

Sustainability Assurance: IAASB-IESBA Coordination Matters

This paper sets out the revisions to specific paragraphs in proposed ISSA 5000¹ that have been the subject of IAASB-IESBA coordination. The revisions are marked from the June Board meeting and reflect the wording discussed at the July IAASB-IESBA Chairs' coordination meeting. The revisions to certain paragraphs also reflect input from the Sustainability Assurance Task Force (SATF) at its July meeting to address comments raised by the Board in June.

A. Definitions of Sustainability Information and Sustainability Matters

1. As discussed with the Board at the June meeting, the definitions of sustainability information and sustainability matters have been simplified to core definitions with essential application material to provide specific context for purposes of the ISSAs.²
2. Proposed revisions to paragraphs 17(uu) and 17(vv) of ISSA 5000:

Sustainability information – Information about sustainability matters. (Ref: Para. A32)

For purposes of the ISSAs:

- (a) Sustainability information results from measuring or evaluating sustainability matters against the criteria. **[Moved from the core definition]**
- (b) Sustainability information that is the subject of the assurance engagement is the equivalent of “subject matter information” in other IAASB assurance standards.
- (c) References to “sustainability information to be reported” are intended to relate to the entirety of the sustainability information to be reported by the entity, and are used primarily in the context of the practitioner’s preliminary knowledge of the engagement circumstances. **[Moved from para. A32A]**
- (d) If the assurance engagement does not cover the entirety of the sustainability information reported by the entity, the term “sustainability information” is to be read as the information that is subject to assurance. (Ref: Para. A32A)

~~Sustainability matters - Environmental, social, and governance matters, or other sustainability-related factors as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting reporting sustainability information. Depending on the criteria, sustainability matters may address:~~

- ~~(i) The impacts on the entity’s strategy, business model or performance.~~
- ~~(ii) The impacts of the entity’s activities, products and services on the environment, society and economy; or~~
- ~~(iii) The entity’s sustainability policies, plans, goals or targets. **[Moved to Para. A32B]**~~

¹ ISSA 5000, *General Requirement for Sustainability Assurance Engagements*

² International Standards on Sustainability Assurance

For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards. (Ref: Para. A32B)

B. Definition of Relevant Ethical Requirements

3. At the June meeting, the Board agreed to the IESBA’s request for the IAASB to reinstate the reference to the IESBA Code³ in the definition of relevant ethical requirements. The SATF also made some changes to align the definition with the wording in paragraph 29 of proposed ISSA 5000 (see paragraph 6 below).

4. Proposed revision to paragraph 17(nn) of ISSA 5000:

Relevant ethical requirements - Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive, or professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding as the IESBA Code related to sustainability assurance engagements.

C. Premises of Quality Management and Relevant Ethical Requirements

5. Proposed ISSA 5000 is premised on application of ISQM 1 and the IESBA Code or requirements in law or regulation or other professional requirements that are “at least as demanding.” The option for a firm determination of “at least as demanding” has been deleted as agreed by the Board in June.

6. Proposed revisions to paragraphs 29 and 33 of ISSA 5000 and selected application material:

Firm-level Quality Management

29. The engagement leader shall be a member of a firm that applies: (Ref: Para. A53-A58)

(a) ISQM 1; ~~or~~

(b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as ISQM 1, ~~or~~ (Ref: Para. A58A-A58B)

~~(c) If (a) or (b) are not relevant in the circumstances, professional requirements, or requirements in law or regulation, that the firm has determined to be at least as demanding as ISQM 1. (Ref: Para A58C)~~

A58B. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, ~~or assurance~~ or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority. Such organizations may have undertaken an assessment to determine that jurisdictional requirements are at least as demanding as ISQM 1.

³ The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*

~~A58C. If the firm does not apply ISQM 1 and an appropriate authority has not determined other professional requirements, or requirements in law or regulation to be at least as demanding as ISQM 1, relevant considerations for the firm in making a determination in accordance with paragraph 29(c), may include whether the firm's network, or other relevant professional body, has made any such determination or provided guidance on whether professional requirements, or requirements in law or regulation are at least as demanding as ISQM 1.~~

Engagement-level Quality Management

...

Relevant Ethical Requirements, Including Those Related to Independence

33. The practitioner shall comply with ~~relevant ethical requirements, including those related to independence, that comprise:~~ (Ref: Para. A44-A47, A49)

- (a) The provisions of the IESBA Code related to sustainability assurance engagements ~~and, when relevant, together with~~ national requirements that are more restrictive; or
- (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements; ~~or~~ (Ref: Para: A48-A48A)
- ~~(c) If (a) or (b) are not relevant in the circumstances, professional requirements, or requirements in law or regulation that the firm has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para A48B)~~

A48A. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, ~~or assurance, or~~ related relevant ethical requirements, or a designated accreditation organization recognized by a public authority. Such organizations may have undertaken an assessment to determine that jurisdictional requirements are at least as demanding as the IESBA Code.

~~A48B. If the practitioner does not apply the IESBA Code and an appropriate authority has not determined other professional requirements, or requirements in law or regulation to be at least as demanding as the IESBA Code, relevant considerations for the firm in making a determination, when applicable, in accordance with paragraph 33(c) may include whether the firm's network, or other relevant professional body, has made any such determination or provided guidance on whether other professional requirements, or requirements in law or regulation are at least as demanding as the IESBA Code.~~

D. Group sustainability assurance engagements, including group and value chain components

- 7. The IAASB and the IESBA have used the same underlying concepts relating to group sustainability assurance engagements. To provide greater alignment with IESBA on components, the SATF proposes to include the references to "group components" and "value chain components" as essential application material to the definition of a component.

8. Proposed revisions to selected definitions and application material paragraphs in ISSA 5000 (note that certain paragraphs have not changed from June but are presented here for context or to illustrate alignment with the related IESBA definitions or concepts):

Definitions

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. A13x))

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. [Wording moved from para. A18]

Component practitioner - A firm that performs work related to a component for purposes of the sustainability assurance engagement, and the practitioner is able to be sufficiently and appropriately involved in that work. (Ref: Para. A19-A20)

For purposes of the ISSAs, references to a component practitioner include, when applicable, individuals from that firm. The individuals from a component practitioner who perform the work are members of the engagement team.

A13A. A component practitioner may comprise individuals from a network firm, a firm that is not a network firm, or another office within the practitioner’s firm.

[New - inserted after para. A13A] In limited circumstances, the practitioner may be able to be sufficiently and appropriately involved in the work of another firm at a value chain component. For example, the reporting entity may have a direct business relationship with a supplier that allows management to arrange for the practitioner to obtain access to information at that entity or access to the firm that has performed work on that information. In those circumstances, the other firm is a component practitioner for purposes of the ISSAs.

...

Group - A reporting entity for which group sustainability information is prepared. (Ref: Para. A24C)

Group sustainability assurance engagement - An assurance engagement on group sustainability information.

Group sustainability information - Sustainability information that includes the sustainability information of more than one entity or business unit in accordance with the criteria.

E. Using the Work of Another Practitioner

Work vs. Assurance Work

9. In June, the SATF explained to the Board that the reference to “assurance work” was changed to “work” in the definition of another practitioner and in other places throughout the proposed standard to align with other IAASB standards and to recognize that the work may be other than an assurance engagement as defined in the IAASB standards. The SATF also noted that this is a matter for coordination with IESBA because relevant ethical requirements may vary depending on the nature

and circumstances of the engagement performed by another practitioner (i.e., whether such work is assurance or non-assurance work).

10. The ongoing coordination discussions with IESBA on this point have focused on the IAASB providing a “hook” in proposed ISSA 5000 to the IESBA Code to enable clarification that relevant ethical requirements may have different provisions depending on the nature of the work. In response, the SATF revised the requirement in paragraph 51(a) to refer more generally to compliance with relevant ethical requirements that apply to using the work of another practitioner, and revised the application material to provide the “hook” to relevant ethical requirements. The SATF also added application material to the definition of another practitioner.
11. Proposed revisions to ISSA 5000:

Definition

Another practitioner – A firm, other than the practitioner’s firm, that performs work that the practitioner intends to use for purposes of the assurance engagement and the practitioner is unable to be sufficiently and appropriately involved in that work. (Ref: Para. A16-A16A)

For purposes of the ISSAs:

- (a) The work of another practitioner that the practitioner may intend to use for purposes of the sustainability assurance engagement is performed in the context of a separate engagement. [Moved from para. A29]
- (b) Individuals from another practitioner who perform the work are not members of the engagement team as they are not performing procedures on the sustainability assurance engagement. Such individuals are also not practitioner’s experts [Wording in first sentence moved from para. A29]
- (c) References to using the work of another practitioner include, when applicable, work performed by individuals from that other firm. An individual from another practitioner who performs the work is neither a member of the engagement team nor a practitioner’s expert. (Ref: Para. A16-A16A)

[New – inserted after para. A10] A16. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement performed by another practitioner. For example, certain requirements related to independence may be applicable only when performing certain types of assurance engagements.

[New – inserted after para. A10] A16A. Engagements that include professional opinions, views or wording from which a user may derive some assurance may not always be considered assurance engagements under the ISSAs. Engagements would ordinarily not be considered assurance engagements if all of the following apply:

- (a) Those opinions, views or wording are merely incidental to the overall engagement;
- (b) Any written report issued is expressly restricted for use by only the intended users specified in the report;
- (c) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and

- (d) The engagement is not represented as an assurance engagement in the practitioner's report.

Requirement

51. If the practitioner intends to obtain evidence from using the work of another practitioner, the practitioner shall: (Ref: Para. A107A-A107B)
- (a) Comply with relevant ethical requirements that apply to using the work of another practitioner: (Ref: Para. A16-A16A [New], A107D)
 - (b) Evaluate whether that practitioner ~~is independent and~~ has the necessary competence and capabilities for the practitioner's purposes; (Ref: Para. ~~A107C~~-A107E)
 - (c) Evaluate whether the nature, scope and objectives of that practitioner's work are appropriate for the practitioner's purposes; and (Ref: Para. A107F)
 - (d) Determine whether the evidence obtained from that practitioner's work is adequate for the practitioner's purposes. (Ref: Para. A107B)

Application Material

Using the Work of Another Practitioner (Ref: Para. 51-53)

A107A. Using the work of another practitioner may include using work that has already been completed or that is yet to be performed but will be completed prior to completion of the practitioner's engagement. Such work may specifically relate to sustainability matters or may be other assurance or non-assurance work that, in the practitioner's judgment, is relevant to the sustainability assurance engagement. The practitioner exercises professional judgment in determining whether the work of another practitioner is relevant to and is appropriate for purposes of the practitioner's engagement, and the extent to which such work can be used in the circumstances. The extent of the practitioner's procedures to evaluate the work of another practitioner in accordance with paragraph 51 is influenced by:

- The overall significance of the work to the practitioner's engagement. For example, the greater the significance to the overall sustainability information of the disclosures for which the practitioner intends to obtain evidence from using the work of another practitioner, the more extensive the practitioner's procedures are likely to be, including communication with another practitioner and determining it is necessary to review additional documentation of the work of that practitioner in accordance with paragraph 52A;
- The ability of the practitioner to obtain access to another practitioner and their work. For example, when the work of another practitioner relates to information from a value chain component, neither the reporting entity's management nor the practitioner may have rights of access to that other firm or its work. Paragraph A125 explains circumstances in which a limitation on scope may arise in relation to using the work of another practitioner; and
- Whether a one-to-many report of another practitioner is available (see paragraph 51A).

A107B. The guidance in paragraphs A108-A116 for using the work of a practitioner's expert may also be helpful when obtaining evidence from using the work of another practitioner, in particular, the considerations described in paragraphs A109 and A115C-A116.

Complying with relevant ethical requirements that apply to using the work of another practitioner (Ref: Para. 51(a))

~~A107C. Relevant ethical requirements will ordinarily specify the independence requirements applicable to the work of another practitioner. The extent to which another practitioner's policies or procedures support the independence of the other practitioner and the level of competence of the other practitioner are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of another practitioner that is appropriate in the circumstances. Inquiring of another practitioner regarding their policies or procedures that address independence, and competence and capabilities, may assist the practitioner in evaluating whether another practitioner is independent and has the necessary competence for the practitioner's purposes.~~

A107D. Relevant ethical requirements may also include requirements or guidance applicable to using the work of another practitioner. For example, the IESBA Code sets out specific requirements and application material when a firm plans to use the assurance work of another practitioner. Relevant ethical requirements may also include requirements and guidance for circumstances in which the practitioner intends to use the non-assurance work of another practitioner. ~~relevant ethical requirements may require the practitioner to obtain confirmation from another practitioner regarding their independence or may specify that the practitioner may rely on a statement of independence in the sustainability assurance practitioner's report of another practitioner, depending on the engagement circumstances. The practitioner may also consider inquiring of another practitioner about threats to compliance with relevant ethical requirements, including those related to independence.~~

Using the Work of Another Practitioner in a Group Component

12. In June, it was noted to the Board that a concern had been raised about using the work of another practitioner in a group component and the inability of the practitioner to be sufficiently and appropriately involved in such work. It was explained during the meeting that it is a reality in practice that the practitioner may become aware that another practitioner has already performed a separate engagement that is relevant to the practitioner's assurance engagement and therefore the practitioner may intend to use the work of that other firm as evidence.
13. In response, the SATF made the following revisions to proposed ISSA 5000 (note that certain paragraphs have not changed from June but are presented here for context):

Definition of another practitioner (see paragraph 11 in this paper above)

Requirements and Selected Related Application Material

42. If the practitioner intends to obtain evidence from using the work of a firm other than the practitioner's firm, the engagement leader shall determine whether the engagement leader will be able to be sufficiently and appropriately involved in such work. When the engagement leader: (Ref: Para. A87-A90)

- (a) Is able to be sufficiently and appropriately involved in that work, that firm is a component practitioner and the individuals performing the work are part of the engagement team. In such circumstances the practitioner shall apply paragraphs 46-49 with respect to that work;
- (b) Is unable to be sufficiently and appropriately involved in that work, that firm is another practitioner, and the practitioner shall apply paragraphs 50-55 with respect to that work.

Application material

Sufficient and Appropriate Involvement in the Work of a Firm Other than the Practitioner's Firm (Ref: Para. 42)

A87. Paragraph 30 requires the engagement leader to be sufficiently and appropriately involved throughout the engagement. Paragraphs A59 and A63 provide examples of ways in which the engagement leader may demonstrate sufficient and appropriate involvement in the engagement. When the practitioner intends to obtain evidence from using work that has been performed, or will be performed, by a firm other than the practitioner's firm, these examples may assist the engagement leader in determining whether it is possible for the engagement leader to be sufficiently and appropriately involved in that work. ~~References to using the work of a firm other than the practitioner's firm includes, when applicable, work performed by individuals from that other firm.~~

A89. When work is performed in relation to sustainability information of a group component, there is a presumption that the practitioner would ordinarily ~~expect to be able to~~ be sufficiently and appropriately involved in that work. ~~However, in certain circumstances, the practitioner may become aware that a separate engagement on sustainability information for a group component has been performed by a firm other than the practitioner's firm may be engaged to perform work on sustainability information relating to a group component or a value chain component.~~ For example, that firm may ~~have been~~ engaged to conduct a separate assurance engagement on greenhouse gas emissions of an entity that are to be included in the sustainability information subject to the practitioner's assurance engagement. Although the practitioner is unable to be involved in such work, the practitioner may still intend to use the work of that other firm for the purpose of the sustainability assurance engagement. In these circumstances, the other firm would be another practitioner, and the requirements in paragraphs 51-53 would apply. If a similar separate engagement is expected to be performed in subsequent years relating to a group component, it is presumed that the practitioner would ordinarily be able to be sufficiently and appropriately involved in that work.

A90. ~~An inability to direct and supervise the work of a firm other than the practitioner's firm, or to review that work, is an indicator that the engagement leader is not able to be sufficiently and appropriately involved in the work of a firm other than the practitioner's firm. Such inability may arise because the practitioner's access to the work of that firm is restricted by law or regulation, or because the work relates to a value chain component and neither the entity's management nor the practitioner have any rights of access to that other firm's work has already been completed. This may be more common when the work relates to a value chain component. Similarly, if the extent of the engagement leader's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached in relation to the~~

work of a firm other than the practitioner's firm are appropriate, the engagement leader is ordinarily not able to conclude that they can be sufficiently and appropriately involved. The engagement leader may also take account of firm policies or procedures in making the determination in accordance with paragraph 42.

F. Using the work of a practitioner's expert

14. Proposed ISSA 5000 does not explicitly indicate what the practitioner does if the practitioner is unable to evaluate whether, or determines that, the practitioner's external expert does not have the necessary competence, capabilities and objectivity for the practitioner's purposes in accordance with paragraph 54A. The SATF noted that it is implicit in the requirements (paragraphs 54A-54C of proposed ISSA 5000) that the practitioner would be unable to use the work of that expert in those circumstances.
15. As part of the coordination discussions, the SATF was asked to consider adding application material to proposed ISSA 5000 to provide a bridge to the relevant ethical requirements that may address this matter. This proposed application material is subject to further discussion with the IESBA experts workstream.
16. Proposed revisions to ISSA 5000 application material:

[New - inserted after para. A111B] Relevant ethical requirements may specify the ethical requirements applicable to the practitioner when using the work of a practitioner's external expert. The relevant ethical requirements may also include requirements or guidance for evaluating whether an external expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. Such requirements or guidance may also include actions the practitioner may be required to take if the practitioner is unable to determine, or has determined, that the external expert does not have the necessary competence, capabilities and objectivity to enable the practitioner to use the work of that expert.

G. Communication with the Auditor of the Financial Statements

17. The communication requirements relating to non-compliance with laws and regulations (NOCLAR) in the IESBA Code are addressed in the application material in proposed ISSA 5000 (paragraph A370A). The SATF will continue to coordinate with IESBA on wording regarding communications related to NOCLAR.
18. Proposed revisions to ISSA 5000:
A370A. Relevant ethical requirements may include requirements addressing ~~for the practitioner's to consider communicating~~ communication of instances of suspected non-compliance with law or regulation with the ~~statutory~~ financial statement auditor. For example, the IESBA Code⁴ includes a requirement for the sustainability assurance practitioner to consider whether to communicate the non-compliance or suspected non-compliance with laws or regulations to the sustainability assurance client's external auditor, if any.

⁴ The Exposure Draft on International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA), Section 5360 Responding to Non-Compliance with Laws and Regulations (R5360.18a)

H. Transparency in Assurance Report

19. The coordination matters relating to transparency in the assurance report are now fully aligned as noted in Agenda Item 1-A.

I. Effective Date

20. The coordination discussions on the effective date of the standards are ongoing, with a commitment to alignment. As noted in the June IAASB meeting, the effective date of ISSA 5000 will be discussed with the IAASB in September.