



1 December 2023

Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York
10017

Submitted online to: "Submit a Comment"

Dear Tom

Exposure Draft: *Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements*

We appreciate the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft of Proposed International Standard on Sustainability Assurance Engagements (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* (ED-5000).

We support the intention of the IAASB to develop international standards for all practitioners providing assurance on sustainability information. It is important that there is consistency and quality in the assurance engagements so that users can have confidence in the information.

In our view, the structure of ED-5000 requires amendment. Key concepts are not described in one place resulting in repetition of information. Also, ED-5000 is lengthy because of the different matters it covers. Consideration should be given to developing separate standards for:

- the quality management and ethics standards requirements (at organisation and engagement team levels), including overall assurance concepts and definitions; and
- the assurance engagement requirements on planning, performing, concluding, forming an opinion, and reporting.

The definitions related to sustainability information are not clear and need to be clarified. We found it difficult to understand the scope of ED-5000 when considering these definitions. As currently drafted, some New Zealand public sector assurance engagements could unintentionally be in the scope of the standard. We think it is unintentional, because it would not make any sense for such engagements to be in scope.

We agree with the concepts for determining audit materiality, i.e., a materiality threshold for financial information, and materiality taking into account qualitative factors for non-financial information. However, greater clarity and more detail is needed about how the auditor's understanding of management's view of materiality (including the concept of double materiality) should be used as part of the audit.

Sustainability information is susceptible to misleading and fraudulent reporting, such as 'greenwashing'. ED-5000 should place more emphasis on misleading and fraudulent reporting by using specific risk assessment and response requirements from other ISAs, such as ISA 240.

Our response to the specific questions asked are attached to this letter.

If you have any questions about our submission, please contact Miranda Biggins (Director, Audit Operations – Audit Quality Group) at Miranda.Biggins@oag.parliament.nz.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'T. Beardsworth', with a long horizontal flourish extending to the right.

Todd Beardsworth
Assistant Auditor-General – Audit Quality

Responses to the specific questions

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: Neither agree/disagree, but see comments below

Detailed comments:

We have several observations about ED-5000 that are relevant to the intention for a global baseline standard for sustainability assurance. Our observations are relevant to the following items in paragraph 14 of the EM:

- All sustainability topics and aspects of topics;
- All mechanisms for reporting; and
- Use by all assurance practitioners.

ED-5000 has been prepared on the assumption that the approach to providing assurance on financial information is directly transferrable to providing assurance on non-financial information

Such an approach needs to recognise the possibility that practitioners may need to apply different approaches to meet the objectives of ED-5000. For example:

- The “Risk Procedures” and “Responding to Risks of Material Misstatement” components of ED-5000 assume the presence of effective systems of internal control to prevent and/or detect material misstatements in reported sustainability information. Sustainability reporting is new and combined with the possibility that the “reporting boundary” may relate to sustainability information that is outside the control of the reporting entity, the presence of effective systems of internal controls cannot be assumed.
- The nature of the risks that could lead to material misstatement of sustainability information are wider and may be different to the risks that apply to financial information; with the likelihood that misleading or fraudulent reporting will feature more prominently in sustainability information as discussed under question 19 below.

Is ED-5000 suitable for application by professional accountant assurance practitioners and by non-accountant assurance practitioners?

ED-5000 has been prepared through a financial assurance lens but will be applied by a wide group of practitioners; many of whom will not have an understanding of the approach for providing assurance over financial information. If we assume that this approach is appropriate, the issue becomes the best way of preparing a standard that will serve the purposes of a diverse range of practitioners.

ED-5000 does not adequately meet the needs of either professional accountant assurance practitioners or non-accountant assurance practitioners, for the following reasons:

Professional accountant assurance practitioners

- ED-5000 is excessively lengthy, mainly because it includes the assurance concepts, quality management (entity and engagement level) and ethical requirements, and detailed pre-engagement activities, which are well known/understood, and applied by this category of practitioners.

We recommend that these matters be included in a separate ISSA, so that the requirements in ED-5000 can deal with obtaining a preliminary understanding, planning and performing the assurance engagement. Planning currently only starts at paragraph 88.

Other material that is educational or background in nature, should be presented in a separate non-authoritative guidance document.

- We identified repetitive and possibly unnecessary information in the introduction, and application and other explanatory material. We also find the explanation of key concepts in the introduction, definitions, requirements, and application and other explanatory material to be disconnected. Examples are provided below.

The concepts of sustainability information, sustainability matters, disclosures, and their interrelationship are explained and cross-referenced in paragraphs 3, 4, 17(i), 17(uu), 17(vv), A15, A16, A32, and appendix 1. In our view sustainability concepts should be briefly described only in the introduction with reference to the definitions. The main definition should be the definition of Disclosure, because most requirements for planning and performing the engagement refer to disclosures, not sustainability information. Definitions for sustainability information and sustainability matters should be subsets of the Disclosure definition. The Disclosure definition should refer to paragraph A15 which refers to appendix 1 and all the relevant information should be described clearly and logically in the appendix.

The premise on which ED-5000 is based is explained and cross-referenced in paragraphs 5, 6, A3-A9, A44-A49, and A53-A58. Possibly the most important part for a non-accountant assurance practitioner to understand is what is meant by the term “at least as demanding”. This is set out in paragraphs A48 and A56 and referred from A5 and A8. The following sentence could be inserted in paragraph 5: “For the requirements to be ‘at least as demanding’ they need to deal with the concepts and objectives described in [new] appendix 3 as a minimum.” The new appendix could then describe all the information in one place.

The way in which the auditor should deal with the entity’s materiality considerations and how this affects audit materiality are also concepts that will benefit from being described in one place.

Non-accountant assurance practitioners

- We expect that non-accountant assurance practitioners will have similar concerns about the structure of ED-5000.
- The key concepts referred to above are derived from existing IAASB definitions, which might be difficult to understand without having background knowledge of the IAASB’s standards.

Therefore, we think the IAASB has a responsibility to ensure there is sufficient consultation with a broad range of non-accountant assurance practitioners to understand their perspectives of ED-5000.

Drafting Principles Used to Prepare ED-5000

In our view, the drafting principles that the IAASB used for the proposed ISA on the audit of less-complex entities are appropriate for ED-5000. We encourage the IAASB to reconsider the drafting principles used for ED-5000 and make appropriate changes.

“The IAASB aims to set high quality international standards that are understandable, clear and capable of consistent application, thereby serving to enhance the quality and uniformity of practice worldwide. This includes presenting any required actions as clear, understandable and stated as simply and concisely as practical. The use of long or multiple layers of bullet lists is avoided as this may be perceived as a checklist rather than a principles-based approach. Material that is lengthy, educational or background in nature has not been included. In addition, the IAASB has focused on:

- *Simpler numbering.*
- *Limiting the number of “sub-bullets” where appropriate.*
- *One thought per paragraph.*
- *Combining requirements from the ISAs where appropriate and avoiding repetition.*
- *Articulating the requirements in a clearer and simpler way where feasible.”*

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 no further comments)

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: Yes, with comments below

Detailed comments:

Paragraph 2 of ED-5000 is clear on when ISAE 3410 should be applied. We recommend incorporating this introductory paragraph into the scope section to give it more prominence.

The scope and applicability of ED-5000 could be improved by reconsidering the definitions of sustainability information and sustainability matters based on our recommendations.

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:

See our response to question 1 on improving the presentation of key concepts of ED-5000.

The application and other explanatory material is clear on which matters are addressed by ISQM 1 and the IESBA Code, and that the practitioner’s system of quality management and code of ethics related to assurance engagements should address those matters to be ‘at least as demanding’.

However, the effort required of a non-accountant assurance practitioner to identify whether the ethical and quality management requirements of their profession are “at least as demanding” may be substantial. We therefore recommend that the onus for making this consideration should not be on the assurance practitioner.

Paragraph A3 should be rephrased to say that the professional body to which the assurance practitioner belongs or the organisation that regulates the assurance practitioner is responsible for establishing a code of ethics and system of quality management requirements in a jurisdiction. These bodies and regulators should assess whether their requirements are ‘at least as demanding’ as ISQM 1 and the IESBA Code, and adapt those requirements as necessary to enable the assurance practitioner to perform this work.

Compliance with these requirements should also be monitored by these bodies and regulators. This may currently not occur in practice for practitioners that are not bound by ISQM 1 and the IESBA Code.

If the above recommendations are not practicable, the documentation requirements that a non-accountant assurance practitioner should meet at firm-level and engagement-level should be described.

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: **No, with comments below**

Detailed comments:

See our response to question 1 on improving the presentation of key concepts of ED-5000.

The definition of sustainability matters includes an entity's plans and goals relating to its activities and services, and their impact on the environment, society, economy or culture.

We recommend that ED-5000 clarifies whether it is applicable to an entity's strategic/accountability documents which could include the above-mentioned sustainability matters. In some jurisdictions the strategic/accountability documents may be subject to assurance (largely, the reasonableness of assumptions and underlying data). If the IAASB wish to understand examples of these, we are happy to share them.

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:

The terminology needs to be simplified. It is currently written from the perspective of a practitioner who has an audit and assurance background, i.e., the ISAE 3000 definitions of subject matter information, underlying subject matter and criteria have been adapted to apply to sustainability information.

Sustainability reporting can be generally defined as reporting that provides an overview of the economic, environmental, social and cultural impacts, caused by an entity's activities. ED-5000 should therefore clarify that the definitions in this standard are written from a conceptual perspective of the matter that is subject to audit or assurance.

Topics and aspects of topics should form part of the definition for sustainability matters in order to link to the current definition of 'Disclosure'. Our response to question 1 recommends that the main definition should be the Disclosure definition and the other definitions should be subsets of that definition. To illustrate, here are our thoughts on the definitions:

- Disclosure(s) – An entity's reporting on specific sustainability information (in accordance with Laws and Regulations, the Applicable Sustainability Reporting Framework, and/or entity-developed criteria) related to an aspect of a topic, which is the subject of the assurance engagement.
 - Sustainability information— can be described as information about sustainability matters. Sustainability information results from measuring or evaluating sustainability matters against the applicable criteria. For purposes of the ISSAs, sustainability information is the equivalent of "subject matter information" in other IAASB assurance standards.
 - Sustainability matters— can be described as economic, environmental, social, economic and cultural matters, including:

~~(i) The impacts of, caused by an entity's activities, products and services on the environment, society, economy or culture, or the impacts on the entity, and, Sustainability matters consist of numerous topics and aspects of topics.~~

~~(ii) The entity's policies, performance, plans, goals and governance relating to such matters.~~

~~For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of "underlying subject matter" in other IAASB assurance standards.~~

Information deleted from the current definitions of Sustainability information and Sustainability matters could be moved to application material as set out below:

For the purposes of the ISSAs:

- ~~The entity's disclosures are~~ **Sustainability information is the equivalent of "subject matter information" in other IAASB assurance standards.**
- ~~For purposes of the ISSAs, s~~ **Sustainability matters being measured or evaluated in accordance with Laws and Regulations, the applicable Sustainability Reporting Framework(s) or entity-developed criteria are the equivalent of "underlying subject matter" in other IAASB assurance standards.**

The picture in the appendices is very useful and could be used to clarify the scope of the engagement if it was included upfront in the introduction or scope of the standard.

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: **Yes, with comments below**

Detailed comments:

Overall audit concepts

We agree that there should be no difference between a limited assurance or reasonable assurance engagement when considering the following aspects of an assurance engagement:

- Preconditions for an assurance engagement (If the criteria are not suitable for a reasonable assurance engagement, they will also not be suitable for a limited assurance engagement).
- Competence and capabilities of the engagement partner and team.
- Professional judgement and professional scepticism.
- Materiality (What matters to, or would change the decisions of, intended users are the same for a limited or reasonable assurance engagement).
- Accumulation and consideration of misstatements.
- Finalising the engagement and forming the assurance conclusion/opinion.

Risk assessment procedures

We agree with the information in paragraphs 102 to 108. However, this section (as it relates to a limited assurance engagement) could be simplified and clarified by starting with a conditional requirement, for example, "If the auditor chooses to follow a combined audit approach, the auditor shall obtain an understanding of the entity's system of internal control, otherwise the auditor shall make enquiries of appropriate parties and, when appropriate, others within the entity to obtain an understanding of the control environment; the results of the entity's risk assessment process; and the information system and communication".

If the auditor then chooses to follow a combined audit approach, all the related 'R' paragraphs will be applicable. If the auditor follows a substantive approach, the proposed conditional requirement clarifies that the extent of understanding is limited to enquiries.

It is unclear in paragraph 107L why or how the auditor would plan to obtain evidence from testing the operating effectiveness of controls. This is because the requirements for a limited assurance engagement in paragraphs 102 to 106 have not required the auditor to obtain an understanding further than making enquiries, and control activities have been excluded from this understanding. For the auditor to make this decision the extent of understanding would have had to include the identification of controls that mitigate specific risks and evaluating the appropriateness of the design and implementation of those controls (i.e., it would not otherwise make sense for the auditor to choose to test controls because it would result in inefficiencies).

Substantive procedures

The appropriateness of the following sentence in paragraph A377L should be considered "...Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, these substantive procedures will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement". Would the nature and timing of procedures not mostly be the same for a sustainability assurance engagement regardless of whether reasonable or limited assurance is provided? It would be more appropriate to use 'may' instead of 'will' in an application material paragraph, and the sentence should rather focus on the extent of work being less.

Paragraph A377L also refers the auditor back to the definition of 'limited assurance engagement', which in this instance does not provide further guidance on performing substantive procedures and should therefore be deleted.

Paragraph 129 should be clarified. In a limited assurance engagement the auditor is unlikely to test controls – paragraph (a) is therefore unlikely to be applicable, making it inappropriate for paragraph (b) to start with "If the practitioner determines that it is sufficient...". When a substantive approach is followed it will have to be 'sufficient'. If the wording is retained, it should be considered whether 'appropriate' should be used instead of 'sufficient'. If it is something that the practitioner has to test with controls due to the electronic nature and high volume of transactions, but cannot, there has to be an opinion impact.

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

Detailed comments:

See our response to question 1 on improving the presentation of key concepts of ED-5000.

This section could be described in simpler terms. Also refer to our response to question 10, where we question the extent of work effort required when the entity only applies framework criteria.

It is not clear in the requirements paragraphs how the practitioner will use the preliminary understanding to determine the scope of the engagement or the appropriateness thereof. This is described in paragraphs A196 and A199.

How this information will be used as part of planning and risk assessment procedures should be described at this point, rather than referring to the preliminary understanding in paragraphs A261 (planning) and 95 (risk assessment). The preliminary understanding should identify significant disclosures and high-level risk areas that the practitioner should focus on. The preliminary understanding will also provide the practitioner with

information that links with the qualitative materiality factors described in A278. This link is not described in ED-5000.

The extent of work effort required to consider the preconditions should also be considered when laws and regulations require the engagement to be performed. The different required responses from the practitioner in paragraphs 75 (preconditions not met before acceptance) and 76(b) (preconditions not met after acceptance) should be considered. The response in paragraph 76(b) should be applicable in both scenarios when the engagement is required by law.

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: Neither yes/no, but see comments below

Detailed comments:

We agree that the auditor should consider how the entity identified topics and aspects of topics to report on, when obtaining a ‘preliminary understanding’. See our response to question 8 on the ‘preliminary understanding’ material.

Also see our response to question 11 on ‘double materiality’, which refers to the entity’s materiality process.

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: Yes, with comments below

Detailed comments:

We note the acknowledgment that framework criteria embodied in law or regulation or issued by authorised and recognised bodies that follow a transparent due process, are presumed to be suitable.

We recommend that the minimal work effort that would be required in this scenario should be described more clearly. Guidance on what a transparent due process entails would ensure consistent application of the acknowledgement and clarify when more work effort is required on determining the suitability of criteria. A transparent due process is described in IFAC’s public interest framework.

Our response to question 1 recommends that the detailed information on pre-engagement activities should be presented in a separate ISSA 5000.1. ED-5000 could then simply refer to the guidance available to assess entity developed criteria that are not presumed to be suitable.

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: Neither yes/no, but see comments below

Detailed comments:

The concept of double materiality (financial materiality and impact materiality) is clearly described in the standard with an example. The information is scattered between A157, A180 and A274.

We agree with the statement that the entity’s ‘process to identify reporting topics’, ‘materiality assessment’, or ‘materiality process’ is not the same as the concept of audit materiality. The following statement should be given more prominence to avoid confusion “For the purposes of this ISSA, materiality refers only to a threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement”.

As mentioned in our response to question 8, how the entity’s materiality assessment has to be understood and could be used by the practitioner should be described.

Consideration / determination of materiality is based on the auditor’s judgement of the common information needs of users and which misstatements would be significant enough to change user decision-making or understanding. The understanding of how the entity considered impact materiality when deciding which topics to report on would assist the practitioner with this consideration / determination. This understanding would be obtained when evaluating the ‘relevance’ criterion in paragraph A179 but this link does not come through clearly.

An understanding of the entity’s consideration of impact materiality would also assist the auditor to evaluate whether a misstatement in narrative disclosures is qualitatively material e.g.:

- The number of persons or entities affected by, and the severity of the effect of, the sustainability matter.
- Whether a potential misstatement would be significant based on the practitioner’s understanding of known previous communications to the intended users, on matters relevant to the information needs of those users.

Significance is defined in the IAASB’s glossary of terms and should be included in paragraph 17 as this is a stand alone document.

“Significance—The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner’s report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.”

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:

We agree that qualitative factors should be used to determine if narrative information is materially misstated.

We agree that a threshold should be calculated for quantitative information. The concept of performance materiality is appropriate (and makes sense) for quantitative information. We therefore agree that it only applies to quantitative information. Qualitative materiality should also apply to misstatements in quantitative information that is below the calculated threshold individually or in aggregate.

The distinction made between ‘consider’ and ‘determine’ is not clear or described in the application and other explanatory material of the standard. We understand the reason for the distinction is because the practitioner

does not necessarily use qualitative materiality during the risk assessment process. The explanatory memorandum describes that it is impracticable for practitioners to determine materiality for sustainability information as a whole given the nature of the disclosures, i.e., qualitative and quantitative disclosures about a number of different topics and aspects of topics. We agree with this statement but believe that qualitative factors should be used per topic or aspects of topics during planning and risk assessment to assess the risk of material misstatement in narrative disclosures.

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:

See our detailed comments on question 7.

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: **No, with comments below**

Detailed comments:

The definition of a management's expert does not seem accurate as it refers to expertise other than assurance where the focus should be on the preparation of the sustainability information. In practice individuals or organisations may be used by one entity as their preparer and for another entity as the assurance practitioner. It should also be clarified that management's expert may be internal or external to the entity. We propose the following amendments:

~~"An individual or organization possessing expertise in a field other than assurance~~ specialised skills and knowledge related to sustainability matters beyond the sustainability competence of the entity, whose work in that field is used by the entity to assist the entity in preparing the sustainability information (measuring and evaluating sustainability matters)."

The definition of a practitioner's expert could also be improved with similar amendments:

~~"An individual or organization possessing expertise in a field~~ specialised skills and knowledge related to sustainability matters, other than assurance skills, whose work in that field is used by the practitioner in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert to increase the sustainability competence of the practitioner or the engagement team."

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: Yes, with comments below

Detailed comments:

Most of the information has been deduced from ISA 600 which is appropriate as described in the scope and introduction of that standard. The practitioner’s nature and extent of procedures before “using the work” of another practitioner should be further clarified, particularly where that work has already been completed.

Most of the information required from paragraph A121 can be obtained from reading the assurance report. This information on its own should not be regarded as adequate evidence.

Paragraph A122 seems to suggest that discussions and obtaining lists of misstatements could be adequate evidence, because paragraphs 54 and A124 do not seem to require access to the other practitioner’s working papers in all instances.

The ethical requirements to follow before obtaining the work of another practitioner should be included in ED-5000 for it to be a stand alone document. The practitioner would, for example, first have to obtain permission from the entity to communicate with the other practitioner and obtain permission for the other practitioner to share the findings related to the entity with the practitioner.

Practitioners with an audit and assurance background would be familiar with the process to follow, but it should not be assumed that non-accountant assurance practitioners will be aware of these requirements even if the ISSA requires such practitioners to follow ethical requirements that are at least as demanding as the IESBA code.

It should also be clarified that the other practitioner is under no obligation to cooperate with the practitioner, which may complicate the ability to use their work and require the practitioner to perform their own procedures to obtain the required evidence.

Practical matters should also be described, such as compensation for the other practitioner’s time and work, and the use of ‘hold harmless’ letters before information is shared.

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: Agree, with comments below

Detailed comments:

The approach of dealing with estimates and forward looking information in the same way is appropriate.

The requirements in paragraph L134 do not seem to provide adequate evidence because the practitioner is not assessing the assumptions and data used. Sub-paragraph (b) should more explicitly state what other procedures would be necessary.

The requirement in R134(c) does not seem like a valid option on its own for testing an estimate or forward looking information. Matters occurring up to the date of the practitioner’s report should be a general requirement for limited and reasonable assurance engagements (i.e., not a specific requirement for testing estimates and forward looking information). In terms of testing the appropriateness of assumptions, the practitioner should also think about whether the estimate is based on the best available information at the time of making the estimate and what supporting information there is. Efficiencies and more persuasive evidence could be obtained when appropriate controls are tested in combination with one or more of the

approaches available to the practitioner. This link should be drawn to the requirements and guidance of ED-5000 related to internal controls.

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: Yes (with no further comments)

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 no further comments)

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:

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

- Sustainability information is of great public interest and the fortunes of many organisations depend very much on presenting themselves as “responsible corporate citizens”.
- Public disclosure of sustainability information is relatively new and accepted criteria for the preparation of sustainability information are still being developed and refined.
- There is no internationally accepted definitions for key sustainability terms, for example ‘carbon zero’, ‘net zero’.
- Significant aspects of sustainability information are subjective and are dependent on the correct interpretation of accurate data. There are plenty of opportunities for bias to creep into the data analysis process, for important information to be suppressed, for bad results to be “under-emphasised”, and for mediocre results to be presented “over-optimistically”.

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

To increase the focus on fraud the ISSA could include:

- a presumed risk of fraud related to management bias for particular types of disclosures (which could be rebutted), and/or when the entity uses carbon offsetting mechanisms (e.g. paying someone else to reduce or absorb its carbon) rather than reducing its own carbon emissions.
- specific requirements to obtain an understanding of controls to address the risk of fraud where such a risk has been identified.
- requiring tests of details to test the risk of fraud.
- requiring specific tests over narrative information to determine whether the information is misleading.

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

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

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 no further comments)

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: Yes (with no further comments)

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:

Key Audit Matters (KAMs) are required by the current New Zealand standard for assurance engagements on Green House Gas emissions disclosures as New Zealand transitions into a mandatory GHG assurance regime. We support the additional transparency and insights required by that standard and therefore encourage the IAASB to address KAMs in at least a future ISSA.

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 no further comments)

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:

Our responses provided to the specific questions apply equally to public sector assurance engagements.

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:

Definitions and other explanations required

The definition of intended users is very broad. ED-5000 describes that the intended users may be broader than those to whom the assurance report is addressed. The requirement to include an addressee in the audit report mentions that the addressee is usually the engaging party or those charged with governance. The intended users will always be broader than this. ED-5000 should describe in more detail and potentially require the practitioner to include a section in the audit report on who the intended users are and/or what the purpose of the assurance report is.

If the intended users are not appropriately described in the assurance report the assurance practitioner could be unreasonably exposed to risk of liability to users for whom the report was not intended.

A definition of a Direct engagement should be included – ED-5000 does not define this term and describes in the scope that the standard is only applicable to Attestation engagements, not Direct engagements. Wording could include:

“The responsible party does not present the subject matter information in a report in a direct engagement. Instead the practitioner reports directly on the subject matter and provides the intended users with an assurance report containing the subject matter information”.

ED-5000 includes references to an “engagement plan” in paragraphs A100 and A260. There are no requirements for the practitioner to prepare an engagement plan and there is no explanation of what an engagement plan is or what purpose it is intended to serve.

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: No response

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 ISSA. If not, what do you propose and why?

Overall response: Agree, with comments below

Detailed comments:

However, as some of the concepts in ED-5000 may not be familiar to non-accountant assurance practitioners there may be a need to extend the application date beyond the 18-month period.