



**ICGN**

International Corporate Governance Network  
*Inspiring good governance & stewardship*

Mr. Tom Seidenstein  
Chair  
International Auditing and Assurance Standards Board  
529 5<sup>th</sup> Avenue  
New York, New York 10017

1 December 2023

Dear Chair Seidenstein,

**Subject: ICGN response to the International Auditing and Assurance Standards Board's proposed International Standard on Sustainability Assurance 5000**

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB) proposed 'International Standard on Sustainability Assurance 5000 – General Requirements for Sustainability Assurance Engagements (ED-5000) and Proposed Conforming and Consequential Amendments to other IAASB Standards'.

Led by investors responsible for assets under management of \$77 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries - largely in Europe and North America, with growing representation in Asia. Our work programme is based around the ICGN Global Governance Principles which are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

ICGN welcomes efforts by standard-setters to develop and consolidate sustainability reporting standards and by regulators to introduce mandatory corporate sustainability reporting requirements. Investors require high quality and comparable corporate sustainability disclosures to make informed investment and stewardship decisions in the responsible allocation, management and oversight of capital on behalf of their beneficiaries. Disclosure is not an end in itself; it is often the start of a conversation between companies and investors in their mutual responsibility to promote successful companies thereby preserving and enhancing long term financial value.

Rigorous audit and assurance are cornerstones to this dialogue, instilling investor confidence around the quality, reliability, and integrity of information. ICGN therefore agrees with Guidance IV.D. of the G20/OECD Principles which states that *"External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit in the public interest."*

An increasing number of companies are having their sustainability reporting assured by third parties and several jurisdictions are considering promulgating mandatory assurance. While ICGN welcomes these developments, we also note that there is currently no consistent approach to assurance engagements and communication to investors is not always adequate. Investors would benefit from having more clarity on the level and scope of the assurance engagement, significant matters that

influenced the assurance, and the ethics and independence standards applied by the assurance provider.

**ICGN therefore welcomes the work of the IAASB in proposing a global baseline for sustainability assurance engagements and of the IESBA in developing a fit-for-purpose ethics framework for sustainability reporting and assurance, including independence standards.** In the journey towards better corporate sustainability reporting, international standards for external assurance of this information will be an essential step, to ensure that all assurance providers follow a rigorous process and investors can trust corporate sustainability disclosures.

ICGN welcomes the IAASB's objective of developing a global standard that supports high quality and consistency in sustainability assurance engagements. **We agree with the proposal that ED-5000 should aim to cover the broadest range of assurance engagements possible**, and can be applied to all sustainability topics, all mechanisms for reporting sustainability information; key recognized reporting standards, all intended users, both limited and reasonable assurance engagements, and used by all assurance practitioners.

We welcome the proposal that ED-5000 should be applicable to the assurance of both financially-material sustainability information, and broader sustainability reporting, including regarding impacts the company may have on society and the environment (regardless of how these affect enterprise value). We encourage the IAASB to ensure that concepts and definitions in ED-5000 are aligned with those of the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and the UN Guiding Principles on Business and Human Rights. According to these international standards, impact materiality is defined based on the severity of the actual or potential adverse impact and its likelihood, following a risk-based due diligence process by the company.

We agree with IAASB's observation that, depending on the market, preparing and reporting sustainability information might be relatively new for companies. **We encourage company boards to strengthen their governance policies, processes, and structures around sustainability reporting.** They should also establish formal procedures to ensure an effective and independent external audit of the company's financial statements, and external assurance on sustainability reporting.

Company boards should affirm their responsibility for corporate sustainability reporting in public mandates and committee terms of reference. This includes how sustainability related risks and opportunities are considered in strategic decision making, managerial oversight, human capital management and incentives. In doing so, company boards and relevant committees, should demonstrate that they have appropriate capacity and capability to effectively undertake their fiduciary responsibilities in relation to sustainability matters.

Companies should establish robust internal processes to collect sustainability related data and document the information, with similar quality control as for traditional financial information, to ensure that the information disclosed is verifiable, ready for assurance. There should be consistency and connectivity between financial statements and broader sustainability disclosures. Furthermore, we encourage frequent and constructive dialogue between company boards, investors, and external auditors, as well as assurance providers.

**Providers of sustainability reporting assurance should ensure that engagement teams have strong expertise in sustainability matters.** We agree with the proposal in ED-5000 that the engagement leader must determine that sufficient and appropriate resources are assigned to perform the engagement, and that members of the engagement team, and any external experts,

2

collectively have the appropriate sustainability knowledge, as well as capabilities in assurance skills and techniques, and sufficient time, to perform the engagement. When using external experts, the assurance provider should retain full responsibility over the assurance engagement.

**ICGN supports the requirement that members of the assurance engagement team should be subject to the IESBA Code and International Standard on Quality Management 1**, or other professional requirements, or requirements in law or regulation that are at least as demanding. Investors must trust that the assurance process is rigorous, and that high standards of ethics and independence have been applied. We encourage all assurance providers, irrespective of their professional backgrounds, to implement IESBA's recommendations on sustainability reporting and assurance, expected to be published in 2024. Effective oversight by regulators will be important to ensure proper implementation and sustained adherence to these standards. Simultaneously, we are conscious that this requirement might be burdensome at first for some firms currently providing sustainability assurance and not yet applying the IESBA Code and the International Standard on Quality Management. We encourage the IAASB, IESBA and national authorities to provide training and guidance to these assurance providers, to support them in applying the standards.

**Regarding the topic of fraud (including “greenwashing”),** we agree that internal processes and control systems may be less mature than for historical financial information, and this may increase the risk of misstatements, due to fraud, errors, or “over-optimism” by company executives (or management bias). **It is therefore crucial that assurance providers exert professional scepticism, be subject to strong independence and ethical standards, and be accountable to shareholders.** In this regard, the ICGN also supports the work of the IESBA in developing a fit-for-purpose ethics framework for sustainability reporting and assurance, including independence standards.

We also suggest that the auditor or assurer examines the company whistleblowing mechanism in its engagement. Whistleblowing, as set out in ICGN Global Governance Principles, Principle 4.2, should be independent and confidential, to ensure a worker, supplier, shareholder or relevant stakeholder can raise issues of concern. By exposing false or misleading claims made in corporate reporting, whistleblowing can help reduce greenwashing.

More generally we agree that the following matters are adequate as noted in the proposal:

- Terminology for sustainability matters, sustainability information and disclosures in ED-5000.
- The way ED-5000 addresses the entity’s “materiality process.”
- That ED-5000 appropriately addresses the notion of “double materiality” in a framework-neutral way.
- 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.
- The requirements in ED-5000 will drive reporting on sustainability assurance engagements that meets the information needs of intended users.
- Not addressing “key sustainability assurance matters” in ED-5000, and instead having the IAASB consider this in a future ISSA.

**We recommend that the requirements in ED-5000 for using the work of a practitioner’s external experts be clarified further.** We believe the assurance provider should retain full responsibility over the assurance engagement and cannot delegate their duties. The practitioner

should also verify the independence of experts they use, as well as their competence, ethics, and professional reputation. The practitioner should be responsible for assessing the work and conclusions carried out by the external expert. We acknowledge that sustainability covers a broad range of issues, and that the assurance provider may benefit from specific topical or local external expertise to carry out the engagement. Nonetheless, companies should ensure that they appoint an assurance provider that has core competences for assurance on sustainability reporting and the assurance provider should only accept an engagement if they have the required knowledge.

In cases where companies select two or more firms to assure different parts of their sustainability reporting, the same rules that apply to joint audit should prevail, to produce a common joint assurance report, rather than several separate assurance statements.

To conclude we also note that the ED-5000 would not apply when there is a separate conclusion on a greenhouse gas emission (GHG) statement, in which case the ISAE 3410 applies. Considering that there are divergences between the concepts covered by the ISAE 3410 and the ED-5000 respectively, we note that this may create inconsistencies. We encourage the IAASB to align the requirements and application material related to assurance engagements on GHG statements with ED-5000.

Thank you again for the opportunity to share our perspective. If you would like to follow up with questions or comments, please contact our Global Policy Director, Séverine Neervoort ([severine.neervoort@icgn.org](mailto:severine.neervoort@icgn.org)).

Yours faithfully,



**Kerrie Waring, Chief Executive Officer, ICGN**

Cc: Nga Pham, Chair, Financial Capital Committee