



International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, 10017
USA

1 December 2023

Comment letter relating to the IAASB's proposed ISSA 5000 (ED 5000)

Dear Mr. Seidenstein,

1. The Committee of European Audit Oversight Bodies (CEAOB) appreciates the opportunity to comment on the IAASB's ("Board") exposure draft General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards ("ED 5000" or "ED") issued on 2 August 2023.
2. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEOB encourages and supports not only continuing improvement of professional standards for the audit engagements, but also the development of standards for assurance engagements on sustainability reporting.
3. The content of this letter has been prepared by the CEOB International Auditing Standards Subgroup and has been adopted by the CEOB. The comments raised in the letter reflect matters agreed within the CEOB. It is not intended, however, to include all the comments that might be provided by the individual regulators that are members of the CEOB and their respective jurisdictions.

GENERAL COMMENTS

4. The CEOB would like to reiterate its supports for the IAASB's project for the timely development of standards for assurance engagements on sustainability reporting. The CEOB particularly encourages the IAASB to deliver standards on assurance of sustainability reporting before the end of 2024¹, taking into account the requests highlighted in this letter.
5. The CEOB also commends the IAASB for the timely development of this draft standard for assurance ED 5000. The CEOB understands that the accelerated process to deliver an ED led to some limitations in terms of coverage of the topics, but hopes that the accelerated publication of the ED will allow the IAASB to gather comments from the expected users of sustainability information and from other stakeholders, and will allow for enhancement and additional provisions to be added to the ED before final approval of the standard by the IAASB.

¹ see also our comment point 7 of this letter, regarding the timing constraints, which are higher for limited assurance than for reasonable assurance.





THE CSRD CONTEXT FOR THE CEAOB RESPONSE

6. The comments of the CEAOB on this ED 5000 are provided with the intention to allow the IAASB to enhance the project and adapt it further to make it compatible or, as far as possible, to meet the expectations set by the Corporate Sustainability Reporting Directive (CSRD). As a reminder, the CSRD provides for a limited assurance engagement on sustainability reporting for entities and groups meeting several criteria, starting from their 2024 reporting periods.
 - As such, the provisions in the ED on the assessment, by the practitioner, of the suitability of the criteria (par 72, A166 and following of the ED), when it comes to the use of the ESRS will not be required in a CSRD type assurance engagement. However, we understand that those provisions might be relevant in situations where the “reporting criteria” are not defined by regulatory means and we note that the case of reporting framework imposed by law is foreseen in the ED. To facilitate this reading, the “presumption” mentioned in par A170 that such frameworks imposed by law are suitable should be elevated to requirement (in the requirements section).
7. In examining the ED, the CEAOB mainly focused on the provisions for limited assurance and less on the provisions on reasonable assurance. As a result, this letter might not identify all comments that would be needed on the reasonable assurance provisions. Provisions for reasonable assurance will deserve to be reassessed after experience has been gained by preparers on sustainability reporting and by practitioners on the performance of limited assurance engagements on sustainability reporting.
8. The CSRD provides for the adoption of a limited assurance standard by the European Commission by October 2026, and envisages the adoption of a standard for reasonable assurance by October 2028, subject to an assessment of the feasibility of reasonable assurance engagements on sustainability information.
9. It is important to note that the CSRD requirements for assurance engagements will need to be implemented by means of standards that cover the specific features of the CSRD framework, particularly for the content of the assurance opinion and the assurance report. The exposure draft of the IAASB has been considered by the CEAOB in this context.
10. Our overarching comments are provided hereafter.

OVERARCHING COMMENTS

1. Profession agnostic standard

11. The CEAOB welcomes the IAASB’s objective to provide a standard that would be fit for all practitioners, meaning all assurance services providers, and not only statutory auditors, mirroring the options allowed by the CRSD. The CEAOB stresses in this regard that it is in the public interest that the same requirements apply for the provision of assurance on sustainability reporting, whatever profession the providers of the assurance opinion belong to.
12. Recognizing the importance of applying the same level of requirements for the achievement of a quality engagement whatever the profession of the practitioner in charge of the assurance, the CEAOB has identified various proposals that need further review to





produce a standard that can be used by all practitioners, even those outside the audit profession:

- ED 5000 should not refer directly to provisions or other pronouncements which are not currently applicable outside the audit profession, unless these provisions can be applied in any circumstances.
- In this regard, relevant provisions for quality management to be applied are highly welcome, but requiring ISQM1 or “at least as demanding requirements” to be applied may be challenging for practitioners outside of the audit profession in the first years of the CSRD implementation. To solve the issue without impairing the need for an appropriate level of quality management by all practitioners (QM), the IAASB should clarify the criteria intended to be ‘at least as demanding’ and how to make that assessment, including the possibility that this can be dealt at national level by laws and regulations.
- In the same vein, it is relevant for ED 5000 to refer to adequate ethical provisions which need to be adhered to by all practitioners. However, no automatic and compulsory link should be created, through ED 5000, to a single framework like the IESBA Code of Ethics, since other relevant ethical rules are applicable in many countries by specific laws and regulations. Specific consultation will moreover be organised by IESBA on ethical standards which are under drafting and the results of this work should not be preempted by the IAASB.

2. Differences between financial statements and sustainability statements

13. The CEAOB stresses that ED 5000 should describe the specificities of sustainability information in more detail to allow users to understand the nature of sustainability information and the fundamental differences to financial statements, and consequently the impact of those differences on the assurance work required. In particular the following specificities of sustainability information, highlighted hereunder, need to be addressed.

Process

14. Firstly, given the scope and coverage of matters that may need to be reported on through sustainability disclosures, subject to their materiality (and more especially their “double materiality” in a CSRD context), the assessment of this materiality by the preparer of the information is a fundamental aspect of sustainability reporting, and, as a consequence, a fundamental element to be scrutinized during the assurance engagement.
15. This difference to financial reporting is of such importance that ED 5000 should be enhanced to incorporate requirements for the practitioner to specifically scrutinize the entity’s process put in place to define and identify information to be reported following the materiality perspective, which includes stakeholders engagement requirements. In order to be able to assess the completeness and relevance of the information reported, the process put in place by the entity needs to be scrutinized by the practitioner. We understand that the IAASB proposes to integrate some provisions as preconditions for the acceptance of the engagement, but we are of the view that relocating the provisions on the requested work to be performed on the process is needed, to explain how and to what extent the entity’s process needs to be understood and assessed by the practitioners.





- Par A273, A275 of the ED discuss and recognize this process but do not link it to requirements or work expected from the practitioner. This should be done. For example, par A333, describes a list of activities which “may” be relevant to understand the entity’s information processing, that includes in (iii) “*the processes used to prepare the sustainability information*”. The latter should be elevated to a requirement, at least for the key process used to determining material matters to be reported.

Materiality

16. Secondly, the key notion of “materiality” that comes along with the sustainability reporting frameworks (or criteria) has major implications for the assurance approach to be taken, and creates a need to refine the provisions of ED 5000, which are currently based on the concept of an absence of “material misstatements” in the sustainability information. Clarification is needed in the ED to make clear that the “materiality” of a sustainability matter in the context of the reporting (“double materiality” in the CSRD context) is different from the “materiality” of a misstatement of the reported data for assurance purposes (materiality that may be seen as an “acceptable margin of error” in the context of an assurance engagement and the conclusions/opinions expressed). Various explanations are provided in application material of the ED but need to be further linked and/or elevated to requirements.
 - The interrelations between the notions of “double materiality”, “materiality of a misstatement”, “performance materiality” for the engagement, for instance, are not sufficiently explained in the requirements. Provisions are set out in the application material, but the requirements need to be clarified in ED 5000 (e.g. par 91), to define the work and expectations vis à vis the practitioners.
17. More specifically, the provisions to “consider materiality” for narrative disclosures need to be explained (par 91) e.g. by elevating provisions of the application material into the requirement section.
18. Additional direction is needed on how the practitioners should examine specific information which is, in sustainability reporting, of different types and units, compared to monetary amounts, which is the main unit in the financial statements.
19. The clarification needed on the use a performance materiality (ref par 92, A283) might be achieved by elevating application material illustrations into the requirements sections.
20. The fact that each sustainability disclosures/information should be considered as standalone for the assessment of materiality does not appear clearly from the requirements, and how to deal with aggregation is not sufficiently clear either. A revised section on materiality in the ED should provide those enhancements.

Forward looking information

21. More emphasis should be placed, in the requirements, on forward looking information (and the differences between forward looking information and estimates), which is more prominent in sustainability reporting, where entities’ impacts, risks, targets and plans (etc.) are to be disclosed. Requirements for practitioners on the assumptions used by the entity for setting targets or planning and the actions to take when hypothetical assumptions are



influenced by very high levels of uncertainty (for example with respect to climate scenarios and emission reduction targets) need to be enhanced in ED 5000 (ref par 134L).

22. More information on what should be done and when estimates should be assessed are also needed to foster convergence and consistency.

Fraud and « greenwashing »

23. Given the sensitivity, from a user's perspective, of the risk of "greenwashing" in sustainability information (meaning a form of presentation of information that would be intentionally biased, with an objective to persuade the readers of the virtuous behavior of the reporting entity), we would see a benefit in highlighting specifically this risk further in the standard. Given the importance, for the stakeholders, to discourage any "green / eco-washing", additional emphasis would be welcome in application material. We support the fact that the fraud related provisions are integrated in the ED throughout the various steps of the engagement rather than treated as standalone provisions.
24. A specific requirement for practitioners to remain alert to management bias in sustainability reporting (leading to green/eco-washing) and specifying that the risk of bias should be covered by procedures would also help to better meet the expectations. The consequences and actions to be taken if fraud is suspected should be added in the requirements.
25. The requirements with regards to non-compliance with laws and regulations need to be reassessed and strengthened, and communications with authorities should be added in this regard. Otherwise a reference should be added to the fact that legal provisions applicable need to be addressed by the practitioner.
 - For instance, irregularities shall be communicated as per the CSRD to those charged with governance and authorities, when the practitioner suspects or has reasonable grounds to suspect that irregularities, including fraud, may occur or have occurred.

3. Communication between professionals before concluding

Communication to deal with connectivity with financial statements

26. The ED contains limited provisions regarding the communication needed between the practitioners in charge of the assurance on the sustainability information and, when different, the auditors in charge of the statutory audit. This communication is needed to take into account the connectivity between the information provided in the financial statements and in the sustainability statements, to ensure enhanced quality and to avoid inconsistencies and overlaps. The ED should set out requirements for practitioners to communicate on a timely basis and effectively with statutory auditors for sustainability topics that are interrelated and connected to financial statements (unless such a communication would be prohibited by national laws and regulations, due for instance to confidentiality rules).
27. This communication will be needed, in addition, in fulfilling the requirements set out (in par 155) when the financial statements are considered as "other information" for the assurance providers on sustainability reporting. In the same vein, we would like to highlight



that par 11 and par 12 should be clarified and amended, to reflect the needs stemming from the connectivity of the financial statements and the sustainability information, which requires specific communication between practitioners and statutory auditors. Covering financial statements in “other information” (ref par 12 and 154) is not sufficient. Communication should take place before the signature of the respective reports, to avoid inconsistencies between the opinions when a connected topic is at stake. In par 11, the reference to the application of ISAs to financial statements is confusing. Depending on the situation and country, the ISAs are not applicable to the audits of financial statements. The ED should thus be amended and clarified, so that it can also be used in countries where ISAs do not apply to financial statements audits.

Communication to deal with joint assurance

28. The ED should also recognize situations where several practitioners are in charge jointly of the engagement for assurance, or where various professionals with diverse areas of technical specialization are involved for the assurance engagement.

Communication to deal with incorporation by reference

29. Apart from information that would be used in the financial statements and in the sustainability statements, specific provisions are also needed in ED 5000 to deal with situations where the information covered by the sustainability reporting under the scope of the assurance is located in other documents or statements outside the main “statements” (ie. outside the specific section of the management report in the CSRD context). This information, so called “incorporated by reference”, might be located in specific documents which are also in the scope of other assurance engagements. In this situation, appropriate communication between the different assurance providers is needed to avoid overlap and allow for coordination of assessment of the information. Such a communication should be mandated by the standard. Such a provision would also make clear that the responsibility for the assessment of the information will not fall outside of the scope of assurance on sustainability statements. The fact that the information is incorporated by reference does not reduce the responsibility of the engagement leader.

Communication to deal with consolidated sustainability information

30. The adaptation of the approach to consolidation of information stemming from different entities, or to capturing information from the value chain is also limited to some application material in the ED. Communication between various assurance providers should be required in this context, depending on the structure of the groups, when various assurance providers are engaged in entities for which the information is consolidated or compiled, unless prohibited by laws and regulations.

4. Digital format of the sustainability information

31. Given the growing demand for digital (machine readable) data to allow for processing, comparing and analysing the information disclosed, and given the diverse nature of types of information provided in sustainability reporting, there is a clear need to add requirements and direction in the standard for the assurance services providers to deal with the specificities of assurance on information provided in a digital format.





5. Reporting

32. We draw the IAASB's attention to the fact that the CSRD requires specific reporting provisions for conclusions and we note the fact that specific wording (ie. different from ED 5000 provisions) might be required by law is recognized in par 176.
33. We highlight the fact that the provisions of par 170 and 171 (and 182) of the ED should not all be compulsory. The report should be useful, concise and responsive to the needs of users. Lengthy descriptions of responsibilities for the preparation of sustainability reporting (par 170 f) and of the practitioners responsibilities (par 170 h) makes the report overly long and do not prove to be very useful for the readers. It dilutes the focus to the main conclusions which are relevant for the users. As such, we ask the IAASB to limit, by being more concise, those descriptions and to include the option that the descriptions could be referenced to where this information may be found, outside the assurance reports. This generic and standardized information may be accessible to the public by other means than through the report itself.

6. Compliance with specific provisions for reporting stemming from article 8 of taxonomy regulation

34. According to the CSRD, the assurance services providers are in charge of an opinion that covers specifically information to facilitate sustainable investment required according to article 8 of the taxonomy regulation (2020/852). The specificity of this information and the request for verification are not covered currently by the ED.
35. Given the strong linkage of the sustainability related information defined by the taxonomy regulation with the financial statements, specific communication between assurance services providers and statutory auditors will be here again needed, on those topics in particular, and the specificity of materiality levels will also need to be addressed to respond fully to the requirements of the CSRD.

7. Adaptation to the sustainability reporting framework

36. The fact that the IAASB developed ED 5000 as a "reporting framework neutral" standard allows for a broad scope of application.
 - However, without this being a request to any changes, we note that, in the CSRD context, various ED provisions might be simplified since the reporting framework is imposed and the scope of the engagement defined by law (ref e.g. preconditions (par 71, 72, 74), these provisions might be relevant in the absence of legal requirement(s) for the use of a comprehensive framework or criteria (like ESRS). However, evaluation of the criteria will not be relevant in a CSRD context and those provisions would only create confusion and extra burden. The paragraphs should start with "*unless the matters/criteria are legally defined, (...)*".)



8. Clarity - enforceability

37. Regulators and oversight bodies are in charge of enforcement of the provisions of the standards that are applicable. In this regard, it is important to make sure the standards are clear, well understood and capable of being applied consistently. In this context, we highlight in the **appendix** hereafter various examples of issues identified with the ED. Some of them have also been identified in ISAs that have been used by the IAASB as a basis to develop this ED 5000, and may already have been raised with the IAASB in other CEAOB responses to exposure drafts on the ISAs or their revision.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Sub-group should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent
Chairman

APPENDIX – ADDITIONAL EXAMPLES OF ISSUES ON THE INTRODUCTION AND REQUIREMENTS SECTION OF THE ED 5000

- Par 2 and 8 are not clear as regard to a “separate conclusion” on GHG statements and when ISAE 3410 is supposed to be applied. IAASB should define what a separate GHG statement is and how the practitioner determines which standard is applicable to GHG disclosures.
- Par 9 reference to non-authoritative IAASB or IFAC material like International Framework for Assurance Engagements also create a further complexity and may drive unintended consequences. This reference needs to be deleted.
- Par 17 definitions
 - (a) analytical procedure – we stress that the reference to “significant amount” might not be interpreted consistently. Further application material would be helpful.
 - (c) assertions – the terms “as used by” the practitioner makes the definition unclear. Rather mention that the practitioner will refer to assertions in risk assessment or procedures.
 - (d) assurance engagement – the definitions of reasonable and limited assurance engagement need to be clarified as they do not provide clarity on what is expected from practitioners.
 - (f) attestation engagement – As this definition is used in paragraph 9 only, it should be deleted and clarification added to paragraph 9 as noted in our comment above.
 - (q) entity – we understand the IAASB intention, but defining “entity” by a “portion of entity” seems rather confusing. Simplification will be possible in a CSR context, where the scope of the reporting is defined by law and ESRS.
 - (r) evidence – information should not be disregarded even if no procedures have been applied to it (see CEAOB comments on ISA500 ED Including request to delete reference to “on which procedures have been applied” to be avoided).
 - (u) further procedures - the terminology “in response to disclosures” is not sufficiently clear. Should be replaced by “on disclosures or in response to assessed risks of material misstatements”.
 - (w) intended users – are defined by the practitioner’s expectations, which makes it a question depending from him and a circular definition – delete the reference to the practitioner here.
 - (cc) network – clarify that are the conditions in (ii) are not cumulative but standalone by the use of “and/or” before each item in par (ii).



- (aa) “Material” (misstatement) is not defined – confusion possible between (double) materiality of information provided by the entity and the margin of acceptable error by the practitioner. Par A417 provides indications that could be used as a basis for this definition.
- (ee) Other information – is defined as “Information included in documents containing sustainability information subject to assurance”. This may not cover financial statements, which are not necessarily in the management report where the sustainability information is located. (see also par 12)
- (vv) sustainability matters – the IAASB should explain in ISSA 5000 that “governance” matters are included in this definition to make sure ESG (Environment Social Governance) and human rights are fully covered. In the last paragraph of this definition, the link with other IAASB pronouncements could be avoided or alternatively this explanation should be moved to the application material.
- (ww) system of internal control – the IAASB should avoid the term “reasonable assurance” in this definition since it may cause confusion. A different wording could be chosen.
- Par 22 and 23 - the “exceptional departure” allowance from the requirements the standard stems from the ISAs (ISA 200), and has been highlighted by the CEAOB as an area that weakens the enforceability of the provisions. This provision should be deleted or a mechanism to ensure that there is no mis-use of this provision added.
- Par 42 is difficult to read since similar language is used – While the intention is fine, the wording of the paragraph could be enhanced.
- Par 62 - Additional clarity is needed on “significant matters to be communicated” to “others”, which may be seen as a very broad requirement with no real target. Specificity should be added here.
- Par 65 - the wording “documentation shall also include discussion” is unclear and creates a problem for enforceability. ISSA 5000 should state that a written record of the topics discussed and conclusion reached is required.
- Evidence : For all the provisions on audit evidence, please refer to the recent CEAOB comment letter in response to the IAASB ED ISA 500 “Audit Evidence”: the comments are applicable as well to this ED 5000.
- Par 85 - a requirement to review and evaluate the appropriateness of the management expert’s work should be added. Requirement should be strengthened and should require the practitioner to understand the key method, assumptions and underlying information used by the management’s expert (ref par A252).
- Par 94 - the difference for risk procedures between limited and reasonable is not fully clear.
- Par 109L and 109R are unclear and the limits/differences between understand and evaluate / consider and determine are not explained. “consider” should be replaced by



stronger language such as “assess” to ensure it is clear that the practitioner is required to perform this work.

- Par 134L is not clear on when procedures responding to risks of material misstatement are relevant and required. Aspects of application material might be included here.
- Par 127R - “Irrespective of the assessed risks of material misstatement, the practitioner shall consider the need to design and perform substantive procedures for disclosures that, in the practitioner’s judgment, are important to the information needs of intended users.” (ref: par A376R). This paragraph also needs to be explained, and linked to the various “materiality” aspects of sustainability reporting.