

30 November 2023

International Auditing and Assurance Standards Board

To: Mr. Thomas Seidenstein (Chair)

529 Fifth Avenue

New York, NY 10017

USA

Submitted electronically

Subject: Comments on the IAASB's Exposure Draft on ISSA 5000 General Requirements for Sustainability Assurance Engagements

Dear Mr. Seidenstein,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) request for input on its Exposure Draft for Proposed International Standard on Sustainability Assurance 5000 General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards (ED-ISSA 5000). As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR's objectives are as follows:
 - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
 - Promoting collaboration and consistency in regulatory activity.
 - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
 - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of the IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation. IFIAR Member jurisdictions currently have varying frameworks for sustainability disclosures and/or assurance, and views in this area likely will continue to evolve as requirements and expectations are clarified. The comments in this letter should be considered in that context.
4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by the IFIAR.

Overall comments

5. IFIAR supports the efforts of the IAASB to develop international standards for assurance on sustainability reporting to promote consistent, high-quality assurance engagements. We also appreciate the challenges the IAASB is facing responding to the expectation by several stakeholders for a timely standard.
6. There are areas where greater precision is needed to support more consistent performance of sustainability assurance engagements – for example in respect of materiality. We set out these observations in more detail below.
7. It is challenging to understand the distinction between the work required for limited assurance and reasonable assurance in ED-ISSA 5000. Specific examples include the use of analytical procedures (paragraphs 130 L/R and 131 L/R) and understanding the entity's system of internal control (paragraphs 102 L/R).
8. Most of this standard assumes reporting using traditional assurance models on historical information. Additional or revised provisions to deal with the specificities of sustainability reporting are required, including narrative and future oriented information, importance of materiality, and risk of greenwashing, as per our comments hereafter.

Detailed Comments

Materiality determined by the practitioner

9. One of the key topics to be addressed more comprehensively in ED-ISSA 5000 is the application of materiality. It is unclear in paragraph 91, for example, what the distinction is between “determining” quantitative materiality and “considering” qualitative materiality. We ask that these concepts be revisited to support a consistent understanding and application, especially when translated.
10. Due to the different metrics and targets used in sustainability reporting (e.g. greenhouse gas emission, gender equality, adequate wages, number of days lost to injuries, accidents, fatalities, units of area) more comprehensive guidance for practitioners as to how to approach the materiality for quantitative disclosures is needed. While we understand that ED-ISSA 5000 follows a similar principle-based approach as in International Standard on Auditing (ISA) 320, Materiality (ISA 320), we highlight that the materiality standard under the ISAs was identified in IFIAR's response to the IAASB's proposed strategy and work plan for 2024-2027 as an area requiring urgent priority. While the frequently asked questions recently published for materiality is helpful, this is not authoritative so is unlikely to fully address our concerns.
11. Additional provisions explaining materiality in the context of narrative and qualitative information should also be included in the requirements.
12. Considering the different nature of sustainability matters ED-ISSA 5000 should expand guidance on how to “accumulate” misstatements identified in quantitative as well as qualitative sustainability information beyond what is provided in the related application material to paragraph 137.
13. The requirement to set performance materiality in paragraph 92 should be clarified. As currently drafted, the paragraph could be interpreted to be a requirement, but then references

to “applicable in the circumstances” and application material, use the term “may consider”. This may lead to inconsistent understanding and application.

The entity’s process for determining materiality

14. Application material in ED-ISSA 5000 covers both the entity’s processes for determining materiality, and the way in which the assurance provider considers and determines materiality for the purposes of the assurance engagement. It would be helpful if this application was clearly separated by adding a header “entity’s materiality process”.
15. The importance of the materiality assessment of the preparer in the sustainability information should be emphasized. Relevance and reliability (in particular the attribute of completeness) are essential for sustainability information that assists decision-making by the intended users. As such, emphasis should be put on the procedures the practitioner is required to perform on the process by which the preparer identifies material information to be reported. To get a level of assurance that this process would not lead the preparer to disregard or omit (by error or fraud) material matters, clearer provisions are needed to define how the process for determining material matters should be examined by the practitioner. Guidelines are present in various places in ED-ISSA 5000, dealing with those as requirements and in a more streamlined and targeted manner is needed to support understandability, for example by grouping the provisions under a specific heading.

Management Bias & Fraud

16. ED-ISSA 5000 should include more specific guidance and examples on how to assess risks relating to fraud and management bias, and then respond to these risks, including consideration of some of the unique factors that sustainability reporting/information introduces. We also encourage the IAASB to consider whether a ‘stand back’ requirement could be appropriate for the assurance practitioner to consider evidence of fraud and/or management bias on a holistic basis.
17. The material that is already included in ED-ISSA 5000 is helpful – for example application material A296, A131 and A406. We are also supportive of the numerous references to fraud throughout the requirements and application material. However, we would encourage the IAASB to consider whether one section could also cross-reference to all fraud related provisions.
18. We also noted inconsistencies in language used in ED-ISSA 5000. A296 as well as extant International Standard on Auditing (ISA) 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* (ISA 240) use “overly” before “optimistic”. However, the International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ISA 540) does not have “overly” before “optimistic”. We propose to remove it here and from ISA 240 when updated. Generally, changes to ISAs (including ISA 240) should be reflected in ED-ISSA 5000 once updated.

Connectivity between financial statements and sustainability statements

19. Connectivity between, and consistency of, financial and sustainability information, is critical to give a full picture of the company to users of financial and sustainability reports. The IAASB notes in A437 that material inconsistencies between sustainability information and other information could be indicative of material misstatements. As a result, it concludes, “This may undermine the credibility of the sustainability information and the assurance report thereon.”
20. We note however, that ED-ISSA 5000 is silent on the communication between the auditor of the financial statements and the assurance provider for sustainability information.

Communication with the financial statement auditor is an important step of an assurance engagement and should be required in the standard, unless prohibited by law. If it is prohibited by law, then there needs to be a requirement to consider the impact on the practitioner's ability to accept and/or continue with the sustainability assurance engagement.

Quality and ethics standards

21. It is in the public interest that the same level of requirements for high quality management and ethics (including independence) apply to all practitioners providing assurance on sustainability reporting, regardless of the profession they belong to.
22. The ED-ISSA 5000 requirement to have a system of quality management that is "at least as demanding as" ISQM 1 contributes to this objective. We are currently not aware of other quality management requirements that are "at least as demanding as" or "equivalent" to ISQM 1 that are currently in use by non-accounting practitioners.
23. It is not clear how practitioners currently using other quality management requirements or standards will make the determination of equivalency to ISQM 1 or how they will be held accountable. We recommend an approach where the high-level criteria for quality management assessments are included in ED-ISSA 5000.
24. We note that similar challenges arise with respect to relevant ethical requirements that are "at least as demanding as" the IESBA Code, all the more considering the ongoing revisions that are being planned to the Code.

Clarity and Understandability

25. Paragraph 94L on limited assurance requires the practitioner to design further procedures. However, unlike reasonable assurance ED-ISSA 5000 is not explicit that those procedures must be "performed".

Key concepts and terms

26. We encourage the IAASB to enhance and clarify definitions and terminology to promote greater understanding and consistency across jurisdictions.
 - Attestation engagement – It is not clear why assurance engagement and attestation engagement are separately defined, or what is the difference that is being highlighted.
 - Engagement team – The definition does not currently state that the entity's internal auditors are not part of the engagement team where they provide any assurance relating to an engagement (i.e. direct assistance). ED-ISSA 5000 currently includes using the working of the internal audit function, but the guidance is limited with no distinction between use of the internal audit function and using internal auditors to provide direct assistance. We recommend that ED-ISSA 5000 clearly state that direct assistance is not permitted.
 - Limited assurance – Although the definition of what constitutes limited assurance is long standing in ISAEs, it is possible that it may be a new concept for some sustainability assurance practitioners and users. There is therefore a risk of inconsistent interpretation across practitioners.
 - Substantive procedures – The current definition appears to incorrectly suggest that all types of analytical procedure are "substantive". Based on the definition of analytical procedures, this does not include substantive analytical procedures. If analytical procedures are expected to form part of substantive procedures for reasonable

assurance engagements, the analytical procedure requirements in ED-ISSA 5000 need to be expanded to be consistent with International Standard on Auditing (ISA) 520, *Analytical Procedures* (ISA 520).

- Risk of material misstatement – We understand inherent and control risk was not included in the exposure draft due to the expectation that many entities may not have well developed controls related to sustainability reporting and the concepts of inherent and control risk may be premature. However, this is inconsistent with the inclusion of control risk in A20 (a) (ii) and tests of controls as part of the definition of further procedures. Including these concepts now would pave the way from limited towards reasonable assurance engagements. It would encourage preparers to consider the quality of their internal controls and ease to get to reasonable assurance more quickly through the knowledge accumulated over time.
- Furthermore, what is “material” in the context of sustainability reporting is not sufficiently clear and has not been defined here (see our comments on materiality).
- Sustainability matters – It is not clear what “economic matters” refer to in a sustainability matters context.
- Information produced by the entity – The completeness and accuracy of data critically underpin assurance engagements and we therefore recommend that the word “sufficiently” should be removed from paragraph A247.
- Analytical procedures – the meaning of “well-controlled source” in A383 should be better explained.
- Reference in paragraph 9 to the non-authoritative International Framework for Assurance Engagements issued by IFAC, effective January 1, 2005 and its relevance might not be well understood by practitioners applying the standard. If the concepts of attestation and direct engagements are important, they should be incorporated directly into the proposed standard.

Consistent application

27. We have included examples of application material, which should have related requirements. These are examples where the standard does not mandate any action, but only refers to the possibility of action to be considered. Thus, the consistency of application will depend on the choice made by the practitioner. The IAASB should re-evaluate the use of “may” in the ED-ISSA 5000 application material to ensure it is supported by the related requirements where appropriate.

28. For example,:

- A116 related to matters that “may” be included in the practitioner and practitioner’s expert agreement and matters that “may” be relevant when evaluating the work of a practitioner’s expert. There should be a requirement that there is an agreement with the auditor’s expert and this agreement is in writing like the requirements in International Standard on Auditing (ISA) 620, *Using the Work of an Auditor’s Expert* (ISA 620), paragraph 11.
- A122 listing matters the engagement team “may” request another practitioner to communicate. There should be a related requirement that these communications be in writing.

- A137 listing matters that “may” be communicated to management, those charged with governance or others. The matters listed should be moved to the requirements, with the exception of identified deficiencies in internal control, which could be limited to significant deficiencies to be consistent with the ISAs.

Structure

29. The structure of the standard (i.e., not having individual standards by topic) makes the standard more challenging to follow. This structure impacts topics that are applicable to each subject, such as fraud considerations discussed above and the documentation requirements which are currently sprinkled throughout the standard. One solution would be to structure the standard by topic, like the ISAs.

Rational Purpose

30. We understand that the concept of “Rational Purpose” as a precondition for an assurance engagement has been based mainly on the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAE 3000). The concept however lacks specificity about what the rational purpose of a sustainability engagement would be. This is particularly problematic in situations where the engagement is not based on a legal or regulatory requirement.

Overall Responsibility for Managing and Achieving Quality

31. The language in paragraph A60 explaining that the engagement leader remains responsible for compliance with the standards should be moved to the requirements. That would be consistent with the International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* (ISA 220).
32. ED-ISSA 5000 notes that engagement leaders shall have “competence and capabilities in assurance skills and techniques developed through extensive training and practical application” (paragraph 32 (a)). We agree that the assurance provider should be competent. However, we feel that competency requirements should be linked to local regulatory requirements, if any. The meaning of “extensive” could furthermore be subject to various interpretations and should thus be avoided.

Estimates and Forward–Looking Information

33. The IAASB acknowledges the importance of estimates and forward-looking information in its explanatory memorandum. Whilst we appreciate the topic being addressed further in a separate topic-specific ISSA in the future we are of the view, that ED-ISSA 5000 should provide detailed provisions for the practitioner. The current requirements (paragraphs 134L and 134R) and the related application material (A390 to A392) should be clarified and expanded. Stronger emphasis in the standard on the nature of estimates and forward-looking information in the context of sustainability reporting as well as in the context of assurance on sustainability information is necessary for a common understanding by all practitioners. This includes deliberation by the IAASB as to whether sustainability information is likely to be more susceptible to uncertainty than financial information and if so include specific provisions addressing the issue.
34. Whilst ED-ISSA 5000 discusses potential management bias in relation to estimates and forward-looking information in the “Evaluating the Evidence Obtained” section, it is not mentioned in the “Estimates and Forward–Looking Information” part of the requirements. We

recommend integrating further provisions to foster the practitioner's attention and professional scepticism to this potential bias when assessing the estimates.

Understanding the entity's system of internal control

35. It is unclear why the requirements at paragraph 102L are different for limited versus reasonable assurance engagements, specifically in respect of the entity's monitoring system or control activities. Consistent requirements between limited and reasonable assurance may drive greater consistency for practitioners and helping with the pathway from limited to reasonable assurance. At a minimum, a more robust understanding should be required for initial limited assurance engagements which would provide a foundation for future limited assurance engagements. This more robust understanding would also support a better transition to reasonable assurance in the future.
36. According to paragraph 102L the practitioner is required to obtain an understanding of the control environment. The procedures requested in 103R should therefore be applicable to limited assurance engagements as well. We are furthermore of the view that a practitioner providing limited assurance should design and implement an overall response if the conditions in paragraph 116R (a) (i) are met.

Consolidation

37. ED-ISSA 5000 does not sufficiently address issues around group/consolidated reporting and assurance. For example, the "Using the Work of Another Practitioner" section should include more specific requirements, to address situations where sustainability information is gathered and consolidated from various external entities including information derived from the entity's value chain.
38. In this context, the requirements in paragraphs 51, 52 and 54 are insufficiently robust. The practitioner should not only communicate with the 'other practitioner' engaged about the findings from their work, but also the extent of work performed. The sustainability assurance provider should also be required to obtain a confirmation from the other practitioner confirming their independence (paragraph 51 (a)).

Future updates

39. We are concerned that the lack of specific provisions on how to assess materiality will result in a wide variety of practices. Hence, we encourage the IAASB to pay particular attention to what users of the report articulate being relevant information in the assurance report in their feedback to the consultation. This would also guide the IAASB in assessing whether to include requirements concerning the assurance report such as "Key Sustainability Assurance Matters" (KSAM) for Public Interest Entities or materiality levels applied by the practitioner.
40. Users increasingly expect digitalised information (machine-readable) to be available, and this is particularly important in the context of sustainability information. Various groups of stakeholders might be interested in different pieces of information and need facilitated access amongst a large amount of information. Given this difference in comparison with financial statements, an assurance standard covering not only "paper format" information but also the "digital format" of the information is of great value in the context of sustainability.
41. We invite the IAASB to add provisions in ISSA 5000 to deal with the specificities of the assurance of sustainability reporting presented in a digital format, and to include appropriate requirements to allow for consistency in work performed by practitioners to ensure the digital format is trustable by users, in a limited assurance engagement.

Coordination with IESBA

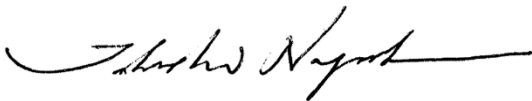
42. We continue to encourage close coordination between the IAASB and IESBA to streamline terms and definitions where possible. This would ensure global consistency in the use of respective standards and facilitate its application.

Scalability

43. We encourage the IAASB to continue outreach with practitioners and other key stakeholders to identify any problems with the scalability of the standard when it is being used for assurance engagements, and to address any potential problems through the extension of paragraph 13.

Please do not hesitate to contact me or James Ferris, Chair of the IFIAR Standards Coordination Working Group (SCWG), to discuss any of our comments.

Yours sincerely,



Takashi Nagaoka, IFIAR Chair

Cc: Kevin Prendergast, IFIAR Vice Chair
James Ferris, SCWG Chair,
Stacy Hammett, SCWG Vice Chair
Carl Renner, Executive Director