28 November 2023

Mr Willie Botha
Program and Technical Director
International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York, 10017
United States of America

Comments on the Exposure Draft for Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements.

The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to comment on the Exposure Draft for Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements.

The attached submission consists of our comments on each of the specific questions in the discussion paper.

AFAANZ is the peak regional academic accounting and finance association, and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on standard setting deliberations to the academic research literature.

The views expressed in the comments that follow are those of the undersigned Committee members and do not necessarily reflect the official position of AFAANZ. While the views expressed represent a consensus view of the Committee, they do not necessarily reflect the individual views of every member.

Our recommendations include:

- A more flexible approach to ethics and quality management instead of the requirements for standards that are at least as demanding as the accounting profession's standards.
- More differentiation between the requirements for limited as opposed to reasonable assurance.
- More cautious use of the term materiality and clearer definitions of the different materiality concepts to avoid potential confusion.

If you have any questions on our submission, please contact either of the Committee Co-Chairs (David Hay – d.hay@auckland.ac.nz or Noel Harding – n.harding@unsw.edu.au).

Yours Sincerely,

D. C. Hay

David Hay

Professor of Auditing, University of Auckland

On behalf of:

Pallab Biswas (University of Otago), Chris Gan (Lincoln University), Irene Ge (UNSW Sydney), Noel Harding (UNSW Sydney), David Hay (University of Auckland), Linh Ho (Lincoln University), Dinithi Ranasinghe (University of Otago), Harj Singh (Curtin University), Nigar Sultana (Curtin University), Shan Zhou (University of Sydney)

IAASB

RESPONSE TEMPLATE FOR EXPOSURE DRAFT OF PROPOSED ISSA 5000*, GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS*

Guide for Respondents

Comments are requested by **December 1, 2023**. *Note that requests for extensions of time cannot be accommodated due to the accelerated timeline for finalization of this proposed standard.*

This template is for providing comments on the Exposure Draft of proposed International Standard on Sustainability Assurance Engagements™ (ISSA) 5000*, General Requirements for Sustainability Assurance Engagements* (ED-5000), in response to the questions set out in the Explanatory Memorandum to ED-5000. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
  - Respond directly to the questions.
  - Provide the rationale for your answers. If you disagree with the proposals in ED-5000, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
  - Identify the specific aspects of ED-5000 that your response relates to, for example, by reference to sections, headings or specific paragraphs in ED-5000.
  - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comme**nt" button on the ED-5000 webpage to upload the completed template.

Responses to IAASB's Request for Comments in the Explanatory Memorandum for ED-5000, General Requirements for Sustainability Assurance Engagements

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Pallab Biswas (University of Otago), Chris Gan (Lincoln University), Irene Ge (UNSW Sydney), Noel Harding (UNSW Sydney), David Hay (University of Auckland), Linh Ho (Lincoln University), Dinithi Ranasinghe (University of Otago), Harj Singh (Curtin University), Nigar Sultana (Curtin University), Shan Zhou (University of Sydney)
Name(s) of contact(s) for this submission (or leave blank if the same as above)	David Hay
E-mail address(es) of contact(s)	d.hay@auckland.ac.nz
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on ED-5000). Select the most appropriate option.	Asia Pacific
	If "Other", please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on ED-5000). Select the most appropriate option.	Academic or Academic body
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	AFAANZ is the peak regional academic accounting and finance association in Australia and New Zealand, and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on

	standard setting deliberations to the academic research literature.

Information, if any, not already included in responding to the questions in Parts B and C:

Our recommendations include:

- A more flexible approach to ethics and quality management instead of the requirements for standards that are at least as demanding as the accounting profession's standards.
- More differentiation between the requirements for limited as opposed to reasonable assurance.
- More cautious use of the term materiality and clearer definitions of the different materiality concepts to avoid potential confusion.

PART B: Responses to Questions in in the Explanatory Memorandum for ED-5000

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Overall Questions

1. Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item).

   (*See* Explanatory *Memorandum Section 1-A, paragraph 14)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

We agree, but there are some limitations. More education of providers will be needed, and there should be more contact with stakeholders to explore what their needs are. We consider that some of the effects of the standard are not clear.

What should be done regarding ISSA and ISA when information is being increasingly integrated into the annual report/financial statements. In particular, what are the auditor vs assuror's responsibility on this integrated information?

Boiral et al. (2020) suggest more input is needed from stakeholders to improve the quality and reliability of the assurance process, and that teaching institutions and training programs should pay more attention to sustainability reporting and assurance. They suggest development of graduate degrees in this area (Boiral et al., 2020).

Reference:

Boiral, O., Heras-Saizarbitoria, I., & Brotherton, M. C. (2020). Professionalizing the assurance of sustainability reports: the auditors' perspective. *Accounting, Auditing and Accountability Journal*, *33*(2), 309–334. https://doi.org/10.1108/AAAJ-03-2019-3918

Public Interest Responsiveness

2. Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal? If not, why not?

   (*See* Explanatory *Memorandum Sections 1-B, and Appendix)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

The appendix provides a detailed mapping of the key aspects of proposed ISSA 5000 to the objectives and standard-setting action in the project proposal that support the public interest. Section 1-A13, ED-5000 has been developed to allow its application to reporting on all sustainability topics and aspects of topics. However, there is a lack of consensus and lack of standardization on reporting sustainability information: the sheer number of standards, frameworks and data requirements can be overwhelming.

Specific Questions

Applicability of ED-5000 and the Relationship with ISAE 3410

3. Is the scope and applicability of ED-5000 clear, including when ISAE 3410 should be applied rather than ED-5000? If not, how could the scope be made clearer?

   (See Explanatory Memorandum Section 1-C)

Overall response: **No, with comments below**

Detailed comments (if any):

The requirements are not clear as far as defining what is meant by a separate conclusion, and in the wording generally.

The Explanatory Memorandum concludes that ED-5000 should apply, "except when the practitioner is providing a separate conclusion on a GHG statement, in which case ISAE 3410 applies". It may be hard to define "a separate conclusion on a GHG statement". For example, would a separate conclusion on GHG indicators (not a statement) such as scope 1/2/3 level use ISAE 3410 or ED-5000 or both? Does a statement refer to a standalone document or could include information being integrated into the sustainability report and the annual report?

In addition, Paragraph 21 of the Explanatory Memorandum states that "certain requirements and application material from ISAE 3410 have been included in ED-5000 (see paragraph 7 above)," and that "ISAE 3410 contains additional requirements and guidance specific to a GHG statement". The "certain requirements and application material" and the "additional requirements and guidance" from ISAE 3410 that have been included in ED-5000 are not identified, and Paragraph 7 also does not make this clear. Adding more key information in Paragraph 21 to clarify what this material is would benefit stakeholders.

Relevant Ethical Requirements and Quality Management Standards

4. Is ED-5000 sufficiently clear about the concept of "at least as demanding" as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm's responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?

   (See Explanatory Memorandum Section 1-D)

Overall response: **No, with comments below**

Detailed comments (if any):

Ethical requirements and quality management standards are an important issue. There is evidence (Boiral et al., 2019) that providers tend to rationalize ethically questionable behavior such as excessive familiarity with reporting companies or assurance services that overlap with consulting activities. We agree that a high standard of ethics and quality management is needed. We disagree that a requirement that is “at least as demanding” is the correct approach for a profession-agnostic standard.

Any professional set of ethical or quality management standards will be stronger than the IESBA pronouncements on some issues, and weaker on others. In that case any other standard is still not “as demanding” on some particular issue. As a result, requiring standards that are “at least as demanding” in effect is a requirement to adopt only the accounting profession’s requirements and to reject all other professional standards. If the sustainability auditing standard is to be “profession agnostic” then it needs to take a different approach and recognize that other professions have their own way of dealing with ethical and quality management issues. We suggest the requirement should be ethical requirements and quality management requirements that “are required by a professional body” such as, for example, the engineering profession.

However, there is considerable uncertainty about what “as least as demanding as” means and we suggest that a clearer requirement is needed. A research study by Ge et al (2023) treated a number of alternative codes of ethics as “at least as demanding as”, including the APES110, ICAEW Code of Ethics, Code of Ethics by Bureau Veritas, Code of Ethics of J-SUS, the article L. 822-11-3 of the French Commercial code, Dutch Code of Ethics, ISO 14065, PES 1, the Professional Code for German Public Auditors and German Chartered Auditors. However, the authors consider that the “at least as demanding” requirement is unclear.

References

Boiral, O., Heras-Saizarbitoria, I., & Brotherton, M. C. (2019). Assessing and Improving the Quality of Sustainability Reports: The Auditors’ Perspective. Journal of Business Ethics, 155(3), 703–721. https://doi.org/10.1007/s10551-017-3516-4

Ge, Q., R. Simnett, and S. Zhou. 2023. Evaluating the Use of International Standards for Assurance Engagements by Non-accounting Practitioners. Auditing: A Journal of Practice & Theory: 1–47.

Definitions of Sustainability Information and Sustainability Matters

5. Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

   (See Explanatory Memorandum Section 1-E, paras. 27-32)

Overall response: **Yes, with comments below**

Detailed comments (if any):

We agree with having a broad definition.

Sustainability information and sustainability matters are broadly defined allowing for flexibility of determination by firms and prior research has highlighted the positive benefits from such principles-based definitions when examining outcomes such as reporting credibility (Simnett et al. 2009), code law countries and legal enforcement mechanisms (Kolk and Perego 2008), auditor materiality calculations (Moroney 2016), sustainability restatements (Michelon et al. 2019), managerial investment decisions (Steinmeier and Stich 2019) and determinants such as sustainability governance characteristics (Peters and Romi 2013).

References

Kolk, A., and P. Perego. 2008. Determinants of the adoption of sustainability assurance statements: An international investigation. *Business Strategy and the Environment* 19:182-198.

Michelon, G., D. M. Patten, and A. M. Romi. 2019. Creating legitimacy for sustainability assurance practices: Evidence from sustainability restatements. *European Accounting Review* 28 (2):395-422.

Moroney, R. and. Trotman., K.T. . 2016. Differences in auditors' materiality assessments when auditing financial statements and sustainability reports. *Contemporary Accounting Research* (33).

Peters, G., and A. M. Romi. 2013. The association between sustainability governance characteristics and the assurance of corporate sustainability reports. *Auditing: A Journal of Practice & Theory* 34 (1):1-53.

Steinmeier, M., and M. Stich. 2019. Does sustainability assurance improve managerial investment decisions? *European Accounting Review* 28 (1):177-209.

6. Is the relationship between sustainability matters, sustainability information and disclosures clear? If not, what suggestions do you have for making it clearer?

   (See Explanatory Memorandum Section 1-E, paras. 35-36)

Overall response: **No, with comments below**

Detailed comments (if an y):

The relationship between sustainability information and disclosure is not sufficiently clear in its current form. We suggest that Paragraph A32 should indicate the four topics of environmental, social, economic, and cultural (ESEC) matters. An entity reporting on sustainability must disclose at least one of these ESEC topics. The table following section A32 could then show the four required topics, and illustrative examples of each.

Differentiation of Limited Assurance and Reasonable Assurance

7. Does ED-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?

   (See Explanatory Memorandum Section 1-F, paras. 45-48)

Overall response: **No, with comments below**

Detailed comments (if any):

We disagree.

We consider that the difference is not clear. We found examples where the distinction between the two requirements was not meaningful, and we considered that in some cases the requirements for limited assurance seem to be higher than that which is usually applied to reviews of historical financial information. In addition, the research that is available suggest that limited assurance provides little value to users.

Unless the distinctions between limited and reasonable assurance are made clearer, users will continue being unable to appreciate the inherent differences and more importantly, the different levels of audit effort employed and quality of evidence collected to support that opinion (Hasan et al. 2003; Hoang and Trotman 2021; Huggins et al. 2011). The difficulties of users will therefore continue to be exacerbated if the distinctions between the two requirements are not meaningful enough.

Hodge et al. (2009) find that users place greater confidence in sustainability reports when the level of assurance provided is reasonable and when such assurance is provided by a top tier accountancy firm compared to a specialist consultant. No such difference is found when the level of assurance provided is limited for either of the two types of assurance practitioner groups. Schelluch and Gay (2006) find that, within the context of prospective financial information, an assurance report which is positively worded has a greater impact on users' perceptions of reliability than a lower-level assurance report that is negatively worded.

Hasan et al. (2003) also suggest that the actual wording of the opinion has implications for users' inference of an engagement's assurance level. In the context of environmental reporting, Hasan et al. (2003) find that report users generally perceived a limited level assurance report to provide lower assurance. Hoang and Trotman (2021) report that investors who receive a Corporate Social Responsibility (CSR) assurance report at a reasonable level derive higher fundamental value than the investors who receive information that is not assured or assured at a limited level. Investors who receive either a reasonable or limited assurance level report do perceive the information to be more reliable than the investors who receive information that is not assured.

In summary, given that the empirical literature is clear that limited assurance provides little value, if at all to the market, we would suggest that auditor's provide reasonable assurance which would therefore require the auditors to design and perform risk procedures sufficient to identify and assess risks of material misstatement at the assertion level for the disclosures, and to design and perform further procedures as appropriate.

References

Hasan, M., P. J. Roebuck, and R. Simnett. 2003. An investigation of alternative report formats for communicating moderate levels of assurance *Auditing: A Journal of Practice & Theory* 22 (2):171-187.

Hoang, H., and K. T. Trotman. 2021. The effect of CSR assurance and explicit assessment on investor valuation judgments. *Auditing: A Journal of Practice & Theory* 40 (1):19-33.

Hodge, K., N. Subramaniam, and J. Stewart. 2009. Assurance of sustainability reports: Impact on report users' confidence and perceptions of information credibility. *Australian Accounting Review* 19 (3):178-194.

Huggins, A., W. J. Green, and R. Simnett. 2011. The competitive market for assurance engagements on greenhouse gas statements: Is there a role for assurers from the accounting profession? *Current Issues in Auditing* 5 (2):A1-A12.

Schelluch, P., and G. Gay. 2006. Assurance provided by auditors' reports on prospective financial information: Implications for the expectation gap. *Accounting and Finance* 46 (4):653-676.

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

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

(See Explanatory Memorandum Section 1-F, para. 51)

Overall response: **No, with comments below**

Detailed comments (if any):

It was not sufficiently clear to us what this requirement was intended to achieve.

We suggest that the board should consider whether this procedure should be formally acknowledged in some way, possibly by being disclosed in the assurance practitioners' report. Otherwise, stakeholders have no way to evaluate it and researchers relying on publicly disclosed data are not able to contribute to these types of questions.

9. Does ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?

(See Explanatory Memorandum Section 1-F, paras. 52-55)

Overall response: **No, with comments below**

Detailed comments (if any):

We consider that the term "materiality process" is likely to cause confusion and should be avoided in favor of using an alternative term such as "process to identify reporting topics" which is already used in the ED.

Suitability and Availability of Criteria

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

(See Explanatory Memorandum Section 1-F, paras. 56-58)

Overall response: **No, with comments below**

Detailed comments (if any):

We suggest a requirement in the assurance report, and some guidance on what a practitioner should do if there are no suitable criteria.

The standard includes a requirement in paragraph 72 for the practitioner to evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. We suggest that this requirement be disclosed in the assurance report. We also suggest providing some guidance to practitioners about what action to take when there are no suitable criteria available.

11. Does ED-5000 appropriately address the notion of "double materiality" in a framework-neutral way, including how this differs from the practitioner's consideration or determination of materiality? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-F, paras. 59-60 and 68)

Overall response: **No, with comments below**

Detailed comments (if any):

We recommend that the term "double materiality" should be used as little as possible because it is confusing.

We also note that the ED and the Explanatory Memorandum use two different definitions of double materiality which are not consistent with each other. We recommend the concept as used in the Application and Other Explanatory Material, whereby double materiality means financial impacts on the entity and the entity's impacts on the environment society and culture as used in the ED.

The documents do not use the term consistently. Double materiality is used in the Explanatory Memorandum in a different way from the ED:

> EM 59: "When the needs of the intended users relate to both the impacts on the entity and the entity's impacts, this can be referred to as double materiality."
>
> A274: "When the applicable criteria refer to both financial impacts on the entity and the entity's impacts on the environment, society, economy or culture, this may be referred to as "double materiality."

The EM appears to be referring to impacts on the entity in general terms, which might not be financial. The ED is using the term only for financial impacts on the entity. Täger (2021) refers to these two alternative meanings as the strong and weak concepts of double materiality.

Reference

Täger, M. (2021). *Double materiality: what is and what does it matter*. Commentary: LSE. https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/

Materiality

12. Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-F, paras. 65-74)

Overall response: **Agree, with comments below**

Detailed comments (if any):

We recommend that the materiality levels that have been determined for quantitative disclosures should be disclosed in the audit report.

Disclosing the materiality level that has been determined may require disclosure of a number of measures for disclosures that are measured in different units. A study by Moroney and Trotman (2016) shows that auditors are more likely to assess an audit difference as material when it applies to a financial case than when it applies to some other unit. Because of this effect, the disclosure of materiality levels for non-financial items will be particularly useful.

Reference

Moroney, R. and. Trotman., K.T. . 2016. Differences in auditors' materiality assessments when auditing financial statements and sustainability reports. *Contemporary Accounting Research* (33).

Understanding the Entity's System of Internal Control

13. Do you agree with the differentiation in the approach in ED-5000 for obtaining an understanding of the entity's system of internal control for limited and reasonable assurance engagements? If not, what suggestions do you have for making the differentiation clearer and why?

(See Explanatory Memorandum Section 1-F, paras. 75-81)

Overall response: **Agree, with comments below**

Detailed comments (if any):

We agree that internal control is important and relevant to disclosure of sustainability information. However we found it difficult to distinguish between the requirements for limited assurance and those applicable to reasonable assurance. We recommend the same internal control requirements be applied to both types of engagement.

The requirement for a “Conditional requirement to obtain an understanding” vs “obtain an understanding of controls” is vague. Overall, we find the difference very hard to define and assess, except for the first row in paragraph 79, “certain components” vs “all components”. However, the internal control for most entities on sustainability information may not be fully developed to the extent of financial information, so even “certain” vs “all” components may not be useful in the case of many entities.

We learn from the large body of literature in the U.S. where the internal control over financial reporting is required to be audited for large entities that internal control plays a significant role in determining the financial reporting quality. The independent audit over internal control has an incremental effect in improving the financial reporting quality (Zhou 2022). We can expect the same to be applied to sustainability information.

Nonetheless, there is currently very limited publicly disclosed information about companies’ internal control over sustainability information in most settings. The research report (Lum et al. 2023) published by the Deakin Integrated Reporting Center provides a summary (Figure 1) of current internal control measures that listed companies in Australia are using to safeguard the integrity of unaudited periodic corporate reports as a response to the Recommendation 4.3 of the Australian Securities Exchange (ASX) Corporate Governance Council revised Corporate Governance Principles and Recommendations. They find that “The top three most common types of internal controls disclosed by entities are reviews by direct line managers and/or peers (38%), senior executives and/or C-suite (36%), and internal subject matter experts (34%). In contrast, the least three common types of internal control are reviews by internal auditors (12%), externally hired advisors and/ or consultants (13%), and preparer sign-off (14%). 22% of entities indicated that reviewers verified the disclosures against source document” (p5, Lum et al. 2023).

References

Lum, P.J., Tan, E., Carey, P., Simnett R. and Bray, M. 2023. A comparative review of the first two years of ASX corporate governance recommendation 4.3 disclosures by Australian large listed entities: Mechanisms to enhance the integrity of corporate reporting. Available at: https://www.deakin.edu.au/__data/assets/pdf_file/0004/2629381/Recommendation-4.3-White-Paper.pdf.

Zhou, S. (2022). ANCAAR-AUASB Research and Regulation Workshop: Research informing the AUASB's current work program. Research Report No. 8 | Internal controls reporting and assurance: Evidence from SOX in the US, AUASB Research Report No. 8, (pp. 35 - 37). Canberra, Australia: Commonwealth of Australia. Available at: https://auasb.gov.au/media/qo3b2133/auasb_researchreport8_10-22.pdf.

Using the Work of Practitioner's Experts or Other Practitioners

14. When the practitioner decides that it is necessary to use the work of a firm other than the practitioner's firm, is ED-5000 clear about when such firm(s) and the individuals from that firm(s) are members of the engagement team, or are "another practitioner" and not members of the engagement team? If not, what suggestions do you have for making this clearer?

(See Explanatory Memorandum Section 1-G, paras. 82-87)

Overall response: **Yes, with comments below**

Detailed comments (if any):

We agree that the risk of an auditor relying excessively on an outside expert is an important problem area. We recommend that this risk should be specifically mentioned in the Application Material, maybe at around paragraph A111.

Huggins et al. (2011) highlight the importance of complementary skill sets and Kim et al (2016) show that auditors overweight the expertise of GHG science related experts. Research indicates that the use of and interaction with an expert enhances audit quality when there is clear communication and co-ordination between the auditor and the external experts (Hux 2017). The auditor's judgement of external specialist/experts' competence and expertise is also a crucial factor when comes to relying on the work of an expert/specialist (Hux 2017). When auditors' lack an understanding of external experts' work, the value of the external expert's work to the audit reduces resulting in lower audit quality (Bauer et al. 2019; Griffith et al. 2015; Jenkins et al. 2018). In this case, auditors may not fully understand the specialists' work or the concerns raised by the specialists leading to overreliance and inappropriate audit testing and conclusions (Griffith et al. 2015; Smith-Lacroix et al. 2012). Consequently, this knowledge gap between auditors and specialists can affect their interactions, in turn, impacting coordination of testing and communication of issues and ultimately, audit quality (Hux 2017).

References

Bauer, T. D., C. Estep, and B. Malsch. 2019. One team or two? Investigating relationship quality between auditors and IT specialists: Implications for audit team identity and the audit process. *Contemporary Accounting Research* 36 (4):2142-2177.

Griffith, E. E., J. S. Hammersley, and K. Kadous. 2015. Audits of complex estimates as verification of management numbers: How institutional pressures shape practice. *Contemporary Accounting Research* 32 (3):833-863.

Huggins, A., W. J. Green, and R. Simnett. 2011. The competitive market for assurance engagements on greenhouse gas statements: Is there a role for assurers from the accounting profession? *Current Issues in Auditing* 5 (2):A1-A12.

Hux, C. T. 2017. Use of specialists on audit engagements: A research synthesis and directions for future research. *Journal of Accounting Literature* 39:23-51.

Jenkins, J. G., E. M. Negangar, and M. Oler. 2018. Getting comfortable on audits: Understanding firms' usage of forensic specialists. *Contemporary Accounting Research* 35 (4):1766-1797.

Smith-Lacroix, J., S. Durocher, and Y. Gendron. 2012. The erosion of jurisdiction: Auditing in a market value accounting regime. *Critical perspectives on accounting* 23 (1):36-53.

15.	Are the requirements in ED-5000 for using the work of a practitioner's external expert or another practitioner clear and capable of consistent implementation? If not, how could the requirements be made clearer? *(See Explanatory Memorandum Section 1-G, paras. 88-93)*

Overall response: Neither yes/no, but see comments below

Detailed comments (if any):

Research in this area suggests that this is a potential risk area.

Papers by Jennifer Joe and her team of researchers (e.g., Barr-Pulliam et al., 2020) suggests that there can be tensions between auditors and some kinds of specialists, which can lead to the specialists not trusting the auditors and responding in ways which threaten audit quality.
Empirical research finds that there is variation in the nature, timing, and extent of specialist use. For example, the valuation specialist provides advice to the auditors whereas the forensic specialists perform the audit tests (Asare and Wright 2018; Cannon and Bedard 2017). In addition, information system audit and forensic specialists often review the auditors' work, and thus are contributing beyond the audit planning and testing levels (Asare and Wright 2018; Jenkins et al. 2018). This suggests that, when using the work of a practitioner's external expert, the type of specialists employed also impacts outcomes.

Past studies suggests that auditors tend to have a high level of trust in an expert's work (Boritz et al. 2020). Trust in the expert impacts' auditors' skepticism and the extent of the supervision of the expert's work, particularly when that expert/specialist is internal to the audit firm (Hux 2017). Research has therefore identified a high level of reliance by auditors on external experts, as well as a high level of trust in their work and in their firms' quality control systems that are assumed to indicate that the experts are competent and independent. Such findings suggest that external experts are an important resource to auditors.

References

Barr-Pulliam, D. D., Joe, J. R., Mason, S., & Sanderson, K. A. (2020). The Auditor-Valuation Specialist Coopetitive Alliance in the Fair Value Audit of Complex Financial Instruments. *SSRN Electronic Journal*, 1–33. https://doi.org/10.2139/ssrn.3620440

Jenkins, J. G., E. M. Negangar, and M. Oler. 2018. Getting comfortable on audits: Understanding firms' usage of forensic specialists. *Contemporary Accounting Research* 35 (4):1766-1797.

Hux, C. T. 2017. Use of specialists on audit engagements: A research synthesis and directions for future research. *Journal of Accounting Literature* 39:23-51.

Estimates and Forward-Looking Information

16. 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?

    (See Explanatory Memorandum Section 1-G, paras. 94-97)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

We do not agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information in that the extant research would suggest that the current requirements and associated application material may not be sufficient to achieve limited (paragraph 134L) or reasonable (paragraph 134R) assurance in many circumstances. Specifically, we encourage the IAASB to incorporate a consideration of management bias when providing limited assurance over estimates and forward looking information, provide a balanced coverage of the estimation uncertainty and management bias, require all three approaches to reaching reasonable assurance (rather than just one of the three), and to require evaluation of not only the appropriateness of changes to management's method, assumptions and data, but also the appropriateness of any method, assumptions and data retained from a previous period.

While we acknowledge the possibility of the IAASB drafting a topic specific ISSA on estimates and forward-looking information in the future (and given the significance of this aspect of sustainability assurance would strongly support this being high on the IAASB's list of priorities), we believe that this topic needs to be more comprehensively addressed in the overarching standard.

The requirements and application material reflect current approaches presented in ISA540 (Revised). Research across audit and other disciplines (to date primarily climate science) suggests that the approach adopted in auditing accounting estimates may not be sufficient when providing assurance on future oriented sustainability information.

Future oriented sustainability information will often be characterised by significantly higher levels of estimation uncertainty than is the case for estimates covered by ISA540 (by way of illustration, see Wu et al. 2022 for a discussion on uncertainty in climate projections). We believe that the assurance practitioner's work will need to be more extensive in order to achieve limited or reasonable assurance. Research in the audit literature points to areas where that increased work effort may be needed.

Research highlights the extent to which management bias may consciously and subconsciously intrude on the determination and reporting of complex estimates (e.g., Seidel, Simon and Stephens 2020), with the potential for bias increasing as complexity and subjectivity increases. Given the inherent subjectivity and estimation uncertainty characterising sustainability estimates and forward-looking information, we are concerned that the application material relating to management bias in estimates and forward-looking information (i.e., paragraphs A393R, A394R and AA395R) is concerned only with reasonable assurance (i.e., paragraph 134R). We encourage the IAASB to broaden the applicability of application material around management bias to the requirements for the provision of limited assurance and not exclusively to reasonable assurance (or otherwise risk giving the impression that management bias is not a factor for the provision of limited assurance).

We further note that while management bias is emphasized in application material relating to an assessment of management's method, assumptions and data, estimation uncertainty is discussed as an overarching consideration in paragraphs A390 to A392. We note research (Van Landuyt 2021) highlighting that emphasis on management bias can have the unintended consequence of reducing sensitivity to measurement imprecision (i.e., estimation uncertainty). Given the significance of estimation uncertainty in sustainability assurance, we encourage the IAASB to reflect on whether there is sufficient balance in the coverage of estimation uncertainty and management bias in the application material supporting paragraphs 134L and 134R.

We also note that paragraph 134R requires only one, but optionally more, of the three approaches to reaching reasonable assurance over estimates and forward-looking sustainability information. We note research highlighting that auditors overwhelmingly follow a verification frame and test management's model rather than develop their own independent estimate (Griffith Hammersley and Kadous 2015). To the extent that this preference translates to a sustainability reporting setting, there is a risk that the assurance practitioner will overlook evidence contradictory to management's models and assumptions as well as overlook pertinent information that has not been considered in management's modelling. Glover, Taylor and Wu (2017) highlight that auditors increasingly use a combination of the three approaches as complexity increases. We encourage the IAASB to consider requiring that all three approaches be undertaken (rather than just one) or, as an alternative, provide application material speaking to the impact of complexity and estimation uncertainty on the number of approaches that should be applied.

Finally, we are concerned by the focus on testing the appropriateness of any changes to the method, assumptions and data used by management (i.e., paragraphs 134L(a)(iii) and 134R(a)). In a sustainability setting, methods, assumptions and data may appropriately (and sometimes significantly change) (see Eyring et al 2021 for an illustrative discussion of the developments in climate science over the last decade). The deferral of any appropriate change/update is just as likely to threaten the achievement of limited or reasonable assurance as an inappropriate change. We encourage the IAASB to require evaluation not only of any changes but also the retention of what was done in previous periods.

References

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Risk Procedures for a Limited Assurance Engagement

17. Do you support the approach in ED-5000 to require the practitioner to design and perform risk procedures in a limited assurance engagement sufficient to identify disclosures where material misstatements are likely to arise, rather than to identify and assess the risks of material misstatement as is done for a reasonable assurance engagement? If not, what approach would you suggest and why?

    (See Explanatory Memorandum Section 1-G, paras. 98-101)

Overall response: **No, with comments below**

Detailed comments (if any):

We do not support this approach and recommend that the same approach be adopted for both limited and reasonable assurance.

Risk assessment is relevant to the choice of limited or reasonable assurance (Fan et al. 2021) and have an impact of users decisions (Cheng et al. 2015). Users are unlikely to be aware of the differences in risk assessment if different sets of procedures for limited and reasonable assurance are included.

References

Cheng, M. M., W. J. Green, and C. W.K. 2015. The impact of strategic relevance and assurance of sustainability indicators on investors' decisions. *Auditing: A Journal of Practice & Theory* 34 (1):131-162.

Fan, H., Q. Tang, and L. Pan. 2021. An international study of carbon information asymmetry and independent carbon assurance. *The British Accounting Review* 53 (1):100971.

Groups and "Consolidated" Sustainability Information

18. Recognizing that ED-5000 is an overarching standard, do you agree that the principles-based requirements in ED-5000 can be applied for assurance engagements on the sustainability information of groups or in other circumstances when "consolidated" sustainability information is presented by the entity? If not, what do you propose and why?

    (See Explanatory Memorandum Section 1-G, paras. 102-107)

Overall response: **Agree, with comments below**

Detailed comments (if any):

However the IAASB should be aware of research on the problems associated with group audits (Coram et al., 2021).

Reference

Coram, P. J., Harding, N., Hay, D. C., Khan, J., & Prasad, A. (2021). Comments of the AFAANZ Auditing and Assurance Standards Committee on Proposed International Standard on Auditing 600 (ED 600). *Accounting & Finance*, *61*(4), 5879–5890. https://doi.org/10.1111/acfi.12783

Fraud

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?

    (See Explanatory Memorandum Section 1-G, paras. 108-110)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

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 by 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).

References

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U.S. Securities and Exchange Commission (SEC). (2022). SEC Charges Brazilian Mining Company with Misleading Investors about Safety Prior to Deadly Dam Collapse. https://www.sec.gov/news/press-release/2022-72

Communication with Those Charged with Governance

20. Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, paras. 111-112)

Overall response: **Yes, with comments below**

Detailed comments (if any):

We support communication with management and those charged with governance and suggest that this requirement should be strengthened.

The requirement in Para 62 of the ED is not strong. We suggest that rather than the practitioner determining whether any significant matters have come to the attention of the practitioner to be communicated with management, those charged with governance or others, that there ought to be a requirement to communicate with management and those charged with governance.

Sustainability information is important to various types of stakeholders including interests groups and not for profit organizations. The research suggests that there is an expectation gap between these stakeholders and assurance providers. Therefore, there is a need for the assurance services profession to consider mechanisms to enhance the effectiveness of communicating the assurance function in this setting in order to enhance the credibility and social value of emissions assurance.

reen and Taylor (2013) investigated the factors influencing perceptions of GHG assurer quality. They find that communication with the board and the senior management team are important factors in determining the perception of the quality of assurance, although they are ranked lower than that of competence and ethical factors. One interesting aspect of communication between the assurance team leader and the client is that assurers believe that it is more important to communicate with the board of directors while the preparers believe that it is more important to communicate with senior executives that are responsible for GHG emissions disclosures. These authors, however, suggest that the assurers, users and prepares emphasize lesser importance on communication with board (and senior management) is lower due to the voluntary nature of assurance services. Therefore, it is important to regulate communication between assurance provider and the preparer's Board to enhance the reliability and independence of the assurance reports.

García-Sánchez et al. (2022) argue that institutional investors exert an influence in appointing sustainability assurance providers through their presence on the boards. Therefore, it is important that sustainability assurance providers communicate with those charged with governance, usually the board of directors, as this would validate the assurance reports' reliability in the eyes of institutional investors.

Furthermore, external assurance can lead to internal learning processes and cultural changes with regard to sustainability (O'Dwyer et al., 2011) and can be incorporated in the decision-making process (Channuntapipat 2020; Farooq and de Villiers 2020). Therefore should be communicated to the managers so that they can adopt the changes in the future.

Published research also provides evidence on instances where level and content of communication with the management in terms of assurance topics, process and depth is a concern. For example, research implies that there should be caution regarding managerial capture, where managers take control of assurance process and depth (Boiral et al., 2019; Hummel et al. 2019; Owen et al. 2000; Smith et al. 2011) and use this information primarily to provide information to enhance corporate image rather than signalling sustainability materials to the stakeholders.

References

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Smith, J., Haniffa, R. & Fairbrass, J. A Conceptual Framework for Investigating ‘Capture’ in Corporate Sustainability Reporting Assurance. J Bus Ethics 99, 425–439 (2011). https://doi-org.ezproxy.otago.ac.nz/10.1007/s10551-010-0661-4

Reporting Requirements and the Assurance Report

21. Will the requirements in ED-5000 drive assurance reporting that meets the information needs of users? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included.

(See Explanatory Memorandum Section 1-G, paras. 116-120, 124-130)

Overall response: **Neither yes/no, but see comments below**

Detailed comments (if any):

We support a detailed report. We suggest a requirement for detailed disclosure of audit fees.

We support “changes to assurance reports for other engagements to align with the auditor’s report on an audit of financial statements” and “the name of the engagement partner (for audits of listed entities) and a statement about independence and other ethical responsibilities”.

Assurance fees is another item that could reflect quality once publicly disclosed. The disclosure of audit fees has led to a mushrooming of studies into the effect of audit fees on audit quality and auditor independence. The disclosure of sustainability assurance fees is currently a voluntary and minority practice. Lu, Simnett and Zhou (2023) find that there is a lack of consistency as to whether EER assurance fees are included in audit related service fees or NAS fees. There were 97 instances where the category of EER assurance services fees could be identified, with 36 classified as audit-related services and 61 included as NAS (or similar descriptions). None were included as part of audit fees. When EER assurance fees included as audit-related services fees, no independence concerns identified, while a high ratio of NAS fees increases independence concerns. Thus classification of EER assurance fees has a real-world impact (Zhou 2022).

As Lu et al. (2023) concludes, “the different categories can differentially impact perceived independence concerns. These are issues that are currently on the agendas of various national standard-setters and regulators”.

Also, we like the concept of presenting comparative information (Para 127). Since the disclosure may include future looking information, comparative information will enable the user to understand/highlight the difference between what was promised and what is actually achieved.

References

Lu, M., Simnett, R., Zhou, S. (2023). Using the Same Provider for Financial Statement Audit and Assurance of Extended External Reports: Choices and Consequences. Auditing: a Journal of Practice and Theory, 42(1), 125-154.

Zhou, S. (2022). ANCAAR-AUASB Research and Regulation Workshop: Research informing the AUASB's current work programme. Research Report No. 8 | A few studies to share on sustainability assurance, AUASB Research Report No. 8, (pp. 17 - 19). Canberra, Australia: Commonwealth of Australia.

22. Do you agree with the approach in ED-5000 of not addressing the concept of "key audit matters" for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, paras. 121-123)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

We consider that there are very good reasons why Key Sustainability Matters should be included.

The common topics of KAMs on financial information usually possess the characteristics of being hard to be estimated, having a high level of uncertainty, complex and forward looking. These are precisely the key characteristics and challenges associated with sustainability information which KAM could be particularly helpful with. Research into KAMs generally conclude that these additional paragraphs have informational value to users in the context of financial statement audit reports (e.g. Moroney, Phang and Xiao 2021).

In practice, non-financial topics such as climate change have increasingly been included in financial statement auditors' report. For example, the research report of You and Simnett (2022) on ASX listed companies notes a rising number of KAMs (from 0 in 2018 to 9 cases in 2021) are including climate-related impacts, as well as a case where the auditor reported the impact of climate-related reporting on their audit planning in their audit report.

As You and Simnett (2022) wrote: "we notice that all of these KAMs are included in the auditor's reports for companies in climate-sensitive industries. For instance, KAMs with climate related content are likely to be related to credit losses or impairment for banks, and assets evaluation for companies in Utilities, Industries, Energy and Materials. For companies in Financials and Energy, we observe more instances where auditors consider climate-related impacts in their procedures to address KAMs. By contrast, auditors are more likely to consider climate as a factor when identifying risk of material misstatement for their clients in the Materials industry. Besides KAMs, we note one instance where auditors raise climate change for audit planning in the auditor's report. KPMG UK highlighted the impacts of climate change on the business, financial reports and the audit in their auditor's report issued to Rio Tinto for their 2020 report".

In addition, innovative practices of including "Key Assurance Matters" in a combined audit and assurance report or in the standalone assurance report are emerging in other countries such as the Netherlands. These key assurance matters could include Scope 3 emissions; complete registration of safety incidents; Reporting criteria for sustainable revenues; Estimates and assumptions concerning the calculated impact of avoided Co2 as presented in the value creation model; Business conduct, integrity and transparency; consistent and correct application of KPI definitions across the group and overtime. For an example, please see the 2017/2018/2019/2020 annual report of Signify NV in the Netherlands available from https://www.signify.com/global/our-company/investors/financial-reports/annual-report.

urther, requiring Key Matters to be reported will help to ensure that the most important issues are discussed with those charged with governance and will help to ensure that the entity takes appropriate action.

References

Moroney, R., Phang, S. and Xiao, X. 2021. When do investors value key audit matters. European Accounting Review. 30 (1): 63-82.

You, J and Simnett, R. 2022. Climate-related disclosures and assurance in the annual reports of ASX-listed companies. AASB-AUASB research report. Available at: https://aasb.gov.au/media/xu5leeby/aasb-auasb_rr_climaterelateddisclosures_12-22.pdf

23. For limited assurance engagements, is the explanation in the Basis for Conclusion section of the assurance report that the scope and nature of work performed is substantially less than for a reasonable assurance engagement sufficiently prominent? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, para. 131)

Overall response: **Yes, with comments below**

Detailed comments (if any):

We agree, although we suggest disclosing even more specific detail.

We agree with highlighting "less work" and "lower level of assurance" in a prominent section as the "Basis for conclusion".

We suggest that there needs to be greater specificity around the scope and nature of work performed in this section as the literature shows (1) accounting and non-accounting CSR assurance providers use different means to differentiate themselves from one another with differences of firm outcomes (Channuntapipat et al. 2020); and (2) the way CSR assurance is conducted varies significantly among different assurance providers (Channuntapipat et al. 2019). Such examples show that the need to explain more clearly the actual scope and nature of the work undertaken because such information will incentivize assurance providers to act in a certain way and also users in terms of their comprehension of the work completed.

References

Channuntapipat, C., A. Samsonova-Taddei, and S. Turley. 2019. Exploring diversity in sustainability assurance practice. Accounting, Auditing & Accountability Journal 32 (2):556-580.

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Other Matters

24. Are there any public sector considerations that need to be addressed in ED-5000?

(See Explanatory Memorandum Section 1-I, para. 135)

Overall response: **Yes, with comments below**

Detailed comments (if any):

We do not have any specific issues that should be addressed, but we comment that sustainability reporting is highly relevant to the public sector. There is a review paper which points out that the public sector has greater responsibilities for promoting and reporting sustainable development than the private sector does (Kaur & Lodhia, 2019).

Reference

Kaur, A., & Lodhia, S. K. (2019). Sustainability accounting, accountability and reporting in the public sector: An overview and suggestions for future research. *Meditari Accountancy Research*, *27*(4), 498–504. https://doi.org/10.1108/MEDAR-08-2019-510

25. Are there any other matters you would like to raise in relation to ED-5000?

Overall response: **Yes, as further explained below**

Detailed comments (if any):

Yes: the use of ISAEs by non-accounting practitioners often departs from the ethics and quality control requirements that are intended to be used with the standard.

Ge et al. (2023) commented "We find that non-accounting practitioners have significantly increased their use of ISAEs in the post-implementation period, suggesting that the IAASB has effectively encouraged increased and broader use of its assurance standards. We also observe increased references to the underpinning ethics and quality control frameworks by these assurance providers, although there remain significant rates of departure from these requirements in the post-implementation period. Thus, our results support a concern that there are increased risks to the assurance profession, reflected by the fact that mandated conditions of use are commonly not followed. This lack of conformance highlights the dilemma facing international standard setting bodies in developing best practice standards; while all practitioners are encouraged to use best practice standards, international standard-setting bodies have no direct means to enforce any mandated conditions of use. Although the IAASB is now – ten years later – revisiting these conditions of use, our study suggests that the IAASB should undertake more immediate post-implementation reviews of such changes to its standards, evaluating whether intended objectives are being achieved".

Reference

Ge, Q., R. Simnett, and S. Zhou. 2023. Evaluating the Use of International Standards for Assurance Engagements by Non-accounting Practitioners. *Auditing: A Journal of Practice & Theory*: 1–47.

Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

26. Translations—Recognizing that many respondents may intend to translate the final ISSA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-5000.

Overall response: <u>No response</u>

Detailed comments (if any):

27. Effective Date—As explained in paragraph 138 of Section 1-I – Other Matters, the IAASB believes that an appropriate effective date for the standard would be for assurance engagements on sustainability information reported for periods beginning or as at a specific date approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Do you agree that this would provide a sufficient period to support effective implementation of the ISA. If not, what do you propose and why?

Overall response: <u>Agree, with comments below</u>

Detailed comments (if any):

We support early adoption as the effective date is a long time in the future.