

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)	Capitals Coalition
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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.	Global
	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.	Other (if none of the groups above apply to you)
	If “Other”, please specify: Non-profit organization
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	https://capitalscoalition.org/

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB’s preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to ED-5000).

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

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: Disagree, with comments below

Detailed comments (if any):

Our comments below are made with reference to the project objectives (paragraph 5 of the Explanatory Memorandum) specifically the intention for ED5000 to be *'Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements'*.

"A global baseline"

The ED relates to sustainability reporting and not to sustainability. We recommend it should be renamed Sustainability Reporting Assurance.

"All sustainability topics and aspects of topics"

The fact that ED-5000 can be applied to sustainability information that is limited to only certain aspects of sustainability topics **does not serve the public interest**.

We recommend that the Exposure Draft (ED) should start with the existing international definition of sustainability and sustainable development (Brundtland, 1987) but also recognise more recent definitions and approaches, especially, for example United Nations Development Program's SDG Impact Standards, which confirm the need for sustainability information to include information on management's stewardship and performance in increasing positive and reducing negative impacts.

Increasingly, assurance is requested over a range of products such as carbon offset arrangements which signal the importance being placed by market participants on the role it can play in providing credibility to claims being made. However, the absence of a clear definition of what topics fall within the scope of sustainability amplifies the risk of a material misstatement particularly by excluding information that may be essential for decision-making and accountability.

In addition, and also relating the question of a global baseline, the focus on sustainability topics means starting with a level of aggregation of underlying phenomena into topics. Approaches which start with the underlying elements, i.e. impacts and specifically those where impacts are a change in wellbeing, are not provided for.

"Any suitable criteria"

Whilst we understand the need for ED-5000 to be applied to the various sustainability reporting criteria that exists (i.e. ISSB, GRI etc), sustainability assurance *that meets the public interest* must not be agnostic in the scope of the subject matter. Under the current ED it would be possible for an entity to define a scope of sustainability information for assurance that excludes negative impacts for example human rights abuses.

All assurance opinions arising from engagements under ED-5000 should be highlighting to the intended users where there are gaps in sustainability information arising from a scope that is a subset of the definition of sustainability. The current proposal in the ED that the opinion should include a statement that the information should not be used for purposes other than the one in the scope is not adequate to address these issues.

“All intended users”

The explanatory Memorandum (EM) claims that ED-5000 *‘is designed to be suitable for assurance engagements on sustainability information regardless of the intended users’* and *‘with a focus on entities’ general purpose sustainability reporting (i.e., in accordance with criteria designed to meet the common information needs of intended users as a group)’*. If this is the case, then ED-5000 should be clearer on the definition of sustainability and sustainable development and where assurance engagements relate to a restricted scope of sustainability information for a specific sub-set of intended users i.e investors or providers of capital who may only be interested in the impacts of sustainability matters on the entity, the opinion should clearly state this restriction.

There are aspects of the IAASB’s Guidance on EER, specifically the recognition that intended users may not include those experiencing impacts related to sustainability, that have not been replicated in the ED. If a holistic definition of sustainability is used for scope, one of the intended users would have to act in the interest of those experiencing impacts who are not users. Without this, assurance against that more holistic basis would not meet the requirements for a three-party relationship.

Although the application material refers to sustainability information in the context of information for users making decisions with a purpose, based on a common interest, this is not clearly stated at the start as part of scope. This increases the risk that assurance could be provided on information that does not meet the requirements for identified users with a specific purpose behind their decision making.

A scope which requires a materiality assessment as part of determining relevant information further raises the risk that information is not complete. The scope should define relevant information and the level of certainty required for that information to be useful. Materiality is then the risk that any of that information has been omitted or other non-relevant information included that could affect decisions of users made for the defined purpose (as with financial accounting and reporting).

There is the possibility that different levels of certainty would be required for different scopes. The need to understand the users’ purpose and the users’ risk tolerance need to be understood in determining the required level of certainty for disclosing relevant sustainability information. We recommend that this issue is raised as an assurance provider will have to based their assessment of the risk of material misstatement and a programme of work for an acceptable level of assurance risk on this understanding.

This would also address intended users where the intended users are acting in the interests of people experiencing sustainability consequences. Where the purpose behind that use is maximising the contribution to sustainability, it would be necessary to report effectiveness of management’s decision making and include, for example, trade-offs made in decisions which requires an approach to valuation. To be useful for all intended users the ED would need to consider these issues and it may also then be useful to bring forward the discussion on the relationship between user, purpose and decisions.

“Use by all assurance practitioners”

The reliance on the engagement leader’s judgement (A67) that the team have the competencies required is a conflict of interest and risks undermining trust in opinions arising from use of the Standard. Whilst the ED focuses on the user of experts, the assurance team leader must also have the competency to decide

which experts are required and the firm's system of quality management must reflect this requirement. The ED could make this link clearer and remove the ability of the team leader to make this judgement.

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: [Disagree, with comments below](#)

Detailed comments (if any):

Scope

Our recommendations in response to Question 1 (above) equally apply here since the public's interest is the overall contribution being made to sustainable development and the rate at which it is being made.

Stakeholder Involvement

Whilst this comment could relate to other sections, the critical importance of engagement with those experiencing or expected to experience impacts throughout the process and the need for the assurance practitioner to form an opinion on the stakeholder engagement is missing. This increases the risk of material misstatement of any scope and would not be in the public interest.

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 response](#)

Detailed comments (if any):

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):

The reliance on the engagement leader’s judgement (A67) that the team have the competencies required is a conflict of interest and risks undermining trust in opinions arising from use of the Standard.

Paragraph 5 refers to the IESBA code and highlights that assurance operates within a wider ecosystem to be effective. In financial accounting and auditing there are existing internationally recognised competency requirements. This is not yet the case for sustainability reporting and unless the competency requirements of a particular scope have been identified, it is difficult to see how an assurance provider can meet the requirements of the code or of the paragraphs referenced in paragraph 5. This could be done, however, through the use of and certification against, for example, relevant ISO CASCO standards.

Paragraph A67 also risks inconsistency in the competencies of assurance teams and therefore in opinions. Over reliance on financial audit skills without recognising that the risks, especially to completeness and the need for stakeholder engagement are very different for sustainability information and are not addressed only by using experts on specific sustainability topics. This approach would not be possible in a financial audit.

We recommend that this is replaced with a requirement to follow internationally recognised competencies in relation to the scope and the opportunity is taken to reference ISO standards.

We also suggest that the references in paragraph 5 include paragraph 25 (b) 32 (c) 41 and A82

This issue is also relevant to ISQM1 and paragraphs 58, 65-67 which could also be referenced.

In addition to the lack of a benchmark of what constitutes relevant competencies, the Engagement Leader may identify matters, topics or aspects of topics in the course of the engagement that require competencies that the existing team do not have.

We recommend that this possibility is specifically stated.

More generally paragraph A68 raises a risk that the ethical issues relating to an assurance process are differentiated from the ethical risks associated with a particular sustainability scope. Where a scope excludes potential impact on people and their human rights and that group of people cannot hold the reporting organisation to account or do not have access to the information through other means, this raises a more general ethical issue. This links to Paragraph A202.

Moreover, we think there is a clear link between 'rational purpose' (paragraph 74/A192) with ethical considerations if assurance is to be conducted with a public interest objective. It is difficult to reconcile how a 'rational' purpose can be untethered from ethical considerations in satisfying the public interest given there is a higher standard of not just checking that information is consistent with criteria but can be relied on as presenting fairly the sustainability matters as defined in the scope of the engagement.

We recommend the ED is amended to address this issue.

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 (if any):

Sustainability information is raised in paragraph 3 and then defined in paragraph 17 (uu) as information about sustainability matters which are defined as environmental, social, economic and cultural matters. The definition in 17 (vv) does not define 'matters'. The bullet on what these matters 'include' suggests that a) this is not a complete list b) defines them as impacts on environmental social, economic and cultural matters. The definition could also address the boundary between financial and economic matters. It would be helpful here for the proposed standard to elaborate on the importance of assessing the business model of the entity and understanding its dependencies and impacts. This will be a useful heuristic to check that the scope of the engagement is 'rational' and consistent with the thinking of the ISSB in S1 and its reference to sector based business models as set out in the SASB standards.

Sustainability information requires engagement with stakeholders and an understanding of the sustainability context within which an entity operates. This together with discussion about effective engagement as part of the process of reducing risk needs to be included.

We recommend that since IASB covers information on economic phenomena, the difference between these economic phenomena and the economic matters covered in sustainability information should be clarified. The reasons for omitting governance run counter to the importance given to the subject by investors and other users. In our view, governance is not only a matter of internal process but a wider issue of how entity engages with and maintains its relationships with its stakeholders. What is presented at A32 is inconsistent with ESRS where governance is a topic not an aspect of a topic. Whilst we note this is an example it is nonetheless potentially misleading in how it presents governance which itself has a number of aspects as set out in various global and national governance codes and conventions.

The definitions provided widen the scope of what could be claimed to be sustainability information. This will make it difficult for an assurance provider to decide whether an engagement relates to sustainability information and therefore whether this is the appropriate assurance standard.

Increasingly performance against this definition is being measured by reference to well-being and human rights which would then also form the basic elements for sustainability reporting, and would be the

underlying subject matter, and which are then aggregated into other taxonomies, for example, sustainability topics.

The implications of providing assurance against a scope that is not consistent with the most widely used definition of sustainable development (Brundtland, 1987) or with increasing requirements for reporting on performance include risks that

- the scope could exclude information that relates to the recognised definition of sustainability, or in other words, could exclude negative impact on people's wellbeing and or their human rights.
- the reported information includes information on for example human rights that are not part of the information that will be assured and that information on human rights is neither complete nor accurate.
- the sustainability matters that are reported against a scope are not appropriate. This is addressed in paragraph 71. However paragraph 71 does not provide guidance on whether matters have been omitted that are relevant or included that are not and focuses on faithful representation. A172 b refers to completeness of criteria in relation to a matter (or presumably to a topic or an aspect of a topic) but not directly to completeness of the matters.

We recommend that the scope should also include the need to reference the intended users, their decisions and purpose. These issues are raised later in the ED in the application material but are fundamental to what follows and should be included in the early sections.

We recommend that the existing internationally recognised definition of sustainable development should be included:

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (Brundtland, 1987)

We recommend that, where the scope is restricted and does not include all defined impacts that meet a level of certainty, the assurance opinion should include a statement that there remains a risk that there are unaccounted negative impacts on wellbeing and or on human rights. This could be an expansion of paragraph 180 since the risk would be a general one.

Sustainability information is not defined or recognised as being based on underlying elements that are aggregated for reporting as is the case with financial information. The ED appears to rely on existing practices for determining sustainability topics with the option of further disaggregation. The basic element would be information on changes in well-being, that may be estimated and aggregated or even assumed from use of proxies.

Para 3 states that law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics. Topics and aspects of topics should be defined. The implication appears to be that topics and aspects of topics are a disaggregation of matters as opposed to aggregation of fundamental building block of sustainability information, i.e. well-being. This increases the risk that the information will not be complete or there may be double counting both within topics but also between financial reporting and associated sustainability reporting. This is important where there is the same user of these reports.

We recommend that a basic unit for sustainability is recognized alongside topics and subtopics, comparable with economic phenomena in financial reporting, and that the risk is raised for completeness and decision making in relation to a defined purpose of scopes that start from an aggregation.

In financial accounting the information that is useful consists of information on economic resources available to the entity and the management's stewardship of those resources. This is the information that results in a balance sheet and a profit and loss account. The creation of information in this format requires a common unit. In financial reporting this information is primarily, although not exclusively based on transactions. The equivalent in sustainability reporting would be a statement of those resources used but not owned by the entity, commonly called dependencies, and a statement of the non- financial positive and negative impacts arising from the use of both assets and dependencies expressed in a common unit. These are not generally available in current sustainability reporting although there are examples.

We recommend that the ED should consider this type of reporting and consider any consequences for criteria especially as existing approaches require a common unit, often a monetary valuation.

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 any):

The proposed standard does not adequately distinguish between dependencies (i.e. those resources that the entity relies on create value) and impacts (or externalities experienced by other parties resulting from production or consumption of products or services). This distinction is important as it is the logic that underpins many reporting frameworks on sustainability matters. As currently drafted, there is a danger that the proposed standard could be read as not being framework agnostic but placing too heavy an emphasis on what is typically understood as financial materiality and falling relatively silent on those externalized costs borne by the entity's stakeholders.

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):

In many jurisdictions the reliance on limited assurance of sustainability information as the norm for at least the foreseeable future it is imperative that the distinction between 'limited' and 'reasonable' is well understood so as to not contribute to a widening expectations gap of what falls within the responsibilities of

the assurance provider. It is not clear from what is drafted that the key difference between the two levels of assurance is critically about work effort but the current wording in the proposed standard appears to suggest more fundamental differences. It is difficult to contemplate how users will be able to rely on a limited assurance opinion that does not anchor to basic assertions about the claims being made by the entity. It is important that framework agnostic does not become de facto license to deviate from the qualitative characteristics that should underpin all external reporting. That is, under the IAASB Assurance Framework, relevance and reliability are fundamental to the credibility of reported information on which the practitioner forms a judgement over. For that reason, there is a clear nexus between what assertions the practitioner has tested and provide the basis for users to rely on their opinion.

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):

As sustainability information is still evolving in terms of scope and content, the practitioner needs to have a good understanding of the business context to properly assess an engagement – while this is important for any engagement, the absence of any clearly scope of what falls within ‘sustainability information’ and related phenomena, it will be imperative for the practitioner to understand the impacts and dependencies of the entity’s business model(s) calibrating the related risk to the specific locations and sites. For example, water shortage may not be a material factor for production in Northern Europe but this will not be the case in water stressed areas such as South Asia.

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):

In general the consideration of the materiality process should cover:

- an understanding of the information required to address a scope that was based on the international definition of sustainability (and sustainable development as per Brundtland, 1987) and the requirement for information on performance
- an understanding of stakeholder identification and engagement process.

- an understanding of the process by which the resulting information has been filtered to a particular scope; and
- the nature and quality of the evidence that underpins the assessment

We recommend that this approach is used in the ED because anything other than this approach would not represent a 'rational purpose' for sustainability assurance.

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 response](#)

Detailed comments (if any):

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):

'Double materiality' is understood in different ways and the ED refers to only one of these in Para A180 as "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". Another approach is to consider those of the entities impacts that are financially material and those that are not. There are situations where companies impact or produce externalities that have no financial rebound effect – at least in the foreseeable future. For example, a company may release treated water into a local river and do so within allowable limits of current regulations and for which there are no specific stakeholder concerns. However, from a biodiversity perspective the effluent may alter the acidity levels of the water resulting in harm to local species and allow invasive fish species to thrive. These two approaches could be presented in a table. Even where an issue is material to investors and to people experiencing that issue, for example the risk of financial returns compared to the loss of wellbeing from rising sea levels causing the loss of people's home, the relative importance of these to different users would be different. This would lead to both different assessments of the risk of material misstatement and to different decisions by users.

More generally there will be a set of material information for every set of generalised users making decisions with a shared purpose.

We recommend the discussion of double materiality recognizes different interpretations and the implications of these for the intended users and their purpose for relying on the information that has been reported.

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: [Disagree, with comments below](#)

Detailed comments (if any):

The entity will have past and future impacts on the world and some of these are impacts on investors in the form of financial returns. In addition, external factors will affect the entity's ability to generate impacts, including financial returns. Each of these definitions could be relevant to different users with a different purpose.

It is not clear how the bifurcation of materiality into qualitative and quantitative disclosures is helpful because the exercise of judgement is not a function of the inherent nature of the information itself but for the context it is being used to make decisions and assess accountability.

Materiality appears to be used in two ways. Firstly whether information is relevant, i.e. is in scope of useful information for a purpose and meeting a level of certainty and secondly the risk that information that would affect decisions made against that purpose is missing, not faithfully represented (or non-relevant information has been included). An assessment that excludes information that is relevant and meets a level of uncertainty, although common practice, may affect decisions against the purpose and may affect an assessment of material misstatement.

If the scope addresses a subset of impacts from which there is then a process to first identify material impacts, the assurance practitioner will not be able to form an opinion on completeness without understanding the total set of sustainability related impacts, the total subset, their interdependency and the process behind the selection.

Without a common unit, the risk of material misstatement is likely to be assessed assuming a weighting process for topics or sub-topics or any other level of granularity. Whether information that has been assessed as not material would affect decisions relating to a purpose is unknown since it is possible that either the information once collected was material or its importance relative to other topics made it material.

Different levels of certainty may be required for information required for different scopes. The level of certainty should be informed by the stated purpose of the intended users, their approach to risk tolerance and that of those experiencing any impacts. Without this, decisions may be made which exceed the risk appetite or tolerance of those being affected by any decision. It will be difficult for an assurance provider to assess the risk of material misstatement or to develop a programme of work for an acceptable level of assurance risk without this understanding. If not addressed in the ED, the assurance provider may fall back on an assumed approach to risk being used in other standards, especially in financial audit.

We recommend that the issues around uncertainty are included in the ED.

The reliance on the concept of a rational purpose, without defining rational, risks reinforcing existing cultural, gender biases, and business-as-usual mindsets. The definition could, perhaps should be that it is not rational to make decisions that contribute to climate change, nature loss and increasing inequality, or more generally, do not contribute to sustainability and the SDGs at the rate required to avoid a crisis. As we noted above, a rational purpose that fulfils the public interest perspective of assurance must also be ethically sound. Just as in a financial reporting context a rational purpose would be one where the practitioner is satisfied that the preparer is not attempting to obfuscate any material aspects of an entity's financial performance and position the same formulation holds in the case of sustainability information.

We recommend that a definition, or at the very least some examples, of a rational purpose is included.

Paragraph A171 refers to the possibility of considering a process. An assessment of completeness and fair presentation of the results of a process may also require direct engagement with those people expected to experience the consequences (impacts) and identification of criteria may require similar engagement or at least reference to the work of organisations that represent their interests.

We recommend that the requirement for appropriate stakeholder engagement with people affected is included in the process as well as a discussion of what would make this consideration a necessity rather than a possibility.

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: [Disagree, with comments below](#)

Detailed comments (if any):

Although we recognize that it is point of contention, it is difficult to see how some level of maturity of internal controls and their governance is not needed for the practitioner to carry out investigations and form an opinion at either limited or reasonable levels. Again the ability of the user to rely on the information and opinion formed by the practitioner hinges on the fundamental characteristics of the underlying data. As currently drafted, the proposed standard plays to the common misperception that if an entity's data and controls are not sufficient to form an opinion at a reasonable level that a limited opinion can be offered as an alternative. This would be inconsistent with ISAE 3000 and the related guidance and it is important for the IAASB to stress that limited assurance is not a fall back position in circumstances where an opinion at a reasonable level can be formed.

Paragraph 51 could be expanded to cover the use of third-party certifications of recognised management systems, for example ISO14001 environmental management system, or other aspects of internal control and the extent to which that certification is a three party relationship.

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 response](#)

Detailed comments (if any):

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: [No response](#)

Detailed comments (if any):

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):

While what is set out in the proposed standard is sound, it is important for the IAASB to recognize that increasingly entities are beginning to monetise impacts by applying a value factor (or price) to the quantity of externalities – e.g. multiplying the quantity of carbon by the social cost of carbon to determine an overall estimate of the costs that have been externalised. There is significant variation in value factors depending on geography and other factors so it is an area that deserves more consideration on what role the practitioner needs to play in evaluating what the entity has reported and the basis for its calculation. Some examples here would be helpful to illustrate the point given these methodologies are still maturing.

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 response](#)

Detailed comments (if any):

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: [Disagree, with comments below](#)

Detailed comments (if any):

It is not clear from the text of the proposed standard (e.g. paragraph A305) how these requirements apply to the value chain (for instance, reporting against Scopes 2 and 3 of GHG emissions). The discussion of the reporting boundary needs further elaboration along with what procedures need to be used to assess them.

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):

This is a critical aspect of the proposed standard given the well-documented prevalence of green and rainbow washing in the marketplace. It is very valid the connection to fraud has been made here and it would be helpful for there to be a discussion of connectivity of information especially where claims are made by management but are not substantiated by actions or practices. These situations would not necessarily show a control failure and even though there is a requirement on the practitioner to consider other

information, more emphasis could be placed on the importance of connectivity whether it is the consistency of assumptions or estimates about the business.

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: [Neither yes/no, but see comments below](#)

Detailed comments (if any):

The high-level requirement is fully supported but what is stated could be strengthened. Whereas it is a legal requirement in many jurisdictions for auditors to engage directly with a company's board in finalising their audit often the same practices are not observed when it comes to assurance over sustainability information. Here the IAASB could send a clear message that practitioners should be engaged with those charged with governance and not rely solely on their conversations with management. In particular, we would suggest that the public interest objective highlighted in paragraph A140 applies to all entities regardless of whether they are governmental or not.

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: [No, with comments below](#)

Detailed comments (if any):

We recommend that, where the scope is restricted and does not include all defined impacts that meet a level of certainty, the assurance opinion should include a statement that there remains a risk that there are unaccounted negative impacts on wellbeing and or on human rights. This could be an expansion of paragraph 180 since the risk would be general one.

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):

The identification of key audit matters (KAMs) has revolutionised the usefulness of the audit report. They send a very clear message to user what areas where a material misstatement is likely to arise. The scope of an assurance engagement – whether over a single metric or a complete report – has no bearing on the relevance of KAMs being include in the assurance report by the practitioner, The absence of KAMs significantly impairs the utility of the assurance report **as the principal means of communication between the practitioner and the user**. Given the KAMs are a widely accepted innovation there does not appear to be a sound reason for them to be omitted from the proposed standard.

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: [No response](#)

Detailed comments (if any):

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: [No \(with no further comments\)](#)

Detailed comments (if any):

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):

In paragraph 4 of the ED: “The scope of the assurance engagement may extend to all of the sustainability information expected to be reported by the entity or only part of that information.”

Presumably this is information expected by the assurance provider. If so, we recommend that the basis for these expectations is linked to subsequent sections, for example in A158 ‘Obtaining a Preliminary Knowledge of the Scope of the Proposed Assurance Engagement’ and following paragraphs.

Sustainability information will generally include information that was not expected. There will be unexpected impacts. If the scope excludes these impacts, we recommend that the opinion includes a caveat. We also recommend that this is differentiated from what the assurance provider expects to see since they will expect to see unexpected impacts.

Paragraph 12 in the ED referring to the ‘Relationship with the Audited Financial Statements’.

Even when not part of an annual report, financial reports could be part of other information or could be part of the initial risk assessment relating to a scope.

Where financial and sustainability information is being provided to the same user, the assurance process for either the financial or the sustainability information or both will need to address completeness, consistency and the risk of duplication between sustainability disclosures and financial reports. For example, where an entity has written down asset values under IAS 36 in line with IASB guidance on the effect of climate change, there may be a requirement for further disclosure under a sustainability standard for information that has not met the required level of certainty under IAS 36. The existence of information on relevant impairments would inform the approach to assuring completeness of sustainability disclosures.

We recommend a discussion of these issues is included.

Paragraph 17 of the ED on definitions

We recommend that definitions are included of the following:

- **The addressee**, including within a three-party relationship between engaging party, user and assurance practitioner and providing clarity on the existing inconsistency between A467 and A26. The three-party relationship, although this is addressed in A160 this is too far back in the ED, including clarity as to which of the parties is the responsible party, generally the engaging party.
- **Double materiality**, especially as there is not one definition, for example investor/multistakeholder or inside out/outside in, but also in the context of the internal control environment and the need, for example in assessing completeness of financially material information, for an assurance provider to have sight of the assessment of double materiality and the process for identifying which are financially material to form an opinion.
- **Sustainability** as defined by Bruntland (1987) as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” and including assessment of management performance in creating positive and reducing negative impacts at rate commensurate with stakeholder expectations and thresholds and planetary needs and thresholds.
- **Rational purpose**, given that a purpose that does not account for and so accepts negative impacts on people’s wellbeing or on their human rights or does not seek to maximise the contribution being made to sustainability could, perhaps should, be considered irrational (and would have implications for paragraph A191)

We recommend that the following definitions are amended.

- **Intended users**, expanded to address the issue that was included in the Guidance on Assurance of EER in paragraph 145

A distinction is made between intended users and stakeholders. A stakeholder in the entity may:

- *Have a relationship and interactions with the entity.*
- *Be directly or indirectly affected by the entity's actions.*

There may be circumstances when the stakeholders and intended users are not the same. When a stakeholder is not an intended user, their interests may be taken into account by other parties who are intended users. It should not be assumed that, just because a class of stakeholders that would have a legitimate interest in the EER report is not expected to use the report, information about reporting topics that would meet their information needs would not be relevant to the other classes of intended users, when the categories of intended users are diverse.

Where the scope is not clear on this or has not identified an intended user that acts in the interests of other stakeholders, this increases the risk that information is not complete. Our recommendation is that in these circumstances an existing user would have to act in their interests to retain a three-party relationship with an addressee.

- **Other information**, as this could include third party certifications of internal controls especially where the certifications relate to sustainability matters and may reflect a three-party relationship and so the information does not come from managements experts.
- **Performance materiality**, as the current definition is very hard to follow and perhaps could be more than one sentence and tie in with subsequent paragraph explaining this in more detail.

Risk of material misstatement, to link this risk to the level of uncertainty that the users of the information are willing to accept – their risk tolerance and appetite. This uncertainty is explicit in IASB relating to existence, outcome and measurement uncertainty and the level, though not calculated, has been normalised through legislation, reporting, audit and legal actions. This is not yet the case in sustainability reporting where the level of uncertainty, and hence the risk of misstatement and acceptable assurance risk, will vary with the users and their purpose.

Paragraph 25, 32 (c) and 41 of the ED on Competencies

In the absence of a recognised certification scheme that is relevant to the scope, it is not clear how the practitioner will determine competence and capabilities and information may be identified during an engagement which may require this to be reassessed. The risks relating to completeness and the need for stakeholder engagement are fully not addressed by the those with financial audit skills making use of experts on specific sustainability topics.

Paragraph 71 of the ED on Appropriate Sustainability Matters

We recommend that Paragraph 71 is expanded to address assessment of whether the sustainability matters are complete within the context of the scope. This issue does not seem to be covered by A172 (b).

Paragraph 74 of the ED on 'Rational purpose'

We recommend that Paragraph 74 is expanded to give practitioners clearer understanding of how to determine rational purpose within the context of the public interest. See also our recommendation above on amending the definition of rational purpose:

a purpose that does not account for and so accepts negative impacts on people's wellbeing or on their human rights or does not seek to maximise the contribution being made to sustainability could, perhaps should, be considered irrational.

Paragraph 97 of the ED on Understanding the Sustainability Matters and the Sustainability Information

We recommend that this paragraph refers to the practitioner developing an understanding of expected sustainability matters in the context of the scope and that this should be done before the practitioner has sight of the sustainability information prepared by the responsible body to reduce the risk that this information prejudices expectations.

Paragraph 99 of the ED on Understanding the Entity and Its Environment

Without stakeholders having been involved throughout the process, there is a risk that acceptable levels of risk for material misstatement are not acceptable to the intended users including the stakeholders whose lives are impacted. The standard does not include sufficient information on processes for stakeholder involvement that are designed to reduce the risk of omission of sustainability topics or aspects of topics, in context of the language in the ED, or of impacts on wellbeing.

We recommend that this issue should be added to this paragraph but then expanded in Application material. The existing reference to intended users in A171 does not address this issue.

Paragraph 150 of the ED on written representations

The risk of material misstatement will increase with the extent to which the assurance provider places reliance on written representations especially in relation to the completeness of sustainability information. There will be a point at which the reliance becomes so high that it is not possible to form an opinion.

We recommend that a discussion on reliance on representations is included.

Paragraph A26 of the ED on intended users

Paragraph A26 suggests that the users are the addressee in contradiction with A467 which says the addressee is generally the engaging party.

We recommend this is clarified.

If the scope of the information includes impacts on stakeholders that are not users then there are sustainability risks when the assessment of relevant information is limited to users. There is also a risk that because they cannot be identified the opinion cannot be addressed to them and they are excluded on that basis. This might undermine the three-party relationship if, for example, the opinion were to be addressed

to the directors with management being the responsible party, especially as the directors primary legal interest is to members and not to stakeholders. This ties in with **our recommendation that an existing user must act in the interest of those stakeholders (whose lives are impacted) where required by the scope and to retain a three-party relationship.**

If users within a scope are further restricted as proposed, to those that have significant and common interests, there is a further increase in the risk of material misstatement. This restriction can only be made in the context of whether the exclusion increases the risk to the point an opinion would be qualified. It may then also imply that the criteria are restricted to the common interests of those users which would require an expression of matter paragraph in line with paragraph 180.

We recommend that who would be responsible for determining the common interest, and who they would determine it, or what steps the assurance provider would need to take to consider whether that determination was reasonable should be clarified.

Paragraph A179 of the ED on Relevance of the Criteria

We recommend that paragraph A179 is more strongly linked to the requirements section.

- (a) Links the information back to the decisions being made by intended users. Clarity over the users, their decisions and the purpose behind those decisions should be added as a requirement for the scope in paragraph 3. The requirement for a purpose could be added to A179 (a) but also in A181 and A200 just as it is included in A179 (b) and A270. (Financial reporting standards are based on primary users, decisions to provide economic resources, with an interest in financial returns. All three are necessary as the basis for useful information. Assurance against information that does not include all three would need to consider the high risk that resulting information was not useful as, for example, its purpose might not be known)
- (b) States that the criteria should assist decision making, including general types of decisions. This use of 'general' probably relates back to the earlier reference to common interests and clarity over user, decisions and purpose would provide more clarity. It would also be useful to provide example of other types of decisions since the presumption might be that these were the only types of decisions would be those that intended users would make based on purpose of sustainability information. This may be the first use of the word 'purpose' and yet it is so important to the ED.
- (c) Critically raises the issue that uncertainty, covering measurement and evaluation uncertainty. The relationship between these two types and those used in financial reporting would be useful especially if there is a view that there are different types of uncertainty in sustainability information. The implication of this for different scopes (now including different purposes) should be raised earlier in the ED.
- (d) Recognises the importance of aggregation but should also recognise that this will be informed by the purpose. It would be useful to give examples, for example not netting off positive and negative impacts, not providing averages to obscure different experiences for different stakeholders or stakeholder groups. The process by which an impact is treated as positive or negative is not as simple as whether the direction of change was positive or negative and the assurance practitioner would need to assess these thresholds and allocations. This also influences A200 fourth bullet. However, aggregation across impacts, aspects of topics or topics, is required to assess risk of material misstatement across different topics which requires a common unit and this should be included.
- (e)
- (f) Whilst it is true that reporting processes may not have matured, the implication is that the risk of material misstatement will then increase. This highlights an important issue that should perhaps

be recognized earlier in the document since there is likely to be a higher level of qualifications of sustainability reports than of financial reports and it would better serve the public interest to have wider but qualified scopes than narrower but non-qualified scopes.

- (g) (ii) refers to commitments. This would be a further example of an overlap with financial reporting where those commitments are treated as obligations and for example as constructive obligations. If so information on sustainability related constructive obligations would become 'lost' in the aggregate of liabilities in the financial reports but might still be useful and separately identified in notes to accounts or in sustainability disclosures but requiring a statement that the information had already been included.

Paragraph A183 of the ED on Neutrality of the Criteria

Paragraph 183 third bullet refers to reasonable basis without guidance on what is reasonable or whether this is different to the use of rational above. Give that criteria could and perhaps is likely to change in line with changing assessment of sustainability information it might be the lack of change between reporting periods that would need to be justified or at least would indicate a risk.

Paragraph A198 of the ED on appropriateness of the scope and 'reasonable basis'

Paragraph 198 raises the risk of incomplete information as in A179 (f) and the risk that a qualified opinion may be required. We restate our recommendation that it would better serve the public interest to have wider but qualified scopes than narrower but non-qualified scopes.

Paragraph A201 of the ED on whether and how the sustainability information is used

An alternative conclusion is possible from the last bullet. If management are not using the information in decision making it may be because they are not effective.

We recommend this possibility is included.

Paragraph A238, A289 and A437 of the ED on Sources of Information

These paragraphs could include references to, for example, social media and civil society organisations in identifying relevant sustainability matters. This is a good example of the other sources of information that would be relevant in assessing completeness of relevant information.

Paragraph A243 of the ED on Reliability

We recommend that 'applicable' is defined.

Paragraph A270 of the ED on Materiality

Recommend including a link from intended purpose to the level of uncertainty that is acceptable to intended users for the purpose.

Paragraph A275 of the ED on materiality process

As opposed to management's materiality process, the information may be determined by a sustainability standard or by legislation.

Paragraph A278 of the ED on Qualitative Materiality Considerations

We recommend that the example in the first bullet is amended to point out that the value lost, of adverse consequences, to the person experiencing the waste spill are also likely to exceed any financial losses experienced by an individual investor.

The second bullet that refers to the ‘interaction between, and relative importance of, multiple topics’ confirms the point made above in relation to Paragraph 179 (d) about the need for a common unit and A398 below about transparency of the process to apply weightings.

Paragraph A279 of the ED on Quantitative Materiality Considerations

A further point (c) could be added relating to the use of quantitative factors to assess relative importance (weighting or value) of, for example, topics.

Paragraph A284 of the ED on Performance Materiality

We recommend that what would be ‘appropriate’ especially for different users with different purposes is clarified.

Paragraph A295 of the ED on Understanding the Sustainability Matters and the Sustainability Information

We recommend that, in addition to characteristics, the understanding of sustainability matters requires a consideration of expected matters as part of the tests for completeness.

Paragraph A310 of the ED on Inquiries and Discussion with Appropriate Parties

We recommend that paragraph A310 defines appropriate parties and includes references to external as well as internal parties.

Paragraph A398 of the ED on Accumulation of Identified Misstatements

The effect of accumulation of misstatements requires that the weighting used for that accumulation is then transparent.

We recommend the need for transparency in the weighting that was used for accumulation is transparent and the extent to which those people experiencing impacts inform that weighting.

Paragraph A448 of the ED on Evidence Obtained That Is Inconsistent with Other Evidence

The practitioner will need to make enquiries directly with stakeholders (representative samples of people impacted by the entity) to assess the completeness and accuracy of sustainability information and this will be an important potential source of inconsistencies. As with reference to stakeholder engagement, we recommend that this is included in the ED.

Appendix 1

The examples of topics listed are not mutually exclusive or consistently defined which highlights the risk of double counting impacts in more than one topic.

We recommend that examples are amended or defined to reduce the risk of overlaps.

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](#)

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

Overall response: [No response](#)

Detailed comments (if any):