

## **Sustainability Assurance – Respondents’ Detailed Comments to EM Question 19**

Do you agree that ED-5000 appropriately addresses the topic of fraud (including “greenwashing”) by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?

### **19.2 Agree with comments**

#### **1. Monitoring Group**

##### **International Forum of Independent Audit Regulators (IFIAR)**

###### **Management Bias & Fraud**

ED-ISSA 5000 should include more specific guidance and examples on how to assess risks relating to fraud and management bias, and then respond to these risks, including consideration of some of the unique factors that sustainability reporting/information introduces. We also encourage the IAASB to consider whether a ‘stand back’ requirement could be appropriate for the assurance practitioner to consider evidence of fraud and/or management bias on a holistic basis.

The material that is already included in ED-ISSA 5000 is helpful – for example application material A296, A131 and A406. We are also supportive of the numerous references to fraud throughout the requirements and application material. However, we would encourage the IAASB to consider whether one section could also cross-reference to all fraud related provisions.

We also noted inconsistencies in language used in ED-ISSA 5000. A296 as well as extant International Standard on Auditing (ISA) 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements (ISA 240) use “overly” before “optimistic”. However, the International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures (ISA 540) does not have “overly” before “optimistic”. We propose to remove it here and from ISA 240 when updated. Generally, changes to ISAs (including ISA 240) should be reflected in ED-ISSA 5000 once updated.

##### **International Organization of Securities Commissions (IOSCO)**

###### **5. Susceptibility of sustainability information to material misstatement**

We support the IAASB’s approach to addressing the susceptibility of sustainability information to material misstatement, whether due to fraud or error. We note that the IAASB makes numerous references to fraud throughout the requirements and application material. From a public interest standpoint, we encourage the IAASB to include more specific requirements and application guidance related to fraud in the Proposed ISSA 5000 and clarify that the requirements could be applicable to both limited and reasonable assurance engagements.

We welcome the IAASB’s consideration of greenwashing. That said, we note that, while the term “greenwashing” is not included in the main text of the standard, it is referenced in the accompanying Explanatory Memorandum under the topic of fraud. Recognizing that “greenwashing” is not a defined term and that it may occur independently of fraud, we encourage caution and clarity in the use of this terminology in the final standard. Since greenwashing could manifest more subtly – for instance, through the tone or emphasis in an entity’s disclosures – there may be a case to consider this as part of the proposed “stand back” procedures in the standards.

Similar to the objectives of the IAASB's current project on fraud, we suggest clarifying the role and responsibilities of the practitioner. We encourage the IAASB to include specific requirements, application materials and appendices to promote consistent application when considering material misstatement due to fraud. We also suggest enhancements to reinforce the importance, throughout the assurance engagement, of the appropriate exercise of professional skepticism in fraud-related assurance procedures.

## 2. Preparer and Users of sustainability information

### Ceres, Inc.

We endorse the discussion of fraud, including “greenwashing,” in ED-5000. The members of Ceres’ Investor Network on Climate Risk and Sustainability have long been concerned about greenwashing, and that concern has provided much of the impetus for our support of mandatory, decision-useful, comparable sustainability standards such as those the ISSB has developed. However, we do note that the text of paragraph 108 seems to suggest that greenwashing is a type of fraud, and that in our view is incorrect. The term “greenwashing” is used generally to describe disclosures that seek to present a company in a better light than is appropriate, either through statements or through omissions. This activity can be fraudulent, but in most cases it is more likely to be exaggeration or puffery which may be misleading or inaccurate but is not necessarily fraudulent.

### Corporate Reporting User’s Forum (CRUF)

We generally agree but with some reservations.

Sustainability information includes narrative information, estimates and forward-looking information. Therefore, management bias could be more likely to lead to misstatement than for financial information. In addition, it appears to be particularly difficult to judge whether qualitative information is misstated, and there could be many cases in which assurance practitioners are unable to judge with conviction.

In order to ensure that there is no significant variation in judgement among assurance practitioners, we believe the IAASB should enhance the guidance (including examples) with regards to "identifying disclosures where material misstatements are likely to arise (limited assurance)" or "identifying and assessing risk of material misstatement (reasonable assurance)" (paragraph 110) and "evaluating the effect of uncorrected misstatements" (paragraph 144).

For example, it may be considered to develop guidance (including examples) on misstatements with regard to estimates and forward-looking information particularly on climate change, by referring to the disclosure requirements in the ISSB standards as well as the ESRS.

### Keidanren (Japan Business Federation)

The characteristics of sustainability information subject to disclosure mean that it includes more estimates and forward-looking information than financial information and the potential for differences between disclosed information and actual results is greater. It is therefore essential to further clarify the guidelines for distinguishing between error and fraud when interpreting the causes of material misstatement. Judgments as to whether misstatement relates to fraud or error can also involve assessment of management bias—that is to say, management’s good or bad faith—necessitating careful consideration of the criteria guiding such judgments. If there is some risk that a practitioner’s judgment of management bias regarding sustainability disclosure could result in an actual error being treated as fraud, entities will be forced to take a conservative

approach to sustainability disclosure, and as a result the incentive to make proactive disclosures could be reduced.

It would be inappropriate to make separate, specific reference to “greenwashing,” which is just one form of fraud, in the main text of the overarching assurance standard ISSA 5000.

### **Norges Bank Investment Management**

We welcome the IAASB’s consideration of the topic of fraud in ED 5000, and concur with other stakeholders that the relative lack of maturity of sustainability reporting compared to financial reporting may increase the susceptibility of sustainability information to misstatements due to fraud. The forward-looking nature of parts of sustainability information creates inevitable uncertainties, including on estimates, which can increase the risk of misstatement with no intention to mislead. However, this heightened complexity and uncertainty can also create opportunities for intentional misleading and fraud. Internal processes and control systems may also be less mature than for historical financial information. Therefore, we welcome the proposed standard’s focus on professional scepticism, and the requirements to discuss the susceptibility of the disclosures to material misstatement, as well as to respond appropriately to any identified actual or suspected fraud. We encourage the IAASB to integrate its consideration of the importance of professional scepticism in sustainability assurance engagements with the wider work it has been conducting on auditors’ responsibility to consider fraud in financial statement audits, and to similarly continue to work with other relevant bodies to address this issue in a cross-cutting and consistent manner.

### **Philip Morris International INC.**

Overall, we agree with the approach adapted for fraud, however we noted that greenwashing is considered within the concept of fraud in exploratory memorandum, yet not defined or described in the standard. We believe that greenwashing should be defined and, while both greenwashing and fraud are unacceptable and should be prevented, that there should be differentiation between fraud and greenwashing. While greenwashing can constitute fraud, activities and disclosures that could be characterized as greenwashing may not always arise from intentional acts involving deception to obtain an unjust or illegal advantage. For example, management judgement, inadvertent bias, lack of know-how, “errors” in the formulation of an entity’s sustainability materiality assessment and other factors may lead to rising greenwashing concerns while not necessarily constituting fraud. Further, the perception of greenwashing may arise from a sincerely held disagreement over values, stakeholder prioritization, competing disclosure regimes, or similar factors. Characterizing a contestable judgment as greenwashing and therefore fraud may undermine disclosure incentives. Fraudulent greenwashing is already captured by the definition of fraud if its elements are met without making all acts characterized as greenwashing fraudulent by definition. Further, a separate definition of greenwashing would help clarify a concept that, if undefined, is particularly contestable.

## **3. Those Charged with Governance**

### **International Corporate Governance Network (ICGN)**

Regarding the topic of fraud (including “greenwashing”), we agree that internal processes and control systems may be less mature than for historical financial information, and this may increase the risk of misstatements, due to fraud, errors, or “over-optimism” by company executives (or management bias). It is therefore crucial that assurance providers exert professional scepticism, be subject to strong independence and ethical standards, and be accountable to shareholders. In this regard, the ICGN also supports the work

of the IESBA in developing a fit-for-purpose ethics framework for sustainability reporting and assurance, including independence standards.

We also suggest that the auditor or assurer examines the company whistleblowing mechanism in its engagement. Whistleblowing, as set out in ICGN Global Governance Principles, Principle 4.2, should be independent and confidential, to ensure a worker, supplier, shareholder or relevant stakeholder can raise issues of concern. By exposing false or misleading claims made in corporate reporting, whistleblowing can help reduce greenwashing.

#### 4. Regulators and Audit Oversight Authorities

##### Accounting and Corporate Regulatory Authority

The principles in ISA 240 “The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements” outline the auditor's responsibility in relation to fraud. It is beneficial to incorporate the relevant aspects into ISSA 5000 to enhance clarity and consistency in addressing fraud concerns.

IAASB should also supplement the above with requirements for assessing and addressing fraud risks that are specific to sustainability reporting as follows:

“greenwashing” or intentional misrepresentation in narrative disclosures, for example, achieving carbon neutral for facilities;

Scope 3 GHG emissions that are prepared using unverified information obtained from suppliers or consumers in the value chain, and other external sources;

“greenwashing” allegations at product level (e.g. marketing campaigns, green products) that are not reported; and

“green hushing” risk, for example, the ISSB standards require target(s) to be disclosed only when the company had set target(s).

##### European Securities and Markets Authority (ESMA)

###### Fraud and “Greenwashing” (Q19)

ED-5000 addresses the topic of fraud in the sustainability reports by integrating requirements, throughout the performance of the engagement, to assess the susceptibility of the sustainability information to material misstatement, due to fraud or error. While recognising the various references to fraud, this approach is not comprehensive and differs from the approach included in ISA 240 “The auditor's responsibilities relating to fraud in an audit of financial statements” which focuses on an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

To foster consistent practices and enable effective responses when assessing fraud, ESMA believes that ED-5000 would gain from improved clarity regarding the practitioner's role and responsibilities when conducting fraud-related assurance procedures, enhancing the importance of the appropriate exercise of professional scepticism and having more specific requirements and application guidance tailored to fraud. ESMA encourages the IAASB to consider its current project on fraud and its applicability for sustainability assurance. Moreover, recognising the pronounced public interest in addressing the risk of greenwashing and the heightened sensitivity from a user's standpoint, it would be advisable to provide further emphasis on this risk within the standard.

### **Independent Regulatory Board for Auditors (IRBA)**

It would be helpful for ED-5000 to include more specific guidance and examples on how to assess risks relating to fraud and management bias, and then respond to these risks by including considerations of some of the unique factors that sustainability reporting/information introduces. We also encourage the IAASB to deliberate on whether a “stand back” requirement could be appropriate for the assurance practitioner to consider evidence of fraud and/or management bias on a holistic basis.

We also suggest that the IAASB looks at including further guidance in ED-5000 that utilises the fraud triangle to assist practitioners, especially non-accountants, with the consideration and execution procedures related to the topic of fraud. In addition, greenwashing can be both intentional and unintentional. The IAASB may have to consider defining greenwashing and including examples of what this entails, in addition to how a practitioner can identify this during the performance of a sustainability assurance engagement.

The material that is already included in ED-5000 is helpful, and examples of this are application material A296, A131 and A406. We are also supportive of the numerous references to fraud throughout the requirements and the application material of the ED. However, we would encourage the IAASB to consider including one section that can also be cross-referenced to all fraud-related provisions in the standard, as fraud currently appears in various sections. While we acknowledge that fraud is considered throughout the engagement (and the proposed standard), we recommend that an additional section and related application guidance on fraud be included, to give the topic prominence.

### **Irish Auditing and Accounting Supervisory Authority (IAASA)**

The IAASB should consider including a stand back requirement to require the assurance provider to consider fraud on an overall basis prior to signing their report.

While there are numerous references to fraud throughout the requirements and application material, the IAASB should also consider the insertion of a single paragraph that cross-references all the fraud related provisions to assist practitioners.

## **5. National Auditing Standard Setters**

### **American Institute of Certified Public Accountants (AICPA)**

We agree that ED-5000 appropriately addresses the topic of fraud. We have no comment about whether “greenwashing” is appropriately addressed, because there is not a widely agreed-upon definition of greenwashing and (accordingly) the term has not been included in ED-5000.

Paragraph 118 is consistent with paragraph 22 of ISA 250. We recommend that paragraph 21, and ideally also paragraph 20, of ISA 250 be included in ED-5000 to provide more context for the requirement in paragraph 22 to be consistently and appropriately applied.

We also suggest adding, in paragraph A131 or paragraph A293, examples of fraud considerations or fraud triangle elements (that is, opportunity, incentive/pressure, and rationalization) in discussing how to identify fraud or what to consider in order to detect fraud. Paragraph A131 refers to paragraph A296; consider adding a reference to paragraph A406 as well (we also note that paragraph A296 and paragraph A406 are very similar).

### **Australian Auditing and Assurance Standards Board (AUASB)**

The AUASB supports the way that fraud has been dealt with in ED-5000. There are numerous references in the requirements and application material (including various examples), at different stages throughout the engagement lifecycle, that address the practitioner's consideration of the risks of material misstatement due to fraud and appropriate responses to actual or suspected fraud identified during the engagement.

The AUASB is supportive that the term "greenwashing" is not specifically used in the proposed standard, but rather is addressed indirectly through examples. The term greenwashing is a 'transient' undefined term, largely linked to climate reporting.

However, significant professional judgement will be required to identify and understand the difference between the risk of intentional fraud and misrepresentation and the risk of management bias, particularly for qualitative disclosures. The IAASB could provide additional guidance, including examples, linking intentional bias with fraud and unintentional bias with management error.

The AUASB suggests that the IAASB consider what revisions in the proposed ISA 240 should be incorporated into ED-5000 (for example – the emphasis on authenticity of documentation).

### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

The requirements and application material of the ED ISSA 5000 regarding fraud are based on ISA 240 and they appropriately address the risk of fraudulent sustainability reporting (i.e. intentional greenwashing). Considering the heightened expectations of stakeholders with regards to greenwashing risk, we believe that ISSA 5000 should first explain the relationship between fraudulent sustainability reporting and greenwashing for the purposes of ISSA 5000. Greenwashing is a broad term which lacks a globally accepted definition, and therefore it is key to manage user expectations by clarifying the assurance practitioner's role in addressing greenwashing risk. Practitioners should in any case consider relevant risk factors (i.e. pressure, opportunities and rationalisation) and the fact that internal control over sustainability reporting still needs to evolve and mature in many entities.

### **Comite Brasileiro de Sustentabilidade (CBPS)**

We understand the main aspects of ISA 240 AUDITOR'S RESPONSIBILITY IN RELATION TO FRAUD, are briefly and reasonably covered throughout the ED-5000. Regarding item 161, which deals with judgments and estimates, ED-5000 could provide additional guidance, in a similar way to what exists in ISA 240. We also recommend that the IAASB considers what other changes from approved ED-ISA 240 may be appropriate for inclusion in the ED-5000 as part of its finalization process.

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

Fraud is properly addressed.

Even if we understand the concept of greenwashing, we believe it is appropriate that ED ISSA 5000 does not use the word "greenwashing" as this term is not clearly defined and may relate only to environmental disclosures.

We note paragraphs 116L and 116R require the practitioner to design and implement overall responses when the practitioner identifies fraud or suspected fraud.

However, we note paragraphs 94L and 94R refer to identifying disclosures where material misstatements are likely to arise / risks of material misstatement at the assertion level for disclosures, and do not require

the practitioner to identify risks that may relate to the sustainability information as a whole (similar to financial statement level risks in ISA 315). Fraud risks, including potential “greenwashing”, or management override of controls, may be potential concerns across the sustainability information as a whole, and would require an overall response. We recommend there should be an explicit requirement to consider/identify such sustainability information level risks.

#### **Hong Kong Institute of Certified Public Accountants**

We agree with this approach which aligns with the existing practice of identifying fraud risk indicators pertaining to the risks of material misstatements during the planning stage. It is also acknowledged that the factors identified in ED-5000.A296 serve as indicators of risks relevant to sustainability information, thereby enhancing the awareness of fraud during the assurance process.

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

We agree that the draft appropriately addresses the topic of fraud (including “greenwashing”) by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error. However, the definition of fraud in the context of sustainability reporting should be augmented by application material that clarifies that fraud in this context refers to the fraudulent reporting only – not the misappropriation of assets, which is not relevant to such reporting. Furthermore, such application material should clarify that the term “greenwashing” is subsumed under fraudulent financial reporting in sustainability reports.

We do believe that the section on Fraud and Non-Compliance with Laws and Regulations (paragraphs 59 to 61) should be augmented by adding the requirement from paragraph 14 of ISA 240 about when practitioners may accept records and documents as genuine. As an editorial matter, the use of “and/or” in paragraph A131 is not in line with the CUSP conventions.

#### **Japanese Institute of Certified Public Accountants (JICPA)**

We support the fraud related proposal in ED-5000 with one suggestion below:

There seem to be duplicative examples between paragraphs A296 (related to paragraph 97, material misstatements due to fraud) and A406 (related to paragraph 138, examples of misstatements due to fraud). We suggest the IAASB revisit and streamline by more directly linking those application materials to the related requirements. For example, paragraph A296 could be focused on factors or circumstances under which fraud or suspected fraud is more likely to arise.

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

The susceptibility of the sustainability information due to fraud e.g., greenwashing risk by management or management override of controls through estimates are inherently present in sustainability reporting. In practice, similar to the principles of ISA 240, such risks could have a pervasive impact on the sustainability information, and it should be adequately considered by the practitioners, which should also similarly be addressed in the ED-5000. In regard to this, we would suggest that the IAASB consider adding application guidance on circumstances where management override of controls may apply in the context of sustainability reporting.

#### **New Zealand Auditing and Assurance Standards Board**

The NZAuASB considers that ED-5000 appropriately addresses fraud.

We support the IAASB not including the term “greenwashing” in the standard. As the reporting frameworks are still developing, we do not consider it would be appropriate for ED-5000 to contain requirements for practitioners around greenwashing. The wide range of sustainability matters which could be reported, and the inherent nature of sustainability information (particularly forward- looking information and projections) means it is likely to contain errors which are not intentional or be subsequently restated for valid reasons. We consider ED-5000 appropriately focuses on the susceptibility of the sustainability information to material misstatements, due to intentional fraud, or unintentional error, which is appropriate for the current state of sustainability reporting. We support the inclusion of omitted or obscured information within the definition of misstatement which captures the concepts that might be known colloquially as greenwashing or greenhushing.

## 7. Accounting Firms

### BDO International Limited

We agree that ED-5000 appropriately addresses the topic of fraud by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error. The inquiries and discussions with appropriate individuals as part of the risk procedures are detailed in nature with a significant emphasis on fraud. We suggest using the term ‘greenwashing’, including adding a definition, in the standard as it is commonly used when referring to fraud related to sustainability information.

### Deloitte LLP

We agree that fraud risks are an important topic to address within ED-5000. In addition to “greenwashing”, there are other areas of potential fraud risk related to sustainability information that are not addressed in ED-5000 (e.g., social and other non-climate related sustainability matters) which we believe should be covered, including: i) additional examples of possible fraud schemes related to

sustainability information broadly, ii) conditions and events where management might have incentives and pressure to commit fraud related to sustainability information or metrics and iii) insights into the fraud triangle (rationale, incentive, opportunity) as it could apply to a possible fraud scheme involving sustainability information.

With respect to identifying fraud risks that relate to an entity’s value chain, we believe additional requirements and application material may be needed, given the complexity of the information sources, the relationship of the entity to the non-related entities that may be providing value chain information and the relative lack of maturity of sustainability information and reporting. For example, clarifying the assurance practitioner’s responsibilities for assessing the accuracy and completeness of such information is critical, as is being transparent to users of sustainability reporting and other stakeholders about the limitations given the factors above. If further requirements or application material are not provided within ED-5000, we are concerned that an expectation gap may develop between what users believe the assurance practitioners may have performed with respect to value chain information and what the assurance practitioner is able to perform on this information.

Additionally, we are aware of other standard-setting activities related to fraud and encourage the IAASB to consider alignment as these projects progress especially as it relates to reasonable assurance engagements.

### **Ernst & Young Global Limited**

We believe that the topic of fraud is appropriately addressed in ED-5000.

We note that the word “greenwashing” is not used in ED-5000 and agree that it is not appropriate to refer to “greenwashing” as this term may have different and evolving legal definitions in various jurisdictions. In addition, “greenwashing” tends to focus on environmental matters only, while there could also be other matters of focus such as “socialwashing” and “impactwashing”. We also encourage the IAASB to continue to liaise with IESBA about the term that may be retained in the IESBA Code to deal with “greenwashing”.

We suggest that the IAASB consider including guidance in ED-5000 on how a practitioner should identify and/or respond to fraud risk for the information coming from value chain entities.

The EM refers to the importance of continued coordination with IESBA on the topics of fraud and non-compliance with laws and regulations. We note that IESBA has issued a Staff Question & Answers Ethics Considerations in Sustainability Reporting Including Guidance to Address Concerns About Greenwashing that may be used to develop additional guidance on the application of ED-5000.

Consistent with our response to Q13, we suggest that the IAASB provide a clearer linkage between paragraphs 59-61 of ED-5000 (fraud and non-compliance with law or regulation as part of engagement level quality management) and paragraphs 117 and 118 of ED-5000 by moving paragraphs 117 and 118 to follow paragraphs 59-61.

### **ETY sas**

The ED appropriately addresses the topic of fraud, but the guidance appears in various sections. We recommend a comprehensive single section and related application guidance on fraud being included to highlight the way fraud is addressed in public interest and make implementation for that specific requirements more practical.

IAASB should clearly define Greenwashing or refer to an accepted definition, provide examples and guidance on intentional and non-intentional aspects as this usually difficult to distinguish in practice in a complex and evolving sustainability eco-system, particularly in respect of qualitative disclosures.

### **KPMG International**

We welcome the inclusion of the requirements and related application material in respect of fraud, as well as regarding laws and regulations and we agree ED-5000 appropriately addresses the topic of fraud. We consider these requirements and guidance to be helpful, noting that this is an area of increased risk due to the relative immaturity of sustainability reporting and assurance thereon, both in terms of an entity's processes and controls to develop and report sustainability information, as well as the fact that criteria themselves are relatively less mature than for historical financial information, and are continuing to evolve. We make recommendations below with respect to areas where we consider ED-5000 could be enhanced for the IAASB to consider.

Consider requirement to address the risk arising from management override of controls

In connection with the respective responsibilities of management and the practitioner, we highlight that the proposed standard does not identify the risk of material misstatement due to fraud in respect of management override of controls as being present in all entities, and therefore does not establish related requirements. We consider that this risk would be as relevant to the preparation and presentation of sustainability information as for financial statement preparation, if not more so, and we recommend that the IAASB consider including an equivalent requirement to that at ISA 240.32, supported by appropriate

application material, within ED-5000, to provide guidance to practitioners as to the differentiation in response to such a risk for reasonable versus limited assurance engagements. This could potentially address the risk of management override arising from matters such as possible management bias in estimates, or a lack of neutrality in the preparation of qualitative disclosures and forward-looking information.

Link to materiality process

We welcome the application material at paragraph A296, which provides examples of matters in respect of which material misstatements due to fraud may relate. Whilst we welcome the inclusion of these examples, we recommend that the IAASB include further examples with a specific focus on the nature of sustainability information and how this may be particularly susceptible to fraud (or management bias), e.g.:

The fact that there may be extensive use of estimates and forward-looking information, which include significant assumptions and judgements;

Narrative information, as well as other forms of non-quantitative information, such as pictures and graphics are more likely to be a significant feature of sustainability information. An entity may develop this to “tell a story” and/or put a particular “spin” on this, or may use it to obscure other aspects of the sustainability information.

This may result in information that is misleading to users, and, if intentional, this may constitute a material misstatement due to fraud. Accordingly, we suggest that the standard make an explicit link to the practitioner’s evaluation of the entity’s “materiality process” and the practitioner’s materiality considerations. (Please also refer to our response to Question 9, in respect of materiality considerations). We highlight that such information may not necessarily be linked to specific criteria and therefore we recommend that the examples also draw attention to this.

Inclusion of a “Stand back”

We recommend that ED-5000 include a “stand back” requirement in respect of consideration as to whether there are any actual or suspected instances of fraud/non-compliance with laws and regulations, as these may be clearer at the end stages of the engagement when the practitioner considers the evidence obtained in totality, across different aspects of the engagement. This may be the case, in particular, for sustainability assurance engagements, where the sustainability information may comprise disparate areas and types of information, and it is only when considering evidence in totality that issues such as management bias, or inconsistency in the use of assumptions may become evident.

Development of a separate ISSA to address fraud

We note that the requirements and related application material regarding fraud are relatively high level and we consider this approach to be commensurate with the fact that this is a principles-based, foundational standard. We suggest that the IAASB monitor the development of practice in this area and consider whether there is a need for a separate and more detailed standard addressing fraud, in the medium term. This could better link fraud-related considerations together, and address areas such as:

Management bias;

Estimates and forward-looking information;

Narrative reporting; and

Fraud considerations in terms of the preconditions for an assurance engagement, such as whether there is a rational purpose to the engagement (which may be particularly relevant in respect of a limited assurance engagement), and

considerations in respect of the appropriateness of the entity's "reporting boundary" in more detail.

#### Education of stakeholders

Furthermore, we highlight that there will sometimes be a broader range of stakeholders/intended users in respect of sustainability assurance engagements performed in accordance with ED-5000 than for engagements to audit financial statements in accordance with the ISAs and, accordingly, we note that matters such as the "expectation gap" regarding the responsibilities of the practitioner in relation to fraud may be greater. This may be the case, in particular, for a limited assurance engagement. We recommend that the IAASB liaise with other bodies within the sustainability ecosystem to develop educational materials for users to help clarify their understanding. We refer to the Association of Chartered Certified Accountants' Ethical Dilemmas in an Era of Sustainability Reporting, which may be a helpful starting point.

#### MHA

We are strongly supportive of the IAASB's endeavours to address the topic of fraud in the proposed standard and welcome the inclusion of greenwashing as a specific example of fraud. We believe the IAASB has struck the appropriate path in focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error in paragraphs 59-61 and A131 of ED-5000. We especially welcome the inclusion of "deliberate bias" in paragraph A131 as an example of fraud, which, in our experience, is a significant risk with sustainability disclosures and the risk of greenwashing.

As can be the case with financial statement audits, there remains a significant expectation gap concerning assurance practitioner's responsibilities in relation to addressing fraud on a sustainability assurance engagement, particularly on limited assurance engagements. The non-financial nature, and diverse characteristics of many sustainability-related metrics and information subject to assurance can increase the risk of misstatement, however whether this is due to fraud or error is not always readily apparent. The emerging trend for executive compensation to be linked to sustainability metrics is particularly relevant in assessing the risk of fraud. As such, we believe the proposed standard would benefit from elevating the risk of management override to a requirement to be considered on each sustainability assurance engagement, consistent with ISA 240 (Revised) for financial statement audits.

We believe the final standard would also benefit from a salient and comprehensive definition of 'greenwashing', given this term has a wide range of possible interpretations.

ED-5000 does not, in its current draft, explicitly require assurance practitioners to detail where material sustainability information is derived from, or prepared by, third parties to the reporting entity. This is a significant omission from the proposed standard and we advocate strongly for its inclusion. Users of the sustainability assurance report and the sustainability information need to clearly understand which disclosures have been recorded and reported by the reporting entity, as opposed to those sourced from third parties.

#### Mo Chartered Accountants (Zimbabwe)

Consideration of the fraud triangle and its significance and nature to the topic of fraud requires further consideration particularly opportunities. Pressure and rationalisation has been covered to some extent. Working with these categories to determine what fraud may take place in reporting on sustainability will expand the fraud scope and be clearer to practitioners and preparers. Examples given of fraudulent

situations in A296 are welcome, although it is difficult to determine if fraud occurred as per the last point in A296 which is “Immature systems of internal control over sustainability reporting”. Considering the potential for fraud when considering the risks to achieving the entity’s objectives is critical as per A325R (c). Further examples may be necessary over time based on post-implementation reviews and other interactions between stakeholders. Practitioners and preparers need to alive to emerging trends and sophistication in fraud mechanisms.

We believe further guidance and material may be provided for matters relating to greenwashing, since that’s the primary fraud in sustainability reporting. Further, detecting financial fraud can be challenging since certain criteria have to be proved and in respect of greenwashing proving such is significantly more challenging and will require a certain level of expertise in this area to determine the occurrence, existence and perpetuation of such fraud.

#### **Nexia International**

We believe additional examples will be beneficial, particularly as this level of service and subject matter evolve.

#### **PricewaterhouseCoopers International Limited**

We agree with the Board’s decision not to directly refer to “greenwashing”. Sustainability is broader than just climate related disclosures, and we are already seeing references to greenwashing being combined or replaced by other terms, which themselves will likely be transitory.

Without referring specifically to such terms, we suggest the application material to paragraph 59 could do more to explain that applying a positive outlook is almost inherent in human behaviour. The practitioner, in exercising professional scepticism, needs to have an awareness of both intentional and unintentional bias by management, with the former being an indicator of fraud.

A key factor in appropriately addressing fraud is an informed and effective engagement team discussion of relevant fraud risk factors, based on a sufficient understanding of the sustainability matters within the scope of the engagement, and of the entity and its environment, to respond to identified areas of likely misstatement or assessed risks of misstatement due to fraud. This could be emphasised in the application material to paragraphs 59 and 96 by linking back to the requirements and application material on the competence of the engagement team. We also recommend that the guidance from (draft) proposed ISA 240 (Revised) on the need to consider whether specialised skills or knowledge are needed to identify and assess, or to respond to, risks of material misstatement due to fraud be added.

Paragraph 161, addressing management bias, has no application material. Given the likely range of sustainability matters that may be addressed in an entity’s sustainability information, including presenting only selected metrics when management has flexibility to do so based on the requirements of the criteria, and considering the maturity of an entity’s reporting, this is an even more complex judgement for the practitioner than in an audit of financial statements. For example, when does a cumulative positive leaning approach by management rise to the level of intentional bias such that the information may be considered misstated (by being misleading)? In addition, addressing the consistency of management’s judgements on matters reported in consecutive periods is also important. We recommend the IAASB develop supporting application material to provide relevant considerations for practitioners in making this complex judgement, which could leverage ISA 540 (Revised) paragraphs A133-A136.

We also recommend that the IAASB considers what other changes from approved ED-ISA 240 may be appropriate for inclusion in ISSA 5000 as part of the finalisation process.

## RSM International

We believe the guidance proposed is useful and detailed.

If 'greenwashing' is a specific concern, we recommend that the IAASB consider adding a definition or description of greenwashing. Paragraph A406 of ED-5000 includes a bullet, 'intentionally reporting topics for which the entity has positive impacts and omitting topics for which the entity has negative impacts.' We believe adding, '(referred to as greenwashing)' after the bullet would add this clarity.

We believe the IAASB should consider adding examples of fraud considerations or elements of the fraud triangle (i.e., opportunity, incentive/pressure and attitude/rationalisation) in how to identify or what to consider in order to identify fraud as application material to paragraphs 94L and 94R of ED-5000.

We suggest adding a reference to paragraph 94L and 94R of ED-5000 to application paragraphs A296 of ED-5000 for examples of material misstatements due to fraud in sustainability reporting and A406 for examples of misstatement due to fraud in sustainability information.

We recommend that the IAASB consider moving the last sentence of paragraph A131 of ED-5000 ('Paragraphs 116L, 116R and 117-118 address the practitioner's required responses to identified or suspected fraud.') from paragraph A131 to paragraph 59 of ED-5000, so that a reader doesn't miss where they can find responses to fraud.

## UHY International

We agree with the IAASB's approach. However, we believe additional application guidance would be welcomed around determining risks of material misstatement due to fraud, including application of the "fraud triangle" to sustainability information. The IAASB should consider adding to par. A296 example(s) of intentional omissions of sustainability information that results in unbalanced or biased disclosures.

## 9. Public Sector Organizations

### First Nations Financial Management Board

The potential of material misstatement related to fraud as a result of management bias is significant. With greenwashing there is often utilization of vague or ambiguous language to intentionally mislead users. A statement on the need for clear, defined terms on what is being measured, and how, could bolster the guidance.

In addition, we recommend a similar statement be made regarding material misstatement or fraud specifically related to Indigenous Peoples' rights, titles, and interests. This could include alerting the practitioner to common areas that are at high risk of being overlooked by practitioners (due to a lack of the necessary education, training and experience about Indigenous history and rights) or understated or misstated by entities, such as:

The impact of the historical and current state of relationship between Indigenous Peoples, the state and the entity on the sustainability of the entity and its operations;

The definition of "Indigenous-intensive industries" (as defined in our answer to Question 9 in this submission);

International or domestic instruments (e.g. The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)); and

Relevant international or domestic standards that an entity ought to meet when working in Indigenous-intensive industries (e.g. free, prior and informed consent, as set out in UNDRIP).

## 10. Member Bodies and Other Professional Organizations

### Accountancy Europe

The requirements and application material of the ED ISSA 5000 regarding fraud are based on ISA 240 and they appropriately address the risk of fraudulent sustainability reporting. Considering the heightened expectations of stakeholders with regards to greenwashing risk, we believe that ISSA 5000 should first explain the relationship between fraudulent sustainability reporting and greenwashing for the purposes of ISSA 5000. Greenwashing is a broad term which lacks a globally accepted definition, and therefore it is key to manage user expectations by clarifying the assurance practitioner's role in addressing greenwashing risk. Practitioners should in any case consider relevant risk factors (i.e. pressure, opportunities and rationalisation) and the fact that internal control over sustainability reporting still needs to evolve and mature in many entities.

ISSA 5000 should also include a specific stand-back requirement. Accordingly, the practitioner shall review the sustainability information within the scope of the assurance engagement in terms of the overall tone, form of presentation and the level of detail given or omitted. Such a review should be performed as near as practicable to the date of the assurance report and consider the engagement team's collective knowledge obtained throughout the assurance engagement.

### ASEAN Federation of Accountants

We agree. The susceptibility of the sustainability information due to fraud from greenwashing risk by management or management override of controls through estimates are inherently present in sustainability reporting. In practice, similar to the principles of ISA 240, such risks could have a pervasive impact on the sustainability information, and it should be adequately considered by the practitioners, which should also similarly be addressed in the ED-5000. The Board may consider adding application guidance on the ways management override of controls may apply in the context of sustainability reporting.

### Center for Audit Quality

Recommendations for additional guidance / examples / educational material for assurance practitioners

A key factor in appropriately addressing fraud is an informed and effective engagement team discussion of relevant fraud risk factors, based on a sufficient understanding of the sustainability matters within the scope of the engagement, and the entity and its environment, to respond to identified areas of likely misstatement or assessed risks of misstatement due to fraud. This could be emphasized in the application material to paragraphs 59 and 96 by linking back to the requirements and application material on the competence of the engagement team. We also recommend that the guidance from proposed ISA 240 (Revised) on the need to consider whether specialized skills or knowledge are needed to identify and assess, or to respond to, risks of material misstatement due to fraud be added.

Paragraph 161 which deals with management bias currently has no application material associated with it. Additional guidance on management bias would be helpful. Given the likely range of sustainability matters that may be addressed in an entity's sustainability information, including presenting only 1 or 2 metrics considering the maturity of an entity's reporting, this is an even more complex judgement for the practitioner than in an audit of financial statements. For example, when does a cumulative positive leaning approach

rise to the level of intentional bias such that the information may be considered misstated (by being misleading)? We recommend the IAASB develop supporting application material to provide relevant considerations for practitioners in making this complex judgement, which could leverage ISA 540 (Revised) paragraphs A133-A136).

There are other areas of potential fraud related to sustainability information that are not addressed in ED-5000 (e.g., social and other non-climate related sustainability matters). We suggest including additional examples of possible fraud schemes into ED-5000 related to sustainability information to guide the practitioner's understanding of their roles and responsibilities in this area.

Either in ED-5000 or supporting educational materials/guidance we recommend highlighting the conditions and events when management might have incentives/pressure to commit fraud in relation to sustainability information/metrics and we suggest including insights into the fraud triangle. These educational materials could also include a "roadmap" describing how the requirements in the standard address risks related to greenwashing. For example, as part of the preconditions, the criteria are required to be neutral and para. A183 discusses that neutrality means that the criteria do not result in information that is misleading to users in the interpretation of sustainability information. Further, the roadmap could also explain that sustainability engagements on selected information may not necessarily indicate greenwashing, and that it may be appropriate to only assure selected information because the reporting is maturing.

Recommendation for educational material for users

Since users may have expectation gaps regarding what the practitioner's responsibilities are for fraud, we believe that educating users will be key. We recommend leveraging existing resources on the topic to develop relevant user educational materials. Furthermore, explaining how the requirements in ED-5000 address risks related to greenwashing could also assist in bridging expectation gaps.

#### **Chamber of Financial Auditors of Romania (CAFR)**

While ED-5000 indeed addresses the issue of fraud, acknowledging its significance in the context of sustainability information, there could be further exploration into the focus on fraud prevention and detection within this framework. Issuing specific guidelines or provisions dedicated to fraud considerations might improve the practitioner's ability to mitigate risks related to misstatements, aligning more closely with evolving sustainability reporting dynamics.

The requirement to maintain professional skepticism throughout the engagement, recognizing the possibility that a material misstatement due to fraud could exist, is especially important.

Given the high risk of greenwashing we suggest that the IAASB consider further how the standard might have an even greater focus on fraud.

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

We agree that the ED-5000 appropriately addresses the topic of fraud by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error.

However, we are concerned that the ED-5000 does not currently refer to the primary responsibility that those charged with governance and management have for the prevention and detection of fraud found in ISA 240.4.

Additionally, our stakeholders noted that ED-5000 does not currently refer to presumed fraud risks which would be equivalent to management override of controls found in ISA 240. It should be recognised that

certain manual adjustments are still possible to be made on the sustainability information subject to assurance. We therefore recommend that the standard requires certain minimum audit procedures to identify the manual adjustments and any potential override to the sustainability information during the reporting process. This could be for example, through audit procedures testing the appropriateness and authorisation of those manual adjustments.

Furthermore, we heard concerns during our outreach in relation to the potential complexity of considering fraud and misstatement for qualitative disclosures and where the line is between determining if there is unintentional bias or fraud and the potential work effort involved. This is an area where additional guidance is needed. There will also be local jurisdictional differences in how regulators interpret language as 'greenwashing' or not. The need for nuance and well executed professional skepticism in this area again underscores the importance of "at least as demanding" ethical standards being applied by practitioners.

### Consejo General de Economistas de España

We believe that there is a high risk that companies will engage in greenwashing. We welcome, therefore, ED-5000 focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error. The requirement to maintain professional skepticism throughout the engagement, recognizing the possibility that a material misstatement due to fraud could exist, is especially important. Given the high risk of greenwashing we suggest that the IAASB consider further how the standard might have an even greater focus on fraud.

### CPA Australia

The topic of fraud has always posed a significant challenge to the assurance profession, even in the well-established audits of historical financial information. By nature, fraud is an intentional act involving the use of deception to obtain an unjust or illegal advantage. Therefore, fraud can be challenging to detect.

Sustainability information that may have more qualitative disclosures than quantitative disclosures will impose additional challenges for assurance practitioners in determining what is fraud. The risk is not only dealing with the degree of misrepresentation or management biases but more importantly, the omission of material disclosures that may distort/misrepresent the actual condition of the reporting entity.

Therefore, it is important for the IAASB to provide adequate guidance to be included in the standard or where appropriate, to be issued as FAQs or Guidance to address more challenging aspects of the practitioner's consideration when addressing fraud in sustainability information assurance.

Feedback from stakeholders indicates the IAASB should address some of the practical issues relating to qualitative disclosures for example:

nuances in the language used in qualitative disclosures such as management bias, degree of exaggeration, positive versus conservative language, and therefore, guidance or examples of triggers for practitioners to consider in the context of intention.

clarity in the differentiation of fraud procedures and work effort between limited and reasonable assurance engagements.

as outlined in our response to question 12, in the context of fraud we suggest developing guidance on: aggregation and disaggregation of misstatement in qualitative disclosures,

how to aggregate misstatements across multiple areas/topics of disclosures to assess the overall impact of the assurance conclusion, including, what is considered pervasive, the line between an 'except for' and 'qualified' assurance opinion,

how to deal with the entity and the practitioner disagreeing on the materiality, specifically what additional procedures are required to resolve the disagreement.

The IAASB is currently in the final stage of the development of the exposure draft (ED) for ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report (ISA 240). It is unclear if the more advanced thinking in the draft ED for ISA 240 will form part of this standard. Therefore, we recommend the IAASB to revisit this standard and align the requirement on fraud once ISA 240 is finalised.

Stakeholders also raised concerns about the consistency in the interpretation of the fraud requirements in this standard among regulators from different jurisdictions. Each jurisdiction may have its own way of defining fraud and may also be working on a different tolerance level in determining whether a misstatement is a fraud. For example, the Australian regulator, the Australian Security and Investment Commission (ASIC), issued Information Sheet 271 (INFO 271) that uses the terms "misrepresentation", "misleading" and "deceptive". There needs to be acceptance/buy-in from local regulators that, work performed by assurance practitioners in accordance with ISSA 5000 in relation to fraud is sufficient and fit for purpose.

The market expects assurance practitioners to detect and "stop" fraud. But the reality is, that the best way to eliminate fraud is from within the reporting entity, starting at the 'tone from the top' to set the culture of integrity and honesty. The most effective way to deter fraud is through a robust system of internal control.

We are concerned that ED-5000 places undue pressure and an onerous responsibility on the assurance practitioner to detect fraud. Fraud is an intentional act involving the use of deception to obtain an unjust or illegal advantage. Expecting the assurance practitioner to detect fraud in the context of sustainability information assurance will be more challenging as the system of internal control related to sustainability matters and preparation of the sustainability information, are continuing to develop and in many cases are less mature than for historical financial information. Especially in the initial years, there may be more misstatements occurring which will require the assurance practitioner to put in more work effort in determining whether such misstatements are intentional or unintentional.

Therefore, we will continue to advocate for the reporting entity and those charged with governance to take equal responsibility in addressing fraud.

#### **CPA Ireland**

Whilst the standard appropriately addresses the topic of fraud, it might be useful to link the risk assessment procedures and place emphasis on paragraphs 59 – 61 fraud and non-compliance requirements. These illuminate the need for professional skepticism. Further, these could be included in examples provided in the Explanatory Memorandum.

#### **European Federation of Accountants and Auditors for SMEs (EFEAA)**

We generally agree with the proposed approach.

As the practice of mandatory assurance over sustainability reporting is in its infancy, and yet the gains from greenwashing are significant, there is an acute risk that companies will engage in greenwashing. We welcome, therefore, ED-5000 focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error. The requirement to maintain professional skepticism throughout the engagement, recognizing the possibility that a material misstatement due to fraud could exist, is especially important.

Given the acute risk of greenwashing we suggest that the IAASB consider how the standard might have an even greater focus on fraud. Fraud might need to be defined and addressed in a broader sense than how it is in the context of financial reporting, to scope in any instance where misleading sustainability information to improve public perception of the entity.

#### **European Federation of Financial Analysts Societies (EFFAS)**

If the intention of the management is to present misstatements it should be considered as fraud. As noted in the ED, the misstatement can be made by error or fraud, qualitative or quantitative, and include omitted information.

EFFAS supports that the practitioner states whether there are material misstatements in compliance with the law.

#### **Institute of Chartered Accountants of Ghana**

Detailed comments (if any): Yes, however PAOs will have to carry out extensive awareness actions to embed this into training at all levels within the profession and also in the public domain.

#### **Institute of Chartered Accountants of Sri Lanka**

We note that the word “greenwashing” is not used in ED-5000 and agree that it is not appropriate to refer to “greenwashing” as this term may have different and evolving legal definitions in various jurisdictions. In addition, “greenwashing” tends to focus on environmental matters only, while there could also be other matters of focus such as “socialwashing” and “impactwashing”. We also encourage the IAASB to continue to liaise with IESBA about the term that may be retained in the IESBA Code to deal with “greenwashing”. Further, Intentional greenwashing can be cumbersome to identify and report.

We suggest that the IAASB consider including guidance in ED-5000 on how a practitioner should identify and or respond to fraud risk for the information coming from value chain entities.

#### **Institute of Chartered Accountants of the Maldives**

The ED includes numerous references to fraud throughout the requirement and application material.

#### **Instituto de Auditoria Independente do Brasil - Ibracon**

We just would like to suggest the inclusion of the definition of ‘greenwashing’ in the standard as it is normally used when referring to fraud related to sustainability information.

#### **International Federation of Accountants (IFAC)**

The goal of a harmonized global system for reporting on sustainability matters is to create consistent, comparable, and decision-useful sustainability disclosures. Misleading information—whether due to fraud or error—is inconsistent with this goal. We therefore encourage the IAASB to provide examples of sustainability specific fraud related risk factors, as these would not necessarily be the same as in a financial-statements audit. We believe there is potential for an expectation gap in this area as public expectations may not be compatible with a risk -based audit approach, while regulator expectations could also be problematic for assurance providers.

Further, we encourage the IAASB to address in ISSA 5000 the incidence of misleading information that is not the result of error nor rises to the level of fraudulent behavior—but results from intentions that are more focused on brand/reputation enhancement or enhancing public perception rather than providing decision-

useful information. The role of professional judgement must be highlighted in identifying a broader scope of misleading sustainability information that companies may provide.

The above said, responsibility for high quality, publicly available information lies first and foremost with the companies who must communicate with investors and other stakeholders. High quality assurance—especially mandatory assurance—of sustainability disclosures has an important role to play in incentivizing companies to implement data gathering, systems, processes, and internal controls over sustainability information that is on par with those supporting the financial statements. However, a recent stakeholder survey conducted by ACCA, IFAC, and PWC indicates that preparer confidence in non-financial information may be on an upward trend, but is not yet equivalent with financial information—perhaps calling into question the suitability of ESG information for assurance:

53% respondents said unreliable or lower quality two years ago.

31% respondents said unreliable or lower quality now.

17% respondents said same quality now.

26% respondents said same quality in two years' time.

Further, our research demonstrates that the Sustainability Development Goals (SDGs) are the most commonly standard or framework for disclosing sustainability information (i.e., 79% of companies we reviewed from G20 countries plus Singapore and Hong Kong S.A.R in 2021.). However, this information is not the subject of sustainability assurance, while disclosures consistent with GRI Standards (i.e., the second most frequently used methodology which also focuses on societal impacts—74%) is most often assured—39%. This discrepancy suggests that companies purporting to report consistent with the SDGs, and not obtaining assurance over what they have reported, may not be approaching their sustainability disclosures with the same rigor or intent as their financial information—potentially misleading investors or other stakeholders, without necessarily engaging in fraudulent activity. (See *The State of Play, 2019-2021 Trends & Analysis*, page 20.)

Our research also shows that over 80% of companies across forty-two jurisdictions and nearly 2000 companies use a mix of standards and frameworks to voluntarily report on sustainability matters, as they see fit. In IFAC's view, this information is, by nature, not reliable, consistent or comparable—and therefore of questionable value. (See *The State of Play Beyond the G20*, page 9.)

Finally, in our *Getting to Net Zero* analysis of nearly 400 company disclosures on emission reduction targets, we determined that many transition plans for achieving emission reduction targets only included short or medium-term actions, lacked detail, and only 24% disclosed past or future expected expenditures to implement plan actions.

This research calls into question the decision-usefulness of current market practice for emissions target and transition plan disclosures but does not necessarily rise to the level of erroneous or fraudulent behavior.

### **Malaysian Institute of Certified Public Accountants**

We suggest the IAASB to provide a non-exhaustive list of greenwashing indicators in ISSA 5000. This would help practitioners carry out the relevant procedures if greenwashing indicators exist.

In addition, alignment of ISSA 5000 with ISA 240 including incorporating risk of management override of controls, significant risk concept, overall conclusion concept and the latest amendments to ISA 240, is important.

Furthermore, we are of the view that the primary responsibility for the prevention and detection of greenwashing rests with both those charged with governance of the entity and management. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the reporting process. The role of practitioners is to perform an assurance engagement in accordance with ISSA 5000 for obtaining limited or reasonable assurance that the reporting taken as a whole are free from material misstatement, whether caused by greenwashing or error.

We would also like to seek clarification as to whether the IAASB will issue the equivalent standard of ISA 240 to address these issues.

#### **New York State Society of Certified Public Accountants (NYSSCPA)**

Response: Yes. ED-5000 has numerous references to fraud throughout. It specifically requires practitioners to study the entity's internal control system and to maintain professional skepticism. It describes how the practitioner should respond to suspected fraud or greenwashing.

#### **Nordic Federation of Public Accountants (NRF)**

ED-5000 includes several requirements where the term "fraud" is being used and fraud risks are being addressed. The term "greenwashing" however is not mentioned at all.

Greenwashing may be one of the biggest risks to the future of ESG investing but the lack of a legal definition causes regulatory problems. It is apparent that greenwashing can include fraudulent misrepresentation and therefore be a form of fraud. At the same time greenwashing covers a spectrum of actions where some actions do not have to be illegal. Given both public expectations and the legal uncertainties we believe "greenwashing" as a concept need to be addressed more specifically in ED-5000. For example, it would be helpful to provide some examples in ED-5000 of sustainability specific fraud related risk factors, as these would not necessarily be the same as in an audit of financial statements.

We also suggest including an overall stand back requirement to assess and consider the risk of greenwashing, including the overall tone, form of presentation and the level of detail given or omitted in the sustainability information.

#### **Ordre National des Experts Comptables et des Comptables Agréés du Burkina Faso (ONECCA-BF)**

The ED addresses the topic of fraud, but the guidance appears in various sections. Therefore, we believe an additional single section and related application guidance on fraud included will add value and will be useful to practitioners and regulators in monitoring and enforcing the implementation.

We will welcome the IAASB defines the concept of Greenwashing, provide examples and guidance on intentional and non-intentional aspects as that will be difficult to distinguish in practice.

#### **Pan African Federation of Accountants**

While we appreciate the material that is already included in ED-ISSA 5000, for example application material A296, A131 and A406, we are of the opinion that the following suggestions will bring improvement into the standard:

The ED appropriately addresses the topic of fraud; however, the guidance appears in various sections. Whilst we acknowledge that fraud is considered throughout the engagement, we recommend that an additional single section and related application guidance on fraud be included to give the fraud topic more prominence.

IAASB should consider including further guidance in ED-ISSA 5000 for non-accountants with the consideration and execution procedures related to the topic of fraud.

IAASB should clearly define Greenwashing, provide examples and guidance on intentional and non-intentional aspects as this will be difficult to distinguish in practice. Complexity is created around assessing fraud and errors, including greenwashing, while reporting frameworks and systems are still evolving, particularly in respect of qualitative disclosures – supporting the need for further guidance in this area.

#### **Saudi Organization for Chartered and Professional Accountants (SOCPA)**

SOCPA would like to suggest that the standard should provide more specific guidance on how to detect and prevent fraud in sustainability reporting. In addition, SOCPA believes a separate standard should be developed on assurance engagements on sustainability information that is specifically focused on fraud.

#### **Securities Analysts Association of Japan**

We agree with the proposal on fraud. We believe that in judging and responding to fraud, it is critical that misstatements are properly identified and evaluated. Some comments are provided below.

As greenwashing, a form of fraud, is one of the most critical elements of misstatements, guidance should cover such cases.

#### **South African Institute of Chartered Accountants (SAICA)**

SAICA supports material that is already included in ED-5000, for example, application material A296, A131 and A406, however, we are of the opinion that the following suggestions will improve the standard:

The ED appropriately addresses the topic of fraud; however, the guidance appears in various sections. Whilst we acknowledge that fraud is considered throughout the engagement, we recommend that an additional single section and related application guidance on fraud be included to give the fraud topic more prominence.

The IAASB should consider including further guidance in ED-5000 for non-accountants with the consideration and execution procedures related to fraud.

The IAASB should clearly define Greenwashing and provide examples and guidance on intentional and non-intentional aspects as this will be difficult to distinguish in practice. Complexity is created around assessing fraud and errors, including greenwashing, while reporting frameworks and systems are still evolving, particularly regarding qualitative disclosures – supporting the need for further guidance in this area.

### **11. Academics**

#### **Monash University**

Paragraph 109 – Application material first point, it is not only due to fraud or error, but it could also be due to omission of information. Some specific examples in this paragraph would be beneficial. It is still clear in the profession as to what type of greenwashing should be considered fraud. The magnitude of greenwashing should be taken into consideration.

## University of Southampton

We agree with the observation of ED-5000 in relation to the areas of engagement to address the likelihood of fraud. We also suggest our recommendations for question 12 into consideration to enable the practitioner to address the widespread concerns of greenwashing/sustainability decoupling/symbolic sustainability disclosure/engagement.

## 12. Individuals and Others

### We Mean Business Coalition

We do agree with the approach but we would like to highlight that apart from generic fraud to misrepresent the company aimed at increasing share prices and/or better contract possibilities etc., it may also be beneficial to address and consider whether certain sustainability topics are part of incentive schemes, which could lead to a more direct fraudulent financial benefit for some employees/board members. We question if the thresholds should be lowered for qualifying whether misstatements are material or not and if they should be considered as simple errors or fraud.

### World Wide Fund for Nature

ED-5000 thoroughly acknowledges the possibility of fraud (including greenwashing) due to the susceptibility of the sustainability information to material misstatement. Multiple reasons for such fraud or errors are given, and the different levels of reporting at which such fraud could occur are also detailed.

It would be relevant to provide some examples to assurance providers as to what could constitute such a risk for sustainability topics. While there is an expectation of global comprehension of sustainability matters by the practitioner, it is important to ensure that information verifiers are indeed competent to evaluate the fraud risk that exists in sustainability information. For this, two different ideas should be considered :

Establishment of a list of sensitive topics on the different key sustainability items;

Requirements for the training of information verifiers to obtain certification as a sustainability auditor.

This would enable a comparable basis for assessing what areas of focus deserved to be addressed by information verifiers, and ensure that these verifiers have the necessary skills to identify potential fraud both at the level of specific disclosure topics and on the aggregate level of groups' sustainability engagement.

It is also important that specific care be given to forward-looking information. Indeed, due to the higher uncertainty related to such information, it is more likely to be instrumentalized - for example putting forward bold objectives which may not be rooted in actual action and reporting of the entity. In this case, a "burden of proof" should exist towards reporting entities, whereby these should be able to substantiate future-oriented claims (such as attainment of net-zero emissions by date X, alignment with the 1.5°C goal of the Paris Agreement, etc.)

## 19.3 Neither agree or disagree

### 1. Monitoring Group

#### Basel Committee on Banking Supervision (BCBS)

The Committee welcomes the consideration given to the topic of fraud in ED-5000 and recognises that the system of internal control related to sustainability matters and preparation of the sustainability information are, in many cases, less mature than for historical financial information and are still under development.

This particular context may increase the risk of misstatements due to fraud. As a result, it is important that the requirements in ED-5000 are robust as regards fraud. We have identified specific areas where the requirements of the exposure draft could be clarified or strengthened, bringing the standard in line with the requirements of ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

The requirements for considering the role of the internal audit function (where applicable) in relation to fraud appear to be insufficiently explicit. Consistent with the requirements of ISA 240 (paragraphs 20 and A19), the Committee recommends that the IAASB adds a requirement that the practitioner inquire into the appropriateness of the internal audit function and the internal audit's risk assessment regarding fraud and related work. The practitioner should also consider management's response to any findings.

In responding appropriately to fraud or non-compliance with law or regulation, whether actual or suspected, identified during the engagement (paragraph A370), a discussion with an appropriate party at the entity led by the practitioner should occur, unless prohibited by law or regulation (consistent with ISA 240 paragraph 41). This should not be a suggested procedure.

We recommend that the IAASB adds a requirement that fraud involving management, employees with significant roles in internal control, or other persons, where it results in material misstatement of the sustainability reporting, shall be communicated to those charged with governance, unless all those charged with governance are involved in the management of the entity, consistent with ISA 240 paragraph 42.

The written representations (paragraph 148) should include a statement from management and, where appropriate, those charged with governance, of their knowledge of actual, suspected or alleged fraud or non-compliance with law or regulation that may affect sustainability information.

The written representation should also comprise an acknowledgement of their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud (as in ISA 240 paragraph 40(a)) and the results of management's assessment of the risk that the sustainability reporting may be materially misstated due to fraud (as in ISA 240 paragraph 40(b)).

#### International Association of Insurance Supervisors (IAIS)

The IAIS welcomes the references to fraud in the requirements and application material that are noted in paragraph 109 in the explanatory memorandum and that highlight a practitioner's consideration of the risks of material misstatements due to fraud and responding appropriately. The reference to fraud could also be clarified within ISSA-5000. The use of examples promotes consistent practice and behaviour amongst practitioners. The IAIS recommends that the IAASB considers ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements) to determine whether there are any key requirements that should be added to ISSA-5000 to ensure assurance practitioners are held to an appropriate standard.

## 2. Preparer and Users of sustainability information

### American Bankers Association

Recognize that many separate sustainability reports may continue to be issued, warranting further guidance on review of other information and identification of greenwashing. (Responding to Question #19)

While the Proposed ISSA requires pursuit of other information that is “materially inconsistent” with those upon which assurance procedures were applied, there are many ways that specific statements and presentations can confuse users of sustainability reports. Stakeholder roundtables may be an effective way to develop implementation guidance.

Recognize that until reporting practices have matured, many emissions estimates may be subject to greenwashing criticism. (Further responding to Question #19)

While the Greenhouse Gas (GHG) Protocol is the accepted methodology by the International Sustainability Standards Board in estimating Scope 1, 2, and 3 emissions, diverse application between industries and even between companies within industries will likely exist for several years. This diversity will result from optionality often included within industry guidance, as well as ranges of interpretation within that guidance and within the GHG Protocol. As a result, reported emissions estimates (especially Scope 3 estimates) will likely show extremely high ranges between companies, inviting criticism related to greenwashing. A more detailed framework will be needed, therefore, to address this risk within the assurance process.

### Climate Accounting & Audit Project

We address consistency/connectivity of information in the financial statements versus the sustainability reporting, in question 21 of this Response Template. However there is a further dimension to this that is relevant to fraud, and as this question 19 rightly points out, including ‘greenwashing’.

The lack of consistency/connectivity cannot only lead to incoherent reporting, but may actually highlight potential misstatement of information in either element of reporting (sustainability or financial statement), or even fraudulent reporting.

A consistency gap can often be seen in current annual reports, many of which already include considerable sustainability information, for example describe considerable climate-related business and financial risks, and set out various emissions reduction commitments such as achieving net zero by 2050, cite various interim targets, and describe the strategy and plans to achieve these through transformation of the business, all of this being relative to little or even no discussion in the financial statements of how these risks and commitments were considered. While there may be a number of reasons for this including that material information has been omitted from the financial statements, the lack of financial statement disclosure could also point to sustainability reporting that lacks in substance and may therefore be considered to represent ‘greenwashing’.

Recommendations:

We note that that while the Explanatory Memorandum references ‘greenwashing’ in the context of fraud, it is not mentioned at all in ED-5000. We recommend that this term not only be made explicit in the final standard, but that the standard also reference the lack of disclosure in the financial statements of how sustainability related risks and steps to address them were considered, as a potential indicator of misstatement or fraud, where such sustainability information might raise a reasonable expectation of financial statement impact (ie changes in remaining asset lives or other assumptions used to determine depreciation, future cash flows and asset impairment, increased provisions, etc.)

### **Link Asset Management Limited**

Suggest A296 be expanded to include the concept of providing a balanced view to avoid common cases of greenwashing where a company selectively or inadvertently discloses positive information about a company's environmental or social performance, without full disclosure of negative information on these dimensions and thereby creates an overly positive corporate image.

### **MFIs' Internal Audit ESG Working Group**

This is a very practical reference and helpful in making the business understand what greenwashing means and how it is linked to fraudulent practices.

Fraud can appear through different forms (eg. false statement, "hidden trade-off", vague disclosures, misleading labelling,...) – it would worth further defining what fraud is?

In addition, in spite of not defining sustainability reporting fraud, the paragraph A406 provides examples of misstatements due to fraud in sustainability information.

## **7. Accounting Firms**

### **Baker Tilly International**

Given the significant risk of fraud and greenwashing, especially during the initial implementation phase, the standard should contain a presumed fraud risk (similar to the rebuttable presumption in ISAs for revenue).

### **Crowe Global**

As an overarching standard ED-5000 addresses the issue. It is right to give the risk of fraud the attention that it is given in ED-5000. However, the public interest concerns about "greenwashing" mean that the IAASB must provide relevant implementation guidance to support the application of the standard and be open to developing a specific standard on the risk of fraud in its suite of standards,

## **10. Member Bodies and Other Professional Organizations**

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

ED 5000 addresses in various paragraphs the central issue of fraud; furthermore, it provides examples of "where or how misstatements in sustainability information may arise" (paragraph A401) and of "misstatements due to fraud in sustainability information" (paragraph A406), but it does not provide a definition of "greenwashing" and does not directly address this event.

### **Institute of Chartered Accountants of Scotland (ICAS)**

This is a complex matter, and we question upfront whether "greenwashing" will always necessarily be a subset of "fraud". This matter is not helped by the current lack of a globally accepted definition of "greenwashing". We understand and welcome the use of proposed requirements and application material that are based on those in extant ISA 240. These provide a solid foundation, however, we believe that further consideration is required by the IAASB to better meet the challenges that assurers are likely to face when encountering potential instances of "greenwashing", which may include an entity inadvertently placing too much emphasis on positive aspects of its sustainability performance or by making narrowly focused statements that do not take account of the holistic nature of its activities.

IAASB standards have recently made greater use of 'stand-back requirements and this would appear to be an area where such a requirement, to take place towards the conclusion of an assurance engagement, would be of benefit in mitigating against the risk of "greenwashing".

## 12. Individuals and Others

### Dr. Prachi Ugle Pimpalkhute

No mention on liabilities, risk and levy penalties

## 19.4 Disagree with comments

### 2. Preparer and Users of sustainability information

#### French Insurance Federation (France Assureurs)

Overall, we believe that sustainability reporting should remain a transparency exercise aimed to reflect the actions taken by entities and the efforts made to carry a real change in mindsets and business models towards a low-carbon future.

Although we agree on the definition of fraud under paragraph 17 of the proposed IAASB standard, which recognizes that fraud results from an intentional action of management, we regret that the application guidance (A296) presents an extended definition of what would constitute 'fraud'.

In the examples given, immature systems of internal control over sustainability reporting, aggressive or overly optimistic internal or external goals may constitute fraud.

We believe that those examples are overreaching and should not form part of the application guidance, as they do not include the notion of intentionality.

Greenwashing, for which various definitions are being developed across jurisdictions, should not be confused with fraud nor with forgery. In our opinion, 'greenwashing' should only be likely to constitute fraud when applied to sales, marketing or advertising techniques in which misleading environmental arguments are intentionally being used to convince consumers to buy goods or use a certain service. Legally required documents produced by the company should not constitute greenwashing.

Regarding the lack of maturity of sustainability reporting this interpretation could prevent undertakings from exploring options to launch new sustainable initiative or project considering risk litigation.

The auditors should also be mindful of the principle of legal certainty which is paramount to ensure financial stability. Notably we believe that auditors should only be required to characterize as fraud facts that would be likely to constitute a criminal legal offence, under the national law of the country where the auditors are accredited/certified. Otherwise, there would be a risk of inconsistencies between the findings of the auditor's report on fraud and the facts that could be reported to the authorities for fraud.

### 3. Those Charged with Governance

#### Eumedion

##### Corruption

While the Proposed ISSA 5000 touches upon corruption, we believe its significance and implications for sustainability warrant a more explicit treatment. Currently, corruption is mentioned only once in the Proposed ISSA 5000, within the context of an example of a sustainability matter that has an 'economic impact'. Our response to a recent consultation on a draft practice statement on corruption by The Royal Netherlands Institute of Chartered Accountants (NBA) elaborates on the severe impact of corruption on society, on the companies involved in corruption themselves, and on investment portfolios at large. The response also outlines several suggestions for how audit and assurance standards can strengthen the auditor's role in addressing this crucial issue.

In line with the changes made by the NBA to the practice statement on corruption, we propose that the final ISSA 5000, and audit standards regarding financial reporting, explicitly define that 'fraud' includes corruption. This elevation would be beneficial for the rigour with which assurance is conducted on this topic and would raise the profile of corruption, corruption risks, anti-corruption policies, and the effectiveness of such policies from an (potential) event of 'non-compliance with laws and regulations' to an (potential) event of fraud.

### 4. Regulators and Audit Oversight Authorities

#### Canadian Public Accountability Board

##### Fraud and management bias

Given the different fraud related considerations that sustainability reporting introduces, the proposed standard should include more specific guidance and examples on how to assess risks related to fraud and management bias, as well as how to respond to those risks.

The IAASB has heavily leveraged the existing standard, ISA 240, The Auditor's Responsibilities Relating to Fraud in an audit of Financial Statements, which is no longer fit for purpose in today's environment. Many of the concerns raised in our response to the IAASB's discussion paper – Fraud and Going Concern in the Audit of Financial Statements, are equally relevant to sustainability assurance standards. For example, strengthening the standard to require auditors to evaluate the design and implementation of management's process for identifying and responding the risks of fraud in the entity, including related anti-fraud prevention and detection controls, including the entity's whistleblower program. Improved requirements around understanding and evaluating management's process will lead to a more robust risk assessment to identify motivating factors relating to fraud or management bias in sustainability reporting.

#### Committee of European Audit Oversight Bodies (CEAOB)

##### Fraud and « greenwashing »

Given the sensitivity, from a user's perspective, of the risk of "greenwashing" in sustainability information (meaning a form of presentation of information that would be intentionally biased, with an objective to persuade the readers of the virtuous behavior of the reporting entity), we would see a benefit in highlighting specifically this risk further in the standard. Given the importance, for the stakeholders, to discourage any "green / eco-washing", additional emphasis would be welcome in application material. We support the fact

that the fraud related provisions are integrated in the ED throughout the various steps of the engagement rather than treated as standalone provisions.

A specific requirement for practitioners to remain alert to management bias in sustainability reporting (leading to green/eco-washing) and specifying that the risk of bias should be covered by procedures would also help to better meet the expectations. The consequences and actions to be taken if fraud is suspected should be added in the requirements.

The requirements with regards to non-compliance with laws and regulations need to be reassessed and strengthened, and communications with authorities should be added in this regard. Otherwise a reference should be added to the fact that legal provisions applicable need to be addressed by the practitioner.

For instance, irregularities shall be communicated as per the CSRD to those charged with governance and authorities, when the practitioner suspects or has reasonable grounds to suspect that irregularities, including fraud, may occur or have occurred.

### **Financial Reporting Council – UK (FRC)**

While recognizing this is an overarching standard, we believe concerns about fraudulent sustainability reporting, particularly as new reporting practices develop, merit more attention being given to identifying and addressing the risks. In particular, more emphasis could be given in the material relating to the engagement team discussion (paragraphs 96 and A293-A294). We recommend IAASB has regard to the work it is doing on the revision of ISA 240 and consider how the expanded material on the team discussion could be incorporated in ISSA 5000 in the context of sustainability reporting.

See also our response to Q21 regarding the statement in the assurance report on the practitioner's responsibilities.

## **5. National Auditing Standard Setters**

### **Auditing and Assurance Standards Board Canada (AASB)**

In considering how fraud is addressed in ED-ISSA 5000, we have several concerns.

Key Concern: Pervasive Risks

We understand why the standard does not include the concepts of significant risks and presumed risks of fraud. However, in the context of sustainability reporting we believe that the following are pervasive risks that if identified at the entity, require an overall response:

management override of controls, and  
intentional management bias.

We acknowledge that the IAASB included paragraph A367 linked to the requirements in paragraphs 116L/116R for the practitioner to design overall responses.

Paragraph A367 describes circumstances that indicate that 'material misstatements are likely to arise (limited assurance) or there is an increased risk of material misstatement (reasonable assurance) pervasively throughout the sustainability information.'

However, the circumstances described in paragraph A367 do not directly describe management override of controls, and intentional management bias, and the paragraph is at the response to risks stage with no corresponding requirement to consider pervasive risks at the risk procedures stage.

Suggest:

The standard should require management override of controls, and intentional management bias to be considered at the risk procedures stage, and at designing overall responses. This could be achieved by:

Risk procedures: Add a requirement after paragraph 110L/110R as follows:

For limited assurance - The practitioner shall identify material misstatements that are likely to arise pervasively throughout the sustainability information.

For reasonable assurance – The practitioner shall identify and assess risk of material misstatement that are pervasive throughout the sustainability information.

Move application material A367 to these new requirements. In addition, add examples of pervasive risks to bullet 3, such as:

Circumstances related to management override of controls and intentional management bias.

Where an entity is new or doesn't have sophisticated information systems.

Where an entity applies multiple criteria from different frameworks and entity-developed criteria.

When the entity applies different measurement techniques.

Where the entity has bonus arrangements/compensation linked to performance against targets goals or commitments.

Where the entity is experiencing a data migration that impacts performance against targets goals or commitments.

Overall responses (see 116L/116R) – Add new bullets in paragraph A368 that specifically discuss overall responses to management override of controls and intentional management bias.

Concern: Fraud in estimates and forward-looking information

We heard that estimates and forward-looking sustainability information are areas where there is an increased risk of the entity misleading users by presenting ambitious targets or optimistic results, which could lead to fraudulent financial reporting. However, in the 'Responding to Risks of Material Misstatement' section of the standard, there is no mention of when management intentionally misleads users and how in that case, management bias is a risk of material misstatement due to fraud (reasonable assurance), or where material misstatement due to fraud is likely to arise (limited assurance).

Suggest:

Clarify in the application material to paragraph 134L/134R that where management bias in the development of estimates and forward-looking information is 'intentional', then the management bias is fraudulent in nature. In that case, where material misstatement is likely to occur/ the risk of material misstatement identified, it is due to fraud.

Paragraph 161 of the standard states draws a clear linkage between intentional management bias and fraud, however, it is at the concluding stage of the engagement.

Consider adding additional application material to the 'Responding to Risks of Material Misstatement' section of the standard:

Paragraphs A392 discusses judgments in management's selection and use of appropriate methods, assumptions, and data. Add to the paragraph "Judgements made in developing estimates and forward-

looking information give rise to indicators of possible management bias. Where there is intention to mislead, management bias is fraudulent in nature”.

Paragraphs A393R(a), A394R(a), and A395R(a) has the practitioner consider whether judgments made in selecting the method, assumptions or data give rise to indicators of possible management bias. Edit these paragraphs to include “Where there is intention to mislead, management bias is fraudulent in nature.”

Concern: Professional skepticism

Given the importance of the practitioner’s application of professional skepticism in sustainability assurance engagements, we believe further enhancements could be made to improve the standard. These enhancements could leverage the changes IESBA introduced in their Role and Mindset of Professional Accountants project.

Suggest:

Adding application material to paragraphs A71-A76 on professional skepticism, to align those paragraphs with the changes IESBA introduced in section 120.16 A2. Specifically:

Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:

Standing one's ground when confronted by dilemmas and difficult situations; or

Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

#### **Public Accountants and Auditors Board Zimbabwe (PAAB)**

Consideration of the fraud triangle and its significance and nature to the topic of fraud requires further consideration particularly opportunities. Pressure and rationalization has been covered to some extent. Working with these categories to determine what fraud may take place in reporting on sustainability will expand the fraud scope and be clearer to practitioners and preparers. Examples given of fraudulent situations in A296 are welcome, although it is difficult to determine if fraud occurred as per the last point in A296 which is “Immature systems of internal control over sustainability reporting”. Considering the potential for fraud when considering the risks to achieving the entity’s objectives is critical as per A325R (c). Further examples may be necessary over time based on post-implementation reviews and other interactions between stakeholders. Practitioners and preparers need to alive to emerging trends and sophistication in fraud mechanisms.

#### **Royal Dutch Institute of Chartered Accountants**

Fraud and greenwashing are areas of concern to many stakeholders. Assurance on sustainability reporting is an important measure to contribute to the prevention as well as detection and addressing fraud and greenwashing. This requires appropriate focus on the topics of fraud and greenwashing in the standard. In the NBA’s opinion, ED-5000 lacks soundness and specificity in its requirements and thereby fails to achieve on the expectations. The NBA has the following comments:

- A review of the ‘fraud triangle’ shows that inherently fraud risks factors can be observed. However, ED-5000 does not seem to be based on that notion, nor does it require practitioners to use the fraud triangle to help assess fraud risk factors and subsequently fraud risks.

- We also note that the risk of management override of controls may also be higher than for financial reporting, for example because information systems may be less developed, more judgements are made and override of controls is less traceable. We urge the Board to elaborate on this in the standard, and to include appropriate requirements in response.
- We ask the board to more visibly address bias in reporting. Bias may be unintentional or intentional, each requiring a different response. Some (limited) bias may not lead to a misstatement, while other bias or consistent bias to show more positive results may result in greenwashing or misstatements. When this is intentional, it may also be fraudulent. This means that practitioners should be highly conscious of the risk of bias, and perform appropriate procedures in response. We urge the Board to include this in the Standard.
- The definition of fraud in the context of ED-5000 is very high level, making it hard to apply it properly when addressing fraud and fraud risks in the performance of the assurance engagements. A definition of greenwashing is lacking entirely. We urge the Board to further develop these definitions, and also ensure that they can be applied by practitioners for determining their work effort, considering the outcomes thereof and evaluating information, indications and evidence.
- We suggest that a consideration whether the overall presentation of the reporting results in greenwashing be made an explicit consideration by the practitioner at the end of the engagement. It may well be part of the overall step-back requirement in which the engagement leader will assess the procedures performed, the evidence obtained in conjunction with the entity's reporting to assess the validity of the conclusions drawn.
- We also suggest to be more explicit about the team discussion, and to ensure that not only senior members of the engagement team are included, but also the observations from junior members of the team are sought, which is relevant because they tend to be less biased by previous experiences.
- We also seek much more clarity about the expectations on non-compliance with laws and regulations. This topic does not necessarily need to result in fraud or greenwashing, but fraud cannot be committed without breaching any laws or regulations, and therefore fraud and non-compliance do have a strong connection. Considering that the areas covered by sustainability reporting typically have many laws and regulations setting out specific requirements for companies, it is important for users of sustainability assurance as well as for practitioners to have a good understanding how far the responsibility of the practitioner goes in terms of assessing a company's compliance with all these laws and regulations.
- We suggest that with respect to fraud and non-compliance, the practitioner also needs to assess the outcomes of the entity's procedures and activities aimed at preventing, detecting and remediating fraud and non-compliance, and follow-up on these where necessary.

## 6. Global Standard Setter

### Global Reporting Initiative (GRI)

Increase the threshold of evidence required

Recognising that greenwashing is fraudulent, and carried out across various levels of companies, including management, it is of the utmost importance to take measures against this practice. GRI strongly recommends that this proposal adopts a stricter approach by increasing the threshold of evidence that is required.

Currently the proposal stipulates a reliance on management representation, but it must be borne in mind that management may engage in greenwashing. GRI therefore recommends that the threshold of evidence that must be provided be adjusted.

### Social Value International

This is a critical aspect of the proposed standard given the well-documented prevalence of green and rainbow washing in the marketplace. It is very valid the connection to fraud has been made here and it would be helpful for there to be a discussion of connectivity of information especially where claims are made by management but are not substantiated by actions or practices. These situations would not necessarily show a control failure and even though there is a requirement on the practitioner to consider other information, more emphasis could be placed on the importance of connectivity whether it is the consistency of assumptions or estimates about the business.

## 7. Accounting Firms

### Grant Thornton International

Although ED-5000 mentions “fraud” in several places, certain foundational concepts are missing, which we believe will lead to inconsistencies among practitioners as professional accountants will likely fall back on their experience applying the ISAs to evaluate fraud risks (including the risk of management bias), respond to identified fraud, and consider whether misstatements may be due to fraud.

Non-accountants may struggle to evaluate sustainability information through a fraud lens when evaluating management’s judgments, subjectivity of estimates and forward-looking information, and bias as it relates to sustainability reporting compared to extractive fraud like embezzlement. For example, ED-5000, paragraph A393R addresses possible management bias in estimates and forward-looking information but A393R and the related requirement are only applicable to reasonable assurance engagements and ED-5000 does not address fraud in estimates and forward-looking information. To address this knowledge and experience gap, we recommend the IAASB:

Add requirements and application material as necessary to ED-5000 to address how the fraud lens is applied when evaluating management’s judgments and the subjectivity of estimates and forward-looking information.

Revise the requirement in ED-5000, paragraph 135 to align with the practitioner’s responsibilities related to the assembly of historical financial information.

Add an example in ED-5000, paragraph A296 related to the practitioner’s responsibility to consider fraud risk further down the value chain.

Add requirements and application material as necessary to ED-5000 to address how the fraud lens is applied when a compliance framework is used for sustainability reporting.

We also believe that ED-5000 should include a requirement for practitioners to consider the risk of management override of controls when performing risk assessment procedures, responding to risks, and reporting. We believe it is appropriate for management override of controls to be a presumed risk of material misstatement for limited and reasonable assurance engagements as management likely has greater incentive, pressure, and opportunity to override controls related to sustainability information and reporting compared to other assurance engagements.

We agree with not enshrining “greenwashing” in ED-5000 as it may be an “of the moment” concept and equivalents for social and governance concepts may emerge at a later date. However, we propose the IAASB add “greenwashing” as the first example in ED-5000, paragraph A296 due to its prevalence in discussions of sustainability information. We propose the IAASB address “greenwashing” and the related considerations for the practitioner in more detail in nonauthoritative guidance.

## Mazars

### Fraud requirements

The risk of fraud, especially the risk of management bias, override of controls and the potential for greenwashing, is especially pertinent to sustainability information, due to the nature of the information disclosed (including a wide range of estimates and forward-looking information), the characteristics of the data (underdeveloped systems, processes and controls), and the extent of qualitative disclosures. This risk is particularly acute where, for example, sustainability performance is linked to remuneration, which is increasingly common, or the availability of preferential rates for sustainability linked loans.

The risk of fraud will be high profile and represents a significant risk to assurance providers, especially where they are only providing limited assurance with restricted procedures, although even when providing reasonable assurance, fraud may not be discovered and may cause significant quality, regulator and litigation risks. This risk is heightened where there is a lack of clarity and insufficient requirements in the assurance standard.

The requirements relating to fraud and non-compliance with laws and regulations (NOCLAR) in ED-5000.59-61 only require the practitioner to:

Maintain professional scepticism, recognising the possibility that a material misstatement due to fraud could exist,

Remain alert to the possibility that procedures may bring instances of noncompliance to the practitioner's attention, and

In the absence of identified noncompliance, no further procedures are required.

Further procedures relating to fraud are:

ED-5000.101 – to make inquiries whether parties in the entity have knowledge of any actual, suspected or alleged fraud or NOCLAR,

ED-5000.116 - develop an overall response if the practitioner identifies fraud or suspected fraud or NOCLAR,

ED-5000.117-118 – to respond appropriately to any fraud or NOCLAR identified during the engagement and evaluate the implications for the engagement

ED-5000.138 – to consider whether misstatements may be due to fraud and respond appropriately if there are indicators of fraud.

It is highly doubtful that intended users of the sustainability information will consider these procedures to be sufficient to enable the practitioner to identify instances of fraud or NOCLAR, leading to the significant expectation gap mentioned above, although the requirements to respond when indicators of fraud are identified and appropriate.

In that context, the requirements relating to fraud in ED-5000 are relatively high level and are likely to lead to a significant expectation gap with the wide range of potential users and stakeholders of sustainability reports. ED-5000 appears to bury fraud under “fraud or error” on the whole, but we believe that users would be looking for more procedures in respect of fraud.

A separate ISSA 5000 series standard on fraud is required. In the meantime, given the level of risk, stakeholder interest and the likelihood of an expectation gap, the IAASB may wish to consider whether ED-5000 should include further requirements such as:

a “presumed fraud risk”, similar to management override and revenue recognition in ISA 240, with required responses and a rebuttal option

a stand-back requirement to consider the overall tone and balance of the sustainability report as a whole, considering any indications of management bias in reporting, including omissions from the report (as a proxy for greenwashing – see below).

#### NOCLAR

We are concerned that the requirements in ED-5000.100 to “obtain an understanding” of the legal and regulatory framework and how the entity is complying with that framework could be incredibly onerous, given the lack of a materiality filter on the applicable laws and regulations. This will be especially challenging in large, complex groups, particularly considering the very wide range of potential sustainability laws and regulations. We believe that the requirements in relation to understanding laws and regulations should focus on assessing how management has assessed which laws and regulations are relevant to the sustainability report, whilst retaining the NOCLAR requirements in ED-5000 when noncompliance (actual or suspected) is identified.

#### Greenwashing

We note that greenwashing is not directly referred to in ED-5000. As greenwashing is not yet formally defined, it is not clear that greenwashing always represents material fraud (e.g. how would the practitioner assess whether the entity has gained an unjust advantage).

Given the lack of formal definition of greenwashing, we believe that the IAASB must avoid any doubt over whether greenwashing represents fraud and whether it is to explicitly be addressed in ED-5000, to manage expectations. To that end we believe that the IAASB has two options, taking account also of the final position taken by IESBA on ethical considerations relating to sustainability:

avoid introducing the concept of greenwashing as it is not clearly defined and focus the requirements in ED-5000 on fraud, or

include the term greenwashing, provide a definition that is supported by the requirements in the standard, and explain how it relates to the definition of fraud.

In our view the IAASB should avoid introducing the concept of greenwashing into the standard. In determining the way forward the IAASB should be cognizant of the fact the greenwashing will be of significant interest to users and wider stakeholders of sustainability reports. It is critical to manage expectations of users in regard to greenwashing and fraud to avoid an expectation gap arising and clear expectations and associated guidance will be critical.

## **MNP LLP**

While we don't believe that there needs to be an increased focus on fraud in the requirements of ED-5000, we believe that further application guidance is needed on how management bias may or may not give rise to fraud risks related to the sustainability information. The explanatory memorandum includes greenwashing as a type of fraud however this may not always be the case. A reporting entity may have optimistic messaging about reaching climate goals and may be influenced by bias without being intentionally misleading. We recommend that the IAASB provide application guidance to assist practitioners assess how management bias may or may not be indicative of a fraud risk factor.

## **PKF International Limited**

To enhance its approach to topic of fraud, we recommend that revisions are made to the risk procedures in ED-5000.

We have provided recommendations in response to Q13, Q16 and Q17 which, in part, are intended to help the practitioner obtain a higher level of understanding on matters that are more aligned with the nature of sustainability reporting. We consider these suggested revisions to ED-5000's risk procedures have the added benefit of enhancing the practitioner's ability to identify fraud risks on sustainability assurance engagements and to design appropriate responses.

## **8. Assurance Practitioner or Firm - Other Profession**

### **Academy for Practical Training on Sustainability Assurance (APTISA)**

In line with my previous comments, I would consider risk of fraud at the assertion level for limited as well as reasonable assurance, based on, for example the details of the goals and targets of the organization.

### **ERM Certification and Verification Services Limited**

In relation to 'Sufficiency and Appropriateness of Evidence', management inquiry alone is not sufficient evidence for Limited Assurance. As previously stated, Limited Assurance cannot be reduced in activity to the level currently stated in ED-5000 and retain the intended purpose of increasing user confidence. In instances of potential fraud, inquiry of management is not likely to be suitable evidence. Please revise A223, bolded as follows:

A223. The procedures designed and performed by the practitioner may also affect the persuasiveness of the evidence obtained. For example, in a reasonable assurance engagement, evaluating the design and implementation of controls relating to processes in the entity's information system that support the preparation of the sustainability information, or external confirmation procedures to obtain evidence about information used by management in preparing the sustainability information, may provide more persuasive evidence than inquiry of management. Inquiry alone ordinarily does not provide sufficient appropriate evidence.

## **SGS**

The standard address extensively on fraud. However, "greenwashing" is a more concealing concept and not all greenwashing are fraud. It might relate to some green claims or marketing activities that the company are not aware of greenwashing. In order to avoid greenwashing, the practitioner shall evaluate entity's "materiality process" to determine if any material impact has been hidden/neglected from their reporting resulting in showing misleading information to intended users, i.e., greenwashing.

We recommend to better define the concepts of fraud and greenwashing. And highlight the auditor duty in these cases, how to classify and identify the cases.

### **TIC Council**

There are no recommendations given to the practitioners and there should be more detail about misleading statements and the role of the practitioner to identify these. If it is looking at forward looking information, then it must be achievable. ED-5000 just refers to systems/ reports, but no reference to product labelling/ reports – all part of the external communication to customers through products/ services. Boundaries/ completeness of information/ consistency between what is done/ reported.

The standard address extensively on fraud. However, “greenwashing” is a more concealing concept and not all greenwashing are fraud. It might relate to some green claims or marketing activities that the company are not aware of greenwashing. In order to avoid greenwashing, the practitioner shall evaluate entity’s “materiality process” to determine if any material impact has been hidden/neglected from their reporting resulting in showing misleading information to intended users, i.e. greenwashing.

## **9. Public Sector Organizations**

### **Government Accountability Office - US**

We believe that the guidance should further develop its discussion of the practitioner’s responsibilities relating to fraud in assurance engagements and consider providing more clear delineations regarding the practitioner’s responsibility for assessing and dealing with the risk of fraud. Further, we believe ED-5000 could add additional requirements regarding completeness of sustainability information to determine whether there is sufficient information to avoid being misleading.

### **Office of the Auditor General (New Zealand)**

Fraud risk is significantly higher in sustainability information for a number of reasons, as follows:

Sustainability information is of great public interest and the fortunes of many organisations depend very much on presenting themselves as “responsible corporate citizens”.

Public disclosure of sustainability information is relatively new and accepted criteria for the preparation of sustainability information are still being developed and refined.

There is no internationally accepted definitions for key sustainability terms, for example ‘carbon zero’, ‘net zero’.

Significant aspects of sustainability information are subjective and are dependent on the correct interpretation of accurate data. There are plenty of opportunities for bias to creep into the data analysis process, for important information to be suppressed, for bad results to be “under-emphasised”, and for mediocre results to be presented “over-optimistically”.

Sustainability information is subject to new and emerging fraud risks. For example, carbon offsets are used to reduce carbon emissions. The quality of carbon offsets can be variable and may be ineffective or fraudulent.

To increase the focus on fraud the ISSA could include:

a presumed risk of fraud related to management bias for particular types of disclosures (which could be rebutted), and/or when the entity uses carbon offsetting mechanisms (e.g. paying someone else to reduce or absorb its carbon) rather than reducing its own carbon emissions.

specific requirements to obtain an understanding of controls to address the risk of fraud where such a risk has been identified.

requiring tests of details to test the risk of fraud.

requiring specific tests over narrative information to determine whether the information is misleading.

We are aware that the IAASB is currently reviewing the ISA on fraud. There is an indication that the revised ISA on fraud may remove the premise that “the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary”. If this is a change to auditing financial information under the ISAs then there is an argument that this change should also be reflected in ED-5000. Currently ED-5000 includes the current premise in the ISAs that:

“Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary ...” (paragraph A73).

#### Office of the Auditor General of Alberta

We disagree because ED-5000 permits assurance on a very narrow concept of sustainability of “entity only impacts,” which A180 implies is financial only and ignores external impacts. This may permit systematic greenwashing if entities do not also report their negative but non-financial internal impacts and also do not report their negative external impacts, and associated mitigation. The risk is that ISSA 5000 becomes the global baseline for greenwashing by condoning the redefinition of sustainability from reducing negative impacts on the environment to something about financial impacts on the entity only.

## 10. Member Bodies and Other Professional Organizations

### ACTEO AFEP MEDEF

No

While we understand the choice of including greenwashing in the whole concept of fraud without specific developments, we consider that ED-5000 approach of fraud is not appropriate, as there is an insufficient distinction between fraud and errors which are not intentional on the one hand and between fraud and internal control immaturity on the other hand. This confusion is carried by the examples provided in the application material at § A296 and § A406. The final example in the list of § A296 is particularly problematic: material misstatements due to fraud in sustainability information may relate to matters such as immature systems of internal control over sustainability reporting. There is an inversion in the reasoning. Indeed, we consider that the internal control robustness is a way to lower the level of controls, but its lack of maturity is not per se a reason to infer a fraud. As the sustainability reporting is a recent requirement, the immaturity of the internal control system is a common situation in the companies and therefore shouldn't be considered as a trigger of fraud. To this extent, we caution against including greenwashing within fraud at this stage. Examples developed in §A406 are also problematic as they mix an intentional misstatement with questions raised by ordinary situations that currently leads to discussions between auditors and companies. For instance, in the last example, misstating sustainability information associated with specific project milestones, budget approval, or rights to access certain markets or begin projects in

certain markets or geographies, or in the first example of § A296, which highlights potentially aggressive or overly optimistic internal or external goals. An overly optimistic goal is not per se a case of fraud if there is no intentionality to change the reality. In the financial statements, discussions regularly occur on very technical subjects which requires judgement, for instance to determine if impairments are required or if a milestone in an important project has been reached to recognize revenue. In our view, it is key that such discussions be not addressed through the prism of fraud. For those reasons, the examples should be deeply reviewed to strictly refer

to intentional cases of misstatements.

#### **ASSIREVI – Association of the Italian audit firms**

Stakeholders are very focused on the issue of fraud, as the risk of fraud (including greenwashing and other forms of washing related to human rights and gender equality) is of particular importance for sustainability reporting.

The reporting of sustainability information and the system of internal control related to the preparation of the sustainability information are currently less mature/developed than those for financial statements based on historical financial information. Moreover, the criteria themselves are relatively less mature than for historical financial information and are continuing to evolve. This may increase the susceptibility of sustainability information to misstatements due to fraud, particularly when there are pressures for management to meet publicly announced targets or goals.

The IAASB has recognised the importance of the practitioner's consideration of the risks of material misstatement due to fraud, and the importance of responding appropriately to actual or suspected fraud identified during the engagement. Therefore, ED-5000 has numerous references to fraud throughout the requirements and in the application material. However, it does not systematically address the issue as it is only discussed in few paragraphs of the requirements and of the application material and only at a very high level. In practice, ED-5000 merely provides a sort of summary of the content of ISA 240, reiterating, in particular, the need to maintain professional skepticism throughout the assurance engagement.

Our considerations about the previous point (“consolidated” sustainability information) hold true here as well: as ISSA 5000 is intended to be an “overarching standard”, it should include all the requirements and guidance to allow a practitioner (who may not be a professional accountant) to perform the assurance engagement without having to refer to other professional standards (ISA, ISRE and ISAE). The non-inclusion of sufficiently detailed and exhaustive requirements for the issue of fraud could generate the risk of inconsistent approaches. The professional accountant assurance practitioner will mostly likely refer to ISA 240 (Revised) while non-accountant assurance practitioners could adopt different approaches.

While the matter will surely be regulated in individual jurisdictions by competent authorities, especially given its critical nature, the high risk of intentional misstatements and the importance of fraud risk assessment as part of the risk assessment process, we believe that the practitioner's operating responsibilities vis-à-vis fraud should be defined in more detail, as well as the procedures to be performed. This could be achieved by including detailed requirements and more guidance and considering the various types of fraud that can affect sustainability information.

#### **Belgian Institute of Registered Auditors**

The topic of fraud is included in all phases of the assurance engagement covered in ED-5000. However, the concrete interpretation of fraud in the context of sustainability information, and greenwashing in particular, is

not sufficiently addressed. More concrete examples should be provided in the section Application of ED-5000. The topic of Fraud and in particular greenwashing, is a hot topic for the stakeholders.

### **Chartered Accountants Ireland**

Need for fraud considerations to be more tailored to a sustainability assurance engagement

While there are some relevant comments in the explanatory memo relevant to greenwashing etc (for example, in the explanatory memo it is stated that “Stakeholders encouraged the IAASB to give appropriate consideration to the topic of fraud (including “greenwashing”) in ED-5000”), the fraud considerations documented in paragraph. 59 – 61 are generically worded (professional scepticism, remaining alert etc.) and not sufficiently tailored to a sustainability assurance engagement.

We would recommend adding a sentence under paragraph 59 referring to ‘Examples of misstatements due to fraud...’ in paragraph A406.

The draft standard does not make it clear what is required in a limited assurance engagement in relation to fraud compared to a reasonable assurance engagement.

Referencing and linkage

There are various sections in the draft standard which make reference to fraud, without linkage back to paragraph 59. We would recommend adding a separate paragraph as follows “In documenting fraud considerations, the practitioner shall also consider paragraphs 87, 94L, 94R, 96, 114L, 114R, 117, 118, 138, 161, A295, A296, A406.”

Management bias considerations

While there seems to be appropriate focus on intentional management bias (fraud), sustainability information is susceptible to management bias where the intentionality of such bias may not be evident. Examples may be anchoring bias, availability bias, attention bias and confirmation bias. The standard should provide more guidance to practitioners in identifying and responding to management bias, whether or not intentionality has been determined.

### **Chartered Professional Accountants of Canada (CPAC)**

We believe ISSA 5000 should be enhanced to provide examples of sustainability-related fraud risk factors and guidance on how to respond to such risks. Some areas of focus include greenwashing risk as well as potential bias inherent in scenario analysis given that it involves many judgements, estimates and assumptions. It may be challenging for assurance providers to distinguish between ambitious long-term goals and intentionally misleading FLI. It would also be useful to provide practical guidance on how to apply professional skepticism in this context.

We note that there are existing standards and guidance that can be leveraged and brought into the standard or application material, such as ISA 540 and IESBA’s publication on Ethics Considerations in Sustainability Reporting | Ethics Board.

We also heard that more is needed on requirements for discussion of fraud with those charged with governance.

### European Commission Platform on Sustainable (PSF)

The Platform discerns a distinction between fraud and greenwashing, emphasising that fraud is a legal term, while greenwashing is more subjective and pertains specifically to sustainability, such as environmental claims. The following considerations are noted:

**Divergent Perspectives:** Stakeholders may not draw the same line between what constitutes greenwashing and fraud, nor the size of errors and greenwashing, given that fraud has a legal definition. Perspectives on greenwashing may vary, with NGOs potentially identifying greenwashing where the highest standards are not met, while reporting companies might downplay certain topics as material. Regulation though is increasing across geographies to tackle environmental claims at entity and product level, including for financial products and institutions e.g. proposed EU Directive on Green Claims and, for consumer protection, the proposed Directive on Empowering Consumers for the Green Transition. As these are developed, the discerning gap between fraud and greenwashing might close, and then be reduced to “negligent fraud or breach” vs. “intentional fraud or breach”.

**Process and Result:** Evaluation should extend beyond determining whether fraud or errors have occurred. It should encompass assessing whether processes have been conducted in a manner that achieves the intended result, such as disclosing the development, performance, position and impact of the company related to sustainability.

### Institute of Chartered Accountants in England and Wales (ICAEW)

Fraud, including ‘greenwashing’, is a matter of significant public interest. We are concerned that there may be a sizeable expectation gap around the issue of fraud in sustainability assurance engagements. We believe that the issue represents a significant risk to sustainability assurance providers, especially those performing limited assurance engagements. The risk of fraud (especially the risk of management override of controls) is especially important with regard to sustainability information, due to the nature of the information involved as well as characteristics of the data (no comparable systems to double-entry bookkeeping, no strong links between different systems for registration, etc.). This will especially be the case where the meeting of sustainability targets is linked to remuneration.

As noted above, we are concerned that the nature of sustainability reporting and assurance increases the risk of a lack of balance in reporting, arising from management bias (which may be unconscious) at the overall report level. One example is the overall tone and balance of information disclosed, and the prominence with which it is presented.

We believe that the proposed standard, in its reporting section, should require practitioners to highlight where material or significant information is derived from external sources, either in the inherent limitations in preparing the sustainability information or emphasis of matter paragraphs.

We would also like to see additional guidance (perhaps in a standalone focus document) which provides practical examples and also additional guidance for practitioners who may not have an audit background. We are particularly concerned that there may be confusion around characteristics of ‘greenwashing’ and possibly a lack of understanding that in many circumstances, ‘greenwashing’ is essentially fraudulent reporting. We are aware that both the popular and the professional understanding of what is meant by the term (and what it includes) is not the same across all jurisdictions, and we are very concerned that confusion over a matter which is clearly both in the public interest and interesting to the public could pose a reputational risk to sustainability assurance reporting in general, and the proposed standard in particular.

As a minimum we would like to see:

a 'presumed fraud risk' similar to management override in ISA 240 with either required procedures (similar to journals testing) and/or a rebuttal option;

a requirement for a 'stand back' by the practitioner to give the opportunity for a proper overview at the report level to evaluate the overall tone and balance of the report;

more guidance on the responsibility to look on a broader perspective regarding known serious issues;

an understandable definition of 'greenwashing' for sustainability assurance engagement purposes and a clear delineation of the work to be undertaken by practitioners to address risks of greenwashing, in order to mitigate the expectation gap; and

meaningful material addressing the issue of error. In the early days of sustainability reporting under the nascent reporting frameworks it seems inevitable that there will be errors which are genuine and not related to 'greenwashing'. Preparers will be challenged, and practitioners will need support and practical guidance on handling this issue in a sensible and constructive manner.

### **Institute of Singapore Chartered Accountants (ISCA)**

Our view is that 'greenwashing' should be considered separately from fraud as both are distinct in nature and perpetuated in different ways. The requirements, while addressing fraud to a certain extent, may not address greenwashing. Also, there is currently no globally recognised definition of greenwashing, making it difficult to identify the specific elements that need to be addressed in combating greenwashing practices.

The requirements over fraud may be too high-level, and the following areas can be enhanced:

It would be helpful for the standard to define fraud and describe its characteristics in the context of sustainability reporting and information to facilitate consistent understanding. Relevant aspects of the fraud triangle can be utilised, for example, linking management compensation to sustainability targets. It would also be useful for the proposed standard to incorporate examples of common areas where sustainability reporting fraud can occur.

Similar to audits of financials statements, management override of controls is an area that is relevant to sustainability reporting. More guidance can be included to address this from a sustainability reporting perspective, with consideration given to the multiple potential sources in the reporting process that can lead to fraud in sustainability reporting.

More guidance can be provided on considerations when assessing the implications of fraud or suspected fraud on the assurance engagement and addressing fraud in qualitative information which is a subjective area.

Given that there is likely to be a broader range of stakeholders / intended users in respect of sustainability assurance engagements performed in accordance with ED-5000 as compared to audits of financial statements in accordance with the ISAs, matters such as "expectation gap" in respect of the respective responsibilities of management and the practitioner in relation to fraud may be greater. To manage this expectation gap, IAASB should consider fraud as an area of priority for the development of a separate ISSA, building on the experience in managing such expectation gap in financial statement audits.

### **Instituto Mexicano de Contadores Publicos (IMCP)**

Sustainability is relatively a young topic for the assurance practice and we recognize that in many cases the entity's processes are less mature than the ones implemented for financial information; but taking into account that for audit work there is a specific standard that covers this topic of fraud, we could not conclude

on whether the proposed ISSA 5000 addresses in a robust way such fraud topic. Greenwashing is becoming a critical topic as the sustainability assurance grows and there may be a need to also have, in the suite of the 5000 series, a separate standard that deals with more details in fraud related to accepting/continuing, planning, executing and evaluating the evidence.

#### **Instituto Nacional de Contadores Públicos de Colombia (INCP)**

We consider that the standard should be broader regarding the matters that can be considered as fraud for users of information and the indicators that assurance practitioners must evaluate, in order to be clearer about the requirements and avoid disregarding this issue that is very sensitive for information users.

#### **Korean Institute of Certified Public Accountants (KICPA)**

Although fraud risk and relevant responses are addressed throughout ISSA 5000, the proposed requirements and guidelines are largely same as the existing ones developed focusing on financial reporting fraud.

Greenwashing exhibits a different pattern from the existing fraud committed in financial reporting. Therefore, it requires a different approach for risk identification and response. However, ED-5000 lacks requirements or guidelines tailored to greenwashing. For example, greenwashing may show a pattern of presenting information favorable for the entity in an unbalanced and biased manner at the report level, even when there is no misstatement at the individual disclosure information level. ED-5000 appears to lack specific procedures to address such situations. (ED-5000 paragraph A401 (i), among others, only describes the presentation of information in an unbalanced manner as one example of misstatement)

Requirements or guidelines focusing on greenwashing should be added. For example, we suggest a couple of options to consider, including adding a requirement to evaluate whether the entire report is presented in a balanced manner, as part of evaluation of fair presentation in accordance with ED-5000 paragraph 164, or outlining signs of greenwashing and specific procedures to perform when such a sign is identified, in the application material.

#### **Malta Institute of Accountants (MIA)**

We note that the content related to fraud within the proposed ISSA 5000 is quite limited, especially when compared to ISA 240, which is dedicated to the subject-matter. Our concern is that the content as currently is does not seem like it would suffice to capture the depth of such a subject.

#### **NOREA - Dutch Professional Association of Registered IT Auditors**

We believe fraud is a major topic of concern with regard to sustainability information. We believe that the risk of fraud may be higher than for e.g. the traditional financial statements audit, because systems of internal control with regard to sustainability information are (still) not as mature. This extends to the maturity of information systems used in preparation and reporting of sustainability information. We believe that fraud risks (such as unauthorized access and/or modification to systems and/or data) with regard to systems of internal control as well as information systems should be addressed more directly in ED-ISSA5000 with requirements to reflect that practitioners must consider these risks and formulate an appropriate response in their audit approach.

#### **Pennsylvania Institute of Certified Public Accountants (PICPA)**

The committee believes that the risk of fraud including “greenwashing” is significant for sustainability assurance engagements given the degree of subjectivity, the significant number of information users, and the difficulty of assessing materiality based on users’ information needs and wide variety of metrics. The

committee suggests adding additional guidance to the risk assessment section to include obtaining an understanding of the areas of management pressure and related fraud risks (e.g., expected changes, previous forward-looking information provided as compared with the results, incentives to misstate, etc.) and suggested responses to those fraud risks. While application guidance is included in the proposal, (including the considerations at paragraphs A404 and A405) the committee supports enhancing the guidance and requirements in this area.

## 11. Academics

### Accounting and Finance Association of Australia and New Zealand

We comment that greenwashing is not necessarily equivalent to fraud, and it may be useful to comment on other forms of misleading information apart from fraud.

Fraud related to sustainability information is hard to define, compared to fraud of financial information. The ED does not have discussion on this.

Prior literature generally describes greenwashing as a selective disclosure of positive environmental or social performance and/or symbolic representation without substantive actions (e.g. Lyon and Maxwell, 2011). Greenwashing can consist merely of making irrelevant or distracting claims. Here is a link to the “seven deadly sins of greenwashing” (TerraChoice, 2007): <https://www.ul.com/insights/sins-greenwashing>

The definition of greenwashing from regulatory bodies however emphasizes the misleading impact on information users including investors and retail customers. For example, ACCC define greenwashing as: ‘A term used to describe false or misleading environmental claims. (ACCC, 2023a)’, and ASIC defines it as ‘The practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical (ASIC, 2022).’

With the recent regulatory and legal actions against greenwashing, the definition of greenwashing is being shaped by individual cases. We learn from these cases that greenwashing can be associated with a variety of subject matters ranging across metrics, claims, labels, to image. Further, the definition of greenwashing can be very industry specific. For example, most cases against greenwashing in Australia relate to the asset management and energy sectors (ASIC, 2023). In the Asset Management Industry, greenwashing is defined as: ‘Overstating the adherence to ESG screening criteria, leading to discrepancies between advertised commitments and actual practices.’ In the energy sector, companies often make bold climate claims without scientific evidence or groundwork (e.g. substantive modelling, investigation). Thus, the definition of greenwashing is ‘Promising future climate-related achievements, such as net zero emissions, without providing a credible foundation or thorough evidence for such claims.’

Greenwashing poses a risk of material misrepresentation on claims made in annual and sustainability reports. This is particularly the case when it comes to climate-related disclosures as evidenced in recent legal and regulatory actions. For example, Santos was taken to court for its “net-zero” claim made in the Message from the Chairman and Managing Director and Chief Executive Officer Section of the company’s annual reports without a well-defined plan to achieve the target (ACCR, 2021). Similarly, Tlou Energy Limited and Black Mountain Energy Limited were issued infringement notices by ASIC with a fine of AUD \$53,280 and AUD \$39,960 respectively for claims of “carbon neutral”, “low emissions”, “clean energy” and “net-zero carbon emissions” made in their operational report and investor presentation (ASIC, 2023). While operational report and investor presentation may not subject themselves to audit, “Message from the Chairman and Managing Director and Chief Executive Officer Section” of Santo’s annual report falls into

auditors' responsibility for "other information" under ISA/ASA 720 The Auditor's Responsibilities Relating to Other Information, hence giving rise to the risks of material misstatement.

Another high-profile case on misleading sustainability claim is the Vale case in the U.S., where Vale has agreed to pay \$55.9 million USD in fines for its materially false and misleading statements made in its 2016 and 2017 sustainability reports regarding the audited stability structure of the Brumadinho dam (SEC, 2022). Disclosures in stand-alone sustainability reports could fall under auditors' responsibility for other information as required in ISA/ASA 720. In addition and interestingly, both sustainability reports are assured by third parties, demonstrating the gap/limitation of sustainability assurance in preventing greenwashing claims.

These cases underscore how greenwashing can be seen as non-financial fraud, which is of high relevance to auditing and assurance profession. They also highlight the importance for assurance provider to be aware of all greenwashing actions of regulators, as they may be suggestive of risk of material misstatement in company disclosures, or certain management behaviours that warrant auditor/assuror attention.

On the other hand, greenwashing claims involves a wide range of subject matters disclosed in a variety of venues and some of them may not subject to any form of third-party assurance. For example, information disclosed on websites and social media. In addition, third-party assurance is typically engaged on a company level disclosure such as the sustainability report, while greenwashing claims can be commonly associated with product level disclosures such as a particular investment product and/or a consumer product.

Stakeholder views into the role of third-party assurance in reducing greenwashing are overall positive albeit cautious. The Senate inquiry into greenwashing has received 126 submissions from legal entities, academic institutions, NGOs, and individuals etc with 'assurance' discussed in 28 of these submissions (Parliament of Australia, 2021). The expectation is that audits should offer credible validation for all mandatory metrics and partial validation for the rest of the details in the reports, including a thorough review of any potentially omitted information. However, just like financial fraud, which is one of the most significant issues that give rise to expectation gap, whether sustainability assurance could or should be expected to cover the wide range of potential claims prone to greenwashing is open to debate. Research highlights that the expectation gap is present in sustainability assurance (e.g., Green and Li 2012; Green and Taylor 2013).

### Deakin University

We would not support the use of the term 'greenwashing' in an IAASB assurance standard. Any use of the term in application guidance would need to be carefully positioned to make clear that 'greenwashing' is a colloquial term in common use today, and that the concept is accommodated by the concepts of and distinction between fraud and misstatement.

We note that most discussion about 'greenwashing' today relates to the selective use of certain metrics. We also note that mis-statements as to an organisation's business model as designed and operated, including the governance, strategic management, materiality determination and reporting processes therein, and the basis of selecting metrics to be disclosed, are potentially more insidious and likely to mislead investors and other users than mis-statements in relation to individual metrics.

## 12. Individuals and Others

### Capitals Coalition

This is a critical aspect of the proposed standard given the well-documented prevalence of green and rainbow washing in the marketplace. It is very valid the connection to fraud has been made here and it would be helpful for there to be a discussion of connectivity of information especially where claims are made by management but are not substantiated by actions or practices. These situations would not necessarily show a control failure and even though there is a requirement on the practitioner to consider other information, more emphasis could be placed on the importance of connectivity whether it is the consistency of assumptions or estimates about the business.

### International Accreditation Forum (IAF)

The definitions of "fraud," and "misrepresentation" are unclear or the related requirements are not clear. Therefore, there is a risk of greenwashing over the assurance, and the practitioners and accredited assurance bodies may overlook the issue.

The standard address extensively on fraud. However, "greenwashing" is a more concealing concept and not all greenwashing are fraud. It might relate to some green claims or marketing activities that the company are not aware of greenwashing.

IAF recommends IAASB

to review the definition of "fraud" and "misstatement" and related requirements

to provide the practitioners with more detail about misleading statements and the role of the practitioner to identify these. If it is looking at forward looking information, then it must be achievable. ED-5000 just refers to systems/ reports, but no reference to product labelling/ reports – all part of the external communication to customers through products/ services. Boundaries/ completeness of information/ consistency between what is done/ reported.

### Japan Accreditation Board (JAB)

In respect to the topic of fraud including greenwashing, JAB recommends to review the definition of "fraud" and "misstatement" and related requirements. Due to the definitions of "fraud," and "misrepresentation" are unclear or the related requirements are not clear, there is a risk of greenwashing over the assurance, and the practitioners and accredited assurance bodies may overlook the issue.

Furthermore, it will be very helpful to offer the examples of fraud or intentional misrepresentation for sustainability information, indeed the practitioners and accredited assurance bodies can avoid overlooking the issue.