

## 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:
  - Respond directly to the questions.
  - 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.
  - 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.
  - 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 Comment**" 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)	IFAC
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	David Madon Christopher Arnold Harpal Singh Derryck Coleman
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	<a href="mailto:DavidMadon@ifac.org">DavidMadon@ifac.org</a> ; <a href="mailto:ChristopherArnold@ifac.org">ChristopherArnold@ifac.org</a> ; <a href="mailto:HarpalSingh@ifac.org">HarpalSingh@ifac.org</a> <a href="mailto:Derryck.coleman@ifac.org">Derryck.coleman@ifac.org</a>
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.	<a href="#">Global</a>
	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.	<a href="#">Member body and other professional organization</a>
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	IFAC are the global voice for the accountancy profession. IFAC serves the public interest through advocacy, development, and support for our member organizations & the millions of professional accountants around the world who are crucial to our global economy.

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:**

IFAC supports mandatory assurance of sustainability information—conducted in accordance with global IAASB standards, which are developed subject to extensive, transparent stakeholder due process—in the public interest—with Monitoring Group and PIOB oversight.

However, research we have conducted over the past three years, in partnership with AICPA-CIMA, highlights a significant gap between the rate of sustainability-related reporting by companies (primarily on

a voluntary basis—95% based on our 2021 review) versus the percentage of companies (i.e., 64% in 2021) who also obtained assurance on at least some of the information they disclosed. This gap must change, otherwise sustainability-related disclosure will not be as reliable and decision-useful as financial disclosure. (See [The State of Play, 2019-2021 Trends & Analysis](#).)

In addition, there is fragmentation in who conducts sustainability assurance—57% obtained from accountancy firms vs. 43% from other professional service organizations (“consultants” or “other service providers”). We find that other service providers use a variety of assurance standards—vs. 95% of audit firm sustainability assurance engagements in our research used IAASB standards in 2021. (See [A Deep Dive into Sustainability Assurance Engagements](#), pages 11 and 12).

*To avoid ongoing standard fragmentation, ISSA 5000 must be the only broad-based global sustainability assurance standard, and we urge IOSCO to support ISSA 5000 once final. Any other broad-based standard will not be subject to the same level of public interest scrutiny and oversight as ISSA 5000, will create unnecessary complexity and confusion for investors, preparers, practitioners, regulators, and other stakeholders, and will unnecessarily enhance an expectation gap around sustainability assurance.*

IFAC fully supports ED-5000, the IAASB’s extensive stakeholder engagement during this consultation period, and a timeline for finalizing ISSA 5000 by year-end 2024.

## 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:** [Agree, with comments below](#)

### Detailed comments (if any):

To address the need for high-quality assurance of sustainability disclosures and to offer a single, overarching, globally applicable standard, we believe that the IAASB has appropriately developed ED-5000 to apply to all sustainability topics (e.g., environmental, social, governance, economic and cultural) and aspects of topics, all mechanisms of reporting (e.g., stand-alone sustainability reports, annual reports, integrated reports, etc.), all intended users (i.e., investors/capital markets as well as other stakeholders), all suitable standards and frameworks (e.g., ISSB Sustainability Disclosures Standards, European Sustainability Reporting Standards, GRI Standards, etc.), both limited and reasonable assurance conclusions, and all practitioners. This approach is essential—covering the broadest range of possible engagements and, when coupled with ethics and independence requirements being developed by the International Ethics Standards Board for Accountants (IESBA), delivering an integrated tool for policy makers and regulators around the world who are considering how to make the rollout of mandatory assurance over sustainability disclosures successful. This approach is key to ensuring that sustainability reporting is subject to the same rigor as financial reporting.

In our view, ED-5000 can be applied to each of the items described in paragraph 14 of the Explanatory Memorandum and provides a high-quality global baseline for sustainability assurance engagements. However, some small- and medium- sized accounting practices (SMPs) as well as professional service organizations that are not accountancy firms may be unfamiliar with some of the fundamental terminology that existing users of ISAE 3000 (Revised) may be more familiar with. IFAC therefore recommends the IAASB develops non-authoritative guidance to help these practitioners implement the standard.

### 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:** [Agree, with comments below](#)

### Detailed comments (if any):

The proposals in ED-5000 are responsive to the public interest, both considered in a broad sense and through the lens of the qualitative standard-setting characteristics set out in the Public Interest Framework (PIF) incorporating (a) Timeliness, (b) Relevance, (c) Comprehensiveness, (d) Implementability, (e) Enforceability, and (f) Scalability.

In terms of scalability, additional clarity within application material and non-authoritative guidance to flag where challenges may arise and how these could be resolved would be appreciated. Gaining consensus on the balance of work between limited assurance and reasonable assurance engagements is also essential. Guidance here would be welcomed and may help to drive consistency between different practitioners including between Professional Accountants (PAs) and other service providers.

Some consideration of treatment of 'additional information', which may be a requirement of the reporting framework an entity is under, could also be useful. An assurance provider may or may not be required to provide assurance on such material due to local requirements. As such, in the overall commentary that is made in relation to sustainability matters, there may be some areas that are subject to assurance and others that are not. It would be useful for guidance to be issued that clarifies appropriate treatments in such situations and how best to flag which elements are subject to assurance and those that are not. It is in the public interest for users to have absolute clarity on whether information is subject to assurance or not, and the standard could clarify whether the optimal approach is for this to be included in reporting by the entity, within the assurance report or in both places.

### **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:** [Yes, with comments below](#)

#### **Detailed comments (if any):**

The scope and applicability of ED-5000 is clear, and it is clear when ISAE 3410 should be applied rather than ED-5000. However, some further clarity of the overall relationship between ISSA 5000, ISAE 3410 and ISAE 3000 (Revised) in application material would be useful. For example, if an engagement has greenhouse gases as one component of reporting that is subject to assurance, but it is also necessary to provide assurance in other areas of reporting, there could be some confusion around whether reporting under three standards (ISAE 3000 (Revised), ISAE 3410 and ISSA 5000) is required. Ultimately there may be an argument for ISAE 3410 to be brought under the baseline of ISSA 5000, rather than remaining under the umbrella of ISAE 3000.

### *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:** [Yes, with comments below](#)

#### **Detailed comments (if any):**

ISSA 5000 must be developed to encourage broad adoption and harmonization in the way sustainability assurance engagements are conducted by all authorized practitioners, followed by improvements in practice and regulation that applies an objectives-based assessment of equivalence (i.e., whether the ethical/independence and quality management protocol followed by a practitioner is “at least as demanding” as the IESBA Code and ISQM 1). As the statement “at least as demanding” could be open to interpretation leading to inconsistency in practice, IFAC urges IAASB to develop applicable principles and objectives to help regulators and practitioners make this equivalence assessment in a fair and consistent manner that provides necessary transparency to investors and other stakeholders and incentivizes positive change from current market practice observed in our research.

A key feature of the profession/practitioner agnostic approach incorporated into both ISAE 3000 (Revised) and ED-5000 is the requirement for engagements to be conducted by a competent, independent practitioner, “in accordance with” the standard and subject to provisions of the IESBA Code of Ethics related to assurance engagements as well as ISQM 1 for quality management (formerly ISQC 1). If these standards for ethics/independence and quality management are not used, then an equivalent standard that is as demanding must be invoked.

However, [IFAC’s Deep Dive analysis](#) of approximately 913 sustainability assurance reports selected from our 2021 State of Play sample set indicates significant differences in these key application criteria—for accountants vs. other service provider practitioners. Specifically, based on reviews of 638 engagements (of 913) that used ISAE 3000 (Revised):

- 98% of assurance reports from accounting firms stated that the engagement was conducted in accordance with ISAE 3000 (Revised) vs. 53% for assurance reports from other service providers.
- 93% of assurance reports from accounting firms referenced the IESBA Code vs. 16% referenced the IESBA Code (12% an alternative code/standard) for assurance reports from other service providers.
- 91% of assurance reports from accounting firms cited quality controls under ISQC 1 vs. 7% of the assurance reports from other service providers referenced ISQC 1 and another 30% referenced ISQC 1 alternatives.

Further, our analysis suggests that greater transparency in assurance reports is needed. For example, in our review of 149 other service provider engagements from 2021 using ISAE 3000 (Revised), 64% of reports provided an independence statement that did not cite a specific code or standard for ethics and independence (be it the IESBA Code, ISO, etc.) We believe that robust enforcement of ISSA 5000 must require a clear reference to a specific code or standard—then there can be a determination as to whether

a non-IESBA standard is “at least as demanding as” IESBA Code requirements. The same is true with respect to references to ISQC 1 or the successor ISQM 1 and 2.

IFAC concludes that as sustainability assurance becomes a mandatory requirement in the European Union and other jurisdictions, local regulators must introduce robust oversight and enforcement mechanisms—to protect the interests of investors and other users of sustainability disclosures and metrics—applicable to all sustainability assurance practitioners. Admittedly, equivalent enforcement and performance of accounting professional vs. other service providers will evolve with practice, with rapid improvement being the goal. Meanwhile, investors must be informed of potential performance gaps such as those uncovered in our Deep Dive analysis.

*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):**

IFAC believes that ED-5000 appropriately differentiates between sustainability matters, sustainability information and disclosures, and accurately defines sustainability matters and sustainability information in a way that distinguishes between the two concepts.

The term sustainability matters and its definition are similar and consistent with the term underlying subject matters as used in ISAE 3000 (Revised), and the term sustainability information and its definition are similar and consistent with the term subject matter information as used in ISAE 3000 (Revised).

IFAC found that 95% of audit firms and 38% of other service providers used the ISAE 3000 (Revised) standard in their 2021 assurance engagements. (See [The State of Play, 2019-2021 Trends & Analysis](#).) Because of the prevalence of ISAE 3000 (Revised) that already exists in sustainability assurance engagements, IFAC believes the use of similar and consistent terminology will facilitate the use of ISSA 5000 for high-quality sustainability assurance engagements.

Coordination with IESBA on these definitions is also important, as they will also be looking to define sustainability information. There may be some resistance in certain jurisdictions to replace the relatively well-known concept of ‘ESG’ to add additional considerations such as cultural matters, whilst others would assess culture as already included within the ESG framework under social and/or governance matters. Standardization of terminology and harmonization with terminology in common use would be beneficial in encouraging uptake.

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 \(with no further comments\)](#)

### Detailed comments (if any):

#### *Differentiation of Limited Assurance and Reasonable Assurance*

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?

(See Explanatory Memorandum Section 1-F, paras. 45-48)

**Overall response:** [Yes, with comments below](#)

### Detailed comments (if any):

IFAC strongly supports ISSA 5000 covering both limited and reasonable assurance, and the column approach and flagging of paragraphs with 'L or 'R' to clarify applicability is welcomed. However, further clarity on what base procedures are required for limited assurance and how this would differ from those required for reasonable assurance would be appreciated and would enhance understanding on the part of investors and other stakeholders who are the intended beneficiaries of assurance. The absence of clarity in this area may leave inconsistency in practice between providers who could be carrying out different levels of work in relation to the same level of assurance reporting without any significant differentiation in risk factors. We recognize it would not be appropriate for ISSA 5000 to contain a methodology for assurance under each approach, but some further clarity within this baseline standard would be useful.

#### *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):

The acceptance or continuance paragraph (paragraph 75) refers to 'preconditions' for an assurance engagement but ED-5000 and its application guidance does not explicitly make clear what such 'preconditions' would be. We note there are some examples in application guidance that might be relevant for determining that such preconditions are not present, but this does not provide explicit clarity of what the underlying preconditions are.

Users may therefore be reliant on paragraph 78 (c) which refers to the responsibilities of management and TCWG. Para. 78 (c) (iv) then refers to 'Designing, implementing and maintaining a system of internal control that the entity determines is necessary to enable the preparation of sustainability information...'. It is not clear why the term 'entity' rather than 'management' is referred to here, but in any case, the requirement could pose practical challenges for management. For the entity to achieve this, it may require the entity to have knowledge of what happens through the value chain, while not necessarily having a course for demanding such information from a third party. This could be problematic, for example in cases where there

is a barrier to the reporting entity changing suppliers. If an entity has no practical ability to refuse to transact with a supplier that is unable or unwilling to provide information, the requirements may not practically be achievable by management in such cases.

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:** [Yes, with comments below](#)

**Detailed comments (if any):**

We note the distinction made between the entity’s process to select and identify topics for reporting (entity materiality) and practitioner’s materiality, and we agree with the basis of such a distinction being made. However, where assurance is being provided, the practitioner’s consideration of user’s decision making when reporting (i.e., practitioner materiality) would incorporate consideration of material omission—perhaps making the entity’s materiality consideration a factor in the practitioner’s materiality. It would be useful for some clarification of this relationship to be included within ISSA 5000 or application guidance.

The terminology used in relation to this area may also create challenges for those working with SME clients, who may not have a formal ‘materiality process’ while the term would not be understood or used by management informally either. This may create some scalability challenges for small entities and those providing assurance services to 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 \(with no further comments\)](#)

**Detailed comments (if any):**

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:** [Yes, with comments below](#)

**Detailed comments (if any):**

We believe that ED-5000 appropriately addresses the concept of the entity’s materiality process including differentiating between a single materiality and double materiality approach applied by a reporting entity for assessing what sustainability-related information it should disclose.

[IFAC supports a “building blocks” approach](#) to reporting on sustainability information—to deliver a harmonized, global system for consistent, comparable, and assurable sustainability-related information that meets the needs of investors and other stakeholders. This approach, which has also been supported by the IFRS Foundation, IOSCO, GRI, and others, balances two complimentary perspectives or information needs:

1. “Outside-in” disclosures addressing how ESG factors can impact company performance and value creation.
2. “Inside-out” disclosures addressing multi-stakeholder needs—societal impacts on people, economy or environment—not already captured by the prior perspective.

With respect to “double materiality,” we stated in our [August 2022 letter to EFRAG](#) that the “intention of ‘double materiality’ can be adapted to coexist” with the building block approach. We encouraged EFRAG to articulate this compatibility in the final drafting of the European Sustainability Reporting Standards, which have since been finalized—still referring to “double materiality.”

We believe that ED-5000 appropriately defines the entity’s materiality process to encompass a range of sustainability reporting approaches. This broad definition allows the use of ISSA 5000 for engagements of sustainability reports that use either single, double materiality or some other approach. This will enable all jurisdictions to apply the ISSA 5000 standard as sustainability reporting practices evolve.

#### *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):**

We agree with the approach for determining materiality, but caution that there may be the potential for an expectation gap in this area. Sustainability assurance engagements will be conducted on a risk-based approach. As is the case in financial audits, a risk-based approach may not respond to some of the risks users may deem to be important. As such, there may be a need for some clarification to manage expectations in relation to materiality (especially with respect to matters of impact materiality). As we note above, there would generally be some parallel between the entity’s materiality process and practitioner materiality, but it would never be possible to include all considerations that every individual user would deem to be significant within a risk-based approach.

*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:** [Agree, with comments below](#)

**Detailed comments (if any):**

We agree with the differentiation in approach and are appreciative of the guidance that tries to emphasize the difference between understanding components of an entity's system of internal control for Limited and Reasonable assurance engagements. We agree it is important to understand the risk environment, including an understanding of the system of internal control under a risk-based assurance approach.

The wording of paragraph 102L/R (b) may pose a challenge. 102L (b) indicates the results of the entity's risk assessment process need to be considered whereas there is no explicit reference to this in 102R (b). It should be explicitly emphasized what results should also be considered for a reasonable 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):**

ED-5000 does clarify when individuals are part of the engagement team or are 'another practitioner' rather than a member of the team. To assist assurance providers, it would be useful to include the diagram in figure 2 of the Explanatory Memorandum that clarifies this position within the guidance that accompanies ISSA 5000. We believe this will be useful for practitioners—making the distinction between members of the engagement team and others better understood and more explicit.

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:** [Yes, with comments below](#)

**Detailed comments (if any):**

It would be beneficial for ISSA 5000 to provide more clarity on how information from work carried out by other assurance providers in the value chain can be used in the engagement. This would help overcome potential practitioner concerns about an expectation that the sustainability assurance provider for an entity must provide assurance over the whole value chain, which may be impractical or impossible. As entities within the value chain may have also been required to gain assurance over their sustainability disclosures, there could be certain work that can be relied upon, if there was some clarity on the approach. Similar considerations would exist where there is use of service providers, so some clarity on what conditions would be needed to rely on information from work carried out by another party would be beneficial (e.g., is a SOC report or equivalent needed for reliance on controls assurance).

Generally, there could also be better emphasis that the same level of diligence is needed whether an expert is part of the engagement team or not. Paragraph 49 indicates the considerations that need to be made for an external expert. Many of these, especially around competence, capabilities and objectivity, would also apply to other practitioners and the engagement team itself. It would be useful to clarify such considerations are relevant for all.

#### *Estimates and Forward-Looking Information*

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:** [Agree, with comments below](#)

**Detailed comments (if any):**

The guidance for estimates and forward-looking information given within paras 134 L&R is appreciated, but could be enhanced by being more clearly described—considering separately what would be relevant for estimates and forward-looking information as we believe there may be different considerations relevant for each. For instance, when considering forward-looking information an assurance provider would need to assess whether financial forecasts take into account the entity’s financial capability to undertake their stated intentions. The same would not be relevant for estimates of historic activity. Comingling guidance for these two distinct areas could lead to such considerations being missed. We understand this is an overarching standard and expect further guidance in this area, but making this distinction clear within ISSA 5000 would be beneficial considering the sensitivity and inherent uncertainty surrounding such disclosures.

#### *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):**

We note the approach in this area appears to be based upon ISAE 3000, which was developed in a more financial reporting related environment and makes a distinction between limited and reasonable assurance engagements. Procedures for identifying risks of material issues need to be sufficiently robust to ensure practitioner focus is appropriately applied to the correct areas. Within assurance provided for historical financial information, relationships exist between numbers appearing in various areas and issues can be identified from the absence of expected relationships. Such relationships are absent in numerous matters within sustainability reporting, so an approach based upon principles relevant within financial reporting may not be entirely suitable. This raises the question as to whether it is more appropriate to look to the requirements of ISAE 3410 in this area, which require risk assessment and identification for both limited and reasonable assurance engagements. The requirements in ED-5000 may, in this way, create some inconsistency with ISAE 3410, so there is an argument that a more robust approach to risk assessment for limited assurance engagements should be made within ISSA 5000.

More generally in this area—in the risk assessment section for both limited and reasonable assurance—it would be beneficial to have greater focus on how to deal with management bias and estimation uncertainty. It would also be useful to have some specific sustainability related examples within the application guidance.

#### *Groups and “Consolidated” Sustainability Information*

18. Recognizing that ED-5000 is an overarching standard, do you agree that the principles-based requirements in ED-5000 can be applied for assurance engagements on the sustainability information of groups or in other circumstances when “consolidated” sustainability information is presented by the entity? If not, what do you propose and why?

*(See Explanatory Memorandum Section 1-G, paras. 102-107)*

**Overall response:** [Agree, with comments below](#)

#### **Detailed comments (if any):**

Noting ED-5000 is an overarching standard, the principles-based requirements can be applied in cases where consolidated information is presented by the entity. However, additional information concerning the treatment of groups and dealing with consolidated information would be beneficial, especially for non-professional accountant service providers who may be unfamiliar with the requirements of ISA 600. Guidance on identifying components and materiality in the context of a group are some areas where additional direction could be particularly useful.

#### *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:** [Agree, with comments below](#)

#### **Detailed comments (if any):**

The goal of a harmonized global system for reporting on sustainability matters is to create consistent, comparable, and decision-useful sustainability disclosures. Misleading information—whether due to fraud or error—is inconsistent with this goal. We therefore encourage the IAASB to provide examples of sustainability specific fraud related risk factors, as these would not necessarily be the same as in a financial-statements audit. We believe there is potential for an expectation gap in this area as public expectations may not be compatible with a risk -based audit approach, while regulator expectations could also be problematic for assurance providers.

Further, we encourage the IAASB to address in ISSA 5000 the incidence of misleading information that is not the result of error nor rises to the level of fraudulent behavior—but results from intentions that are more focused on brand/reputation enhancement or enhancing public perception rather than providing decision-useful information. The role of professional judgement must be highlighted in identifying a broader scope of misleading sustainability information that companies may provide.

The above said, responsibility for high quality, publicly available information lies first and foremost with the companies who must communicate with investors and other stakeholders. High quality assurance—especially mandatory assurance—of sustainability disclosures has an important role to play in incentivizing companies to implement data gathering, systems, processes, and internal controls over sustainability information that is on par with those supporting the financial statements. However, a recent stakeholder survey conducted by ACCA, IFAC, and PWC indicates that preparer confidence in non-financial information may be on an upward trend, but is not yet equivalent with financial information—perhaps calling into question the suitability of ESG information for assurance:

- 53% respondents said unreliable or lower quality two years ago.
- 31% respondents said unreliable or lower quality now.
- 17% respondents said same quality now.
- 26% respondents said same quality in two years' time.

Further, our research demonstrates that the Sustainability Development Goals (SDGs) are the most commonly standard or framework for disclosing sustainability information (i.e., 79% of companies we reviewed from G20 countries plus Singapore and Hong Kong S.A.R in 2021.). However, this information is not the subject of sustainability assurance, while disclosures consistent with GRI Standards (i.e., the second most frequently used methodology which also focuses on societal impacts— 74%) is most often assured— 39%. This discrepancy suggests that companies purporting to report consistent with the SDGs, and not obtaining assurance over what they have reported, may not be approaching their sustainability disclosures with the same rigor or intent as their financial information—potentially misleading investors or other stakeholders, without necessarily engaging in fraudulent activity. ([See The State of Play, 2019-2021 Trends & Analysis](#), page 20.)

Our research also shows that over 80% of companies across forty-two jurisdictions and nearly 2000 companies use a mix of standards and frameworks to voluntarily report on sustainability matters, as they see fit. In IFAC's view, this information is, by nature, not reliable, consistent or comparable—and therefore of questionable value. (See [The State of Play Beyond the G20](#), page 9.)

Finally, in our [Getting to Net Zero](#) analysis of nearly 400 company disclosures on emission reduction targets, we determined that many transition plans for achieving emission reduction targets only included short or medium-term actions, lacked detail, and only 24% disclosed past or future expected expenditures to implement plan actions.

This research calls into question the decision-usefulness of current market practice for emissions target and transition plan disclosures but does not necessarily rise to the level of erroneous or fraudulent behavior.

*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 comments below](#)

**Detailed comments (if any):**

We agree with the IAASB's assessment that the nature/scope of sustainability assurance engagements—and who is charged with corporate oversight—is still evolving and that prescriptive measures are not required at this time, but we encourage the IAASB to prioritize this issue in its future sustainability-related work. For independence purposes, the benefits of reporting to those charged with governance (TCWG) have been clear for auditors of financial statements and we believe the merits of reporting to TCWG should be explored for other assurance engagements too, including sustainability.

In its publication on [Achieving High-Quality Audits](#), IFAC supports the belief that “achieving high-quality audits is dependent on a well-functioning ecosystem of participants from the audit profession as well as from governing bodies, directors and management. The right culture—starting with the tone at the top—and right oversight are critical to achieving a high-quality and high-value audit. This philosophy applies equally to financial audits and sustainability-focused assurance. Therefore, communication on the part of the assurance engagement team with management, those charged with governance and others is essential.”

This said, unpublished research that IFAC has conducted on governance and oversight practices of 1400 stock exchange listed companies in our 2021 State of Play sample set suggests that best practices in board governance and oversight are still evolving. 75% of the companies we reviewed did not have policies in place designating the Audit Committee (or alternative committee such as sustainability, corporate governance, human resources, etc.) with specific oversight of sustainability assurance. More broadly, oversight of sustainability strategy (i.e., not reporting or assurance specific) is cited 87% of the time, but 70% of these companies assign responsibility to multiple committees (including audit – 74%; sustainability – 48%; corporate governance – 41%; human resources – 10%; other – 38%; and “the Board” – 5%).

[Our State of Play research](#) also demonstrates evolution in the scope of sustainability assurance engagements. Our 2021 review suggests that assurance is currently focused on GHG emissions, with a meaningful decline in the number of reporting companies also obtaining assurance on other environmental, social, or governance matters they report. About half (53%) of companies obtained assurance on information across all four of these disclosure categories. These assurance results are in contrast to our findings on reporting—with almost all companies who report on ESG do so across GHG, environmental, social and governance sustainability matters.

We therefore agree with the IAASB's assessment that the nature/scope of sustainability assurance engagements—and who is charged with oversight—is still evolving and that prescriptive measures are not

required at this time, but we encourage the IAASB to prioritize this issue in its future sustainability-related work.

This said, one specific area where an anomaly could be addressed in ED-5000 relates to the requirement outlined in paragraph 157(b) which refers to a need to report to TCWG if management refuses to correct a material misstatement to 'other information.' Paragraph 62 refers to significant matters being reported to TCWG, but it may be useful to explicitly clarify that material issues with matters subject to assurance (in addition to 'other information') also need to be reported to TCWG. In the absence of this, it may give the impression that 'other information' issues are more important to communicate to TCWG.

#### *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:** [Yes, with comments below](#)

#### **Detailed comments (if any):**

We support the IAASB's approach of basing the report requirements in ED-5000 sustainability assurance engagements on the report requirements of ISAE 3000 (Revised). As noted in question 2, 95% of audit firms and 38% of other service providers in our [2021 State of Play research](#) used the ISAE 3000 (Revised) standards to perform sustainability assurance. The high rates of ISAE 3000 (Revised) usage suggests assurance providers and the users of sustainability reports are familiar with this approach to sustainability-related assurance reports.

ED-5000 includes key information required to understand the nature of the engagement, including the applicable criteria used to assure the sustainability information against, the assurance providers conclusion, the responsibility of both the preparer and the practitioner, the work performed by the practitioner, and the independence/ethics code and quality management standards applied by the practitioner, among other information.

This said, it would be helpful for the IAASB to provide more examples of modified reports so that best practice can be identified. A particular challenge we are conscious of is when the need arises to report on differing levels of assurance (i.e., limited and reasonable) for the same entity. This may be problematic to include in a single report and, from a risk management perspective, it may make more sense for the assurance provider to issue separate reports for the information subject to each level of assurance. Further, an auditor performing the financial statements audit and providing sustainability assurance, might decide to report in a single report. However, entities that have a different financial statements auditor and sustainability assurance provider would always have separate reports for each. This type of inconsistency may create confusion for users. Given the goal of providing investors, as well as other stakeholders, the best and most useable information, reducing this potential for inconsistency in reporting may be advisable for ISSA 5000 to address.

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:** [Agree, with comments below](#)

**Detailed comments (if any):**

We recognize that at this stage it would be challenging to address this concept in ISSA 5000, but we encourage the IAASB to prioritize “key sustainability assurance matters” in its future sustainability-related work, especially as this issue is linked to the communication that takes place between the assurance provider and those charged with governance (see question 20).

“IFAC believes that audit stakeholders—particularly company boards, governing bodies, and management—should view audit as a value-added process rather than a compliance exercise that simply results in an audit opinion.” This [Point of View—published in 2020](#) holds true today for both financial audit and sustainability assurance engagements. IFAC has supported “efforts that enable the auditor to deliver greater transparency and value in the audit report—for example, requirements to communicate Key Audit Matters (under ISA 701) and Critical Audit Matters (under PCAOB AS 3101).” We therefore encourage the IAASB to prioritize Key Sustainability Matters in its future sustainability-related work, especially as this issue is linked to the communication that takes place between the assurance provider and those charged with governance (see question 20).

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:** [Yes, with comments below](#)

**Detailed comments (if any):**

The explanation provided is sufficiently prominent, but it would be useful to provide further clarity on the meaning of “substantially” in this context. Some of the procedures for limited and reasonable assurance are similar, so there is scope to increase clarity in this area.

*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:** [No response](#)

**Detailed comments (if any):**

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):**

**Issue 1:** As the voice of the global profession, IFAC supports the IAASB’s development of ISSA 5000 (i.e., similar to ISAE 3000 (Revised)) in a practitioner-agnostic manner—applying to both accounting and non-accounting practitioners. This view is consistent with [IOSCO’s September 15, 2022 statement](#) encouraging the IAASB and IESBA to develop standards that “could apply irrespective of whether an assurance engagement is provided by an audit firm or a non-audit firm.”

Our research on current market practice in sustainability assurance substantiates this approach. (See [The State of Play, 2019-2021 Trends & Analysis](#) and [The State of Play Beyond the G20](#).)

1. Consultancy and engineering organizations have meaningful market share around the world—i.e., 43% in 2021, up from 37% in 2019, according to our State of Play research. In fact, other service providers performed the majority of assurance (i.e., over 50%) in fifteen jurisdictions we have reviewed (i.e., Egypt, Hong Kong S.A.R., India, Ireland, Israel, Japan, Malaysia, Peru, Philippines, Poland, South Africa, South Korea, UK, USA, and Thailand).
2. The practitioner agnostic approach is already well-established under ISAE 3000 (Revised)—the IAASB’s current standard for non-financial assurance engagements. Based on our research, ISAE 3000 (Revised) is the dominant standard used by accountancy firm practitioners (i.e., 95% in 2021) and was the second most frequent standard used by other service providers in our 2021 review (i.e., 38%).
3. Further, based on our stakeholder engagement, IFAC appreciates different jurisdiction-specific circumstances (e.g., market concentration concerns, perceived capacity deficiencies, etc.) that may lead regulators and policy makers to support sustainability assurance being performed by both accounting and consulting organizations.

Taking this evidence into account, we support a practitioner-agnostic approach, but there must be robust regulatory oversight to support high-quality outcomes from all service providers. While the IAASB does not have enforcement authority over the use/application of its standards, we encourage the Board to use its stature and recognized expertise to encourage regulators to provide high-quality, robust oversight that supports high-quality assurance outcomes from all practitioners.

Finally, the IAASB had clearly articulated the need for additional standard-setting work (e.g., to address emerging issues). Therefore, we believe that jurisdiction-specific add-ons or additional requirements should be minimal—especially following the extensive outreach conducted by the IAASB during the current Exposure Draft comment period. We encourage the accountancy profession to advocate for jurisdiction adoption of ISSA 5000 without modification—only adding additional requirements to address immediate and material jurisdiction-specific needs. We also encourage the IAASB to work with pace to meet the emerging needs of stakeholders—be it with additional guidance or standard-setting.

**Issue 2:** We believe that ED-5000 could be improved by providing commentary on the treatment of unassured comparative information. Analysts, rating agencies and other users may extrapolate and prepare analysis that combines assured and unassured figures, perhaps from different reporting periods. We are concerned that such practice may be misleading or confusing with respect to the overall reliability of sustainability information. While the primary responsibility for transparency in this area rests on management in preparing and presenting an entity’s sustainability reporting, some guidance for assurance providers would be useful and the potential impact on the sustainability assurance report should be considered if there is insufficient clarity provided by management.

## 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):**

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:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**