Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

November 27, 2023

Submitted electronically

International Auditing and Assurance Standards Board
Mr. Thomas Seidenstein (Chair)

Dear Mr. Seidenstein,

Response to the International Auditing and Assurance Standards Board's (IAASB) Proposed International Standard on Sustainability Assurance (ISSA) 5000 General Requirements for Sustainability Assurance Engagements

The Canadian Public Accountability Board (CPAB) is Canada's independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. CPAB is committed to promoting high quality, independent auditing that contributes to public confidence in the integrity of financial reporting.

CPAB is a member of the International Forum of Independent Audit Regulators (IFIAR) and was a contributor to IFIAR's written response to proposed standard ISSA 5000. The purpose of our individual comment letter is to emphasize specific points we feel are most important in a Canadian context.

Overall comments

CPAB is supportive of the ongoing work of the IAASB to deliver a profession-agnostic standard for sustainability assurance engagements. Sustainability reporting continues to evolve rapidly, and we expect demand for sustainability assurance engagements will only increase.

Consistent, high-quality performance of sustainability assurance engagements requires standards that are clearly understood and can be applied by a wide range of assurance practitioners. There are sections and topics within the proposed standard that would benefit from greater precision and clarity for practitioners and users of the reports. These include materiality, fraud and management bias, reporting to those charged with governance and the distinction of work required for limited assurance versus reasonable assurance engagements.

Consistent application of the proposed standard

Historically, the accounting profession has taken a principles-based approach to standard setting. While appropriate in a number of instances, this also increases the risk of inconsistent application. There are examples where the profession has concluded that a principles-based approach alone is not sufficient, including sections of International Standards on Auditing (ISA) 501, Audit Evidence – *Specific Considerations for Selected Items* and ISA 505, *External Confirmations*. Given the inherent complexities associated with sustainability reporting and the range of practitioners expected to apply the proposed standard, the areas of materiality, fraud and reporting to those charged with governance would benefit from more specific requirements and expanded application guidance.

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The proposed standard uses the word "may" over 1000 times throughout its application material. We are concerned that significant use of the word "may" will result in inconsistent application by practitioners. We encourage the IAASB to re-evaluate the use of "may" in the proposed standard to ensure it is supported by related requirements where appropriate.

Materiality

In our response to the IAASB's consultation paper: The IAASB's Proposed Strategy and Work Plan for 2024-2027, we identified materiality as an area that should be prioritized. The IAASB's extant standard on materiality ISA 320 *Materiality in planning and performing an audit* (ISA 320) is no longer fit for purpose and results in a wide diversity in practice in determining materiality. By leveraging principles from ISA 320 for the proposed standard, the IAASB will risk introducing similar diversity in practice for determining materiality for sustainability assurance engagements.

Sustainability reporting introduces the added complexity of a wide range of different quantitative and qualitative metrics and targets as well as a range of assurance practitioners with different backgrounds and experience performing the engagements. More comprehensive coverage and precise guidance for the topic of materiality is needed.

For example, we recommend moving some of the additional information provided in *Frequently Asked Questions – Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner* document into the application material in the proposed standard, including:

- Discussion of why there was a need to bifurcate qualitative and quantitative materiality.
- Description between entity's consideration of double materiality and of that of the practitioner.
- Discussion related to practitioner's application of materiality when both financial and impact materiality apply.

In addition, to increase transparency, and because of the wide range of potential materiality levels applied, we strongly encourage the disclosure of qualitative and quantitative materiality within the Auditor's report.

Fraud and management bias

Given the different fraud related considerations that sustainability reporting introduces, the proposed standard should include more specific guidance and examples on how to assess risks related to fraud and management bias, as well as how to respond to those risks.

The IAASB has heavily leveraged the existing standard, ISA 240, *The Auditor's Responsibilities Relating to Fraud in an audit of Financial Statements*, which is no longer fit for purpose in today's environment. Many of the concerns raised in our response to the IAASB's discussion paper – Fraud and Going Concern in the Audit of Financial Statements, are equally relevant to sustainability assurance standards. For example, strengthening the standard to require auditors to evaluate the design and implementation of management's process for identifying and responding the risks of fraud in the entity, including related anti-fraud prevention and detection controls, including the entity's whistleblower program. Improved requirements around understanding and evaluating management's process will lead to a more robust risk assessment to identify motivating factors relating to fraud or management bias in sustainability reporting.

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Reporting to those charged with governance

Given the range of assurance practitioners who will be using this standard, it is important that there be clear requirements on reporting to those charged with governance. There are opportunities within the proposed standard to clarify this, specifically by including paragraphs A137 (focused on examples of significant matters that may be appropriate to communicate with management, those charged with governance, and others) and A138 (focused on examples of significant matters discussed, or subject to correspondence with management) as requirements, and other relevant requirements of ISA 260, *Communication with Those Charged with Governance* and ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*. For example, there should be a requirement that corrected and uncorrected misstatements and significant deficiencies in internal controls identified by the auditors are communicated to those charged with governance.

The communication of corrected misstatements (in addition to uncorrected misstatements) to those charged with governance would provide important insight into the auditor's evaluation whether internal control deficiencies identified aggregated to a material weakness. We acknowledge financial statement auditors are not currently required to communicate corrected misstatements in accordance with ISA 260, *Communication with Those Charged with Governance*, transparency around the nature and extent of misstatements that were corrected by management is an area where ISA 260 is currently lacking.

Limited vs. reasonable assurance

The proposed approach taken by the IAASB to include both limited and reasonable assurance into a single standard will result in situations where practitioners and users do not sufficiently understand the differences between a limited assurance engagement and a reasonable assurance engagement. Currently, limited assurance is described as something less than reasonable assurance, which will likely lead to a wide range of interpretations and related work effort. While we acknowledge the definition of limited assurance is largely aligned with International Standards for Review Engagements (ISRE) 2400, the definition is supplemented by ISRE 2400, paragraphs 4, 5 and 6. Paragraph 5 makes it clear that limited assurance is intended to be primarily performing inquiry and analytical procedures, but there is no similar explanation included in Exposure Draft ISSA 5000.

The current definition of substantive procedures incorrectly suggests that all types of analytical procedures are substantive. If analytical procedures are expected to form part of substantive procedures for reasonable assurance engagements, the analytical procedure requirements and application guidance in ED ISSA 5000 need to be expanded to be consistent with ISA 520, *Analytical Procedures.*

We encourage the IAASB to split the proposed standard into two separate standards, one covering a renamed limited assurance and one covering reasonable assurance. This would result in a clearer explanation of the requirements under the two different approaches and would more clearly differentiate the procedures that were performed for investors and other stakeholders.

Conclusion

We are supportive of the IAASB's work to develop comprehensive sustainability assurance standards. We believe there is an opportunity for the IAASB to provide more clarity regarding the specific complexities and nuances of sustainability

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reporting and, where needed, enhance the requirements and application material within the proposed standard to support more consistent application of the standard.

We recognize that sustainability assurance is in an infancy period with much yet to come. We encourage standard setters to prioritize the assessment of the relevance of the assurance models being proposed, the need for other forms of assurance that provide greater value to stakeholders and that are not rooted in a historical financial reporting model. For example, development of standards that contemplate more future-oriented information, or comprehensive reporting on the effectiveness of sustainability practices and opportunities for improvement, would be of greater value to stakeholders.

We would be happy to discuss our views further or answer any questions you may have about this letter. If you wish to discuss, please contact me (carol.paradine@cpab-ccrc.ca) or Stacy Hammett (stacy.hammett@cpab-ccrc.ca).

Yours truly,

Carol Paradine

Carol A. Paradine, FCPA, FCA
Chief Executive Officer

cc: Bob Bosshard, Canadian Auditing and Assurance Standards Board Chair
Brian Banderk, Chair, Canadian Securities Administrators Chief Accountants Committee

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