

Agenda Item 2-H

PROPOSED INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE (ISSA) 5000 GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

SELECTED PARAGRAPHS

(MARKED FROM AGENDA ITEMS 2-B.1 AND 2-B.2)

This Agenda Item contains the Task Force's proposed revisions to selected paragraphs in proposed ISSA 5000 to address targeted matters raised in the IAASB plenary discussion on September 16, 2024.

Definition of components

18. For purposes of the ISSAs, the following terms have the meanings attributed below:

Component: An entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the practitioner for purposes of planning and performing the sustainability assurance engagement. (Ref: Para. A18)

~~For purposes of the ISSAs, a "group component" relates to a component within the reporting entity's operational control, and a "value chain component" relates to a component outside the reporting entity's operational control.~~

A18. ~~As explained in paragraph A36, For a group sustainability assurance engagement, a component may be identified within or outside of the reporting entity's operational control. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements. require the sustainability information to be extended to include information from a value chain entity connected to the reporting entity through its business relationships but beyond the reporting entity's operational control. Operational control is determined by the applicable criteria and may be defined or described in different ways. For example, certain sustainability reporting frameworks may define operational control as the reporting entity's ability to direct the operational activities and relationships of another entity, or a site, operation or asset. For purposes of the ISSAs, components that include entities or business units required to be included in the reporting entity's group financial statements (e.g., subsidiaries of a parent entity) are referred to as group components. The framework criteria may also require the sustainability information to be extended to include information from other entities within the reporting boundary that are part of the reporting entity's upstream or downstream value chain. For purposes of the ISSAs, components that include such entities are referred to as value chain components.~~

Value Chain

A241. Factors that affect the evidence that may be available in the circumstances, in terms of quantity or quality, and therefore impact its sufficiency or appropriateness, include the following:

- The characteristics of the sustainability matters or disclosures. For example, less objective evidence might be expected when the disclosures are forward-looking rather than historical.
- Whether the source of the information used to prepare the disclosures is accessible. For example, if the criteria require the sustainability information to include information from value chain entities outside of the entity's ~~operational~~ control, there may be limitations on access to such information or to the work of another practitioner that may have provided ~~an~~ assurance ~~report~~ on such information. Such limitations may ~~also~~ affect the practitioner's evaluation of the relevance and reliability of this information intended to be used as evidence (see also paragraphs A239 and A255-~~A256~~).
- Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of factors such as those described in paragraph A207.

A255. As explained in paragraph A241, there may be limitations on management's ability to obtain information from value chain entities ~~outside of the entity's operational control~~. ~~In these circumstances. Therefore, the applicable criteria may provide certain reliefs for management (e.g., the ability to develop estimates using sector-average data after making reasonable efforts to obtain the information). Regardless of any limitations on management's ability to obtain information from such value chain entities, the practitioner may need is required to place more focus on whether management has complied with the applicable criteria.~~ obtain sufficient appropriate evidence about the value chain information reported by management. Paragraph A292 describes procedures that may be considered by the practitioner in these circumstances, including ~~understanding testing~~ management's process for obtaining such information. See also paragraph A292.

A256. The practitioner may be unable to obtain sufficient appropriate evidence if the practitioner determines that it is not practicable to obtain information intended to be used as evidence or does not have a sufficient basis to evaluate the relevance and reliability of information (e.g., from an external source). If sufficient appropriate evidence cannot be obtained through alternative procedures, the practitioner may have a scope limitation. For example, management's ability to obtain value chain information may be limited given a lack of operational control over the value chain entity or the absence of direct contractual arrangements. If management is unable to obtain material value chain information and has not otherwise estimated such information through other means (e.g., if permitted by the applicable criteria, using sector-average data after making reasonable efforts to obtain the information), the practitioner may have a limitation on scope. The practitioner's inability to obtain sufficient appropriate evidence requires the practitioner to express a qualified conclusion or disclaim a conclusion on the sustainability information in accordance with this ISSA.

A292. In determining the nature and extent of evidence to be obtained in relation to sustainability information from group components or value chain components, the following procedures may be considered by the practitioner:

- Inspecting records and documents held by the group: The reliability of this evidence is determined by the nature and extent of the records and supporting documentation retained

by the entity. In some cases, the group may not maintain independent detailed records or documentation of specific sustainability matters relating to group components, and in most cases will not do so with respect to value chain components.

- Inspecting records and documents at the component: The practitioner’s access to the records of a component may be established as part of the contractual or other arrangements between the group and the component. This is more likely to be the case for group components.
- Testing management’s process for obtaining information from value chain components: Due to the limitations that may exist in obtaining information from the value chain (see also paragraphs A255–~~A256~~), the practitioner’s procedures may in some cases be limited to evaluating whether management has complied with the requirements of the criteria, and testing the reasonableness of such information. The practitioner may also seek to obtain evidence from the work of another practitioner if work has been performed on that information. However, the practitioner nonetheless needs to obtain sufficient appropriate evidence about the information reported by management.
- Obtaining confirmations of sustainability information from the component:
 - If the group maintains independent records of sustainability information, confirmation from the component corroborating information in the group entity’s records may constitute reliable evidence.
 - If the group does not maintain independent records, information obtained in confirmations from the component is merely a statement of what is reflected in the records maintained by the component. Therefore, such confirmations do not, taken alone, constitute sufficient appropriate evidence. In these circumstances, the practitioner may consider whether an alternative source of independent evidence can be identified.
- Performing analytical procedures on the records maintained by the group or on the information received from the component: the effectiveness of analytical procedures is likely to vary by disclosure or assertion and will be affected by the extent and detail of information available.

[See also paragraph A553 below]

Inherent Limitations

187. The assurance report shall include at a minimum the following basic elements: (Ref: Para. A533, A560-A562)

...

- (g) If applicable, a section with the heading “Inherent Limitations in Preparing the Sustainability Information” that describes any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria, including inherent limitations relating to any forward-looking information included in the sustainability information. (Ref: Para. A489, A552-A553A and A572)

A552. While in some cases inherent limitations can be expected to be well understood by the intended users of an assurance report, in other cases it may be appropriate for the practitioner to make explicit reference to them in the assurance report. This may particularly be the case when inherent measurement or evaluation uncertainties may be fundamental to intended users' understanding of the sustainability information. For example, for greenhouse gas emissions, it may be appropriate to note that the entity's disclosures about Scope 3 emissions are subject to more inherent limitations than for Scope 1 and Scope 2 emissions, given the lack of availability and relative precision of information used for determining both qualitative and quantitative Scope 3 information from value chain entities outside the ~~operational~~ control of the group.

A553. ~~As explained in paragraph A241, if the criteria require the sustainability information to include information from value chain entities outside of the entity's operational control, there may be limitations on management's ability to obtain such information. Management may choose to explain these inherent limitations in the sustainability information reported and, if not, the practitioner may discuss with management whether to do so. Such limitations on the process for obtaining the information may affect the practitioner's evaluation of the relevance and reliability of value chain information to be used as evidence, or the practitioner's access to the work of another practitioner that may have issued an assurance report on such information. Management may choose to explain limitations on the ability to evaluate information from value chain entities included in the sustainability information reported and, if not, the practitioner may discuss with management whether to do so. Therefore, if management has explained these inherent limitations, the practitioner may also choose to describe such limitationsthe effects on the practitioner's procedures in the Inherent Limitations section of the assurance report (e.g., in the Inherent Limitations section of the report). However, it is important that any such description in the assurance report does not imply that the practitioner's responsibility for obtaining sufficient appropriate evidence to support the assurance conclusion is reduced with respect to such information.~~

A553A. For engagements on sustainability information containing forward-looking information (i.e., goals or targets, forecasts, scenario analyses or transition plans) ~~the practitioner may state the preparation of this information may be subject to inherent limitations. If the practitioner describes such limitations in an Inherent Limitations section of the assurance report, such description may refer to management's explanation, if any, and state that:~~

- For a forecast expressed as specific disclosure(s): Actual results are likely to be different from the forecast sustainability information since anticipated events frequently do not occur as expected and the variation could be material;
- For a forecast expressed as a range: For forecast information expressed in a range the actual results may fall outside of that range and the variation could be material; or
- For projections, scenario analyses or transition plans: The forward-looking sustainability information has been prepared for (state purpose), using a set of assumptions that include hypothetical assumptions about future events and management's actions, that are not necessarily expected to occur. Consequently, users are cautioned that the forward-looking sustainability information is not used for purposes other than that described.