

Proposed International Standard on Sustainability Assurance (ISSA) 5000™, *General Requirements for Sustainability Assurance Engagements***Overview for Part 6 Risks of Material Misstatement**

Please note that this document provides an explanation of the Sustainability Assurance Task Force's (SATF) key considerations in developing Part 6. The requirements and application material for Part 6 are located in **Agenda Item 7-E.1**.

Key Issues Identified in the Project Proposal Relevant to this Part

- The difference in work effort between limited and reasonable assurance, including sufficiency of evidence.
- The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence.

Key Feedback from the Reference Groups Relevant to this Part

Reference Groups #1 and #2 provided feedback on the practitioner's assessment of the risk of material misstatement. Key points which they raised included:

1. In practice, the identification and assessment of risks is typically undertaken at the disaggregated level for both reasonable and limited assurance engagements, although it can be undertaken "as a whole" if the sustainability information is homogenous rather than disparate.
2. Some Reference Group members noted that their methodologies had been recently revised to require the risk identification and assessment for limited assurance engagements at the disaggregated level.
3. Support was expressed for applying assertions for reasonable assurance engagements.

Key Issues for the Board's Consideration**ISSUE 1: The Level at Which Risks are Identified and Assessed, and the Difference in Approach Between Limited Assurance and Reasonable Assurance**

4. As discussed in **Agenda Item 7**, the practitioner has a responsibility to determine the aggregation or disaggregation of the sustainability information in a way that is appropriate in the circumstances of the engagement. These requirements are included in paragraphs 5L, 5R and 6 of Part 5 (**Agenda Item 7-D**).
5. The SATF considered how the requirement for identifying and assessing risks of material misstatement should be established in Proposed ISSA 5000, including the level at which risks of material misstatement should be identified, and how the approach should be different for limited and reasonable assurance. To formulate the proposals, the SATF considered the approaches to risks of material misstatement across various IAASB standards. Taking these approaches across the IAASB Standards into account, the SATF has proposed the following (see paragraphs 1L and 1R of Part 6):

Limited Assurance	Reasonable Assurance	Explanation of Approach
<p>Required to understand:</p> <p>(a) The underlying subject matter and the subject matter information;</p> <p>(b) The entity and its environment; and</p> <p>(c) The applicable criteria</p>	<p>Required to understand:</p> <p>(a) The underlying subject matter and the subject matter information;</p> <p>(b) The entity and its environment; and</p> <p>(c) The applicable criteria</p>	<ul style="list-style-type: none"> • What the practitioner is required to understand is the same, but the purpose of the understanding is different. This would result in proportionality based on the level of assurance because the depth of understanding would be different.
<p>sufficient to identify disclosures where material misstatements are likely to arise and thereby provide a basis for designing procedures to focus on those disclosures.</p>	<p>sufficient to provide an appropriate basis for:</p> <p>(i) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the assertion level for each disclosure; and</p> <p>(ii) The design of further procedures.</p>	<ul style="list-style-type: none"> • Limited assurance: <ul style="list-style-type: none"> ○ The approach is similar to ISRE 2400 (Revised)¹ and ISAE 3000 (Revised),² with the focus on <i>disclosures</i> where material misstatements are likely to arise (i.e., disclosures identified in accordance with paragraphs 5L and 5R of Part 5 (Agenda Item 7-D)). ○ This approach is appropriate because <ul style="list-style-type: none"> ▪ Proposed ISSA 5000 should not go beyond the requirements in ISRE 2400 (Revised) in terms of establishing the differentiation between limited and reasonable assurance. ▪ Although in ISAE 3410³ the practitioner is required to <i>identify and assess</i> the risks of material misstatement (i.e., it is similar to reasonable assurance, with the exception that it is not at the assertion level), ISAE 3410 is designed for a specific subject matter. ○ One SATF member did not agree with the approach for limited assurance and believes that the approach in ISAE 3410 is more appropriate, i.e., that

¹ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

² International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

		<p>the practitioner should be required to identify and assess the risks of material misstatements for each disclosure.</p> <ul style="list-style-type: none">• Reasonable assurance: The approach is similar to ISAE 3410 and ISA 315 (Revised 2019),⁴ however there is no requirement to identify and assess the risks of material misstatement for the aggregated information because:<ul style="list-style-type: none">○ Feedback from the Reference Group indicated this is not done in practice.○ Pervasive risks, if any, would likely relate to a deficiency in internal controls that affects all of the sustainability information, for example, a deficiency in the control environment. Accordingly, the SATF has included a more direct requirement in paragraph 16R of Part 6 that addresses circumstances when the practitioner’s understanding of internal control indicates risks of material misstatement of the disclosures as a whole (see also paragraph A60R of Part 6).
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Questions for the IAASB:

16. Recognizing the Board’s views on Question 2(a) (see **Agenda Item 7**), does the Board support the approach to risks of material misstatement in this Part, i.e.:
- (a) For limited assurance, that the focus is on identifying disclosures where material misstatements are likely to arise (see paragraphs 1L and 15L of Part 6); and
 - (b) For reasonable assurance, that the risks are identified and assessed at the assertion level for each disclosure (see paragraphs 1R and 15R of Part 6)?

ISSUE 2: What the Practitioner is Required to Understand

6. The SATF considered the requirements across the IAASB’s Standards that set out what a practitioner or auditor is required to understand for purposes of identifying and assessing risks of material misstatement. There are some specific matters that the SATF has included in Proposed ISSA 5000 that differ from the other IAASB Standards, in particular the following:

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- (a) The reporting boundary and activities within the reporting boundary (see paragraph 5(b) of Part 6). Note that ISAE 3410 requires the practitioner to understand the nature of the operations included in the entity’s organizational boundary.
- (b) The entity’s goals, targets or strategic objectives related to the sustainability information and measures used to assess the entity’s performance against these matters (see paragraph 5(d) of Part 6). This was adapted from a similar requirement in ISAE 3410 that requires the practitioner to understand the entity’s climate change objective and strategy, if any, and associated economic, regulatory, physical and reputational risks.
- (c) Although all of the IAASB Standards refer to understanding the applicable criteria or financial reporting framework, Proposed ISSA 5000 includes further specificity on what the practitioner should understand, given the importance of criteria in sustainability assurance engagements addressing a wide range of topics and aspects of the topics (underlying subject matter) (see paragraph 6 of Part 6).
- (d) Proposed ISSA 5000 more specifically outlines what needs to be understood about the underlying subject matter and the sustainability information, than what is required by ISAE 3000 (Revised) (see paragraph 7 of Part 6).

The SATF believes that understanding these matters will help support a more robust and consistent approach to identifying disclosures where material misstatements are likely to arise (in a limited assurance engagement) or risks of material misstatement (in a reasonable assurance engagement).

Understanding the Entity’s System of Internal Control

- 7. The SATF considered the extent of understanding of the entity’s system of internal control, and how this should differ between limited and reasonable assurance. The approach adopted in Part 6 reflects the following:

Level of Assurance	General Approach	Requirement	SATF’s Considerations
Limited	Approach for limited assurance in ISAE 3410	Understand: (a) The control environment; (b) The information systems; and (c) The results of the entity’s risk assessment process.	(a) The SATF noted that in both limited and reasonable assurance engagements, the practitioner should understand the control environment and information system. This is consistent with ISAE 3410. (b) The SATF noted that in ISAE 3410, the practitioner is only required to understand <i>the results of</i> the risk assessment component for limited assurance, whereas in a reasonable assurance engagement, the practitioner is required to understand the <i>entity’s risk assessment process</i> . The SATF believes this differentiation remains appropriate for Proposed ISSA 5000.

			<p>(c) The SATF considered whether the requirements should also require an understanding of the following aspects of the entity’s system of internal control:</p> <p>(i) Control activities. The SATF noted this is only necessary if the practitioner intends to rely on control activities, or if the practitioner considers that understanding the control activities is appropriate to identify and assess the risks of material misstatement at the assertion level for disclosures and design further procedures responsive to assessed risks, which is not anticipated in a limited assurance engagement.</p> <p>(ii) Monitoring component. The SATF is of the view that this goes beyond what is anticipated in a limited assurance engagement.</p> <p>(d) The SATF noted that ISAE 3410 does not require the practitioner to evaluate the components for limited assurance engagements and is of the view that this remains appropriate.</p>
Reasonable	Combination of reasonable assurance in ISAE 3410 and ISA 315 (Revised 2019)	<p>Understand:</p> <ol style="list-style-type: none"> 1. The control environment; 2. The information system; 3. The entity’s risk assessment process; 4. Control activities that the practitioner judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risks. An assurance engagement does not require an understanding of all the control activities 	<p>(a) Given it is an overarching standard, the SATF has not included the specificity of ISA 315 (Revised 2019) which requires the auditor to understand specific aspects of each component (see paragraphs 9R, 10R, 12R and 13R of Part 6) (this is except for the understanding the entity’s risk assessment process).</p> <p>(i) The details from ISA 315 (Revised 2019) have instead been included in application material in Part 6 (see paragraphs A31, A35 and A52R of Part 6).</p> <p>(ii) The application material is relevant to both limited and reasonable assurance engagements, where limited assurance also requires an understanding of that component.</p> <p>(b) In understanding the entity’s risk assessment process, the SATF has included the specific aspects that need to be understood similar to ISA 315 (Revised 2019) (see paragraph 11R of Part 6). These specific aspects relate to the entity’s process for:</p> <ul style="list-style-type: none"> • Identifying risks relevant to sustainability information reporting objectives; • Assessing the significance of those risks, including the likelihood of their occurrence; and • Addressing those risks.

		<p>related to each disclosure or to every assertion relevant to them; and</p> <p>5. The entity's process to monitor the system of internal control.</p> <p><i>Note: there are further specific requirements that expand on what is required in understanding and evaluating the above components.</i></p>	<p>The SATF is of the view that understanding these specific aspects is essential in sustainability assurance engagements.</p> <p>(c) For control activities, the SATF has adapted and simplified the requirement from ISA 315 (Revised 2019) to ensure that the controls the practitioner is required to identify are relevant to sustainability assurance engagements. Paragraph 12R of Part 6 requires the practitioner to identify the following controls:</p> <ul style="list-style-type: none"> (i) Controls for which the practitioner plans to test operating effectiveness in determining the nature, timing and extent of procedures, which shall include those that address risks for which substantive procedures alone do not provide sufficient appropriate evidence; (ii) The entity's general IT controls that address risks arising from the use of IT related to the controls identified above; and (iii) Other controls that the practitioner considers are appropriate to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risk. <p>The SATF retained the following requirements in ISA 315 (Revised 2019):</p> <ul style="list-style-type: none"> • To understand the General IT Controls that address the risks arising from IT related to controls for which the practitioner plans to test operating effectiveness (the controls in paragraphs (i) and (ii) above). The operating effectiveness of the controls that the practitioner plans to test is dependent on the effectiveness of the related General IT Controls. <p>The SATF did not retain the following requirements in ISA 315 (Revised 2019):</p> <ul style="list-style-type: none"> • To identify controls over significant risks or controls over journal entries because ISSA 5000 does not have the concept of significant risks and the SATF does not believe controls over journal entries are relevant in sustainability assurance engagements. • To understand the General IT Controls that address risks arising from the use of IT related to other controls, the understanding of which the practitioner considers appropriate (the controls in paragraph (iii) above). The SATF did not include these because:
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			<p>a. If the practitioner considers that understanding the General IT Controls related to other controls is appropriate to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risk, the practitioner would be required to understand those General IT Controls as part of the controls in paragraph (i) above.</p> <p>b. If understanding the General IT Controls related to other controls is not necessary to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risk, then including this requirement would be onerous, and discourage the identification of other controls.</p> <p>(d) The SATF has included, and adapted as necessary, the requirements in ISA 315 (Revised 2019) that require the auditor to evaluate each component (see paragraphs 9R, 10R, 11R, 12R and 13R of Part 6).</p> <p>(i) The SATF considered how ISAE 3410 addresses the evaluation of the components and noted that it has not yet benefited from the clarity of recent updates to ISA 315 (Revised 2019). This could result in inconsistencies in practice or cause the practitioner to evaluate more extensive aspects of the entity’s system of internal control (e.g., all control activities, instead of only the controls identified by the practitioner).</p>
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Risk Procedures

8. The SATF further considered the following with respect to the risk procedures:

Consideration	Limited Assurance	Reasonable Assurance	Reason
Should proposed ISSA 5000 be prescriptive about the types of risk assessment procedures that are required to be performed (i.e., inquiries, analytical procedures, and observation and inspection)?	No	No	<p>(a) The standard should not be prescriptive because a principles-based approach is more appropriate that focuses on achieving the objectives in paragraphs 1L and 1R of Part 6, which require the understanding to be <i>sufficient</i> to identify disclosures where material misstatements are likely to arise (limited assurance) or identifying and assessing risks of material misstatement (reasonable assurance).</p> <p>(b) The procedures have been explained in paragraph A4 of Part 6.</p>

			(c) In addition to being more principles-based, this approach recognizes that extensive work may have already been undertaken in determining whether the preconditions exist, and that this may support the practitioner’s risk procedures (see paragraph A9 of Part 6).
Is it possible to obtain sufficient appropriate evidence without performing further procedures (i.e., whether risk procedures are sufficient)?	In rare circumstances	No	<p>(a) Limited assurance: To ensure the practitioner obtains a meaningful level of assurance in these rare circumstances, the SATF has added application material to encourage the practitioner to consider whether further procedures are needed (see paragraph A6L of Part 6).</p> <p>(b) Reasonable assurance: Risk procedures do not provide sufficient appropriate evidence on their own, but may be performed concurrently with further procedures (see paragraph A6R of Part 6).</p>

Questions for the IAASB:

Note that in the plenary session, this question will be asked with question 19

17. Does the Board support the approach for matters the practitioner is required to understand. In particular:
 - (a) Are the requirements appropriate for sustainability assurance engagements and address the matters a practitioner would be expected to understand in the context of these engagements?
 - (b) Are the differences between limited assurance and reasonable assurance appropriate, for example, with respect to understanding internal control?
18. Does the Board support the proposals on the risk procedures?

ISSUE 3: How Other Key Principles of ISA 315 (Revised 2019) were Considered

9. The SATF considered various other elements of ISA 315 (Revised) 2019 and whether they should be included in Proposed ISSA 5000 for reasonable assurance engagements. The following concepts were not included:

Matter	SATF's Considerations
Separate inherent and control risk assessment	The SATF is of the view that this may add complexity in sustainability assurance engagements. As a result, the notion of inherent risk factors has also not been included, although paragraph A1R of Part 6 brings in the concept as part of the application material to support practitioners in thinking about possible risks of material misstatement.
Relevant assertions	Given Proposed ISSA 5000 is an overarching standard, it would not be appropriate to introduce the level of granularity associated with these concepts and taking into account the wide range and varying nature of topics, aspects of the topics, and disclosures in sustainability reporting (i.e., simpler to keep at a higher level). Not introducing these concepts also is consistent with the decision above not to have a separate assessment of inherent and control risk.
Significant disclosures	
Significant risks	

Questions for the IAASB:

Note that in the plenary session, this question will be asked with questions 17 and 18

19. General questions for the Board:
- (a) Does the IAASB believe that the requirements and application material in Part 6 are at an appropriate degree of specificity for an overarching standard?
 - (b) Are there any other significant comments regarding matters addressed in Part 6, for example:
 - (i) Are there concepts or issues the Board expected to be addressed that have not been addressed?
 - (ii) Are there any proposals in this Part that were not addressed by the questions above on which the Board has significant comments?