

Sustainability Assurance – Estimates and Forward-Looking Information

This Agenda Item includes the analysis of comments received on Question 16 in the Explanatory Memorandum to ED-5000,¹ and the related Staff views and recommendations.

Background

1. In developing ED-5000, the IAASB acknowledged the importance for ED-5000 to address the unique considerations related to estimates and forward-looking information, including estimation uncertainty, the use of judgment by management, the use of professional judgment by the practitioner and, obtaining sufficient appropriate evidence about the estimates or forward-looking information.
2. The IAASB was of the view that, regardless of the source or degree of estimation uncertainty, or the extent of judgment involved, it is necessary for management to appropriately apply the applicable criteria when developing estimates and forward-looking information and the related disclosures, including selecting and using appropriate methods, assumptions and data. Therefore, the IAASB concluded that the most appropriate approach was to address estimates and forward-looking information together in the “Responding to Risks of Material Misstatement” section of ED-5000.

What We Asked

3. Question 16 asked respondents:

Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information? If not, what do you propose and why?

117 of 143 respondents provided a response to question 16, including all four Monitoring Group (MG) members.

See **Agenda Item 2-H.4** for further details on the overall responses and **Agenda Item 2-I.4** for comments received.

What We Heard

Highlights

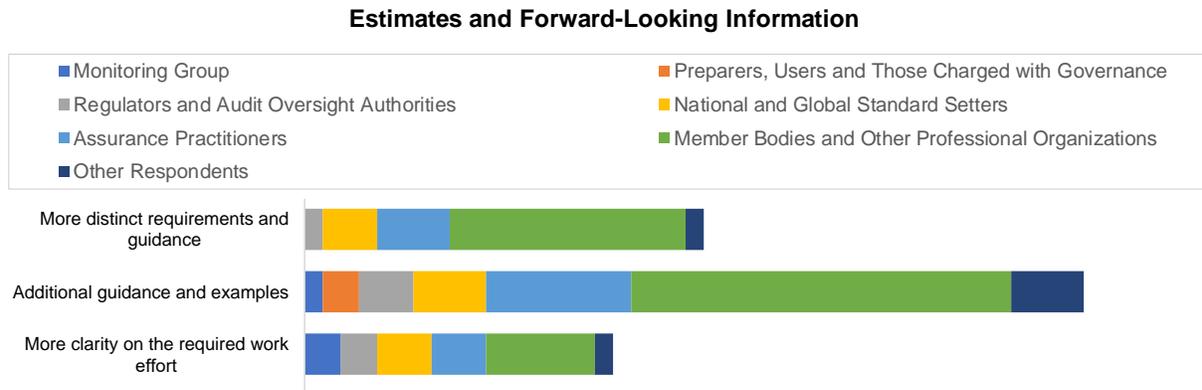
- Overall support for the approach and requirements related to estimates and forward-looking information, including addressing them together.
- Requests for additional guidance and examples on estimates and forward-looking information.
- Some call for separate requirements or a greater distinction between the requirements, including suggestions to consider the requirements in ISAE 3400² for forward-looking information.

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

² ISAE 3400, *The Examination of Prospective Financial Information*

- Calls for additional clarity in the requirements (paragraphs 134L and 134R).

4. The chart below shows a breakdown of the responses to question 16 by theme and stakeholder group.



Monitoring Group Responses

5. One MG member supported addressing estimates and forward-looking information in the same section of the standard. This MG member and two others encouraged further clarity and specificity of the requirements to support consistent application by practitioners.
6. Other comments from MG members included:
- Elevate certain application material to strengthen the requirements and align with the requirements with ISA 540 (Revised).³
 - Foster professional skepticism and the practitioner's attention to the potential for management bias in relation to estimates and forward-looking information by integrating material addressed in the Evidence section of the standard.

Other Respondents' Comments

More Distinct Requirements and Guidance for Estimates and Forward-looking Information

7. The majority of respondents across stakeholder groups supported the approach to the requirements in ED-5000 related to estimates and forward-looking information, including addressing them in the same section of the standard.
8. Some respondents noted that there are several similarities and overlapping areas in respect of estimates and forward-looking information. For example, both will involve a method (approach) adopted by management in their measurement/preparation, assumptions and underlying data. However, other respondents noted that the two are distinct matters that should be addressed separately within the standard, with separate requirements and application material.
9. It was noted that leveraging the requirements and application material from ISA 540 (Revised) may not be appropriate or practicable for forward-looking information as it is subject to greater uncertainty

³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

and longer time horizons. It was noted that it would be difficult for the practitioner to develop a point estimate or range for forward-looking information.

10. Respondents also noted that the disclosures related to estimates are generally quantitative in nature and more suited for the approach adopted in ISA 540 (Revised). However, the disclosures related to forward-looking information are more qualitative in nature. Therefore, the practitioner would need to design and perform different types of procedures for qualitative forward-looking information, recognizing the nature and availability of evidence for forward-looking information as described in paragraph A228 of ED-5000.
11. Some respondents cautioned that, given the potential differences in considerations such as selecting suitable methods, assumptions, and data, integrating the requirements and application material for estimates and forward-looking information may result in practitioners not appropriately identifying or addressing these differences.
12. Several respondents suggested that the IAASB leverage guidance from ISAE 3400⁴ for assurance procedures over forward-looking information. Respondents also noted that guidance from ISAE 3400 could be leveraged to clarify that, for forward-looking information, the practitioner is obtaining evidence that the process used by management to develop the forward-looking information has been applied in accordance with the applicable criteria (see ISAE 3400 paragraph 2). Some respondents also suggested a more explicit acknowledgment in the assurance report that the practitioner is not expressing an opinion or conclusion on the outcome of the forward-looking information (i.e., appropriate caveats concerning the achievability of the results indicated by the forward-looking information).

Additional Guidance and Examples

13. Respondents commented that the requirements in paragraphs 134L and 134R and the related application material in ED-5000 needed more clarification and expansion and suggested for the IAASB to incorporate additional application material and examples in order to provide additional clarity about:
 - (a) The meaning of the verb “evaluate,” including specifying that in the case of a limited assurance engagement, the term “evaluate” solely covers inquiries and analytical procedures in line with the activities ordinarily performed for this type of engagement;
 - (b) The nature of the information and its estimation uncertainty for both limited and reasonable assurance engagements;
 - (c) The appropriate nature, timing and extent of procedures that can be performed based on the nature of the information for both limited and reasonable assurance engagements;
 - (d) Understanding what would be considered sufficient appropriate evidence for estimates and forward-looking information and generally acceptable methods, assumptions and data;
 - (e) How the practitioner evaluates management’s intent and ability over longer time horizons;
 - (f) What is meant by “consider whether additional procedures are necessary in the

⁴ ISAE 3400, *The Examination of Prospective Financial Information*

- circumstances,” including providing examples of additional procedures;
- (g) The term “significant assumptions” (consistent with ISA 540 (Revised), paragraph A42); and
 - (h) The evaluation of any significant deviations or misstatements and the impact on the practitioner’s report.
14. Specifically related to forward-looking information, respondents noted that there may be a need for guidance on the nature of evidence that may be deemed sufficient for the challenges posed by qualitative and forward-looking information in a sustainability reporting assurance engagement. Respondents noted that:
- (a) ED-5000 should clarify that forward-looking outcomes cannot be assured because of their aspirational and hypothetical nature (i.e., the practitioner does not assure that the outcomes will be achieved) and assurance is provided over the process applied by management to develop forward-looking information;
 - (b) Additional guidance is needed to address the more challenging aspects of forward-looking information that often involves a higher degree of speculation and a longer timeframe, including evaluating a mixture of best-estimate assumptions and hypothetical assumptions on a “what-if” scenario that may or may not take place in the future date.
 - (c) Additional practical application guidance is needed to explain relevant considerations for the practitioner as to the nature and extent of evidence that may exist for forward-looking disclosures, for example:
 - i. Whether transition plans are supported by an appropriate budget and have been approved by the entity’s board;
 - ii. Whether a science-based approach has been used in developing plans;
 - iii. Ensuring that Scope 3 emissions are included in transition plans; and
 - iv. Whether assumptions in the transition plans are reflected in and/or consistent with the disclosures in the financial statements.

More Clarity in the Required Work Effort

Paragraph 134L

15. Respondents noted that paragraph 134L appropriately requires the practitioner to evaluate criteria, the methods used for developing estimates and forward-looking information, and changes in the estimates and forward-looking information, but the required procedures on estimates and forward-looking information in ED-5000 for a limited assurance engagement were not sufficient for obtaining sufficient and appropriate evidence. In particular, it was noted that paragraph 134L does not:
- (a) Require an independent evaluation of the assumptions and judgments of management.
 - (b) Include requirements for the practitioner to evaluate the appropriateness of the data used by management to develop estimates or forward-looking information.
 - (c) Include the optional requirement for the practitioner to obtain evidence from events occurring up to the date of the practitioner’s report (similar to paragraph 134R(c)).

Paragraph 134R

16. Regarding the requirements for reasonable assurance engagements, respondents noted or suggested the following:
- (a) The requirement in paragraph 134L(a)(i) for the practitioner to evaluate whether management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information should also apply for reasonable assurance engagements.
 - (b) Application material, perhaps leveraged from ISA 540 (Revised), is needed to support the requirement in paragraph 134R(b) because of the complexity involved in development of a point estimate or range for forward-looking disclosures. However, a few respondents noted that it may not be possible in most cases for the assurance practitioner to develop an appropriate point estimate or range for sustainability information, given the ordinarily long timeframe for forward-looking information.

Other Comments

Undue cost or effort

17. Some respondents noted that in recognition of the evolving maturity of sustainability disclosures, certain sustainability reporting standards have provided transitional relief relating to the preparation of disclosures regarding anticipated or forward-looking information. These respondents suggested that the IAASB clarify the assurance practitioner's responsibilities in such circumstances and provide examples of how the practitioner may evaluate forward-looking information in the context of any relief provided, for example, whether cost or effort is "undue" or "approaches are commensurate with the skills, capabilities, and resources available to the entity."

Reporting

18. Some respondents noted that estimates and forward-looking information will generally be based on forecasts, projections, future plans of the entity, assumptions or hypothetical scenarios. Therefore, in order to make the practitioner's assurance report more useful to the users, the report should include a statement about the procedures performed by the practitioner on forward-looking information and disclosures about estimation uncertainty and key assumptions, as well as reporting on significant limitations on scope. The respondents suggested that the practitioner be encouraged to include "additional information" in the assurance report on forward-looking information (as noted in paragraph A490(a) of ED-5000) or in an Emphasis of Matter paragraph.
19. Respondents suggested for the IAASB to consider drawing content from paragraph 27 of ISAE 3400, which requires that the report include:
- (a) A statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information; and
 - (b) An opinion (reasonable assurance) as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.

SATF Views and Recommendations

Relevant Paragraphs		
Introduction and Requirements Agenda Item 2-A.1	Application Material Agenda Item 2-A.2	Related Definitions
-	A391, A391A	-

More Distinct Requirements and Guidance for Estimates and Forward-looking Information

20. As noted in paragraph 7 above, a majority of the respondents across stakeholder groups were supportive of ED-5000 addressing estimates and forward-looking information together.
21. Although the SATF acknowledges that there may be differences in the way management prepares and presents estimates and forward-looking information, the fundamental principles of obtaining evidence about the methods, assumptions and data used apply equally to estimates and forward-looking information. For example, for estimated current year CO² equivalent emissions and projected CO² equivalent emissions, management would use similar assumptions and data as a base, with the projected CO² equivalent emissions including additional assumptions such as projected growth and changes to future operating activities that may impact the volumes of emissions.
22. The SATF discussed whether there should be different considerations for the procedures performed to obtain evidence about the methods, assumptions or data for forward-looking information due to the inherent uncertainty and time frames involved and agreed with respondents that proposed ISSA 5000 should be clear that the further into the future the period that assumptions relate to is, the greater the estimation uncertainty. The SATF added a sentence to the end of paragraph A391 of **Agenda Item 2-A.2** to clarify this point.
23. The SATF also compared the requirements in ISAE 3400 to corresponding requirements of **Agenda Item 2-A.1** related to forward-looking information and did not identify any significant requirements in ISAE 3400 that were not already addressed by the principles-based requirements and application material in proposed ISSA 5000. However, the SATF did identify guidance in ISAE 3400 that would be helpful in clarifying the practitioner's responsibility related to forward-looking information. Therefore, the SATF is proposing to add application material (paragraph A391BR of **Agenda Item 2-A.2**), which has been developed by leveraging paragraph 20 of ISAE 3400 and paragraph 374 of the EER Guidance.⁵
24. The SATF is of the view that the proposed application material in paragraph A391A will also clarify that the procedures performed are not intended to provide assurance over the occurrence of future events or the achievement of targets disclosed by management, as noted by some respondents.
25. The SATF is not proposing separate requirements for estimates and forward-looking information in proposed ISSA 5000, and notes that such a separation could result in the unnecessary duplication of requirements and application material and add unnecessary length and complexity to the standard.

⁵ *Non-Authoritative Guidance on Applying ISAE isa (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements*

Additional Guidance and Examples

Relevant Paragraphs		
Introduction and Requirements Agenda Item 2-A.1	Application Material Agenda Item 2-A.1	Related Definitions
-	A393R(d)	-

26. The SATF noted the views from respondents that more guidance was needed to clarify the meaning of the verb “evaluate,” especially in the case of limited assurance engagements. However, the requirements (paragraphs 134L and 134R of **Agenda Item 2-A.1**) are consistent with those in ISAE 3410⁶ (paragraphs 44L and 44R).
27. The SATF added a sentence to the end of paragraph A393R(d) to clarify what is meant by “significant” assumptions. The additional sentence leverages paragraph A42 of ISA 540 (Revised).

Other Guidance

28. The SATF notes the calls from respondents for additional guidance and examples on estimates and forward-looking information. Because proposed ISSA 5000 is an overarching standard and not a subject matter specific standard like ISA 540 (Revised) and ISAE 3400, the SATF is of the view that additional guidance could be provided outside the standard as part of first-time implementation guidance, other non-authoritative guidance or a future standard within the suite of ISSAs.

More Clarity in the Required Work Effort

Relevant Paragraphs		
Introduction and Requirements Agenda Item 2-A.1	Application Material Agenda Item 2-A.2	Related Definitions
105A(c), 133AR, 134L, 134R	A391AR, A392AL, A396AR, A396BR	-

Limited Assurance and Reasonable Assurance

29. The SATF noted respondents’ views that the requirements in paragraph 134L of ED-5000 were not sufficient for obtaining sufficient appropriate evidence, including suggestions to require the evaluation of the assumptions and judgments of management and the appropriateness of the data used to develop estimates or forward-looking information. However, the SATF noted that the requirements in paragraph 134L are consistent with those in paragraph 44L of ISAE 3410.
30. As supported by the Board at the March 2024 meeting, proposed ISSA 5000 now requires the practitioner to identify and assess the risks of material misstatement for both limited assurance (at the disclosure level) and reasonable assurance (at the assertion level for the disclosures). The SATF considered whether the risk assessment procedures should also include a requirement related to estimates and forward-looking information, similar to paragraph 13(h) of ISA 540 (Revised). The

⁶ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

SATF noted that paragraph 34(k) of ISAE 3410 includes a requirement for the practitioner to consider, when identifying and assessing the risks of material misstatement for both limited and reasonable assurance, how the entity makes significant estimates and the data on which they are based. The risk assessment procedures in proposed ISSA 5000 (e.g., for understanding the information system and communication or control activities) do not specifically address estimates. The SATF has added paragraph 105A(c) to clarify what the practitioner is required to do for estimates and forward-looking information when obtaining an understanding of the entity's information system and communication.

31. In addition, the SATF added paragraph 133AR to explicitly require the practitioner to evaluate whether management has appropriately applied the applicable criteria, that respondents noted was required for limited assurance in paragraph 134L(a)(i) and aligned the lead-in in paragraph 134L with that of paragraph 134R. Otherwise the requirements in paragraphs 134L and 134R are directly comparable and the SATF is satisfied that proposed ISSA 5000 is sufficiently clear that the practitioner's consideration of how the entity makes significant estimates and the data on which they are based was part of the risk assessment procedures. Any further clarity needed can be provided as part of the first-time implementation guidance.
32. The SATF is proposing additional application material (see paragraph A392AL in **Agenda Item 2-A.2**) to address respondents' comments on paragraph 134L and to provide guidance on the practitioner's consideration of whether other procedures are necessary in the circumstances. The application material has been developed by leveraging paragraph A104 of ISAE 3410.
33. The SATF concluded that the requirement in proposed ISSA 5000 for the practitioner to develop a point estimate or a range to evaluate estimates and forward-looking information may not be practicable in all instances for forward-looking information. Therefore, the requirement in paragraph 134R(b) of **Agenda Item 2-A.1** was changed to apply only to estimates.
34. The SATF agreed with respondents' comments that more guidance is needed in proposed ISSA 5000 regarding the development of a point estimate or range to evaluate management's estimate or forward-looking information and is proposing additional application material leveraged from paragraphs A118–A123 of ISA 540 (Revised) and the EER guidance. See paragraphs A396AR and A396BR of **Agenda Item 2-A.2**.

Other Comments

Undue Cost and Effort

35. Sustainability reporting framework criteria requirements related to undue cost and effort will be considered as part of the SATF's further discussions related to evidence.

Reporting

36. Respondent comments related to reporting have been considered as part of the analysis of Question 21 of the Explanatory Memorandum (see **Agenda Item 2-G**).

Matters for IAASB Consideration

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000, as described above.