

Proposed International Standard on Sustainability Assurance (ISSA) 5000™, *General Requirements for Sustainability Assurance Engagements*

Part 8.1: Accumulation and Consideration of Identified Misstatements

Please see Agenda Item 7-D for key issues for the Board’s consideration.

Requirements and Application Material

Color coding for requirements and application material		If a requirement or application material only applies to either limited or reasonable assurance: <ul style="list-style-type: none"> • The letter “L” is used in the paragraph number for limited assurance. • The letter “R” is used in the paragraph number for reasonable assurance.
Green	Reasonable and limited assurance	
Blue	Reasonable assurance only	
Orange	Limited assurance only	

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	Part 8: Concluding		
	<i>8.1 Accumulation and Consideration of Identified Misstatements</i>		<i>8.1 Accumulation and Consideration of Identified Misstatements</i>
	8.1.1 Accumulation of Identified Misstatements		8.1.1 Accumulation of Identified Misstatements
1.	The practitioner shall accumulate misstatements identified during the engagement, other than those that	A1.	The practitioner is required to accumulate misstatements identified during the engagement other than those that are clearly trivial. “Clearly trivial” is not another expression for “not material.” Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly

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	are clearly trivial. [ISAE 3410 ¹ Para. 50 and ISA 450 ² Para. 5]		inconsequential, whether taken for each disclosure or for the disclosures in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. [ISA 450 Para. A2]
		A2.	For quantitative amounts, the practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the disclosure, or on the disclosures in aggregate determined in accordance with Part 5. [ISAE 3000 (Revised) ³ Para. A120]
		A3.	Clearly trivial may be considered in the context of the impact of the misstatement on the intended users' decisions. As explained in paragraph A20 of Part 5, intended users may include users who may use sustainability information to make resource allocation decisions, or users who may be interested in the impact of the entity. The applicable criteria may include principles to assist the entity in identifying information relevant to users, and which may provide a frame of reference for the practitioner in considering materiality.
		A4.	<p>Misstatements in sustainability information may arise through:</p> <ul style="list-style-type: none"> (a) An inaccuracy in gathering or processing information used to prepare the sustainability information; (b) Manipulating or obscuring the sustainability information in a manner that would be misleading to the intended users;

¹ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

² ISA 450, *Evaluation of Misstatements Identified during the Audit*

³ ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

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			<ul style="list-style-type: none"> (c) Management’s judgments involving estimates being considered unreasonable by the practitioner; (d) The inclusion of inappropriate information, for example, information that should not be included in accordance with the applicable criteria or that obscures or distorts sustainability information that is required by the applicable criteria; (e) The inclusion of information that is not supported by sufficient appropriate evidence. (f) The omission of sustainability information required by the applicable criteria, for example, sustainability information relating to a significant subsequent event that would likely change the decisions of users but has not been adequately disclosed; (g) Sustainability information that, in the practitioner’s judgment, is: <ul style="list-style-type: none"> (i) Ambiguous; or (ii) Capable of being determined precisely, but is presented in a vague manner; (h) Changes since the previous reporting period to the sustainability information without reasonable justification for doing so or without disclosing the reasons for doing so; (i) The manner in which the sustainability information is presented. For example, it may be presented: <ul style="list-style-type: none"> (i) Out of context, in an imbalanced manner, or given greater or lesser prominence than is warranted, based on the available evidence and applicable criteria. (ii) Using superlatives and adjectives that describe a more positive outcome than is factually correct. (j) Inappropriately drawing conclusions, based on selective information, for example, through statements such as the following: <ul style="list-style-type: none"> (i) “A large number of companies worldwide,” based on information for only a hundred companies; although a hundred may be large, it is not large compared to the number of companies in the world.

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			<p>(ii) “The numbers have doubled since last year” may be factual, but a small base giving rise to this doubling may not be disclosed.</p> <p>[Adapted from ISA 450 Para. A1 and EER⁴ Para. 342]</p>
		A5.	<p>Determining whether there is a misstatement may require professional judgment. Some framework criteria may allow the entity to omit information, explain what information has been omitted and why. For example, the entity may be permitted to omit information if a requirement is not applicable, information is unavailable or incomplete, there are legal prohibitions, or confidentiality constraints. In such cases, the omitted information may not be a misstatement. The practitioner may discuss the omission, and the reasons for it, with those charged with governance before concluding whether the omission is a misstatement.</p>
		A6.	<p>When the disclosure(s) are measured using a common measurement basis (e.g., monetary amounts or physical units) the practitioner may be able to accumulate all misstatements together (i.e., as being of the same nature quantitatively and capable of being aggregated). However, the disclosures may relate to multiple topics, may comprise several aspects of the topics, and the underlying subject matter may be measured or evaluated using different measurement bases. The practitioner is not required to convert misstatements in different measurement bases into a common base for purposes of accumulating the misstatements and determining whether the disclosures are materially misstated.</p>
		A7.	<p>The disclosure may include a description of the entity's processes, systems or controls regarding the underlying subject matter (e.g., the entity's process to identify, assess, and manage current and anticipated sustainability-related risks and opportunities). The scope of the assurance engagement may require the practitioner to conclude:</p>

⁴ Non-Authoritative guidance on Sustainability and Other Extended External Reporting Assurance Engagements (EER Guidance)

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			<p>(a) Whether the description of the entity's process, systems or controls fairly presents the design and implementation of those processes, systems or controls;</p> <p>(b) Whether the entity's processes, systems or controls are suitable, or operated effectively throughout the period; or</p> <p>(c) A combination of both.</p> <p>The scope of the assurance engagement, and resulting conclusion in the practitioner's report, may depend on factors such as the applicable criteria, law, regulation or professional requirements, or the agreed terms of engagement. What constitutes a misstatement in these circumstances depends on the scope of the engagement. For example:</p> <p>(i) <i>The scope of the engagement includes whether the entity's processes, systems or controls are suitable and operated effectively throughout the period:</i> If the practitioner determines that the entity's description of the processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, this may constitute a misstatement.</p> <p>(ii) <i>The scope of the engagement does not include whether the entity's processes, systems or controls are suitable and operated effectively throughout the period:</i> If the practitioner is aware that the entity's description of its processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, the practitioner may need to consider whether the disclosure could influence the decisions of intended users. The practitioner may discuss the matter further with management and those charged with governance and request them to amend the disclosure. If the disclosure is not amended, the practitioner may consider:</p> <ol style="list-style-type: none"> a. The implications for the conclusion, if any; and b. The practitioner's responsibilities under relevant ethical requirements regarding association with misleading information.

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2.	<p>The practitioner shall:</p> <p>(a) Remain alert throughout the engagement, including when considering misstatements for each disclosure or for the disclosures in aggregate, to the possibility that misstatements due to fraud may occur; and</p> <p>(b) Respond appropriately if there are indicators that there may be material misstatements of the sustainability information due to fraud.</p> <p>[EER Para. 313]</p>	A8.	<p>As discussed in Part 3 of this ISSA, the practitioner is required to determine whether the criteria are suitable. If the criteria are vague and allow manipulation of the sustainability information, then the criteria may not be suitable. However, if the criteria are determined suitable but management intentionally did not apply the criteria appropriately, it may be an indication of misstatement due to fraud.</p>
		A9.	<p>Misstatements due to fraud may result from intentional:</p> <p>(a) Manipulation, falsification, or alteration of information or supporting documentation from which the sustainability information is prepared.</p> <p>(b) Misrepresentation in, or omission from, the sustainability information.</p> <p>Examples of misstatement due to fraud in sustainability information include:</p> <p>(i) Misstating sustainability information to avoid penalties or fines.</p> <p>(ii) Intentionally inaccurate or misleading public statements or claims that will favorably impact share price or an assessment of the entity's sustainability credentials.</p> <p>(iii) Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way to influence the outcome of the performance reward or compensation.</p> <p>(iv) Emphasizing a product was produced using recycled materials but not report that the product was produced using forced labor.</p> <p>(v) Intentionally reporting topics for which the entity has positive impacts and omitting topics for which the entity has negative impacts.</p>

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			[Adapted from ISA 240 ⁵ Para. A3 and EER Para. 312]
		A10.	<p>If the practitioner identifies a misstatement that is indicative of fraud, this may have implications in relation to other aspects of the assurance engagement, particularly:</p> <p>(a) The practitioner’s identification of the disclosures where material misstatements due to fraud are likely to arise (limited assurance), or identifying risks of material misstatement due to fraud (reasonable assurance), and the nature, timing and extent of further procedures;</p> <p>(b) The reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.</p> <p>[Adapted from ISA 240 Para. 36-37]</p>
	8.1.2 Consideration of Identified Misstatements as the Engagement Progresses		8.1.2 Consideration of Identified Misstatements as the Engagement Progresses
			<i>Revisions to the Overall Engagement Strategy and Engagement Plan</i>
3.	<p>The practitioner shall determine whether the overall engagement strategy and engagement plan need to be revised if:</p> <p>(a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the engagement, could be material; or</p>	A11R	<p>The practitioner may also consider whether accumulated misstatements relate to control deficiencies. Specifically, the practitioner may consider whether the nature or extent of the accumulated misstatements cause the practitioner to change the practitioner’s understanding of the entity’s system of internal control relevant to the preparation of the sustainability information (see paragraphs 8L and 8R of Part 6). [EER Para. 314]</p>

⁵ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

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	<p>(b) The misstatements accumulated during the engagement may, in aggregate, result in the sustainability information being materially misstated.</p> <p>[ISAE 3410 Para. 51]</p>		
4.	<p>If, at the practitioner's request, management has examined the sustainability information and corrected misstatements that were detected, the practitioner shall perform additional procedures with respect to the work performed by management to determine whether material misstatements remain. [Adapted from ISAE 3410 Para. 52]</p>		
	8.1.3 Communicating and Correcting Misstatements		8.1.3 Communicating and Correcting Misstatements
5.	<p>The practitioner shall communicate on a timely basis all misstatements accumulated during the assurance engagement to management, and shall request management to correct those misstatements. [ISAE 3410 Para. 53]</p>	A12.	<p>In the case of narrative sustainability information, asking management to correct a misstatement may involve either re-wording or removing the misstated text. [EER Para. 352]</p>
6.	<p>If management refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when forming the practitioner's conclusion. [ISAE 3410 Para. 54]</p>	A13.	<p>The practitioner's understanding of management's reasons for not making the corrections may indicate possible bias in management's judgments. [Adapted from ISA 450 Para. A13]</p>

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	8.1.4 Evaluating the Effect of Uncorrected Misstatements		8.1.4 Evaluating the Effect of Uncorrected Misstatements
7.	Prior to evaluating the effect of uncorrected misstatements, the practitioner shall reconsider materiality determined in accordance with paragraph 7 of Part 5 to confirm whether it remains appropriate. [ISAE 3410 Para.55]		
8.	The practitioner shall determine whether uncorrected misstatements are material for each disclosure or for the disclosures in aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence, in relation to each disclosure and the disclosures in aggregate for the purposes of expressing a conclusion in the practitioner's report. [ISAE 3410 Para.56]	A14.	Uncorrected misstatements in each disclosure or disclosures in aggregate are accumulated during the engagement for the purpose of evaluating whether they are material when forming the practitioner's conclusion. [ISAE 3000 (Revised) Para A119]
		A15.	The practitioner's understanding of who the intended users are, and what disclosures are likely to be important, may be relevant to the practitioner's ability to exercise professional judgment about which misstatements are material. [EER Para. 346]
		A16.	The practitioner determines whether the uncorrected misstatements are material for each disclosure because intended users may have different tolerances for misstatement in each disclosure, and there may not be a common basis for aggregating misstatements. For example, intended users' tolerance for misstatements is likely to be higher for a disclosure about non-hazardous, degradable waste, than it would be for a disclosure about radioactive or other hazardous waste. [Adapted from EER Para. 308]

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		A17.	The disclosures in aggregate may be misstated, even though each disclosure may not be materially misstated. This may occur, for example, when the overall tone across the disclosures is misleading or biased, such as in the case of fraud. [Adapted from EER Para. 309]
		A18.	<p>Other Misstatement Considerations</p> <p>Materiality of uncorrected statements is considered in the context of qualitative and, when applicable, quantitative factors. The practitioner may also take into account the extent to which users could reasonably be expected to make a different decision if the sustainability information was not misstated. Qualitative factors that may indicate that a misstatement is more likely to be material, include:</p> <p><u>Underlying subject matter</u></p> <ul style="list-style-type: none"> (a) The misstated sustainability information relates to an aspect of the underlying subject matter that has been determined as being significant. (b) There are multiple misstatements related to the same topic of the underlying sustainability matter. (c) The direction of the misstatements are all positive or all negative. <p><u>External factors</u></p> <ul style="list-style-type: none"> (d) The misstated sustainability information relates to non-compliance with a law or regulation, particularly when the consequence for non-compliance is severe. (e) The misstated sustainability information relates to underlying subject matter that has implications for a large number of the entity’s stakeholders. However, there may be situations when the underlying subject matter has implications for only a small number of stakeholders but may, nonetheless, have material implications. For example, a small community affected by radioactive contamination of their water supply from effluent from an entity’s operations may open a lawsuit which could have a material impact on the entity and its other stakeholders.

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			<p>(f) The misstatements may indicate doubts as to the feasibility of management's actions, management's claims about the entity's sustainability credentials, or whether the entity may continue as a going concern.</p> <p><u>Nature of the underlying subject matter</u></p> <p>(g) The misstatement relates to a particular disclosure that is commonly used to compare the entity to its peers.</p> <p>(h) The misstatement relates to a target or threshold, and the error significantly impacts whether the target or threshold is met (in some cases the magnitude of the error may be small but may have significant consequences for meeting the target).</p> <p>(j) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.</p> <p><u>Presentation</u></p> <p>(j) It is a presentational misstatement that has arisen from underlying subject matter being misleading and the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly intended users might make different decisions depending on their interpretation.</p> <p><u>Preparer's behavior</u></p> <p>(k) The misstatement has arisen as a result of fraud by the preparer to mislead intended users.</p> <p>(l) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.</p> <p>(m) The preparer is reporting aggressive targets or estimates, or is defensive in providing explanations.</p> <p>[Adapted from EER Para. 315 and 316]</p>

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		A19.	Misstatements in qualitative information may be as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by the preparer, the practitioner may accumulate them by listing them, or marking up or highlighting them in a copy of the sustainability information. When it is not possible to add the misstatements together to determine their effect in aggregate, the practitioner may consider factors such as whether the misstatements reflect a more favorable outcome that is collectively material, or indicate management bias. [Adapted from EER Para. 343]
		A20.	Understanding the underlying cause of identified misstatements may help the practitioner to evaluate their materiality to the sustainability information. For example, misstatements in qualitative information may be due to misunderstanding, oversight or error by management preparing the sustainability information, which may not be material. If the qualitative misstatement is because management has intentionally made a decision to misrepresent facts, this is an indicator of fraud and is considered material. [Adapted from EER Para. 351]
			Measurement or Evaluation Uncertainty
		A21.	The underlying subject matter may have inherent measurement or evaluation uncertainty, or there may be inherent uncertainty in preparing and reporting the sustainability information. As a result, there may be a higher degree of variability in measuring, evaluating, presenting and disclosing such sustainability information. When there is inherent measurement or evaluation uncertainty, identifying and evaluating misstatements is a matter of professional judgment. As a result of inherent uncertainties relating to the underlying subject matter(s), applicable criteria and assumptions used to evaluate it, and the speculative nature of the available evidence, there may be a wide range of possible outcomes and it may be difficult to identify whether there is a material misstatement of the sustainability information. In identifying and evaluating the misstatements, the practitioner may consider whether the underlying subject matter is

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			as precise as is required by the applicable criteria, and the information required by the applicable criteria about the inherent uncertainty is disclosed. Without supporting disclosures to help the intended users understand the uncertainty, the applicable criteria may not be suitable, and the sustainability information may not be presented appropriately. Paragraph X of Part 9 addresses the appropriate descriptions to be included in the practitioner's report. [Adapted from EER Para. 320-321, 365]
		A22.	When the uncertainty is not inherent (i.e., when it results from lack of knowledge or lack of appropriate application of the applicable criteria) it may give rise to misstatements. For example, management may not have used appropriate information to measure or evaluate the underlying subject matter that has resulted in it not being as precise as required by the applicable criteria. [EER Para. 322]
		A23.	Forward-looking information is generally subject to greater measurement, estimation and evaluation uncertainty than historical information. As a result, there may be a broad range of possible outcomes, and it may be difficult to identify and evaluate misstatements, including whether the assumptions are: <ul style="list-style-type: none"> (a) Reasonable, in the case of a forecast; or (b) Realistic and in line with the purpose of the information, in the case of projections. The practitioner may consider ways in which misstatements may arise, for example: <ul style="list-style-type: none"> (i) Data or other information used may not be relevant, complete or reliable; (ii) Assumptions may include information that is not relevant, may omit important considerations, or may be given inappropriate weighting; (iii) Assumptions may not be consistent with management's decisions or intent; (iv) There may be unintentional or deliberate misapplication of the assumptions to the data or other information, or in calculations of quantifiable information.

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			<p>In some cases, misstatements may arise as a result of a combination of these circumstances.</p> <p>[EER Para. 387-389]</p>
		A24.	<p>The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or in the way in which the sustainability information is presented that may indicate a misstatement, or have implications for the rest of the assurance engagement. For example, when management has:</p> <ul style="list-style-type: none"> (a) Changed the assumptions or methods used, or has made a judgmental assessment that there has been a change in circumstances, without reasonable justification; (b) Used assumptions that are inconsistent with observable marketplace assumptions; or (c) Selected significant assumptions that favor management's objectives, or that may indicate a pattern or trend. <p>[EER Para. 390-391]</p>