Assurance on Sustainability / Environmental Social and Governance (ESG) Reporting: Update on IAASB Activities

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IAASB CAG Meeting
March 8–9, 2022
A Global Movement Driving a Need for Assurance Standards

- Increased demand of sustainability / ESG reporting from investors, regulators, non-governmental organizations (NGOs)
- A shift from voluntary reporting to mandatory reporting
- Increasing demand for assurance on sustainability / ESG reporting
  Engagements being performed by a mix of audit-affiliated firms and other firms
- Risk of fragmentation of the assurance standards (e.g., other standards include ISO 14016:2020 and AA1000)

IAASB actions focused on assurance on sustainability / ESG reporting
Clarify the Scope of the IAASB’s Work

<table>
<thead>
<tr>
<th>Topics</th>
<th>Information Disclosed About the Topics</th>
<th>Mechanism for Reporting (the Collation and Presentation of the Subject Matter Information)</th>
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</thead>
</table>
| Climate, including emissions | Depending on the criteria, information about the topics may relate to elements such as:  
  - Governance  
  - Strategy and business model  
  - Risks and opportunities  
  - Risk management or mitigation  
  - Innovation to address risks and opportunities  
  - Metrics and key performance indicators  
  - Targets  
  - Internal control over monitoring and managing risk  
  - Scenario analysis  
  - Impact analysis, including magnitude of impact |  
  - Integrated report  
  - Sustainability report  
  - CSR Report  
  - ESG Report  
  - Annual report  
  - Management commentary related to the financial statements |
| Economic impacts, such as government assistance, tax strategy, anti-competitive behavior and market presence |  |  |
| Labor practices, such as diversity and equal opportunity and training and education |  |  |
| Human rights and community relations, such as local community engagement, impact assessments and development programs |  |  |
| Water and effluents, such as water consumption and water discharge |  |  |
| Energy, such as type of energy and consumption |  |  |
| Biodiversity, such as impacts on biodiversity or habitats protected and restored |  |  |
Clarify the Scope of the IAASB’s Work (Continued)

- Variety of topics, information disclosed about the topics, and mechanism for reporting
- Variety of reporting frameworks, standards, recommendations, or laws or regulations (criteria)

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<th>Mechanism for reporting</th>
<th>Reporting standards</th>
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Should the IAASB focus on assurance on sustainability / ESG reporting more broadly, encapsulating all the above within the scope of its work?

IAASB question March 2022
Identify / Understand the Challenges

• Current standards and guidance issued by the IAASB that deal with assurance
  o Standards: ISAE 3000 (Revised), ISAE 3410
  o EER Guidance – issued in April 2021

What are the challenges?
(across the variety of topics / information disclosed about the topics / mechanisms / reporting standards)

• Applying appropriate competence and capabilities
• Exercising professional skepticism and professional judgment
• Determining preconditions and agreeing the scope of the EER assurance engagement
• Considering the entity's process to identify reporting topics
• Determining the suitability and availability of criteria
• Considering the process used to prepare, or internal control over the preparation of, the subject matter information
• Using assertions
• Obtaining evidence
• Considering the materiality of misstatements
• Addressing qualitative EER information
• Addressing future-oriented EER information
• Communicating effectively in the assurance report
Focusing the IAASB’s Actions

For each challenge:
Is it addressed in ISAE 3000 (Revised)?

Yes

Possible further action could be guidance

No

For each challenge:
Is it addressed in the EER Guidance?

Yes

Should the EER Guidance be incorporated into the IAASB Standards?

No

Yes

Should it be addressed through Standard setting actions?

No

No further action

Yes

Should it be addressed:
(a) In a subject-matter specific ISAE; or
(b) As targeted revisions to ISAE 3000 (Revised) that apply to all assurance engagements?

Yes

No

Should it be addressed through guidance, either expanding the EER Guidance or developing new guidance?

No
Other Considerations for the IAASB in March 2022

• Integration of sustainability / ESG information within the financial statements
• Approach to soliciting stakeholder input on the IAASB’s work regarding assurance on sustainability / ESG reporting
Timeline and Way Forward

Establish Sustainability Assurance Consultation Group (SACG) – work will involve information gathering / research

Direction from the IAASB

- Discuss advanced thinking / proposals with IAASB
- Possible project proposal
- December 2021
- March 2022
- September 2022
- December 2022

Note: These are current targeted milestones and may change as the work in this area progresses.

Ongoing work:
- Extensive outreach
- Review academic research
- NSS Relevant materials
- Formulate proposals for IAASB action
Questions or Comments?