RESPONSE TEMPLATE FOR EXPOSURE DRAFT OF PROPOSED ISSA 5000*, GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS*

Guide for Respondents

Comments are requested by **December 1, 2023**. *Note that requests for extensions of time cannot be accommodated due to the accelerated timeline for finalization of this proposed standard.*

This template is for providing comments on the Exposure Draft of proposed International Standard on Sustainability Assurance Engagements™ (ISSA) 5000*, General Requirements for Sustainability Assurance Engagements* (ED-5000), in response to the questions set out in the Explanatory Memorandum to ED-5000. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

• For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.

• When providing comments:

    o Respond directly to the questions.

    o Provide the rationale for your answers. If you disagree with the proposals in ED-5000, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.

    o Identify the specific aspects of ED-5000 that your response relates to, for example, by reference to sections, headings or specific paragraphs in ED-5000.

    o Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.

• Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comme**nt" button on the ED-5000 webpage to upload the completed template.

Responses to IAASB's Request for Comments in the Explanatory Memorandum for ED-5000, General Requirements for Sustainability Assurance Engagements

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Mazars
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Jean-Luc Barlet Soma Sinha Paul Winrow
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Paul Winrow
E-mail address(es) of contact(s)	Paul.winrow@mazars.co.uk
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on ED-5000). Select the most appropriate option.	Global
	If "Other", please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on ED-5000). Select the most appropriate option.	Assurance practitioner or firm - accounting profession
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	Mazars is an internationally integrated partnership specialising in audit, accountancy, advisory, tax and legal services. Operating in over 90 countries and territories around the world, we draw on the expertise of 47,000 professionals – 30,000+ in the Mazars integrated partnership and 17,000+ via the Mazars North America Alliance. In the UK, Mazars has approximately 160 partners and over 2,900 employees, and is ranked one of the top 10 firms nationally.

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional**. The IAASB's preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to ED-5000).

Information, if any, not already included in responding to the questions in Parts B and C:
We commend the IAASB for the impressive progress it has made in developing ED-5000 as an overarching standard, setting out general requirements for sustainability assurance, on an unprecedented timescale.

This achievement should not be underestimated. We further applaud the IAASBs efforts in undertaking extensive outreach on this incredibly important standard.

It is in that context, that we are pleased to set out our comments on the proposals set out in ED-5000. Our comments are intended to support the further enhancement of the proposed standard, along with suggestion around development of the further standards and guidance to support the consistent implementation of ISSA 5000.

As an overarching standard, it is important the final ISSA 5000 standard is supported by a suite of subject specific standards and practical implementation guidance. Given the timeframe for adoption of the standard, and the introduction of general-purpose sustainability reporting requirements in many jurisdictions, it is critically important that these supporting standards and guidance are produced in an equally timely manner to ensure consistent application of ISSA 5000.

To that end, we strongly urge the IAASB to:
- Focus on finalisation of ED-5000 by its September 2024 target date. In order to achieve a final overarching standard by that date, the IAASB should target its efforts in enhancing the exposure draft in those areas which are most consistently identified by its ongoing outreach and formal consultation responses. In our view, the most important areas to address include further requirements and guidance in relation to:
    - The distinction between limited and reasonable assurance
    - Group engagements (noting that a separate standard would be needed to address detailed requirements)
    - Supporting non-audit practitioners in the application of the standard, including regarding ethics and quality management
    - The practitioner's role in evaluating the entity's materiality assessment process
    - The implications of hybrid engagements (incorporating both limited and reasonable assurance)
    - Fraud & greenwashing, and noncompliance with laws and regulations
- Commence the development of the ISSA 5000 suite of standards as soon as possible, with a view to finalising the first series of such standards around the implementation date of ISSA 5000 itself in 2026. This would enable assurance providers to adopt the additional 5000 suite standards around the same time as the overarching standard, assuming that early adoption of the 5000 suite is permitted. This would minimise the period where practitioners would be attempting to comply with the overarching standard without the support of the additional 5000 suite standards required to deliver consistently high quality assurance engagements in the public interest. In this regard, we believe that the focus should be on standards covering, in no particular order:
    - Group/consolidated sustainability engagements
    - Assurance over information from the value chain
    - Materiality, including the entity's materiality assessment process
    - Initial engagements
    - Estimates and forward-looking information (noting that these two topics have very different characteristics and should not be treated in the same way)
    - Fraud

- Collaborate with and/or commission other bodies (e.g. IFAC, PAOs, Firms) to develop practical implementation guidance, similar to the IFAC SMP guide and the recently issued ISQM guidance produced by the CAANZ. Using others to produce this guidance will free up the IAASBs time to focus on finalising ISSA 5000 and the first series of the 5000-suite standards. Where we refer in our response to guidance in our responses, typically this could be addressed through such practical implementation guidance rather than through further application material in ISSA 5000.

PART B: Responses to Questions in in the Explanatory Memorandum for ED-5000

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Overall Questions

1. Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item).

   (*See Explanatory Memorandum Section 1-A, paragraph 14*)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

All sustainability topics and aspects of topics

As a principles-based standard, we believe that the standard will be broadly applicable to all sustainability topics. However, we note that further standards will be required in the future to focus on specific topics building on the initial ISSA 5000 standard, for example around climate including the updating of ISAE 3410 and consolidated group reporting.

All mechanisms for reporting

We believe that the standard is suitable for application to any means of reporting undertaken by the entity, although further clarity could be provided in relation to the definition of "other information" to assist the assurance practitioner in undertaking appropriate work on that information. For example, if an assurance engagement is only on a particular topic or key performance indicator in an annual report, is the "other information" in this context, all of the other information in the annual report or just the information related to the specific topic or indicator?

Any suitable criteria

Although ED-5000 highlights that the evaluation of the criteria may be more extensive for entity-developed criteria, it would be helpful to provide greater clarity over:

- The extent of work required when an entity is applying a reporting framework specified in law or regulation which has been subject to robust due process (e.g. the ISSB Sustainability Disclosure Standards or the European Sustainability Reporting Standards) where we believe that the work to determine the suitability of criteria should be minimal, and

- The considerations assurance practitioners might apply when assessing the suitability of entity developed criteria, including focus on potential management bias in the choice of criteria. The guidance and Diagram 9 in the EER guidance might be a useful starting point in providing further clarity.

All intended users

There is a lack of clarity around the impact of intended users in ED-5000, which identifies a wide range of potential intended users, similar to the range of intended users which are likely to apply under European CSRD requirements but much broader than those which may apply under ISSB standards which specify primary users of general-purpose financial reports. It is not clear to what extent we need to consider the

needs of "other intended users" where the reporting framework specifies a narrow definition of primary users.

Further clarity and guidance would be helpful to assist assurance practitioners in the considerations to apply when a wide range of users are relevant and how the practitioner would assess whether the entity's materiality assessment process appropriately takes account of the needs of intended users as a group.

Limited and reasonable assurance engagements

Although ED-5000 highlights a differentiation in work effort between Limited and Reasonable Assurance engagements, there are examples where we do not believe that a distinction is appropriate or where Limited Assurance requirements are sufficiently robust to provide meaningful assurance. See our comments in other questions for examples.

It is imperative that users understand the difference between limited and reasonable assurance and we believe that greater clarity is required in reporting to highlight the differences, and in particular to stress that Limited Assurance is considerably less than Reasonable Assurance. See our response to question 21.

Use by all assurance practitioners

We strongly believe that there should be a single standard that can be used by all assurance practitioners and applaud the efforts of the IAASB in developing a profession agnostic standard. However, as currently drafted, we do not believe that the requirements and application guidance can be easily applied by assurance practitioners who are less familiar with IAASB standards, in particular some of the requirements of the International Standards on Auditing (ISAs).

There are many concepts and terms in ED 5000 that will be well known and understood by auditors (e.g. the audit risk model, spectrum of risk, performance materiality), and some of the requirements are based on much more detailed requirements set out in ISAs (e.g. ISA 540 on Estimates). We believe that, without the in depth understanding of those fuller ISA requirements and guidance, it may be difficult for non-audit assurance practitioners to apply the standard and there is an increased risk of different practitioners interpreting the requirements of the standards in very different ways.

We note that there were good examples included in the EER guidance issued by the IAASB and urge the IAASB to issue further guidance to support the consistent application of ED-5000, including providing clarification over language and terminology. We also note that, as a separate exercise, the EER guidance will need to be revisited following release of the final ISSA 5000.

Without sufficiently clear requirements and guidance for all assurance practitioners, there is a risk of fragmentation as jurisdictions may identify a need to develop their own assurance standards to enable application by other assurance providers. Furthermore, there is a risk of inconsistent interpretation and application of the requirements of the standard.

See also our response to Q4 regarding ethical and quality management requirements.

Public Interest Responsiveness

2.   Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal? If not, why not?

(See Explanatory Memorandum Sections 1-B, and Appendix)

Overall response: <u>**Agree (with no further comments)**</u>

Detailed comments (if any):

As ED-5000 is largely based on established IAASB standards, for example ISAE 3000, ISAE 3410 and ISAs, the proposals appear to be responsive to the public interest.

Specific Questions

Applicability of ED-5000 and the Relationship with ISAE 3410

3.   Is the scope and applicability of ED-5000 clear, including when ISAE 3410 should be applied rather than ED-5000? If not, how could the scope be made clearer?

(See Explanatory Memorandum Section 1-C)

Overall response: <u>**No, with comments below**</u>

Detailed comments (if any):

Clarity of ED-5000 and ISAE 3410 requirements

We do not believe the requirements in ED-5000.2, relating to the interaction of ED-5000 and ISAE 3410, are sufficiently clear as to which standards apply in which circumstances, and it is possible to erroneously conclude that if the engagement is a full suite assurance engagement plus GHG, that 5000 doesn't apply to the engagement even though it should be applied to all aspects other than the GHG disclosure.

We suggest that the wording of this paragraph be revisited to make clear that, when undertaking a GHG engagement, ED-5000 would apply to all of the work other than just that element that relates to GHG assurance. We propose the following amendment:

- 2. This ISSA 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, *to that separate GHG conclusion only*.

Furthermore, a definition of "Greenhouse Gas Statement" should be included in ED-5000.

We believe that ISAE 3410 should be reviewed, updated as necessary (including scope 3 GHG emissions which are not fully addressed in ED-5000) and issued as a new standard in the ISSA 5000 suite of standards. In the meantime, we suggest that the proposed amendment to ISAE 3410.A1 is amended to be consistent with ED-5000.2.

Risk assessment – Risks of material misstatement at the sustainability information level
ISAE 3410 requires practitioners to identify and assess risks of material misstatement at the GHG statement level, in addition to the risks at the level of disclosures (Limited Assurance) or assertions (Reasonable Assurance).

The identification of risks of material misstatement at the level of the sustainability statements is a notable omission from ED-5000. In our view, such a requirement to consider risks of material misstatement at the sustainability information level (akin to both ISAE 3410 requirements and to the ISA 315 requirement to consider financial statement level risks) should be included in ED-5000. There will likely be risks that are

related to the overall report, such as the overall tone and balance of information and narrative included in the report.

> *Relevant Ethical Requirements and Quality Management Standards*
>
> 4.   Is ED-5000 sufficiently clear about the concept of "at least as demanding" as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm's responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?
>
> *(See Explanatory Memorandum Section 1-D)*

Overall response: No, with comments below

Detailed comments (if any):

The adoption by all sustainability assurance providers of consistent ethical and quality management requirements is a key public interest issue that needs to be clearly addressed to ensure that there is a level playing field for all providers and to mitigate the risks of a two-tier quality outcome for users.

Although not necessarily easy for the IAASB to address, there are key questions around who defines what is "at least as demanding" and who will regulate and enforce the consistency of application of these requirements. With a lack of appropriate regulation it is difficult to see how the requirement to have ethical/ISQM standards "at least as demanding" can be enforced and therefore it is potentially not a level playing field between different assurance providers. Some assurance providers will be accredited and/or regulated while others may not be subject to the same degree of accreditation and regulation. This may well be a jurisdictional challenge that the IAASB (and IESBA) will be setting up for others to deal with, and the standards Boards need to be careful in striking the right balance in this area.

Many professions and other assurance providers will operate existing codes of conduct, ethical requirements etc. but these will almost certainly not be as comprehensive as those placed on existing audit practitioners as the IESBA Code of Ethics is, rightly, extremely demanding and robust. Furthermore, the requirements of ISQM1 are also highly demanding and existing audit firms have found the implementation of such standards to be a significant challenge. The requirements for such high-quality standards, whilst essential in the public interest, may have the unintended consequence of reducing choice of assurance practitioners as providers may find the requirements to be onerous and/or jurisdictions may choose to restrict the choice of providers due to the associated regulatory burden. We are already seeing this in Europe where some EU countries are opening the market to other providers, whereas others are likely to restrict assurance to existing audit practitioners.

Key considerations which need to be clearly set out, with enhanced guidance include:

- What does "at least as demanding" mean in practice, both for ethics (especially independence and self-review threats; perhaps the application material could recommend the use of the IESBA Code) and ISQM? What is the minimum that will be required to achieve "at least as demanding"? Although this may well require lengthy guidance, it will be necessary to enable consistency. The IAASB may wish to consider requiring providers not using ISQM1 or IESBA Code to describe the standards which have been applied.

- Who should assess whether a provider's standards are genuinely at least as demanding? And who should enforce the requirements? For example, is self-assessment sufficient or should all assurance providers be subject to some form of accreditation/regulation?

The IAASB should consider whether ED-5000.A78 should be clear that assurance reports may only refer to compliance with ISSA 5000 where appropriate quality management and ethical standards are applied.

We note that the requirements around sustainability competence in the standard are less robust than those relating to equivalence in ethics and quality management. The IAASB may wish to strengthen the requirements to demonstrate relevant experience and competence in sustainability, including but not restricted to demonstrating completion of appropriate training.

Definitions of Sustainability Information and Sustainability Matters

5. Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

   (See Explanatory Memorandum Section 1-E, paras. 27-32)

Overall response: **Yes, with comments below**

Detailed comments (if any):

We believe that the definitions are clear and that the appendix and diagram are useful, although some practical examples to support the diagram would be useful.

The final standard should also highlight that assurance practitioners will be guided by definitions provided in the relevant reporting framework/applicable criteria as these will more accurately describe the sustainability information and sustainability matters for the particular engagement.

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6. Is the relationship between sustainability matters, sustainability information and disclosures clear? If not, what suggestions do you have for making it clearer?

   (See Explanatory Memorandum Section 1-E, paras. 35-36)

Overall response: **Yes, with comments below**

Detailed comments (if any):

(See also comments in Q5).

We note that in the diagram in the appendix the IAASB has only partially aligned the aspects of topics with the pillars used in the major sustainability reporting standards (ESRS and IFRS SDS). The current guidance includes Governance, Risks & Opportunities and Metrics & KPIs, which differ only slightly from the four pillars in the published standards (Governance, Strategy, Risk Management and Metrics & Targets). Whilst we appreciate that the IAASB is developing the standard to be reporting framework-agnostic, given that the two major international standards use the same pillars, which are also consistent with those in the TCFD, it seems highly unlikely that other standards will be developed using a different structure. We would therefore urge the IAASB to align the diagram in Appendix A with the four pillars used in ISSB standards, ESRS and TCFD to assist assurance practitioners in the consistent application of the standard.

> *Differentiation of Limited Assurance and Reasonable Assurance*
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> 7. Does ED-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?
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>   *(See Explanatory Memorandum Section 1-F, paras. 45-48)*

Overall response: **No, with comments below**

Detailed comments (if any):

Overall there is a differentiation in work effort which is broadly in line with ISAE 3000 and ISAE 3410, however in some cases it is difficult to understand what the difference would be in practice and in some cases we do not believe the work required under limited assurance is sufficient and/or appropriate.

We note that limited assurance is intended to provide a "meaningful level of assurance". Greater clarity in the definition of meaningful, in the context of sustainability information, and how this is intended to work in practice would be helpful to both assurance practitioners and users of the information. We therefore urge the IAASB to provide a more precise definition of this term, perhaps using examples in application material.

We have a number of observations on the proposed differences in work effort as set out below:

- Whilst we appreciate that ED-5000 is a principles-based standard, in general, further guidance and practical examples of the types of procedures which may be undertaken in a Limited vs. Reasonable assurance engagement would be helpful. In particular, it would be helpful to give examples of how the nature and extent of further procedures performed may differ between limited and reasonable assurance. Appendix 3 of the EER guidance, which sets out helpful guidance on the work effort for limited and reasonable assurance, would be a good starting point for further guidance in ED-5000, and may assist the IAASB in considering the appropriate work effort for limited assurance.

- In some cases the wording of requirements may be different but in realty what is the difference between "consider" and "determine"? How would assurance practitioners demonstrate the difference between these two approaches? For example, regarding control deficiencies (ED-5000.110), under limited assurance practitioners are required to "consider" whether deficiencies are identified and under reasonable to "determine" whether they have been identified. It is hard to see what different this would make in the way in which practitioners would deal with any deficiencies identified.

- For Limited Assurance, when considering the entity's Risk Assessment process, we do not believe that it is appropriate for the assurance practitioner to merely take the results of the risk assessment process and rely upon them without understanding the process itself.

- We are surprised that there is no requirement to obtain at least some substantive evidence in a limited assurance engagement and urge the IAASB to consider whether there should be a requirement to obtain such evidence. In doing so, the IAASB may wish to consider including "substantive analytical procedures", following the principles and requirements of ISA 520, rather than merely "analytical procedures" to enable substantive evidence to be obtained.

- With regard to analytical procedures:

- o in many instances, it will be very difficult for practitioners to develop an appropriate expectation for sustainability information. Further guidance and practical examples are required to support practitioners in developing expectations with sufficient precision.

- o for limited assurance, ED-5000.130L requires the practitioner to only develop an expectation, with no reference to the precision of that expectation and the possibility of identifying misstatements. We believe that, to be meaningful, the expectation should be sufficiently precise to be capable of identifying misstatements.

- o further, ED-5000.131L requires practitioners only to make inquiries of management when differences are identified and "consider" those responses but does not require corroboration of management explanations. Given the risks of management bias, greenwashing etc., we do not believe that it is appropriate to take management explanations at face value and practitioners should be required to corroborate explanations provided.

- ED-5000.127R requires the practitioner to "perform substantive procedures for disclosures that, in the practitioner's judgement, are important to the information needs of users". However, the purpose of the entity's materiality assessment process is to determine the required disclosures by identifying those matters which are important to the users – as such this requirement could be interpreted as requiring substantive procedures on all disclosures? We do not believe that there should be such a requirement as ED-5000.126 provides for the practitioner performing substantive procedures for risks at the upper end of the spectrum.

- ED-5000.134L sets out the procedures required for limited assurance over estimates. We note that the practitioner is not required to evaluate the assumptions used by management in developing their estimate, while they are required to evaluate the reasonableness of assumptions used by an expert (ED-5000.A116). We do not believe that the requirements are sufficient given the importance of the assumptions used by management and, even for limited assurance, the practitioner should be required to evaluate the reasonableness of assumptions.

- For both limited and reasonable assurance, ED-5000.135 requires the practitioner to agree or reconcile the sustainability information to underlying records, reflecting requirements in auditing standards. However, it is not clear how the practitioner will achieve this requirement for sustainability information, the underlying records for which will be far more diverse than for a financial statements audit. Further guidance and practical examples are required to support assurance practitioners in consistently achieving this requirement.

- We anticipate that the IAASB will publish the final standard in e-format online. Assuming this is the case, we urge the IAASB to establish the standard in such a way that a practitioner may be able to specify whether they are performing a limited assurance or reasonable assurance engagement, and the e-tool will display only the relevant requirements rather than both sets of requirements.

Other challenges relating to the difference between limited and reasonable assurance include:

- The illustrative reports for both limited and reasonable assurance are of a similar length and given the need to clearly set out the work undertaken in Limited Assurance engagements, it is possible that reports for Limited Assurance will be longer than those for reasonable, which is counter intuitive. As such, it is likely that users will not fully understand the difference between the levels of assurance and, in particular, the level of assurance obtained in a Limited Assurance engagement may be unclear/obscured in the length of the report.

- If an assurance practitioner is undertaking a limited assurance engagement in the early years and then transitioning to reasonable assurance in the future, given the lack of requirements for substantive procedures and the other differences in work effort, it may be that the practitioner will not have sufficient prior knowledge to form the basis of a reasonable assurance engagement, leading to an increased likelihood of a clean limited assurance opinion being followed by a modified or qualified reasonable assurance report. It is likely that many jurisdictions will require limited assurance initially with a transition to reasonable assurance and, therefore, it would be helpful for the IAASB to set out guidance (perhaps as a separate publication) as to how assurance practitioners can effectively manage this transition.

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement

8. Is ED-5000 sufficiently clear about the practitioner's responsibility to obtain a preliminary knowledge about the sustainability information expected to be reported and the scope of the proposed assurance engagement? If not, how could the requirements be made clearer?

   (See Explanatory Memorandum Section 1-F, para. 51)

Overall response: **Yes, with comments below**

Detailed comments (if any):

ED-5000 is unclear on the work effort required when an entity is applying established international or jurisdictional reporting frameworks that have been subject to due process and are specified by law or regulation (e.g. the ISSB Sustainability Disclosure Standards or the European Sustainability Reporting Standards). In our view, there should be little work required at this stage of the engagement in such circumstances, with the practitioner focusing its effort on any entity-developed criteria.

The difference between stakeholders and intended users might be more clearly highlighted in the standard. Practitioners are used to writing audit and assurance reports for specific intended users of the report (e.g. shareholders, the Board of the Company). Given the range of potential users identified in ED-5000, it is not clear if is this still the same for conclusion on the sustainability report.

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9. Does ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?

   (See Explanatory Memorandum Section 1-F, paras. 52-55)

Overall response: **No, with comments below**

Detailed comments (if any):

The materiality process is key to determining what is disclosed in the sustainability report and is important under both ISSB and ESRS standards. ED-5000 isn't sufficiently clear as to the assurance practitioner's role in evaluating the entity's materiality process. Guidance on how to undertake the assessment of management's process and clarity on whether the practitioner's role relates to the process, the outcome from the process or both, would be helpful including the consequences if the practitioner doesn't agree on the material topics identified by the preparer. Although we note the release of recent non-authoritative

guidance, more details about the practical application, including examples, is required particularly in relation to any consideration of the outcomes from management's process.

We note that the CSRD includes a requirement for practitioners to report on the materiality assessment process. As the materiality assessment process is such a fundamental part of the entity's process under any sustainability reporting standards, we suggest that a requirement to evaluate the entity's materiality assessment process is added as a requirement to ED-5000. The requirement should refer to evaluation of the materiality process as set out in the applicable criteria such that the practitioner's response would be focused on whether the entity had met the requirements of the relevant reporting standards, focusing on financial or impact materiality, or both (i.e. double materiality) without the need for a specific reference to double materiality in the framework-agnostic standard.

Introducing such a requirement may impact the procedures required in both the risk procedures and responding to risks phases of the engagement, such as:

- Risks procedures: obtaining an understanding the materiality assessment process (LA/RA) plus evaluation of design and implementation (RA only?)
- Responding to risks: challenging the outcome of the materiality process (both LA and RA) including the outcome from different steps in the process (e.g. assessing the list of stakeholders identified by the entity) as well as the identification of material topics.

A clearer distinction between the entity's materiality assessment and the practitioner's materiality, which are used in different ways despite the similarity in terminology, would be helpful. We note that neither term is currently included in the definitions (ED-5000.17) and suggest that the IAASB may wish to include definitions of both terms to clarify the purpose of each, and the differences between them.

Suitability and Availability of Criteria

10. Does ED-5000 appropriately address the practitioner's evaluation of the suitability and availability of the criteria used by the entity in preparing the sustainability information? If not, what do you propose and why?

    (See Explanatory Memorandum Section 1-F, paras. 56-58)

Overall response: Yes, with comments below

Detailed comments (if any):

ED-5000 is unclear on the work effort required when an entity is applying established international or jurisdictional reporting frameworks that have been subject to due process and are specified by law or regulation (e.g. the ISSB Sustainability Disclosure Standards or the European Sustainability Reporting Standards). In our view, there should be little work required at this stage of the engagement in such circumstances, with the practitioner focusing its effort on any entity-developed criteria.

ED-5000.A165 could be interpreted to suggest that sustainability matters relating to qualitative, judgmental or forward-looking information may not be appropriate and/or that sufficient appropriate evidence may not be available for such matters. We suggest that the IAASB revisits the wording of this paragraph such that it focusses on the practitioner's consideration of the nature and extent of procedures and consequently the sufficiency and appropriateness of evidence that can be obtained for such matters.

> 11. Does ED-5000 appropriately address the notion of "double materiality" in a framework-neutral way, including how this differs from the practitioner's consideration or determination of materiality? If not, what do you propose and why?
>
> *(See Explanatory Memorandum Section 1-F, paras. 59-60 and 68)*

Overall response: **No, with comments below**

Detailed comments (if any):

The materiality process is key to determining what is disclosed in the sustainability report and is important under both ISSB and ESRS standards. ED-5000 isn't sufficiently clear as to the assurance practitioner's role in evaluating the entity's materiality process. Guidance on how to undertake the assessment of management's process and clarity on whether the practitioner's role relates to the process, the outcome from the process or both, would be helpful including the consequences if the practitioner doesn't agree on the material topics identified by the preparer. Although we note the release of recent non-authoritative guidance, more details about the practical application, including examples, is required particularly in relation to any consideration of the outcomes from management's process.

We note that the CSRD includes a requirement for practitioners to report on the materiality assessment process. As the materiality assessment process is such a fundamental part of the entity's process under any sustainability reporting standards, we suggest that a requirement to evaluate the entity's materiality assessment process is added as a requirement to ED-5000. The requirement should refer to evaluation of the materiality process as set out in the applicable criteria such that the practitioner's response would be focused on whether the entity had met the requirements of the relevant reporting standards, focusing on financial or impact materiality, or both (i.e. double materiality) without the need for a specific reference to double materiality in the framework-agnostic standard.

Introducing such a requirement may impact the procedures required in both the risk procedures and responding to risks phases of the engagement, such as:

- Risks procedures: obtaining an understanding the materiality assessment process (LA/RA) plus evaluation of design and implementation (RA only?)
- Responding to risks: challenging the outcome of the materiality process (both LA and RA) including the outcome from different steps in the process (e.g. assessing the list of stakeholders identified by the entity) as well as the identification of material topics.

A clearer distinction between the entity's materiality assessment and the practitioner's materiality, which are used in different ways despite the similarity in terminology, would be helpful. We note that neither term is currently included in the definitions (ED-5000.17) and suggest that the IAASB may wish to include definitions of both terms to clarify the purpose of each, and the differences between them.

> *Materiality*
>
> 12. Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?
>
> *(See Explanatory Memorandum Section 1-F, paras. 65-74)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

Terminology and definitions

We note that the only term relating to materiality defined in ED-5000 is Performance Materiality. As noted in Question 9, we suggest that the entity's materiality assessment process and the practitioner's materiality be added to the definitions in ED-5000.17. Furthermore, we note that "clearly trivial" is used in relation to accumulating misstatements but is excluded from the definitions and should also be added to ED-5000.17.

Quantitative materiality

The determination of quantitative materiality will be very different from the process in a financial statements audit, where overall materiality can be determined based on a single benchmark/unit. For sustainability engagements, materiality will need to be determined on a much more granular level (e.g. for each disclosure, topic, aspect of topic, KPI etc.). While our early concerns about the determination of quantitative materiality may have reduced over time, it remains unclear how practitioners will determine materiality for a wide range of measures and units, and the extent of documentation required, or at what level materiality should be determined (e.g. for each individual disclosure, by topic, or aspect of topic?). Further guidance, with practical examples would be helpful in this regard.

Reflecting the perspective of users in determining the practitioner's materiality is much more challenging in a sustainability engagement as the perspectives of different users may impact different disclosures/indicators to a greater or lesser degree. For example, in a financial statements audit, it is possible to focus on the impact on decisions made by users using a single measure, but in sustainability you may have multiple users focused on different matters, some qualitative, some quantitative – it is not clear from the existing guidance how the practitioner assesses the impact on the decision making of different users.

Qualitative materiality

We believe that the requirement of ED-5000.91(a) to "consider" materiality for qualitative disclosures with a series of considerations set out in ED-5000.A278, is appropriate. It is not possible to "determine" materiality for qualitative disclosures. However, it is not clear how this "consideration" works in practice compared to the "determination of materiality" required for quantitative disclosures, nor how the practitioner should document their consideration of materiality for qualitative disclosures (e.g. by topic, aspect of topic, disclosure, section or paragraph of the sustainability report etc.). Further practical guidance would be helpful to support the practitioner in "considering" materiality in relation to qualitative disclosures and how this will work in practice, as well as the documentation of qualitative materiality.

Performance materiality

The concept of Performance Materiality is complex and not always well understood by auditors. We believe therefore that the concept may be difficult to apply in a profession-agnostic standard with other assurance providers being less familiar with a complex concept.

Furthermore, it is not obvious how performance materiality may be applied to sustainability disclosures, and we question whether the concept is necessary for sustainability assurance engagements. The IAASB should provide examples of how the concept could be applied in practice to sustainability information. Furthermore, guidance and examples of aggregation risk, where aggregation risk may apply and what this means in practice in relation to sustainability information would be especially helpful, particularly in assisting practitioners in aggregating and evaluating misstatements.

Materiality and accumulation of misstatements

Even if we accept that the challenges of determining materiality for quantitative disclosures and considering it for qualitative disclosures can be overcome when setting the practitioners materiality, there are significant challenges when it comes to applying materiality in the accumulation, aggregation and evaluation of misstatements given the potential for a wide range of materialities (e.g. determined by disclosure, or topic) with materiality measured in different units, as well as the need to consider the impact of any qualitative issues identified. We note that there is helpful guidance in the application material on evaluation of misstatements which will assist practitioners in devising an approach to such evaluation. As noted above, the concept of clearly trivial is used in relation to accumulating misstatements but is not defined in ED-5000.

Materiality in a group engagement

The application of materiality to a group engagement is complex, even in well-established financial statements audits. There is currently no guidance on the application of materiality to a group sustainability engagement and such guidance, along with other aspects of group/consolidate sustainability engagements is desperately needed, especially as many of the assurance engagements in the early years of adoption will be undertaken on large groups.

Understanding the Entity's System of Internal Control

13. Do you agree with the differentiation in the approach in ED-5000 for obtaining an understanding of the entity's system of internal control for limited and reasonable assurance engagements? If not, what suggestions do you have for making the differentiation clearer and why?

   (See Explanatory Memorandum Section 1-F, paras. 75-81)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

Differentiation of work effort

Although ED-5000 sets out a clear differentiation in work effort between limited and reasonable assurance, we do not fully agree with the proposed approach. In particular we are concerned that there is insufficient work required on internal control for limited assurance engagements in the final exposure draft compared to earlier drafts. For example, practitioners are not required to understand all components of control environment relevant to the sustainability matters and the preparation of the sustainability report in limited assurance engagements and are required only to assess obtain an understanding of the *results* of the risk assessment process, without considering whether the risk assessment process itself is appropriate. We do not believe this distinction is appropriate.

We are particularly concerned that, for first time application, the work effort for limited assurance should be sufficient to ensure that the practitioner has sufficient knowledge of the entity's system of internal control to evaluate systems, processes and controls as there will be no prior knowledge of such controls from previous engagements. We do not believe that the requirements are sufficient to obtain this level of understanding and that the nature of the work for understanding internal control should be the same regardless of the level of assurance. Perhaps a distinction could be made between understanding for Limited Assurance and evaluating for reasonable assurance?

Furthermore, if the more restricted requirements apply to limited assurance, it is not clear how the practitioner would transition to a reasonable assurance engagement where this is required in the future, without the risk that additional work performed may identify deficiencies not picked up in previous limited assurance engagements. This runs the risk of creating an expectation gap with intended users. The IAASB should develop guidance for practitioners on how to plan for and execute the transition from limited to reasonable assurance.

Hybrid engagements

ED-5000 does not set out how the requirements should apply in hybrid engagements where both limited and reasonable assurance may be provided in a single report. Guidance should set out the impact of hybrid engagements on the approach to internal control understanding and risk procedures where there is a distinction in work effort.

Control deficiencies

The difference between considering control deficiencies in limited assurance engagements and determining whether deficiencies exist in reasonable assurance engagements is not sufficiently clear. In particular, it is not clear how to operationalize the requirement to "consider whether one or more control deficiencies" exist in practice for a limited assurance engagement, as presumably if a control deficiency is identified it should be treated in the same manner regardless of the level of assurance. We do not believe that there should be a distinction between the requirements for limited and reasonable assurance in this regard. If the IAASB retains this distinction, further guidance should be provided to clarify what is required when considering control deficiencies in a limited assurance engagement.

> *Using the Work of Practitioner's Experts or Other Practitioners*
>
> 14. When the practitioner decides that it is necessary to use the work of a firm other than the practitioner's firm, is ED-5000 clear about when such firm(s) and the individuals from that firm(s) are members of the engagement team, or are "another practitioner" and not members of the engagement team? If not, what suggestions do you have for making this clearer?
>
> *(See Explanatory Memorandum Section 1-G, paras. 82-87)*

Overall response: **Yes, with comments below**

Detailed comments (if any):

While the requirements are clear, in our view adding the table from Para 87 of the explanatory memorandum to the Appendix would help further clarify the difference between another practitioner and a practitioner expert. Furthermore, we believe that adding a definition of "another practitioner" would be helpful and the IAASB should consider the definition proposed by IESBA in its upcoming exposure draft.

Sustainability assurance engagements will be very different from financial statement audits, and the type and range of other practitioners involved in providing assurance will equally be very different. It is not clear how assurance practitioners will exercise supervision and review over such a wide range of skillsets and highly specialist practitioners. Furthermore, it is not apparent how practitioners would measure and assess their involvement in the work of the expert/other practitioner, especially where the expert or practitioner is

engaged directly by the entity, or by another entity in the value chain. Further guidance to support practitioners in this regard would be very helpful.

When looking at the use of experts or other practitioners, ED-5000 applies commonly accepted, well-established principles and approaches from the extant ISAs which may not be widely understood by non-auditor assurance providers.

The sustainability assurance ecosystem isn't so well developed and some experts or other practitioners, especially from non-audit firms, may not be used to the audit model, in particular that there is an assurance practitioner who may look to place reliance on their work. The expert or other practitioner may be resistant to someone else reviewing their work, and/or won't be willing to communicate/share the information required by the assurance practitioner in ED-5000.A122-124. Further guidance on how experts and other non-assurance practitioners, should work together to address these challenges would be helpful.

15.	Are the requirements in ED-5000 for using the work of a practitioner's external expert or another practitioner clear and capable of consistent implementation? If not, how could the requirements be made clearer?
	(See Explanatory Memorandum Section 1-G, paras. 88-93)

Overall response: **No (with no further comments)**

Detailed comments (if any):

See comments in Q14 regarding assessment of specialist practitioners.

Whilst it may be possible to consider the competence of experts by confirming whether they are appropriately licensed, it is not clear how the assurance practitioner is able to assess the competence of other practitioners who are not members of professional bodies and may not be subject to registration/licensing requirements. Further guidance on the assessment of competence, with practical examples, would be helpful given the potentially wide range of experts and practitioners involved in sustainability engagements.

A key requirement of experts is to be independent from the entity to which they are providing assurance. However, when assessing the expert or other practitioner, the focus of the assurance practitioner's assessment is on objectivity, which incorporates independence. In our view the standard should more clearly state that objectivity includes consideration of independence, perhaps in application guidance, with examples of matters which the assurance practitioner should consider and the impact on their ability to use the work of the expert, taking account of the final IESBA proposals on independence in sustainability engagements.

Reliance on other practitioners in the value chain of the entity subject to assurance may be more difficult to achieve than in a group financial statements audit where the group can exert some control over its components. ED-5000 should provide guidance on the inherent limitations relating to obtaining sufficient appropriate evidence from the value chain, and how the practitioner should address any situations which arise in this regard.

There is academic evidence relating to the impact of bias when relying on the work of others and it may be helpful to add guidance on the application of skepticism and avoiding bias when relying on the work of experts and other specialist practitioners in such engagements.

16.   Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, paras. 94-97)

Overall response: Disagree, with comments below

Detailed comments (if any):

Profession agnostic standard

The requirements in ED-5000 relating to estimates and forward-looking information are based on ISA 540. We are concerned that taking aspects of the ISAs, along with some of the application guidance, may make the standard difficult to apply, especially for those practitioners without in depth knowledge of the application of the ISA. Further guidance may be required to support the consistent application of a profession agnostic standard.

Limited assurance engagements

We are concerned that, for limited assurance engagements, it is possible to assess the method used by management without considering the assumptions which are critical to the development of the estimate. We believe that practitioners should be required to evaluate the assumptions underpinning estimates in limited as well as reasonable assurance. Indeed, we do not consider that there should be a significant difference in work effort between limited and reasonable assurance for estimates and forward-looking information given the sensitivity of such disclosures, the risks associated with them and the likely level of interest of users in many estimates and forward-looking disclosures.

Procedures required when assessing estimates and forward-looking disclosures

ED-5000.134 sets out the three options available to the practitioner when assessing management estimates, namely, to evaluate or test how management developed their estimate, develop a point estimate or range and to obtain evidence up to the date of the practitioner's report. We do not believe that it will be possible in most cases for the assurance practitioner to develop an appropriate point estimate or range for sustainability information and do not anticipate that this procedure will be used often. The IAASB may wish to consider whether it should mandate that assurance practitioners test how management developed their estimate and consider whether other procedures are necessary. For reasonable assurance, practitioners may also be required to obtain evidence up to the date of the report. Furthermore, in our view there should be a requirement for practitioners to consider the outcome of prior year estimates to assist with assessing whether management estimation processes are appropriate and reasonable.

If the IAASB concludes that there should be a differentiation in work effort for estimates, we urge the IAASB to consider whether such differentiation is appropriate in year one of a limited assurance engagement. Indeed, the IAASB may wish to consider a section in ED-5000, or a separate ISSA 5000 series standard, on Initial Engagements section.

We note that the requirement in 134L (a)(i) to evaluate whether "Management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information" is not replicated in the requirements for reasonable assurance engagements in 134R. It is not clear why this requirement would not be applicable in reasonable assurance engagements, and we suggest that the requirement should be added to 134R.

Forward-looking information guidance

With regard to forward-looking information, further, practical guidance on how practitioners can assess the credibility of forward-looking information would be helpful, perhaps focusing as an example on transition plans which are increasingly required. Practical guidance in this regard could usefully include matters such as:

- Whether transition plans are supported by an appropriate budget and have been approved by the Board

- Whether a science-based approach has been used in developing plans

- Ensuring that Scope 3 emissions are included in transition plans

- Whether assumptions in the transition plans are reflected in and/or consistent with the disclosures in the financial statements.

Risk Procedures for a Limited Assurance Engagement

17.   Do you support the approach in ED-5000 to require 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 done for a reasonable assurance engagement? If not, what approach would you suggest and why?

(See Explanatory Memorandum Section 1-G, paras. 98-101)

Overall response: **Yes, with comments below**

Detailed comments (if any):

See our comments in other questions with regard to understanding of Internal Control, the transition from limited to reasonable assurance, first year engagements and hybrid engagements.

We note that ED-5000 suggests that teams may wish to use assertions in Limited Assurance engagements to assist with risk procedures. We also note that ISAE 3410 requires the use of assertions for limited assurance GHG engagements. In practice, it is likely that most assurance practitioners would at least consider assertions when identifying risks and developing procedures and the IAASB may wish to consider requiring the use of assertions, consistent with ISAE 3410.

There are references in the application material for limited assurance engagements to situations where risks may be "more likely to arise". Given there is no full risk assessment or spectrum of risk, these references to "more likely to arise" seem at odds with the risk procedures required.

Overall response: **Disagree, with comments below**

Detailed comments (if any):

Albeit important to have principles-based standards, those standards, including any application material and other guidance, need to be capable of being delivered consistently in practice. While we recognize that ED-5000 is intended to be a principle-based overarching standard, we have serious concerns about the ability of practitioners to effectively apply the standard to assurance on sustainability reporting by group entities in the absence of further group assurance engagement standards in the ISSA 5000 series. There are currently no requirements relating to Group or Consolidated sustainability reports and the only references to either term are in the application material.

In most jurisdictions the first entities to be subject to assurance will be large groups. As currently presented, ED-5000 lacks sufficient content to deal with group audits. This is a major omission from the standard and has been raised in many different forums since the ED was issued. Furthermore, it has been questioned whether the standard can even be adopted until group engagements are sufficiently incorporated. It is imperative that this shortcoming of the standard is addressed to avoid fragmentation in assurance standards (for example, guidance issued in France on Limited Assurance engagements attempts to address provisions for consolidated sustainability information and there have been amendments to standards in the Netherlands to reflect group engagements).

We appreciate that ISA 600 is a special consideration standard but note that it does set out requirements for the application of audits in group engagements. We feel that ED-5000 should similarly set out requirements for group engagements, especially as there will not be time for the IAASB to develop a group standard for sustainability engagements before ED-5000 is applied to group engagements. There will also be significant differences in how group engagements are conducted on sustainability reporting and it will not be as simple as applying the approach in ISA 600 to such engagements (e.g. there will not necessarily be sustainability assurance at all components and therefore the "component audit" concept will not always apply, there will be specific considerations in respect of understanding the group, components and the environment (including extended value chain considerations), determination of materiality and responding to risks will also be very different.

Furthermore, we do not believe that the standard achieves the aim of being profession-agnostic as written as there are insufficient requirements and guidance to support non-audit practitioners who will not have the understanding of ISA 600 and group engagements to fall back on.

The IAASB should develop content relating to group engagements, either as part of ED-5000 or as a separate standard to be issued at the same time as ISSA 5000, though we appreciate this is a highly accelerated period for such a development. The group requirements and guidance should cover, as a minimum:

- understanding the group, its components and the environment

- scoping, materiality, aggregation risk, including consideration of the entity's process for considering materiality at the group level

- responding to risks at the group level

- the consolidation process

- communication with other assurance providers

- obtaining evidence over an extended value chain for the group and its components

- evaluating evidence at the group level (e.g. when obtaining assurance over sustainability information across the group, the practitioner may receive assurance reports for different entities, but what responsibility does the group practitioner have for the work of those parties providing assurance? And what work does the group practitioner need to perform?).

Issues and challenges around obtaining sufficient appropriate evidence across the value chain of the reporting entity will be further exaggerated for large complex groups and guidance to practitioners in regard of the relevant extent of the value chain would be helpful, especially as the first entities subject to assurance over full scope reporting will be large groups. For example, individual entities may find themselves in hundreds, or possibly even thousands, of value chains – how will communications work between assurance practitioners in this context?

Fraud

19. Do you agree that ED-5000 appropriately addresses the topic of fraud (including "greenwashing") by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?

(See Explanatory Memorandum Section 1-G, paras. 108-110)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

Fraud requirements

The risk of fraud, especially the risk of management bias, override of controls and the potential for greenwashing, is especially pertinent to sustainability information, due to the nature of the information disclosed (including a wide range of estimates and forward-looking information), the characteristics of the data (underdeveloped systems, processes and controls), and the extent of qualitative disclosures. This risk is particular acute where, for example, sustainability performance is linked to remuneration, which is increasingly common, or the availability of preferential rates for sustainability linked loans.

The risk of fraud will be high profile and represents a significant risk to assurance providers, especially where they are only providing limited assurance with restricted procedures, although even when providing reasonable assurance, fraud may not be discovered and may cause significant quality, regulator and litigation risks. This risk is heightened where there is a lack of clarity and insufficient requirements in the assurance standard.

The requirements relating to fraud and non-compliance with laws and regulations (NOCLAR) in ED-5000.59-61 only require the practitioner to:

- Maintain professional scepticism, recognising the possibility that a material misstatement due to fraud could exist,
- Remain alert to the possibility that procedures may bring instances of noncompliance to the practitioner's attention, and
- In the absence of identified noncompliance, no further procedures are required.

Further procedures relating to fraud are:

- ED-5000.101 – to make inquiries whether parties in the entity have knowledge of any actual, suspected or alleged fraud or NOCLAR,
- ED-5000.116 - develop an overall response if the practitioner identifies fraud or suspected fraud or NOCLAR,
- ED-5000.117-118 – to respond appropriately to any fraud or NOCLAR identified during the engagement and evaluate the implications for the engagement
- ED-5000.138 – to consider whether misstatements may be due to fraud and respond appropriately if there are indicators of fraud.

It is highly doubtful that intended users of the sustainability information will consider these procedures to be sufficient to enable the practitioner to identify instances of fraud or NOCLAR, leading to the significant expectation gap mentioned above, although the requirements to respond when indicators of fraud are identified and appropriate.

In that context, the requirements relating to fraud in ED-5000 are relatively high level and are likely to lead to a significant expectation gap with the wide range of potential users and stakeholders of sustainability reports. ED-5000 appears to bury fraud under "fraud or error" on the whole, but we believe that users would be looking for more procedures in respect of fraud.

A separate ISSA 5000 series standard on fraud is required. In the meantime, given the level of risk, stakeholder interest and the likelihood of an expectation gap, the IAASB may wish to consider whether ED-5000 should include further requirements such as:

- a "presumed fraud risk", similar to management override and revenue recognition in ISA 240, with required responses and a rebuttal option
- a stand-back requirement to consider the overall tone and balance of the sustainability report as a whole, considering any indications of management bias in reporting, including omissions from the report (as a proxy for greenwashing – see below).

NOCLAR

We are concerned that the requirements in ED-5000.100 to "obtain an understanding" of the legal and regulatory framework and how the entity is complying with that framework could be incredibly onerous, given the lack of a materiality filter on the applicable laws and regulations. This will be especially challenging in large, complex groups, particularly considering the very wide range of potential sustainability laws and regulations. We believe that the requirements in relation to understanding laws and regulations should focus on assessing how management has assessed which laws and regulations are relevant to the sustainability report, whilst retaining the NOCLAR requirements in ED-5000 when noncompliance (actual or suspected) is identified.

Greenwashing

We note that greenwashing is not directly referred to in ED-5000. As greenwashing is not yet formally defined, it is not clear that greenwashing always represents material fraud (e.g. how would the practitioner assess whether the entity has gained an unjust advantage).

Given the lack of formal definition of greenwashing, we believe that the IAASB must avoid any doubt over whether greenwashing represents fraud and whether it is to explicitly be addressed in ED-5000, to manage expectations. To that end we believe that the IAASB has two options, taking account also of the final position taken by IESBA on ethical considerations relating to sustainability:

- avoid introducing the concept of greenwashing as it is not clearly defined and focus the requirements in ED-5000 on fraud, or
- include the term greenwashing, provide a definition that is supported by the requirements in the standard, and explain how it relates to the definition of fraud.

In our view the IAASB should avoid introducing the concept of greenwashing into the standard. In determining the way forward the IAASB should be cognizant of the fact the greenwashing will be of significant interest to users and wider stakeholders of sustainability reports. It is critical to manage expectations of users in regard to greenwashing and fraud to avoid an expectation gap arising and clear expectations and associated guidance will be critical.

Communication with Those Charged with Governance

20. Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, paras. 111-112)

Overall response: **Yes (with no further comments)**

Detailed comments (if any):

We support the requirements regarding communication to those charged with governance, noting that the requirements are same regardless of the level of assurance provided.

We note that Audit committees are increasingly responsible for sustainability reporting in many jurisdictions and, although not a requirement, we believe that it is likely that assurance practitioners may escalate more issues to those charged with governance than might normally be the case in a financial statements audit which would help drive improvements and developments in sustainability reporting.

Reporting Requirements and the Assurance Report

21. Will the requirements in ED-5000 drive assurance reporting that meets the information needs of users? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included.

(See Explanatory Memorandum Section 1-G, paras. 116-120, 124-130)

Overall response: **No, with comments below**

Detailed comments (if any):

It is important that the assurance report clearly sets out a detailed summary of the work the practitioner has performed, what information the practitioner has provided assurance over and what level of assurance is provided for that information, particularly for hybrid engagements where a mix of limited and

reasonable assurance is provided. Equally importantly, the report should be clear what information is not being assured, for example there is no assurance provided on other documents published on a website other than the sustainability report itself.

The assurance report should include appropriate limitations relating to the intended users because the assurance report is not intended to, nor can it, meet the needs of all potential users and stakeholders. This will be critically important to restrict the use by only those users to whom the report is addressed as the intended users, similar to the "Bannerman Paragraph" used in UK audit reports.

There are elements of the EER guidance which are helpful in clarifying the assurance practitioner's responsibility and the application material for ED-5000 could be enhanced by incorporating this material. Including the following from the EER example would help clarify what the assurance practitioner has and has not provided assurance over:

- Our assurance engagement does not extend to any other information included in the Annual Report 20X1 or linked to from the Sustainability Information or from the Annual Report 20X1, including any images, audio files or embedded videos.

Illustrative reports – Example of summary of work performed

In our view it would be useful if the illustrative assurance reports included an example of the summary of work, to be adapted by practitioners to reflect the circumstances of each individual engagement, such as the following set out in the EER Guidance:

- *Evaluated the suitability in the circumstances of ABC's use of the Criteria, as the basis for preparing the Sustainability Information;*
- *Through inquiries, obtained an understanding of ABC's control environment, processes and information systems relevant to the preparation of the Sustainability Information, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness;*
- *Evaluated whether ABC's methods for developing estimates are appropriate and had been consistently applied, but our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate ABC's estimates;*
- *Undertook site visits at four of ABC's twenty manufacturing sites; we selected these sites based on the contribution of the site Sustainability Information to the group Sustainability Information, unexpected fluctuations in the site Sustainability Information since the prior period, and sites not visited in the prior period;*
- *Tested, at each site visited, a limited number of items to or from supporting records, as appropriate;*
- *Performed analytical procedures by comparing the expected GHGs emitted, based on the calorific value of fuel combusted during the period, to actual GHGs emitted and made inquiries of management to obtain explanations for any significant differences we identified;*
- *Considered the presentation and disclosure of the Sustainability Information.*

Inherent limitations

Whilst we acknowledge that the inherent limitations should not be used an excuse by practitioner not to obtain sufficient appropriate evidence, or to avoid expressing a modified conclusion, we believe that assurance reports should be enhanced further by the inclusion of a separate "Inherent limitations in assuring the sustainability information" section. The illustrative assurance reports should also set out more clarity over the inherent limitations in sustainability reporting and with regard to the assurance provided including:

- Challenges relating to estimates and forward-looking information

- Maturity of systems, processes and controls and the impact on the availability and quality of data (at least in the early years of adoption)

- The extent to which the practitioner has been able to obtain assurance over disclosures relating to the value chain (including a description of the extent of the value chain incorporated in the disclosures)

- The practitioner's ability to obtain assurance over Scope 3 emissions.

22.	Do you agree with the approach in ED-5000 of not addressing the concept of "key audit matters" for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?
	(See Explanatory Memorandum Section 1-G, paras. 121-123)

Overall response: <u>**Agree (with no further comments)**</u>

Detailed comments (if any):

We agree with the approach in ED-5000 to exclude the concept of Key Audit Matters. We believe that KAM's should apply only to Reasonable Assurance engagements over full sustainability reporting in accordance with a full reporting framework, such as ESRS and ISSB standards. Furthermore, the scope of application of KAMs should be restricted to the same entities to which ISA 701 applies, that is listed entities and others where law or regulation require KAMs to be reported.

In our view KAMs would be best addressed in a future standard in the ISSA suite of standards, rather than being incorporated in ED-5000.

23.	For limited assurance engagements, is the explanation in the Basis for Conclusion section of the assurance report that the scope and nature of work performed is substantially less than for a reasonable assurance engagement sufficiently prominent? If not, what do you propose and why?
	(See Explanatory Memorandum Section 1-G, para. 131)

Overall response: <u>**No, with comments below**</u>

Detailed comments (if any):

It is imperative that the assurance report provides clarity over the level of assurance being provided and over which information, especially in hybrid engagements where both limited and reasonable assurance is provided in the same report.

Whist the wording provided in ED-5000 is sufficient at a high level to explain that the level of work performed is substantially less, we believe that the assurance report could be enhanced to provide greater clarity to users by:

- Incorporating this statement in the Conclusion itself rather than in the basis of conclusions, meaning that when reading the conclusion it is clear that the work performed is less than a reasonable assurance engagement rather than finding that statement elsewhere in the report where it may be missed by the reader,

- It may also be worth repeating in the explanation of the work performed section of the report, where it will link clearly to the description of work performed,

- Amending the overall limited assurance report, which is very similar to the reasonable assurance report to make a clearer distinction. In particular, in the illustrated reports in ED-5000 it is not really clear that there is a difference in work effort from a reasonable assurance engagement. Greater clarity over the procedures performed in a limited assurance engagement would help the reader understand the work which has actually been performed (see comments on Q21 above)

Other Matters

24. Are there any public sector considerations that need to be addressed in ED-5000?

(See Explanatory Memorandum Section 1-I, para. 135)

Overall response: **Yes, with comments below**

Detailed comments (if any):

There is very little content on the public sector in the proposed standard which probably reflects that the public sector is behind the curve on sustainability reporting. The IAASB should engage extensively with the public sector with a view to either adding content to ED-5000, publishing additional ISSA standards focused on the sector or guidance to support application of ED-5000 as public sector sustainability reporting standards are established by IPSASB.

It is likely that Public Sector sustainability may have a greater emphasis on the impact on users of the financial statements rather than financial factors, and it is possible the double materiality may also be relevant to public sector assurance.

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25. Are there any other matters you would like to raise in relation to ED-5000?

Overall response: **Yes, as further explained below**

Detailed comments (if any):

Overarching conceptual standard

Whilst we appreciate that ED-5000 is intended to be an overarching standard, and that other standards will follow in the ISSA 5000 suite in future, the standard as currently drafted is perhaps a little too "conceptual" and more requirements and guidance are required to make it useable in practice. It is notable that there are 63 requirement paragraphs leading up to the commencement of the actual assurance engagement work (planning onwards) and the entire performance of the assurance engagement is covered in only 80 paragraphs, with an additional 20 paragraphs on the report.

In general, where ISA requirements have been incorporated in ED-5000, the requirements have understandably been significantly reduced from the full ISA, as has the application material. However, this makes it difficult to use these requirements in a standalone standard such as ED-5000. As examples:

- Materiality is reduced to a single paragraph

- Sampling requirements are reduced to a single paragraph and only one paragraph of application material

- Analytical procedures are reduced to two paragraphs and key requirements of ISA 520 are not included

- Estimates and forward-looking information requirements and guidance are considerably reduced from ISA 540.

We have set out in responses to questions above where we believe enhancements can be made.

Other information – are the requirements of assurance providers sufficiently clear? For example, if assurance is only provided on a single metric/topic/aspect of topic, is the provider required to read all of the other information or only that information related to the subject matter being assured?

The requirement to "read and consider" should be supported by clear guidance on what this means in practice. We believe that there should a stand back requirement for the practitioner to review the other information in light of the assurance work performed and any findings from the engagement.

With regards to ED-5000 being a profession-agnostic standard, we question whether, when assessing the "other information" in accordance with ED-5000.155(b), assurance practitioners who are not auditors or qualified accountants would be able to sufficiently understand the financial statements to consider their consistency with the sustainability report. Furthermore, it is not clear how the review of other information would work in practice when an audit firm providers both the audit opinion and sustainability assurance but using separate teams.

Obtaining assurance over qualitative descriptions, including processes and controls

Assurance over disclosures of processes and controls is likely to be a critical part of many sustainability assurance engagements. However, where the aspects of topics relate to qualitative descriptions of processes and controls, it is currently not clear how the assurance provider obtains assurance. Further application material and examples would be helpful to demonstrate how ED-5000 can be used to evaluate processes, perhaps drawing on material from ISA 315 in obtaining an understanding of processes and controls, including consideration of the need to assess design and implementation and/or test operating effectiveness of controls over processes where relevant.

Specific comments on ED-5000 paragraphs:

16 Although reference is made elsewhere, we believe that adding a note that Limited Assurance cannot be used instead of Reasonable Assurance where it is not possible to obtain reasonable assurance would be helpful in the objectives.

17(e) Assurance skills and techniques – it may be appropriate to add risk identification and assessment as key assurance skills that are required, as high-quality risk assessment is key to a high quality, effective assurance engagement.

17(bb) *Misstatement of other information* – it may be appropriate to add that other information may be misstated where it is inconsistent with the sustainability information.

51-54 – *Using the work of another practitioner* As noted in our response to questions above, we question whether the sustainability assurance ecosystem is mature enough to enable the requirements in ED-5000.51-54 to be met. Whilst these requirements are well-established in financial statements audits, including group audits, other assurance service providers will not be familiar with the need to respond to inquiries, communicate with other practitioners and to have their work reviewed by another practitioner.

55 *Use of the work of the Internal Audit function* We believe that it would be appropriate to include a requirement to reperform a sample of internal audit work, as set out in ISA 610.24, where the practitioner is placing reliance on that work.

63 D*ocumentation (and other documentation requirements in the standard)* The documentation requirements will be familiar to audit practitioners, but there is likely to be significant variation in the nature and extent of documentation across other assurance practitioners. Further guidance, either in application material or separately issued, and/or training materials (e.g. what good looks like examples) would likely be helpful to assist non-audit practitioners in particular to understand the documentation requirements more fully, including consideration of the extent of documentation which may be required by regulators.

71 *Appropriate sustainability matters* The requirement includes consideration of whether sustainability matters are "capable of consistent measurement or evaluation" against the applicable criteria. In the early years of adoption of sustainability reporting, it is likely that many disclosures may not be capable of such consistent measurement or evaluation as systems, processes, controls and data quality are developed and enhanced. It would be helpful to set out how assurance practitioners may apply this requirement in the early years of adoption, and in first year engagements (see our comments elsewhere suggesting the potential for an Initial Engagements ISSA standard or a section in ED-5000).

116L(b) and 116R(b) These paragraphs require the practitioner to develop an overall response where they identify fraud or suspected fraud or non-compliance with law or regulation. There is, however, no materiality filter applied to this consideration. In our view an overall response would be required where the practitioner considers the fraud or noncompliance to be material or significant, and not where there is a less significant isolated instance. ED-5000.117 goes on to say that when fraud or noncompliance are identified that the practitioner should obtain an understanding and further information to evaluate the possible effect on the sustainability of information. It would be more appropriate for the overall response requirement to apply as a conditional requirement, only after the practitioner has undertaken the consideration in ED-5000.117(b) and concluded that there is a significant effect on the sustainability information.

116R (a) (ii) and (iii) The distinction between paragraphs (ii) and (iii) is not clear. Para (ii) talks of the control environment not providing an appropriate foundation for other components, while (iii) talks about control deficiencies in the control environment undermining the other components. It is not clear how the situation in (ii) would apply without the deficiencies referred to in (iii) being identified. It may be appropriate to merge these two into a single paragraph, or alternatively the wording should be revised to clarify the difference.

127R *Substantive procedures* The requirement is to consider the need to undertake substantive procedures for "disclosures that, in the practitioner's judgment, are important to the information needs of intended users". Given the need for a materiality assessment process to identify material information from the perspective of the needs of users, it is difficult to see why this requirement is needed as all information disclosed will be considered important to the information needs of the user. Unless the IAASB intends that, for reasonable assurance engagements, substantive procedures are needed for all disclosures, which we do not believe is the intention. In our view, the consideration in 126R is sufficient whereby substantive procedures are required for risks at the upper end of the spectrum.

148 It would be helpful to have an illustrative Representation Letter similar to the one provided in Appendix 2 of ISA 580.

170 (c) (ix) It is unclear what the IAASB intends with this requirement, and the associated guidance in A477. We believe that this requirement should be removed, unless the IAASB can clarify both the requirement and application material.

A10 Terminology in the first sentence is confusing, referring to "a number of topics and aspects of topics" and then saying "separate conclusions may be provided on each aspect" – it is not clear what "aspect" means in this context.

A12 As some jurisdictions will set requirements for where sustainability information is to be reported, it may be appropriate to add reference to applicable law or regulation in this paragraph along the lines of "The presentation of sustainability information may be defined by applicable law or regulation".

A25-A27 *Intended users* It remains unclear to which intended users the assurance practitioner's report should be addressed, and the implications for liability and practitioner risk of the statement in A26 that "In some cases there may be intended users other than those to whom the assurance report is addressed" are not clear.

A28 *Misstatement* This paragraph appears to add no value and we suggest it can be deleted.

A30 *Partner* This paragraph appears to add no value and we suggest it is either deleted or incorporated into the definition.

A41 Examples of the sorts of procedures referred to would be helpful along with situations where they may be appropriate.

A42 It may be helpful to clarify that this paragraph confirms that practitioners only need to document what they have done, not what they haven't done as they were not required to (e.g. the requirement was not relevant). This would help with managing the expectations of regulators.

A45(a) *Ethical threats* The guidance here would be enhanced by a brief description/definition of each of the threats (a single sentence would suffice).

A47 For the bullet points listed as matters which may affect or influence the practitioner's independence, it may be helpful to provide brief context/descriptions to assist practitioners (e.g. for "Fees", perhaps add "the level of fees from the entity relative to the size of the firm or individual's portfolio"; for "financial interests" perhaps add "including owning shares or other interests in the entity")

A55 A brief description of the eight components of the system of quality management would be helpful. This needs only to be a short sentence to summarize what the component relates to.

A62 We believe that adding the application of professional skepticism to the actions of the leader would further support high-quality assurance.

A64 An example could be added around the use subcontracting agreements which include a statement of independence by the contractor.

A64 We believe that it would be helpful to clarify any differences between the use of other engagement team members from the network firm versus those who work for other firms/networks.

A71 On the final bullet we suggest adding management bias, amending the text to read "Conditions that may indicate possible fraud or management bias".

A83 We have referred in our response to the need for practical examples; the examples given in this paragraph would benefit from being more practical and sustainability based (e.g. specific matters/topics where a highly qualified expert will be requested include zero-carbon trajectory, chemicals rejected by an industry etc.).

A122-A125 See our comments on specific questions regarding the maturity of the assurance ecosystem. Assurance practitioners who are not experienced auditors may find compliance with the detailed communications etc. in these paragraphs challenging. The IAASB should ensure in finalizing the standard that further outreach is carried out with non-audit practitioners to highlight the importance of these requirements. In particular, challenges may arise under A125 and the review of documentation of assurance practitioners who may be reluctant to permit another practitioner to review their work.

A126-A128 *Internal audit function* Where relying on the work of internal audit, there appears to be no requirement to re-perform a sample of their work as there is in ISA 610.24. We believe that the requirements should be the same when relying on internal audit work at least for a reasonable assurance, as for an audit.

A137 The list of bullet points in A137 includes "Significant matters discussed or subject to correspondence with management" and "significant difficulties encountered during the engagement) with each of these matters subject to their own paragraph (138 and 139 respectively). Given the full descriptions for these two items, we suggest that they may be removed from the bullet point list.

A141 Whilst we agree with the need for practitioners to have "practical experience in sustainability assurance", given the likely proliferation of requirements for sustainability assurance in the coming years, there will be many practitioners undertaking engagements for the first time in the near future. It may be worth acknowledging that this may be the case in the early years of adoption as it may be unrealistic for experience sustainability assurance professionals to carry out all engagements in the first year.

A175 It is not clear why the considerations listed are considered relevant only for qualitative disclosures, when they appear equally relevant for quantitative disclosures.

A189 We are not clear why the assurance practitioner could not issue a modified conclusion in this situation, rather than undertake a different type of engagement. There is also no consideration in this paragraph of where the assurance provider is required by law or regulation to provide an assurance opinion.

A209 We commend the IAASB for the brief yet helpful definition of key types of bias which may affect the performance of the assurance engagement.

A228 When considering forward-looking information, the first bullet in A228 notes that the "practitioner may focus evidence gathering activities on whether those charged with governance or management have an intention to follow a strategy" – it is not clear what evidence can be gathered to demonstrate an intention. Practical examples would be helpful to highlight what form such evidence might take.

A233 An example is noted where "information may only be available in digital form on a continuous basis" and that the practitioner may use ATT to evaluate this information. A practical, real-life, sustainability related example would be particularly helpful here to demonstrate the type of data envisaged and the type of ATT that may be applied to that data.

A269 The examples provided in this paragraph will be helpful in guiding practitioners when considering how to plan and perform the engagement.

A271 refers to the "common information needs of intended users" and that misstatements could "reasonably be expected to influence the decision of intended users". Given that the standard outlines a wider range of potential intended users, practical examples of how practitioners can operationalize this guidance would be extremely helpful. How, for example, does one identify the common information needs of a highly diverse range of intended users, and then assess the impact on their decision making? Also, examples of different users and the decisions they may make, other than investment decisions, based on the sustainability information would be helpful.

A272 We do not believe that the statements in A72 (a) to (d) will hold true for many categories of intended users, although we would expect them to be true for primary users such as investors and providers of credit. For example, in our view it is highly unlikely that the wider range of intended users will fully understand the concept of materiality and the inherent uncertainties in measuring or evaluating sustainability information. The IAASB may wish to revisit this paragraph to reflect the difference between primary intended users and wider potential intended users.

A283-A285 See our comments on Performance materiality earlier. If the concept of performance materiality is retained, more practical examples of how it may be applied to sustainability information are required. As the requirement is only to apply PM when appropriate in the circumstances, an indication of how commonly

the IAASB considers that practitioners would apply PM would be helpful (e.g. is it anticipated to be rare, or common, or even typically applied?).

A290L In rare cases where no risks are identified "the practitioner may […] design and perform further procedures on disclosures that are material to the sustainability information". However, given the materiality assessment process is required to identify disclosures which are material to the sustainability information, all disclosures will, by default, be material.

A296 It may be helpful to include an outline of how the fraud triangle may apply to sustainability assurance and fraud risks, perhaps added to the appendix rather than the application material or as separate guidance.

A309 It would be helpful to give practical guidance on how the understanding of the legal and regulatory framework, and identification of the reporting boundary, may be obtained in practice for a large, complex, highly diversified international group which will operate in a range of industries and be impacted by a wide range of lars and regulations.

A317 This paragraph notes that the practitioners understanding of internal control may give rise to doubts over the ability to obtain sufficient appropriate evidence and includes "*Concerns about the competence of management and the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information*". In the early years of adoption of sustainability reporting, this may not be an unusual position and it would be helpful to provide guidance on how this situation is dealt with, perhaps though an "Initial engagements" section or separate guidance.

A353R *Assertions* We note that terminology and definitions of assertions differ from those in ISA315. We urge the IAASB to consider whether it is possible to retain the same assertions (with potentially different definitions where required) to make operationalisation of the standard more straightforward for audit practitioners and software providers who may have hardwired assertions into their methodology and software.

A364R We believe that it may be appropriate to use similar inherent risk factors to those included in ISA315 when giving examples of reasons for risk assessment outcomes as those inherent risk factors are likely to apply to sustainability assurance.

A372 *Tests of controls* It would be helpful to have examples of processes and controls relating to sustainability information to help clarify the difference between the two concepts. For example, taking meter readings would be a process, but if reviewed/approved prior to recording/posting in the system, then there is a control as well. This may impact the nature and extent of work required as, typically, substantive testing samples would be larger than controls.

125R and A378-379 *External confirmations* Important requirements relating to external confirmations from the auditing standard are not included in ED-5000 (e.g. the practitioner maintaining control of the confirmation process etc.) and as a result the application of the requirements are open to interpretation. In our view, the requirements should be more robust. It is not clear what the likelihood of receiving responses to external confirmations may be for sustainability information and there is no indication of what procedures the practitioner may undertake in the case of confirmations not being received. Further guidance would be helpful in this regard. For example, when attempting to obtain results of laboratory analysis of samples, if there is no response, what are the implications for the engagement? Furthermore, it is not clear whether negative confirmations are permitted for sustainability engagements.

A401 This paragraph includes helpful examples of where or how misstatements may arise in sustainability information. We believe these examples could be further strengthened by highlighting those examples

which relate to fraud (though we note that further fraud examples are given in A406) and noting whether they are qualitative or quantitative in nature.

A469 We do not believe that it is appropriate to include the content of the fourth bullet point and sub-bullets in the practitioner's report. These matters are clearly management's responsibility and it is not the role of the practitioner to set out his explanation.

Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

> 26. Translations—Recognizing that many respondents may intend to translate the final ISSA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-5000.

Overall response: **No response**

Detailed comments (if any):

No comments.

> 27. Effective Date—As explained in paragraph 138 of Section 1-I – Other Matters, the IAASB believes that an appropriate effective date for the standard would be for assurance engagements on sustainability information reported for periods beginning or as at a specific date approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Do you agree that this would provide a sufficient period to support effective implementation of the ISSA. If not, what do you propose and why?

Overall response: **No response**

Detailed comments (if any):

No comments.