether the requirements for the preconditions could be amended to:
 - i. Replace “evaluate” with “consider” to reflect the level of certainty that the practitioner is likely to reach at the acceptance and continuance stage, given there may be incomplete information available. However, ISAE 3000 (Revised) requires the practitioner to “determine” these matters, which has a similar outcome to “evaluate” in terms of work effort and documentation. As it would not be appropriate to lessen the robustness of the requirements in comparison to ISAE 3000 (Revised), the SATF suggests that the verbs should not be changed.
 - ii. Insert the phrase “are/is likely” or “are/is expected,” as appropriate, for each precondition to reflect that the evaluation is based only in preliminary knowledge and discussion, and it may not be possible to conclude that the preconditions are all met until more extensive work is conducted as part of the engagement. However, this introduces uncertainty regarding the meaning of “likely” or “expected” and may lead to inconsistent understanding or application by practitioners.
 - (c) Application material – The SATF agreed with respondents that the extent of application material may imply a level of detailed understanding or work effort that is not commensurate with what is reasonable as part of a preliminary understanding. Accordingly, the SATF recommends deleting the application material in paragraphs A154, A155, A156 and A159, which is more educational in nature, to help to clarify the limited nature of the work effort and instead include that content in the first-time implementation guidance.
 - (d) Further application material – The SATF agreed that further application material could be added to emphasize that the preliminary knowledge and discussion with the appropriate party(ies) required “is sufficient to establish whether the preconditions are present” (see paragraph A154 of **Agenda Item 2-A.2**).

Greater Distinction between Pre-acceptance and Engagement Procedures

27. The SATF noted that the requirement in paragraph 95 and relevant application material already acknowledges that the practitioner uses the preliminary knowledge obtained in acceptance and continuance procedures when planning the engagement and conducting risk assessment procedures (see paragraphs A261 and A292 of **Agenda Item 2-A.2**). The SATF proposes signposting this link more clearly by using the term “preliminary knowledge” in paragraph A261, consistent with paragraph A292.

Clarification of Rational Purpose

28. The SATF considered whether further clarification was needed on the concept of rational purpose as requested by some respondents. The concept has been long established in ISAE 3000 (Revised) and has a plain English meaning and the requirement and related application material provide extensive details of matters to consider in determining whether the engagement exhibits a rational purpose (see paragraphs 74 of **Agenda Item 2-A.1** and A192-A201 of **Agenda Item 2-A.2**).
29. The SATF also considered whether there was benefit in including a presumption of rational purpose for engagements required by law or regulation and decided to add new application material to include such a presumption “in the absence of indications to the contrary” to avoid unnecessary work effort prior to acceptance and continuance (see paragraph A191 of **Agenda Item 2-A.1**).

Other Matters

30. The SATF noted the inconsistencies with ISAE 3000 (Revised) identified by one respondent in the requirements relating to preconditions not being present after acceptance of the engagement. The SATF considered that this may create unintended consequences in requiring the practitioner to withdraw from the engagement when it may be appropriate to continue, despite one or more preconditions not being met. Consequently, SATF recommends amending the requirements to mirror the approach in ISAE 3000 (Revised) (see paragraphs 76 and 76A of **Agenda Item 2-A.1** and paragraph A202 of **Agenda Item 2-A.2**).
31. In response to other respondent comments, the SATF recommends:
 - (a) Adding additional application material to address the public sector perspective (see paragraph A159A of **Agenda Item 2-A.2**).
 - (b) Deleting the reference to “unmodified” conclusion with respect to the likelihood that sufficient appropriate evidence will be available, as the expectation of an unmodified conclusion is not needed to accept the engagement, and deleting the comment on the value of agreed-upon procedures engagement or a consulting engagement, as that is not relevant to the conduct of an assurance engagement (see paragraph A189 of **Agenda Item 2-A.2**).

Suitability and Availability of Criteria

Relevant Paragraphs		
Introduction and Requirements in Agenda Item 3-G.1	Application Material in Agenda Item 3-G.2	Related Definitions
3A, 72	A1x, A166-A186, A299- A301M	17(a2), 17(h)

Criteria Presumed Suitable in Law, Regulation and Recognized Reporting Frameworks

32. The SATF noted that while the standard should not impose unnecessary work effort, the requirement to evaluate the suitability of the criteria in paragraph 72 can be satisfied in a straightforward way, particularly if the criteria is set by law or regulation or issued by an authorized or recognized body.
33. However, the SATF revised paragraph 3A of **Agenda Item 2-A.1** to clarify in the introduction to the standard that, in the absence of indications to the contrary, framework criteria set by law or regulation

or issued by an authorized or recognized organization that follow a transparent due process may be presumed to be suitable. In addition, the SATF revised the application material to be clearer about this presumption, while still acknowledging the circumstances when it may be necessary to supplement the framework criteria (see paragraph A170).

34. The SATF also more closely aligned the terminology used with ISA 210³ to describe the framework criteria that could be presumed to be suitable as criteria “established, for use by certain types of entities, by an organization(s) that is authorized or recognized to promulgate standards for reporting sustainability information that follow a transparent due process involving deliberation and consideration of the views of a wide range of stakeholders” (see paragraph A167(a)(ii)).

Evaluation of Entity-Developed Criteria

35. Although some respondents called for more guidance on evaluating entity-developed criteria, the SATF noted that there is already extensive application material on assessing the suitability of the criteria, including considerations relating to each characteristic of suitable criteria (see paragraphs A167-A174 and A299-A301M of **Agenda Item 2-A.2**), that are relevant to evaluating entity-developed criteria.
36. The SATF noted that, similar to financial reporting, the framework criteria may require the entity to develop specific principles, conventions or practices to be applied by the entity in preparing and presenting the sustainability information, i.e., require the entity to develop and implement reporting policies. Such reporting policies supplement the framework criteria and therefore arguably are entity-developed criteria. However, the SATF noted that a financial statement auditor is not required to evaluate the suitability of an entity's accounting policies (i.e., entity-developed criteria to supplement a recognized financial reporting framework) as part of establishing whether the preconditions for an audit are present under ISA 210. The SATF is of the view that it would be disproportionate to expect a practitioner to perform an evaluation of the suitability of an entity's sustainability reporting policies developed under established framework criteria at the acceptance and continuance stage when it is not required in an audit of financial statements. Accordingly, the SATF recommends:
- (a) Amending paragraph 98 to focus on the entity's reporting policies for applying the applicable criteria to distinguish from determining the suitability of the criteria as required in paragraph A97;
 - (b) Inserting a new paragraph A1x to explain in the application material to the introduction that the entity may develop and implement policies to measure or evaluate the sustainability matters that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the framework. These policies can be distinguished from the entity-developed criteria, if any, that may be needed to supplement the framework criteria; and
 - (c) Differentiating the entity's reporting policies from entity-developed criteria, by removing reference to policies where it may be confused with entity-developed criteria and adding reference to policies for applying the framework criteria (see paragraphs A170, A300, A301A, A426(b) and A473 of **Agenda Item 2-A.2**).

³ International Standard on Auditing (ISA) 210, *Agreeing the Terms of Audit Engagements*

Criteria for Forward-looking Information

37. The SATF noted that the proposed standard already includes application material regarding specific considerations for determining the suitability of criteria for forward-looking sustainability information (see paragraph A301E of **Agenda Item 2-A.2**). Further application material could be drawn from the EER Guidance⁴ paragraphs 370-372, but the SATF does not consider that additional guidance is necessary for an overarching standard. See also the analysis of responses to EM Question 16 on estimates and forward-looking information (**Agenda Item 2-D**).

Differentiation between the Stages of the Engagement with Respect to Work Effort on Criteria

38. The SATF noted that a requirement to determine the suitability of the criteria as part of the risk assessment was added in the draft standard for the March Board meeting (see paragraph 97A of **Agenda Item 2-A.1**). The requirement at the acceptance and continuance stage to “evaluate” the suitability of the criteria that the practitioner “expects to be applied” (see paragraph 72 of **Agenda Item 2-A.1**) is clearly differentiated from the requirement at the risk assessment stage to “determine whether the criteria are suitable.” Furthermore, the requirements at the acceptance and continuance stage are based on preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies) (see paragraph 70 of **Agenda Item 2-A.1**), whereas the work effort at the risk assessment is not restricted in terms of the nature of the procedures.
39. However, to provide further differentiation between the work effort on criteria at the acceptance and continuance stage from the work required during the engagement, the SATF recommends:
- (a) Moving paragraph 98A to new paragraph 97A, as the procedures in paragraph 98 follow on from this requirement.
 - (b) Additional application material to clarify the different work effort prior to acceptance compared to that conducted during the engagement as part of the risk assessment (see paragraph A299 of **Agenda Item 2-A.2**).
 - (c) Relocating the application material on the entity’s process to identify and select criteria to link to the requirement in paragraph 97A on evaluating the suitability of criteria as part of risk assessment (see paragraph A301A of **Agenda Item 2-A.2**), as there is no expectation that the process is considered at the acceptance stage.
 - (d) Moving several paragraphs of application material from acceptance and continuance to risk assessment, as it otherwise suggested a level of work effort prior to engagement acceptance that is too granular at this stage of the engagement (see paragraphs A301B-A301M of **Agenda Item 2-A.2**).

⁴ *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements*

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 preliminary knowledge of the engagement circumstances, including the scope of the engagement, as described above.
2. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000 with respect to suitability and availability of criteria, as described above.