

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

Meeting Dates: March 8–9, 2022

Agenda Item

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Assurance on Sustainability / Environmental Social and Governance (ESG) Reporting – Cover

Objective of Agenda Item

1. The objective of this agenda item is to update Representatives on the IAASB's activities regarding assurance on sustainability / ESG reporting.

Background

2. Globally, there is increasing demand from a broad range of stakeholders for organizations to provide transparency about their sustainability, including ESG matters. There is also a global trend whereby organizations are shifting from voluntary reporting to reporting in accordance with requirements mandated by jurisdictions. Sustainability matters may indicate how an organization has impacted the environment, people, and economy (and vice versa). These matters may also impact financial reporting, for example, asset impairments or restructuring efforts necessary to mitigate climate risk. Sustainability matters may also affect the organization's value, and therefore is receiving increased attention from investors, policymakers, and other capital market participants.
3. As organizations expand their reporting on sustainability matters, stakeholders are increasingly demanding assurance on this information, which is driving a call for globally accepted sustainability / ESG assurance standards that can be used by all assurance professionals. While the IAASB has standards and guidance¹ that already deal with this topic more broadly and are widely used, the IAASB strategic focus needs to be on:
 - (a) Being the globally recognized standard-setter for assurance on sustainability / ESG reporting.

¹ The IAASB has standards and guidance that already deal with this topic more broadly, including:

- ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*;
- ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*;
- Non-authoritative guidance on sustainability and other extended external reporting assurance engagements (EER Guidance) issued in April 2021, comprising:
 - [Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Sustainability and Other Extended External Reporting Assurance Engagements](#);
 - [Non-Authoritative Support Material: Extended-Credibility and Trust Model relating to Sustainability and other Extended External Reporting \(EER\)](#);
 - [Non-Authoritative Support Material: Illustrative Examples of Selected Aspects of Sustainability and Other Extended External Reporting \(EER\) Assurance Engagements](#); and
- The Staff Audit Practice Alert, [The Consideration of Climate-Related Risks in an Audit of Financial Statements](#), issued in October 2020.

- (b) Focused actions to respond to global needs for specific assurance standards on sustainability / ESG reporting, which build upon existing IAASB Standards and guidance in a priority manner.

The Activities of the SACG / IAASB

4. In December 2021, the IAASB approved the [Work Plan for 2022-2023](#), pending approval by the Public Interest Oversight Board. The Work Plan indicates a commitment to a workstream on assurance on non-financial information. As a result, in December 2021, the IAASB established the Sustainability Assurance Consultation Group (SACG)² to provide input and support to Staff and the IAASB in determining how the IAASB should respond to developments in sustainability / ESG reporting. Since the constitution of the SACG in December 2021, the SACG has held three calls.
5. In addition, in recent months, many key stakeholders have engaged with the leadership of the IAASB to discuss actions the IAASB is taking to address the assurance demand on sustainability / ESG reporting. Such stakeholders include the International Sustainability Standards Board (ISSB), Climate Accounting Project (which is supported by the United Nations (UN) sponsored Principles for Responsible Investment), the Financial Stability Board, the International Organization of Securities Commissions (IOSCO), the European Commission, the Committee of European Auditing Oversight Bodies, the Center for Audit Quality, the Global Public Policy Committee's (GPPC) ECG Committee, and the International Accounting Standards Board (IASB).
6. In March 2022, the IAASB will be discussing assurance on sustainability / ESG reporting. The objective of the discussion with the IAASB is to obtain the IAASB's feedback on various considerations regarding assurance on sustainability / ESG reporting, which will inform the IAASB's further actions and a possible project proposal. In particular, the SACG is seeking the IAASB's views on the following:
 - (a) The topics (underlying subject matter), nature of information about the topics (subject matter information), mechanism for reporting (reports), and reporting standards (criteria) within the scope of the IAASB's work.
 - (b) The IAASB remaining neutral regarding intended users of any IAASB work product (recognizing the broad spectrum of users of sustainability / ESG reporting).
 - (c) The challenges in performing assurance engagements on sustainability / ESG reporting, and the urgency and priority of each challenge.
 - (d) The actions the IAASB should take in addressing assurance on sustainability / ESG reporting.
 - (e) The integration of sustainability / ESG information within the financial statements, including gathering observations about the prevalence of such integration, challenges and complexities

² The composition of the SACG is as follows:

- (a) Lyn Provost (Chair);
- (b) Wolfgang Böhm;
- (c) Diane Larsen;
- (d) Warren Maroun; and
- (e) Isabelle Tracq-Sengeissen.

this creates for the audit of financial statements, how auditors are currently dealing with such integration, and whether IAASB action in this regard is needed.

- (f) The outreach and information-gathering the IAASB should undertake to solicit input from stakeholders.
- 7. The SACG plans to bring more advanced thinking and proposals to the IAASB in September 2022 and is targeting the approval of a project proposal in December 2022. The timing is indicative at this stage, since much will depend on the specific issues and approach that the IAASB may wish to prioritize, including the nature and extent of the ultimate deliverable(s), IAASB and staff capacity, and other priorities on the work plan.
- 8. In developing the proposals for September 2022, there are several activities the SACG is planning to undertake including extensive outreach and analyzing academic research.

IAASB CAG Discussion in March 2022

- 9. The IAASB CAG discussion in March 2022 will involve an update from the SACG Chair on the IAASB's work regarding assurance on Sustainability / ESG reporting. The accompanying presentation that will be used by the SACG Chair is included in **Agenda Item G.1**.

Material Presented – IAASB CAG Papers

Agenda Item G.1 Presentation

Agenda Item G.2 Agenda Item 6 of the IAASB March 2022 Meeting: [Assurance on Sustainability / Environmental, Social and Governance \(ESG\) Reporting: Request for IAASB Input as a Basis for Formulating Recommendations for Future Action](#)

Appendix A

Project Details and History

Link to IAASB [Project Page](#)

Summary of Discussions

	IAASB CAG Meeting	IAASB Meeting
Preliminary discussions, information gathering and the development of the Sustainability Workstream Plan	March 2022	March 2022

IAASB CAG Discussions: Detailed References

Preliminary discussions, information gathering and the development of Audit Evidence Workstream Plan	<u>March 2022</u> See IAASB CAG meeting material (Agenda Item G): https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-march-8-9-2022
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