

## **Responses to proposed ISSA 5000, general requirements for sustainability assurance engagements**

Dear Sir or Madam,

We welcome the opportunity to comment on proposed ISSA 5000. We are supportive of IAASB's efforts in developing ED-5000 and we believe that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of the explanatory memorandum to provide a global baseline for sustainability assurance engagements. We suggest that IAASB consider the following aspects during subsequent drafting process to provide further clarification and guidance for practitioners.

### **1. Limited assurance and reasonable assurance**

We recommend that IAASB conduct a comprehensive and in-depth study of the differences between reasonable assurance and limited assurance to ensure that requirements related to reasonable assurance and limited assurance in ISSA 5000 have reasonable theoretical basis, and are more detailed, specific and operational, and to maintain consistency across all the standards developed by IAASB.

#### **(a) Further study which types of information are appropriate for reasonable assurance engagement and which types of information are more appropriate for limited assurance engagement.**

As ED-5000 paragraph 71 mentions, the practitioner shall evaluate whether the sustainability matters within the scope of the engagement are appropriate. In doing so, the practitioner shall consider whether those sustainability matters are identifiable and capable of consistent measurement or evaluation against the applicable criteria, such that the resulting sustainability information can be subjected to procedures for obtaining sufficient appropriate evidence. Paragraph A164 further explains that whether the sustainability matters within the scope of the engagement are appropriate is not affected by the level of assurance, that is, if a sustainability matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa.

However, provided that the sustainability matters are appropriate, due to the inherent limitations of certain sustainability matters, the procedures that can be performed by the practitioner may be limited, and it may be difficult for the practitioner to obtain sufficient appropriate evidence to provide reasonable assurance. Taking these factors into consideration, limited assurance may be appropriate for such sustainability matters at this stage. This situation seems to contradict with paragraph A164 that whether the sustainability matters are appropriate is not affected by the level of assurance.

Given the diversity and complexity of sustainability matters, we recommend that IAASB further review sustainability matters and sustainability information, and illustrate, through examples, the circumstances when sustainability matters may be inappropriate, and which types of information are appropriate for reasonable assurance engagement and which types of information are more appropriate for limited assurance engagement. For instance, paragraph A154 mentions that there can be limited assurance on disclosures about risks and opportunities related to the social topic, and reasonable assurance on the process to prepare the disclosures related to the social topic. Practitioners could benefit from such specific guidance and

examples, minimizing the expectation gap between intended users and practitioners concerning the level of assurance. In this regard, we would like to take two types of information as examples.

(i) Forward-looking information. For prospective financial information, ISAE 3400<sup>1</sup> explains that when reporting on the reasonableness of management's assumptions the auditor provides only a moderate level of assurance, which seems to contradict with the statement that the appropriateness of an underlying subject matter is not affected by the level of assurance. At the same time, ISAE3400 explains that the auditor shall express an opinion on as to whether the prospective financial information is properly prepared on the basis of the assumptions, and is not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved. However, in ISA540(revised)<sup>2</sup>, when it comes to the reasonableness of accounting estimates, the auditor is explicitly required to determine whether the accounting estimates, including forward-looking information are reasonable.

As sustainability information involves a large amount of forward-looking information, we recommend that IAASB further clarify the level of assurance can be provided by the practitioner on forward-looking information while conducting sustainability assurance, whether the practitioner should provide limited assurance on the reasonableness of assumptions referring to ISAE3400.

(ii) Scope 3 greenhouse gas (GHG) emissions. Due to the weak basis and heavy workload of quantifying scope 3 GHG emissions, the completeness and quality of data collected by the entity may be limited at this stage. For the practitioner, procedures performed and evidence obtained on scope 3 GHG emissions may also be limited, particularly for scope 3 GHG emissions related to upstream or downstream entities in the value chain. We recommend further clarifying how the practitioner should express a conclusion on scope 3 GHG emissions, should the practitioner regard this situation as a scope limitation, or may accept the engagement as a limited assurance engagement.

**(b) Provide more guidance on procedures for limited assurance and reasonable assurance.**

ED-5000 has developed requirements that apply to only limited assurance or reasonable assurance engagement, as well as requirements apply to both limited and reasonable engagements but in a differential manner. However, these requirements are principle-based. It can be a challenge for the practitioner to understand and apply these requirements consistently in practice. We recommend further explaining the differences in procedures for limited assurance and reasonable assurance and providing more guidance on the extent of those procedures needed.

Take risk procedures as an example. ED-5000 requires 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 required for a reasonable assurance engagement. We recommend further explaining the following aspect.

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<sup>1</sup> ISAE 3400 , the Examination of Prospective Financial Information

<sup>2</sup> ISA540(revised) , Auditing Accounting Estimates and Related Disclosures

(i) Why ED-5000 differentiates the requirements for limited assurance and reasonable assurance related to risk procedures, while ISAE 3410<sup>3</sup>, requires the identification and assessment of the risk of material misstatement for both limited assurance and reasonable assurance.

(ii) What are the specific differences between procedures of which the nature, timing and extent are focused on the disclosures where material misstatements are likely to arise, and procedures responsive to the assessed risks of material misstatement at the assertion level?

(iii) Which kind of disclosures are disclosures where material misstatements are likely to arise, and whether "likely" refers to a lower threshold?

(iv) What procedures does the practitioner need to perform to identify disclosures where material misstatements are likely to arise?

**(c) Provide more guidance on whether other procedures may be different between a limited assurance and a reasonable assurance.**

In addition to the requirements with “signposting” in ED-5000, other procedures apply to both limited assurance and reasonable assurance engagements, according to ED-5000. We’re concerned that the work effort of other procedures may also be different for limited assurance and reasonable assurance, such as performance materiality, obtaining evidence about the accuracy and completeness of information, evaluating the work performed by a management’s expert, and using the work of a practitioner’s external expert and another practitioner.

We recommend further considering that whether the nature, timing and extent of other procedures are different between reasonable assurance and limited assurance engagements and providing further examples about the differences of the procedures, if any, so that practitioners and intended users of assurance reports can understand the differences more clearly.

Take performance materiality as an example. Paragraph 92 requires that for quantitative disclosures, the practitioner shall determine performance materiality as applicable in the circumstances. We recommend further clarification on the following issues:

(i) Why the practitioner shall determine performance materiality for quantitative disclosures, while neither ISAE 3000 (Revised)<sup>4</sup>, nor ISRE 2400 (Revised)<sup>5</sup>, mention the need for determining performance materiality.

(ii) As limited assurance and reasonable assurance provide different level of assurance, and performance materiality is often used to determine the nature, timing and extent of further procedures, whether limited assurance and reasonable assurance should have different performance materiality.

(iii) How to determine performance materiality for limited assurance and reasonable assurance respectively.

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<sup>3</sup> ISAE 3410 , Assurance Engagements on Greenhouse Gas Statements

<sup>4</sup> ISAE 3000 (Revised) , Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

<sup>5</sup> ISRE 2400 (Revised) , Engagements to Review Historical Financial Statements

**(d) Further study whether there is any difference between the level of reasonable assurance in different engagement.**

To obtain reasonable assurance, the auditor shall obtain sufficient appropriate evidence to reduce risk to an acceptably low level in the circumstances of the engagement. We recommend that IAASB further study whether there is any difference between the level of reasonable assurance in different circumstances of the engagement. For example, whether the level of reasonable assurance obtained for an audit of a less complex entity is different from that obtained for an audit of a public interest entity.

**2. Relationship between ISAE 3410 and ISSA 5000**

Paragraph 2 of ED-5000 indicates that ED-5000 applies to all assurance engagements on sustainability information, except when the practitioner is providing a separate conclusion on a greenhouse gas (GHG) statement, in which case ISAE 3410 applies. We agree, in principle, that the scope and applicability of ED-5000 is clear. However, we believe there remains confusion over the application of ISAE 3410 in certain circumstances. Because the approach in paragraph 2 means that for the same information, when a practitioner provides a separate conclusion on a GHG statement or does not provide a separate conclusion, the practitioner has to apply different standard. We are concerned that this requirement will increase the complexity of understanding and conducting sustainability assurance engagement.

Besides, differences between requirements of ISAE3410 and ED-5000 will make it more complex for the practitioner to understand and implement in practice. For example, as mentioned above, for limited assurance, the practitioner is required to design and perform risk procedures sufficient to identify disclosures where material misstatements are likely to arise under ED-5000, but the practitioner shall identify and assess risks of material misstatement at GHG statement level under ISAE 3410. Such inconsistent requirement may create additional challenge for practical understanding and implementation. We suggest that more detailed explanation be given on the reason why there are inconsistency between requirements of ISAE3410 and ED-5000.

As ISSA 5000 has been developed to allow its application to reporting on all sustainability topics and aspects of topics and the practitioner is not required to apply ISAE 3000 (Revised), we recommend that IAASB consider revising ISAE3410 to make ISAE3410 a separate ISSA standard to provide detailed and specific requirements for greenhouse gas information while ensuring the clarity and consistency in the application of the standards.

**3. Provide more detailed guidance on significant areas of assurance**

We agree with the objective that ISSA 5000 is an overarching standard that includes requirements and application material for all elements of a sustainability assurance engagement and the practitioner is not required to apply ISAE 3000 (Revised). And we agree with the approach that identifying relevant definitions, requirements and application material from ISAE 3000 (Revised), ISAE 3410, ISAs as well as the EER Guidance. It seems that it is not too hard to understand the concept of ED-5000. But practitioners may still feel confused on how to conduct sustainability assurance engagements consistently and properly in compliance with ISSA 5000 in practice, because of the lack of more specific requirements and guidance that are direct at sustainability assurance. We propose that more detailed guidance be provided on

important procedures in the context of sustainability assurance, especially on the following significant areas.

#### **(a) Estimates and forward-looking information**

ED-5000 addresses estimates and forward-looking information together. Estimates and forward-looking disclosures share similar characteristics, but there are also differences. For example, while estimates tend to make judgments based on predictive information, they are still essentially historical information. Estimates may be subject to more established criteria or measurement methods e.g., framework criteria; forward-looking information, by contrast, may be more subject to entity-developed criteria or approaches, and may involve using third-party information that are beyond the control of the reporting entity. We recommend conducting an in-depth study and providing further examples on following aspects:

(i) Whether there is any difference in procedures for estimates and forward-looking information;

(ii) The auditor provides reasonable assurance on accounting estimates in an audit of financial statements, including accounting estimates such as expected credit losses, which are complex and involve substantial predictive information. When it turns to sustainability assurance, the estimates and forward-looking information involved in sustainability information will be more complex than those in financial information. We recommend further explaining the difference between forward-looking information in financial information and sustainability information, the difference between procedures for forward-looking information in financial information and sustainability information, as well as whether the practitioner can obtain the same level of assurance as conducting an audit of financial statements while conducting a sustainability assurance engagement.

#### **(b) Materiality**

We agree that materiality is affected by the practitioner's perception of the common information needs of intended users as a group and is considered or determined for different disclosures. However, in practice, the consideration or determination require a lot of professional judgment to be made by the practitioner. Further, the disclosures of sustainability assurance are more complex and diverse than that of financial statement auditing, which makes it more difficult for the practitioner to determine or consider materiality.

We recommend providing more detailed examples or explanations on how to consider materiality for qualitative disclosures, and determine materiality and performance materiality for quantitative disclosures, especially for those complicated disclosures such as forward-looking information, Scope 3 GHG emissions. We also recommend that IAASB consider developing a separate ISSA with regard to materiality to include more detailed guidance for practitioners.

#### **(c) Using the work of a practitioner's external expert**

In an audit of financial statement, if the auditor uses the work of an auditor's expert followed ISA 620 (that is, if the auditor has evaluated whether the auditor's expert has the necessary competence, capabilities, obtained a sufficient understanding of the field of expertise of the

auditor's expert as well as evaluated the adequacy of the auditor's expert's work for the auditor's purposes), the auditor can be exempt from liability for the work of auditor's expert.

In sustainability assurance, due to the complexity and diversity of sustainability information, using the work of a practitioner's external expert can be more common and complicated. We recommend providing clearer guidance on the responsibility distinction regarding using the work of a practitioner's external expert.

#### **(d) Using the work of another practitioner**

For larger and more complex sustainability assurance engagement, the practitioner may have difficulties in using the work of another practitioner, especially with respect to information reported by the entity that originated outside of the entity's organizational boundary and assured by another practitioner. Difficulties may include, for example, whether the practitioner from that value chain entity can be able to interact with multiple practitioners across the entire value chain; how the practitioner can reasonably evaluate the independence of another practitioner of another entity outside of the entity's organizational boundary, for example significantly down the value chain; what level of information and access can reasonably be expected to be obtained to determine whether the other practitioner's work is adequate for the practitioner's purposes. We recommend providing clearer guidance on the key issues of using the work of another practitioner.

#### **(e) Other information**

With respect to circumstances when documents containing the sustainability information subject to the assurance engagement and the assurance report include other information, due to the following factors, requiring the assurance report to identifying the other information and describing the practitioner's responsibilities in relation to such other information may be a challenge for the practitioner.

(i) The practitioner may not have undertaken other engagements for the entity, for example the financial statement audit or other assurance engagement;

(ii) Sustainability reporting is still evolving, and what may or may not be reported alongside the sustainability information subject to assurance is also likely to vary depending on the industry, jurisdictional established practice;

(iii) The degree to which sustainability information is relevant to other information, the degree of interconnectedness and cross-verified, as well as its importance in the overall annual report, differ greatly.

And there is a risk of an expectations gap, as users are likely to infer a consistent level of work across all practitioners with respect to any other information reported alongside the sustainability information subject to assurance.

We recommend that ISSA5000 consider limit the procedures on other information to the extant ISAE 3000 (Revised) requirement at this time.

### **4. Provide more guidance on key issues of sustainability disclosure standard**

We agree with the objective that ISSA 5000 can be applied for any suitable criteria. However, as sustainability information has many characteristics different from financial information, and there are many complicated areas require judgment in sustainability disclosure standard, we recommend that IAASB consider providing more targeted guidance on key issues of specific disclosure standards (e.g. IFRS Sustainability Disclosure Standards, and European Sustainability Reporting Standards) to help practitioners better understand and apply the requirements of ISSA 5000.

#### **(a) Materiality process**

ED-5000 includes requirements, at paragraphs 69 and 70, for the practitioner to obtain a preliminary knowledge of the sustainability information expected to be reported, and to evaluate whether management has a reasonable basis for the sustainability information, with related application material at paragraph A156 discussing the practitioner's consideration as to whether the topics and aspects of topics to be reported, and the reporting boundaries, have been or will be determined by management through an appropriate process, when applicable. However, it is unclear, whether the practitioner's more detailed understanding of the entity's materiality process, beyond the initial preliminary understanding, should be obtained. It may be implicit in the requirements in paragraphs 94-99, together with the required understanding of the components of the system of internal control, but it is not sufficiently clear.

While applying the requirements to the sustainability information prepared in accordance with a specific disclosure standard, the practitioner may feel confused. Take IFRS S1<sup>6</sup> as an example. IFRS S1 requires an entity to identify sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and disclose material information about the sustainability-related risks and opportunities. The processes of identifying sustainability-related risks and opportunities, as well as material information involve a great deal of judgment. It is not clear the extent to which the practitioner should understand of the entity's materiality process and whether further procedure needed.

We suggest relevant requirement could be expanded to create a more logical follow on from the preliminary understanding requirement, and further explain the extent to which the practitioner need to understand of the entity's materiality process, what procedures should be performed, and what the practitioner should do if they identify material information that management has not identified or disclosed.

#### **(b) Scenario analysis**

IFRS S2<sup>7</sup> requires an entity to use climate-related scenario analysis to assess its climate resilience, using an approach that is commensurate with its circumstances. Scenario analysis is a complicated technical problem in IFRS S2, which also involves a lot of judgment. We recommend providing more targeted guidance on the procedures that may be appropriate for scenario analysis.

#### **(c) Qualitative information**

There is a lot of qualitative information contained within sustainability information across various sustainability topics and aspects of topics. It remains to be further reviewed in practice

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<sup>6</sup> IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

<sup>7</sup> IFRS S2 Climate-related Disclosures

whether qualitative information is verifiable and the extent to which qualitative information meets the information needs of the intended users. The practitioner may also face challenges when performing procedures on qualitative information. We recommend providing further guidance on how to perform procedures on qualitative information and level of assurance that may be appropriate in the circumstances.

**(d) The exemption in disclosure standards**

Sustainability disclosure standard may set out exemption or transition reliefs for entities applying the standards. For instance, IFRS S1 indicates that if an entity determines that information about a sustainability-related opportunity is commercially sensitive, the entity is permitted to omit that information from its sustainability-related financial disclosures; for the first year they use the ISSB Standards, companies need not disclose Scope 3 GHG emissions. The application of exemption or reliefs can be subjective. We suggest that providing further guidance on how the practitioner determine or consider whether such exemption applies.

**(e) The completeness of disclosure**

At present, sustainability disclosures standards are still evolving. Take IFRS Sustainability Disclosure Standards as an example, International Sustainability Standards Board (ISSB) has published only one standard on climate-related disclosures. And for the first year using the ISSB Standards, the entity need not provide disclosures about sustainability-related risks and opportunities beyond climate-related information.

Before the disclosure standards are complete, there may be great practical challenge in determining whether the information disclosed by the entity is complete and whether the scope of information disclosed is appropriate. We suggest providing more guidance on how the practitioner determines the completeness of information and the appropriateness of the scope of disclosure when relevant disclosure standards are not yet established.

We would be pleased to discuss in further detail our comments and any other matters with respect to this response.

Staff of Professional Standards Department of CICPA