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Jakarta, 30 November 2023

Mr. Tom Seidenstein

Chair, International Auditing and Assurance Standards Board (IAASB)
529 5th Avenue
New York, New York 10017

Dear Mr. Seidenstein,

Comments to the IAASB's ED-5000

The ASEAN Federation of Accountants ([AFA](#)) was organised on 12 March 1977 to serve as the umbrella organisation for the recognised national Professional Accountancy Organisations of the Association of Southeast Asian Nations ([ASEAN](#)) Member States. Our ten Primary Members collectively represent a regional network of more than 200,000 accountants in ASEAN jurisdictions, supported by a global network of Associate Members with around 2 million members worldwide.

On behalf of AFA, I would like to commend you and the International Auditing and Assurance Standards Board (IAASB) for your tremendous effort in publishing the Exposure Draft Proposed International Standard on Sustainability Assurance 5000 *General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards* (ED-5000). Your timely response to the stakeholders' increasing demand for sustainability assurance is a testament to the Board's commitment to address the absence of an overarching standard for audits of sustainability information.

Our comments reflect the common views of our member organisations as well as our views on key and most relevant matters in the consultation. AFA continues to encourage our member organisations and stakeholders to submit their individual comment letters to further contribute to your deliberations.

I am pleased to share a general consensus among our member organisations for the overall direction of the ED-5000 and acknowledgment of the Board's commitment to look into the further development of a series of standards that complement the ED-5000. We found the supporting resources provided, particularly the Explanatory Memorandum useful in addressing many of the initial questions and may be useful to be included in the final standard. To further improve the standard, we believe the Board needs to provide clarifications on key matters such as limited and reasonable assurance engagement, ethical requirements and quality management standards, and materiality.

Kindly refer to the appendix included in this letter for details about our comments.

Thank you.

Yours sincerely,

Aucky Pratama
Executive Director



Appendix: Comments to the ED ISSA 5000

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?

It is clear that ED-5000 should apply to all assurance engagements on sustainability information, except when a separate conclusion on a GHG statement is provided, in which case ISAE 3410 applies.

We appreciate the idea to look into conforming amendments to ISAE 3410 to address their relationship to ISSA 5000. However, there may be circumstances where users will benefit from better clarity and ED-5000 should also include practical examples for circumstances to be considered by the practitioners when deciding whether to apply ED-5000 or ISAE 3410 in the engagement.

For example, ED-5000 can further clarify that in some cases, a practitioner may perform a broader scope of assurance engagement on a report that includes GHG information as part of the reported sustainability information, but that GHG information does not comprise a GHG statement. In such cases, there needs to be clarity on whether ED-5000 or ISAE 3410 applies when the practitioner provides a separate assurance conclusion on that statement alongside several other conclusions on other sustainability disclosures.

The IAASB should also consider providing application material that explains when the sustainability information includes GHG related disclosures, but not a separate GHG statement, as ISAE 3410 may be useful in assisting the practitioner in designing and performing assurance procedures over that GHG related sustainability information. However, retaining the requirements for ISAE 3410 to be applied for assurance on GHG statements may be contrary to the IAASB's objectives to make ED-5000 suitable for non-accountant assurance practitioners, who in general view the ISAE standards as assurance standards applied by the professional accountant assurance practitioners. In this context, we recommend that the IAASB either incorporate the existing ISAE 3410 directly into ED-5000 along with additional guidance or provide clearer guidance on the circumstances under which to apply ISAE 3410 or ED-5000. This would help enhance clarity and streamline the use of these standards. Co-existence of ISAE 3410 and ED-5000 may create undue complexity and be difficult to understand by the users of the assurance report.

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?

In general, we think ED-5000 is sufficiently clear about the concept of “at least as demanding”.

We agree that regulators and national standard setters play an important role for determining what may be considered “at least as demanding”. However, for consistent application of the standard, there needs to be a mechanism to assess whether the ethical standards and quality management standards that non-accounting sustainability practitioners have applied are “at least as demanding”.



We believe it is important for the Board to continue to engage with regulators, national standard-setters, and non-accounting sustainability practitioners to support the application of ED-5000 and that includes the enforcement aspects of adherence to the relevant ethical requirements for assurance engagements and the firm's responsibility for its system of quality management to avoid inappropriate or inconsistent statements of compliance, which could have an adverse effect on the quality of the assurance engagements and the public interest.

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?

ED-5000 provides clear distinguishment between limited assurance and reasonable assurance, particularly in relation to the practitioner's work effort. However, we are of the view that the Board may need to provide clarifications on the following:

- 1) The concept of meaningful level of assurance in a limited assurance engagement in ED-5000 may not be sufficiently clarified. In circumstances where the assurance report's intended users are different consequent to the report being disclosed publicly alongside the reporting entity's annual/sustainability report, determining a meaningful level of assurance will be challenging and will result in diversity in the extent of work undertaken by the practitioners to support a limited assurance conclusion.
- 2) Practical challenges may arise in the event that practitioners need to apply judgment about the nature, timing, and extent of additional procedures in a limited assurance engagement that are needed to obtain evidence to either conclude that a material misstatement is not likely or determine that a material misstatement exists. Depending on the circumstances, the nature and extent of evidence that may be required for the practitioner to conclude on the matter may be the same as that of a reasonable assurance engagement.

We also believe that the users of ED-5000 may benefit either from:

- 1) A summary of the various distinctions between limited and reasonable assurance engagements, presented as a separate appendix within the ED-5000 to facilitate easier reference; or
- 2) A potential layout changes of ED-5000 to cater for all limited assurance in one section and a separate section on reasonable assurance engagement.



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?

We agree that the practitioner needs to obtain a sufficient level of information to determine whether the scope of the assurance engagement is appropriate. While paragraph 69 itself is clear as to the need for a preliminary understanding, the extent of that understanding and, specifically, the extent to which the practitioner is expected to obtain a detailed understanding of the entity's reporting/materiality process is not clear.

It may be unlikely, at pre-acceptance, for the practitioner to obtain detailed information about the entity's reporting process and reporting boundary. Paragraphs A156-A157 imply a level of understanding that may more commonly be associated with the detailed understanding of the entity and its environment obtained as part of risk assessment procedures having accepted the engagement. In addition, A158 remains unclear as to the circumstances for which a narrower scope assurance engagement that covers only certain jurisdictions, entities, operations, or facilities within the reporting boundary, may be determined as having a "rational purpose" at the pre-acceptance stage.

While we agree that ED-5000 should not impose requirements which may be unnecessarily onerous prior to acceptance or continuance, we believe the requirements and guidance need to be clarified as to what constitute a sufficient knowledge of entity's reporting process and reporting boundary, rather than leaving this to the practitioner's judgement.

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?

We are of the view that ED-5000 does not provide sufficient guidance on the determination, consideration, and application of materiality in the engagement. We would like to suggest the following:

- 1) To provide further clarification, more examples and guidance on applying the concept of double materiality.
- 2) As materiality is a matter of professional judgment and is affected by the practitioner's perception of the information needs of intended users of the sustainability information, it is useful to include more application materials to ED-5000 to provide more examples for practitioners' reference.



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?

In practice, the application of the concept of performance materiality may not be practicable or easily applied for certain quantitative disclosures involving certain subject matters or topics which include sustainability metrics which are expressed in percentage or ratios terms (which may be binary or linked to certain legal or contractual sustainability performance targets). Therefore, we suggest that the IAASB provide additional application guidance on this area to enable the practitioners to effectively apply the concept of performance materiality in practice in a number of different sustainability matters or topics.

Further clarity may be required to consider when misstatements can or cannot be aggregated and how this would need to be considered in determining the final opinion.

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?

The relationship between individuals involved in the engagement is unclear in ED-5000 for the application of these principles by non-accountant assurance practitioners who are not accustomed to ISA 220 (Revised). We would suggest that the enhanced version of Figure 2 in the Explanatory Memorandum which provides a visual illustration of the individuals that may be involved in an assurance engagement and the requirements in ED-5000 that are applicable to the work of such individuals be included in the final standard.

In addition, ED-5000 is also unclear how the practitioner or engagement leader is able to be suitably involved throughout the assurance process (i.e. direction, supervision, and review) of the other practitioners' work. The practical challenge that the practitioner cannot be sufficiently involved in the work of another practitioner due to access to the work of another practitioner is restricted by law or regulation, or the work that has been performed by that other firm relates to an entity that is part of the supply chain outside of the organisational boundary of the entity subject to the practitioner's engagement, and neither the entity's management nor the practitioner have any right of access to that other firm's assurance work is not being sufficiently addressed by ED-5000.

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?

We believe that the requirements are clear and conceptually reasonable. However, there are significant practical barriers to a practitioner's ability to comply with the requirements as follows:

- 1) When assurance work has been performed at an entity significantly down the value chain, it is unrealistic to expect the assurance practitioner from that value chain entity to be able to interact with multiple assurance practitioners further up the value chain.



- 2) It is unclear how the assurance practitioner can reasonably evaluate the independence of another practitioner significantly down the value chain, other than relying on a statement in any assurance report issued by that downstream practitioner.
- 3) When the downstream assurance practitioner is also from a non-professional accounting firm, the challenge of evaluating whether that practitioner has complied with requirements that are at least as demanding as the IESBA Code also apply.
- 4) Obtaining sufficient information to determine the nature, scope and objectives of that practitioner's work and evaluating its adequacy will be similarly challenging.
- 5) Similar challenges to those for evaluating relevant ethical requirements apply in respect of evaluating whether non-accounting sustainability practitioners has complied with quality management principles.

Therefore, in the absence of the evolution of a service auditor's report model up and down sustainability value chains, those assurance practitioners further up the value chain are likely to face an inability to obtain sufficient appropriate evidence (scope limitation).

Further guidance is needed to address these concerns.

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?

We agree. The susceptibility of the sustainability information due to fraud from greenwashing risk by management or management override of controls through estimates are inherently present in sustainability reporting. In practice, similar to the principles of ISA 240, such risks could have a pervasive impact on the sustainability information, and it should be adequately considered by the practitioners, which should also similarly be addressed in the ED-5000. The Board may consider adding application guidance on the ways management override of controls may apply in the context of sustainability reporting.

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?

We recognise the benefit of addressing the concept of KAM for a sustainability assurance engagement in ED-5000. However, we believe that the priority now should be on addressing the complexities and potential implementation challenges of ED-5000 as a new and overarching standard for sustainability assurance engagement.
