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IAASB Consultation on Exposure Draft of Proposed International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements

Dear Sir,

We thank the IAASB for the opportunity to give our view on the important subject of sustainability assurance. We hereafter provide you with our comments and views on the respective exposure draft.

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary – represent more than 10,000 Swiss certified auditors, tax and fiduciary experts as well as around 800 professional services firms managed by them. As a result of the relatively new sustainability reporting obligations present in Swiss law (Article 964 ss. CO) as well as due to the Corporate Social Reporting Directive (CSRD) in the European Union (EU) or similar regulation in other countries with extraterritorial effect on Swiss companies, we welcome clear and internationally harmonised guidance on the performance of sustainability assurance engagements. As a first, the CSRD captures all Swiss companies with significant operations in the EU, including non-listed Swiss companies with as few as one subsidiary or branch in the EU and subjects them to both reporting and assurance requirements. Growing demand for independent verification of sustainability related information additionally enhances the need for subject matter specific guidance. Many of our members and the Swiss profession as a whole are directly or indirectly affected by the implications which are discussed in the proposed standard.

As a member of IFAC we welcome the IAASB's initiative to provide the profession with a framework neutral standard, addressing its most common concerns around the specific nature of such assurance engagements and harmonising the way practitioners perform them, thereby ensuring quality and managing expectations on performance of sustainability assurance engagements both within the assurance community as well as with non-assurance professionals and regulators. We are pleased that the IAASB has developed an exposure draft for a comprehensive, stand-alone standard to enhance the trust and confidence in sustainability information and consider this subject as an urgent matter as the CSRD as a first requires an external auditor to provide mandatory assurance on sustainability reporting. In addition, and due to the close economic interdependence with foreign economies, the Swiss Federal Council is convinced that Swiss law should be aligned with international developments in the area of sustainability

reporting, including the requirement of verification of sustainability information by the auditor. It is thereby important to note, that the Swiss economy, while having important relations with companies and consumers in the European Union, is also exposed to other markets and their specific regulation, such as the United States of America for SEC issuers headquartered in Switzerland. For practitioners it is therefore of utmost importance to refer themselves to an internationally accepted and trusted standard that can be applied to a wide variety of reporting standards or reporting initiatives.

Our View at a Glance

1. We are in favour of a new standard for audits of sustainability information in order to address legal requirements for the audit of subject matter information (sustainability information) or for independent audits of such information.
2. We welcome an overarching standard that addresses baseline requirements covering the end-to-end process of a sustainability assurance engagement, from acceptance and continuance to reporting.
3. We support that the standard has been developed to be capable of being applied to all sustainability topics and aspects of such topics and is intended to be framework-neutral.
4. The standard addresses both limited and reasonable assurance and is therefore applicable for different levels of assurance in certain jurisdictions. However, in our view clarification is needed in regards to the availability and quality of information before assurance engagements may be accepted.
5. The standard is meant to be a profession agnostic standard and implementable by all assurance practitioners. We are of the opinion that the application of this standard requires a detailed understanding of audit methodologies, as it is based on concepts not easily understood or applied by non-audit professionals especially where topics such as materiality or professional judgement are concerned. With the goal of assurance quality in mind, we would therefore welcome a clarification, in regards to the independence and quality control aspects of an assurance practitioners practice as well as the professional education and professional practice required to accept, conduct and report on an assurance engagement.
6. The standard does not contain special requirements for group engagements. Switzerland is a jurisdiction that features a large number of corporate groups and features a legal framework and reporting requirements on sustainability information, both for individual companies as well as for groups of companies including directly controlled subsidiaries. The lack of guidance in the standard might complicate the application for group engagements and we would welcome clarification in this regard.

Support for an overarching Standard on Sustainability Assurance

EXPERTsuisse supports the development of a standard for sustainability assurance engagements for the reasons mentioned above, Swiss companies are exposed to a variety of markets and their respective regulatory framework. In the near future, the Swiss legal framework regarding the reporting on sustainable business conduct is expected to evolve, based on announcements by the federal council on the objective of international harmonisation and the extension of reporting requirements as well as the introduction of an audit requirement. For Switzerland, we expect that the mandatory verification of sustainability information by the statutory auditor or another assurance provider will become reality in the future.

Addressing the baseline requirements covering the end-to-end process of a sustainability assurance engagement, from acceptance and continuance to reporting, with an overarching standard is highly welcomed.

The sustainability information required to be reported under the different regulations and guidelines can vary, depending on the companies' business model. In addition, and especially when Swiss companies, due to non-regulatory requirements, seek voluntary assurance on sustainability information, the information reported can be very narrow or cover a wide range of sustainability subject matters relating to several different topics and aspects of topics. Moreover, the framework-neutral principle of the standard makes it suitable for use for assurance on any sustainability information prepared by the companies, be it either the ESRS under the CSRD requirements, the future Swiss law regulations or (voluntarily) reported sustainability information based on any other framework. We welcome that the standard is framework-neutral and principles-based and therefore applicable to all kinds of sustainability topics and aspects of topics. Further, its development based on existing audit and assurance standards for financial and non-financial information provides existing assurance practitioners, preparers and users of the sustainability information a familiar and proven framework in which to perform sustainability assurance engagements.

General remarks on the exposure draft (ED ISSA 5000)

The standard deals with both reasonable and limited assurance engagements and clearly differentiates the requirements that apply only to limited or reasonable assurance. The scope addresses the demand for both limited and reasonable level of assurance on sustainability information, depending on requirements of the different jurisdictions. In addition, the clear differentiation of the requirements in the standard applying to limited or reasonable assurance engagements are highly welcomed to distinguish the procedures to be performed and the work effort required following the desired or given level of assurance.

To provide additional clarification, we suggest that more guidance be included in the standard or other explanatory material to clearly differentiate the type and extent of evidence, as well as the level of documentation, for limited versus reasonable assurance engagements.

In addition, the inclusion of environmental, social, economic and cultural matters, as well as a reference to the impacts of an entity's activities, products and services on the environment, society, economy or culture, and their impacts on the entity, in the definition of sustainability matter, is likely to help clarify for users the differences envisaged between the meaning of "ESG" and that of "sustainability".

As a general remark, we would welcome a convergence of terminologies used to those of the current ISAs (for example in the use of the terminology “opinion”).

In our view the scope and applicability of ED ISSA 5000 is clear, including when ISAE 3410 is applicable. It is clearly stated in paragraph 2 of ED ISSA 5000 that ED ISSA 5000 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. However, since many entities who report sustainability information are likely to report more than just greenhouse gas emissions, and ED ISSA 5000 is an overarching standard, we feel that a separate assurance standard specifically for greenhouse gas statements is likely to become redundant in future. This is also consistent with ISAE 3410 not having been reviewed since 2013.

Engagement acceptance depending on suitable criteria

There is a possible risk, when the criteria is not one that is a widely accepted framework (e.g., internally developed by the entity), that the practitioner may be unable to evaluate whether the criteria is suitable (e.g., whether the criteria is complete, neutral or reliable) especially as a precondition to acceptance. This is particularly the case as the “understanding applicable criteria” paragraph (98) suggests that an evaluation of part of the criteria considerations can happen later, which seems inconsistent with the requirements pre-acceptance. It may also be useful to identify at this stage the relationship between suitability and availability of criteria and the possibility of qualifications: If the criteria is not suitably defined, it may not be possible for the practitioner to identify non-compliance with criteria. This is particularly relevant in the context of evaluating processes, systems and controls, for example.

Performing assurance procedures on forward-looking information

Due to the uncertainty associated with forward-looking information that could possibly extend to many years in the future, we feel that it may not be possible to provide reasonable assurance on this information. We suggest that it be explicitly stated in the standard what is achievable with respect to forward-looking information, including the differences between limited and reasonable assurance. Further, we suggest adding guidance related to testing forward looking information, including assumptions, projections and forecasts. For Switzerland this is especially relevant regarding the Swiss legal requirements as starting 2024 companies subject to mandatory reporting will have to report climate-related disclosures based on the TCFD-framework.

Materiality considerations

We recommend that the IAASB provides further guidance on dealing with materiality analysis on the practitioner’s overall evaluation of the sustainability information.

Quality Management and qualification of individuals conducting the engagement

The standard is designed to be applicable to both professional accountants and non-professional accountant assurance practitioners. Complying with relevant ethical requirements including those related to independence, having appropriate competencies and capabilities etc. apply equally to both professional accountants and non-professional accountant assurance practitioners, which is highly supported.

The standard refers to the IESBA Code of Ethics and ISQM 1 (or other professional requirements, or requirements in law or regulation, that are at least as demanding). At least the elements of the quality management system as prescribed in ISQM 1 should be included in the standard to be stand-alone and profession-agnostic on one hand and on the other hand, for the practitioners to assess whether local requirements meet the criteria “at least as demanding”. In our view, the general concepts and the terminology used in the standard require solid auditing experience and may be difficult to understand for non-auditors. While we are of the opinion that assurance engagements favour audit practitioners with specific subject matter experience, we suggest nevertheless providing guidance on what aspects or extent of the IESBA Code and ISQM 1 need to be included in a local jurisdiction’s law, regulation or professional requirements in order to meet the standards expectations. It is central in our view, that any such requirement should be defined with assurance (e.g. audit) quality in mind, giving specific guidance on how a high degree of quality may be ensured for any assurance engagement conducted under this new standard. In the paragraph below we would like to further detail our considerations:

Firm-level Quality Management

In appendix A53 ss. the IAASB has indicated relevant domains of quality management relevant to the practitioner. We feel that it is highly relevant that the standard setter provides further guidance on competency requirements, such as:

- education and experience
- ongoing continuing professional development
- life-long learning requirements.

In the current exposure draft, these competencies and the relevant degree of training is not yet sufficiently precise. It will be of utmost importance that these criteria are elaborated upon and implemented in the local jurisdiction to ensure that all of the practitioners follow the same requirements. This also relates to point A78 discussing the professional judgement competencies of the professionals providing sustainability assurance services. To ensure overall high quality of services an oversight authority may be needed in the local jurisdiction.

Oversight

In case that in Switzerland an oversight body would be required in the area of sustainability assurance engagements, we suggest that the Federal Audit Oversight Authority (FAOA) should take over this responsibility as the FAOA has many years of experience with the accreditation and oversight of audit practitioners and has the know-how, capacity and structures to ensure high quality supervision of practitioners performing sustainability related assurance engagements as required by Swiss law or conducted within the jurisdictional boundaries of Switzerland, which also applies to foreign reporting standards.

Group Engagements

Very limited guidance and requirements on group engagements and / or consolidated sustainability information are included in the standard. By developing an overarching, stand-alone standard, which is also applicable for non-professional accountant assurance practitioners, specific guidance regarding group engagements and consolidated sustainability information would in our view be important.

Switzerland features a large number of corporate groups governing an international network of directly or indirectly controlled subsidiaries being subject to one or more reporting framework. Our objective should therefore be to harmonize guidance as far as possible. We suggest addressing the following topics in the standard:

- Involvement of and communications with Component Practitioners (if any are involved)
- specific consideration regarding materiality and scoping of group engagements
- assessment of component practitioners' competence and independence

We strongly recommend including more guidance which aligns with ISA 600 (Revised) to help practitioners in performing scoping and risk assessment in a group situation.

Implementation

We would support an effective date which has a minimum of 18 months from the point at which the final standard is published. Although many firms may choose to adopt the new standard earlier, this timeframe would allow sufficient time for many professional bodies and audit firms' methodologies, tools, guidance, and training materials to be implemented.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please do not hesitate to contact us.

Yours truly,

EXPERTsuisse



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