

## Proposed ISSA 5000<sup>1</sup> – Issues and Recommendations

### Objectives of the IAASB Discussion

The objectives of this Agenda Item are to obtain the Board's input on:

- The draft of proposed ISSA 5000, as presented in **Agenda Items 4-B and 4-C**;
- The matters discussed in Section B of this Agenda Item; and
- Significant changes to the parts of proposed ISSA 5000 that were discussed with the Board in December 2022, as described in **Agenda Item 4-A**.

### Materials Presented

Agenda Item	Description
4	Issues and Recommendations <b>Appendix 1</b> – Task Force members and activities <b>Appendix 2</b> – Approach for the Walkthrough of <b>Agenda Items 4-B and 4-C</b> <b>Appendix 3</b> – Individuals Involved in the Engagement
4-A	Explanation of Significant Changes - <i>Changes for the parts of proposed ISSA 5000 that were discussed with the Board in December 2022</i>
4-B	Proposed ISSA 5000 – Objectives, Definitions and Requirements (marked) - <i>Changes marked for Parts discussed with the Board in December 2022</i>
4-C	Proposed ISSA 5000 - Application Material (marked) - <i>Changes marked for Parts discussed with the Board in December 2022</i>
4-D	Proposed ISSA 5000 – Objectives, Definitions and Requirements (clean)
4-E	Proposed ISSA 5000 – Application Material (clean)

### A. Introduction

1. Since the December 2022 IAASB meeting, the Sustainability Assurance Task Force (Task Force) revised parts of proposed ISSA 5000 based on the input received from the Board during the

<sup>1</sup> Proposed International Standard on Sustainability Assurance (ISSA) 5000,™ *General Requirements for Sustainability Assurance Engagements*

December 2022 plenary session and comments provided offline. The draft December 2022 IAASB meeting minutes are available in **Agenda Item 1** on the [IAASB Meetings webpage](#) (posted for approval at the March 2023 IAASB meeting).

2. The parts of the proposed standard discussed with the Board in December 2022 that have been revised and marked for changes based on Board input, and Task Force discussions in January and February 2023, include the following:
  - Definitions
  - Part 3 – Acceptance and Continuance
  - Part 4 – Evidence and Documentation
  - Part 5 – Planning
  - Part 6 – Risks of Material Misstatement
  - Part 8.1 – Accumulation and Evaluation of Identified Misstatements (now presented within Part 8)
  - Part 8.2 – Evaluating the Description of the Applicable Criteria (now presented within Part 8)
3. The Task Force also has developed the following Parts of the proposed standard that are being presented to the Board in their entirety for the first time:<sup>2</sup>
  - Objectives
  - Part 1 – Conduct of an Assurance Engagement in Accordance with This ISSA
  - Part 2 – Fundamental Concepts, General Principles and Overarching Requirements
  - Part 7 – Responding to Risks of Material Misstatement
  - Part 8 – Concluding (with the following new sections):
    - Subsequent Events
    - Written Representations
    - Other Information
    - Forming the Assurance Conclusion
  - Part 9 – Reporting
4. The Task Force is presenting to the Board the draft objectives, definitions and the entirety of draft requirements and related application material for proposed ISSA 5000. The Task Force was of the view that presenting a near-complete draft in the traditional format would facilitate the Board's review of the standard in progressing proposed ISSA 5000 to the exposure draft stage. To give the Board a

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<sup>2</sup> The Sustainability Assurance Working Group presented an outline of the preliminary draft requirements for Parts 1 to 3 of Proposed ISSA 5000 in September 2022, as part of the discussion of the approach undertaken in developing requirements for the proposed standard. The Task Force considered the Board's comments from September 2022 in preparing the draft of Part 3 discussed in December 2022, and in the drafts of Parts 1 and 2 presented in **Agenda Items 4-B and 4-C**.

better appreciation of the flow of the requirements, the Task Force is presenting the requirements and application material in separate documents (**Agenda Items 4-B and 4-C**, respectively).

5. When reviewing **Agenda Items 4-B and 4-C**, the Task Force asks the Board to note the following:
- The only parts that have not yet been drafted are the introduction, which will address the scope and applicability of the proposed standard, the effective date and an Appendix that will contain illustrative assurance reports. The Task Force reviewed the scope sections of ISAE 3000 (Revised)<sup>3</sup> and ISAE 3410,<sup>4</sup> and had a preliminary discussion about matters to address in the introduction and scope section of proposed ISSA 5000. The introduction will be presented at the next Board meeting. Regarding the effective date, the exposure draft is expected to include a discussion about the expected approval date of the proposed standard, proposed implementation period and expected effective date. The Task Force will explore the options and discuss them with the Board in June 2023. See paragraph 56 below regarding the illustrative assurance reports.
  - To assist the Board in navigating the revisions made (including paragraphs that were moved or deleted) from the December meeting, the Task Force has retained, for now, separate parts with bold subheadings as identifiers. The requirements and application material within each part are numbered consecutively (i.e., requirements 1 to X, and application material A1 to AX). The Task Force and Staff used their best efforts to address formatting matters, such as paragraph references between the requirements and application material, and the hierarchy of the headings and sub-headings throughout the proposed standard. The Task Force and Staff will perform a complete review of the structure of the standard for June 2023.
  - In addition, to aid readability of parts presented in December 2022, paragraphs deleted in full have been marked as “[Deleted]” and paragraphs or sentences moved within the standard have been marked as “[Moved to paragraph XX],” without retaining the marked-up wording that was deleted or moved. If the Board notices any errors, omissions or inconsistencies in the referencing, grammatical or other matters not requiring plenary discussion, they can be brought to the Task Force’s attention via offline comments.
  - The Task Force plans to renumber the entire standard for June 2023 (i.e., sequential numbering of the introduction, objectives, definitions and requirements, and of the application and other explanatory material, consistent with other IAASB standards).
  - The Task Force has included in **Agenda Items 4-B and 4-C** references (highlighted in yellow) to the IAASB standards or guidance that is the source of the wording of the respective requirement or application material. The Task Force plans to remove these references in the draft to be presented in June 2023 (see paragraph 7 below).

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<sup>3</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>4</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

- Between the March and June 2023 IAASB meetings, the Task Force also plans a more thorough review for consistent use of terminology, redundancies between parts of the proposed standard, adding more sustainability-related examples, and opportunities for streamlining the application material. An independent review of the application of the [Complexity, Understandability, Scalability and Proportionality \(CUSP\) Drafting Principles and Guidelines](#) is also planned prior to the June 2023 IAASB meeting.
6. **Agenda Item 4–A** provides background information on, and an explanation of, the significant changes made by the Task Force to the requirements and application material of proposed ISSA 5000 from the December 2022 IAASB meeting. **Agenda Item 4–A** also includes references to matters that are discussed in more detail in Section B of this issues paper.
7. The Task Force previously indicated that a mapping would be done of the requirements in ISAE 3000 (Revised) and ISAE 3410 to the requirements in proposed ISSA 5000. The Task Force considered preparing such a mapping for March 2023, but was of the view that the mapping would be more useful to the Board when a complete, sequentially numbered version of the proposed standard is presented in June 2023.

#### **Approach for the Discussion of the Agenda Items**

8. The Task Force Chair, along with other members of the Task Force and Drafting Team, will walk through **Agenda Items 4–B and 4–C**, taking comments on the requirements and application material paragraphs at the same time. Appendix 2 sets out the planned approach for the walkthrough of the draft standard, with references to the related matters discussed in Section B of this Agenda Item. The Board will be asked to provide comments on these matters when discussing the related paragraphs in the proposed standard.

#### **Coordination Activities**

##### *International Ethics Standards Board for Accountants (IESBA)*

9. The Task Force has had, and will continue, extensive engagement with the IESBA, including the following:
- Staff of the IAASB have held four formal meetings with IESBA Staff, as well as numerous informal touch points. This includes biweekly meetings from January 1, 2023 to coordinate:
    - Outreach activities with key stakeholders, including virtual presentations at IESBA's four Sustainability Roundtables planned for March and April 2023.
    - Key concepts for both proposed ISSA 5000 and IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code), including the alignment of terms and definitions and applicability of proposed ISSA 5000 and the Code to assurance practitioners, including those who are not professional accountants.
  - The IESBA presented an update to the IAASB at the December 2022 meeting on the status of its sustainability project. Similarly, the IAASB presented an update on the development of

proposed ISSA 5000 to the IESBA Board at IESBA's November/December 2022 meeting and will present another update at the IESBA's March 2023 meeting.

- IAASB-IESBA liaison members have been appointed to ensure coordination between the respective Task Forces: Isabelle Tracq-Sengeissen, IAASB member and a member of the IAASB Sustainability Task Force and Rich Huesken, IESBA member and a member of the IESBA Sustainability Task Force.

#### *Reference Groups*

10. The Task Force has continued to engage with sustainability assurance practitioners and experts through two [IAASB reference groups](#), one comprising assurance practitioners and experts not associated with accounting firms (Reference Group #1) and the second comprising assurance practitioners and experts associated with accounting firms or the accounting profession (Reference Group #2). The reference groups have met quarterly since they were [established](#), including once since the December 2022 IAASB meeting. Input from these reference groups on key issues has helped to inform the work of the Task Force. Further details on their feedback on various matters are provided in **Section B** below.

#### *Monitoring the Activities of Key Sustainability Reporting Standard Setters*

11. The IAASB believes that cooperation between the IAASB and international standard setters for sustainability reporting and assurance, such as the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI), is essential to strengthening the connectivity between external reporting standards and assurance standards, as well as the operability between standards—especially as new standards continue to be developed and existing standards are refined and enhanced. Outreach with sustainability standard setters is included in **Appendix 1**.
12. The IAASB's Sustainability Standard Setters' Liaison Working Group (SSS LWG) was created in January 2023 to support the IAASB's efforts in collaborating and cooperating with SSS. In doing so, the working group has been:
  - Monitoring developments in sustainability-related reporting standards.
  - Providing input on matters relating to the assurability of sustainability information arising from sustainability reporting proposals.
  - Considering the assurance (or audit, as appropriate) implications arising from newly issued sustainability-related reporting pronouncements.

The SSS LWG has met twice since January 2023.

#### **Public Interest Framework**

13. In developing proposed ISSA 5000, the Task Force has addressed the [Public Interest Framework](#) with a specific focus on the following characteristics, which were considered most relevant to sustainability assurance engagements:

- *Scalability* – The Task Force has sought to include requirements that can be applied to all entities, regardless of size and complexity. However, scalability is addressed in various places throughout the proposed standard, e.g., in the application material in Part 5, *Planning* and Part 6, *Risks of Material Misstatement of Agenda Items 4-B and 4-C*.
- *Timeliness* – Proposed ISSA 5000 is being developed as a response to the demand for a timely standard to address the public interest need for a global, overarching standard for assurance on sustainability reporting for use by all practitioners. The Task Force is continuing to progress the project at pace, while remaining focused on developing a sufficiently robust standard.
- *Relevance* – Proposed ISSA 5000 demonstrates relevance by responding to emerging issues in the sustainability reporting and assurance space, as well as to changes in business environments to capture and provide information about the impacts of sustainability matters on the entity and the entity’s actual or potential impacts, positive or negative, on people or the environment.
- *Comprehensiveness* – The proposed standard will cover the entire engagement from acceptance or continuance to reporting, and applies for assurance on sustainability information reported under different reporting frameworks.
- *Implementability* – The requirements and application material in proposed ISSA 5000 have been drafted following the CUSP Drafting Principles and Guidelines to help provide for more consistent understanding and application. As noted in paragraph 5 above, an independent CUSP review is planned prior to the June 2023 IAASB meeting.
- *Enforceability* – The Task Force has sought to include an appropriate balance of requirements and application material in proposed ISSA 5000, as well as clearly stating the responsibilities of the practitioner or the engagement leader, as applicable. This, in addition to following the CUSP Drafting Principles and Guidelines for more consistent understanding and application, is viewed as a means of enabling enforceability.

## **B. Draft of Proposed ISSA 5000**

### **B.1 Objectives**

14. Paragraphs 1 and 2 of **Agenda Item 4-B** include the objectives of the practitioner performing a sustainability assurance engagement. The Task Force reviewed the objectives of ISAE 3000 (Revised) and ISAE 3410 and concluded that the objectives of ISAE 3000 (Revised) are appropriate for proposed ISSA 5000, with some minor revisions to make them specific to sustainability assurance engagements.

### **B.2 Definitions**

#### **B.2.1 Disclosures**

##### *Previous IAASB Discussion*

15. The Board raised a number of comments in December 2022 about the term “disclosures,” including whether it may be confusing in the context of the generally understood meaning of the term and whether it has been used consistently throughout proposed ISSA 5000. The Board also requested

the Task Force to further consider the terms “topics” and “aspects of topics,” including whether those terms are consistent with terminology in sustainability reporting standards and frameworks, and clarifying whether topics and aspects of topics are the underlying subject matter.

*Task Force Discussion and Recommendations*

16. The Task Force noted that the term “disclosures” was discussed in December 2022 in the context of aggregation and disaggregation of information, which may have led to confusion about the term and how it may be used in proposed ISSA 5000. The Task Force is of the view that “disclosures” is important as an overarching term that is used in a number of requirements and application material paragraphs throughout the proposed standard. Among other things, it sets the context for the level of granularity at which the sustainability information will be considered for purposes of planning and performing the assurance engagement.
17. The proposed definition of disclosures presented to the Board in December 2022 was as follows:

Disclosures – The entity’s information about topics and aspects of the topics within the sustainability information subject to the assurance engagement.
18. The Task Force also discussed with the Board a matrix showing the relationship between topics, aspects of topics, and disclosures. The Task Force agrees with Board comments that the proposed definition was confusing as disclosures can only relate to an aspect of a topic. Therefore, the Task Force has revised the definition of disclosures in Definitions paragraph 1(g) to refer to specific sustainability information presented by the entity related to an aspect of a topic. Application material was added in Definitions paragraph A3 to explain the relationship between topics and aspects of topics, and disclosures.
19. Regarding whether the terms topics, aspects of topics and disclosures are used in sustainability reporting standards and frameworks, the Task Force did some research about how the terms or concept of “disclosure(s)” was used or referred to in other assurance standards or in sustainability reporting frameworks, and how the term was used in some sample sustainability assurance reports. No consistent way of defining or describing the concept of “disclosures” was noted, although there were references to a more detailed level of information (e.g., specified sustainability information, specified information, specific information). Frameworks sometimes refer to these broader topics as “sustainability matters” (or “material topics” or “topics”) and then include requirements for entities to provide information (i.e., “disclose”) about aspects of those matters.
20. The Task Force also discussed the risk of over-engineering the terminology as the Task Force was of the view that the terms will not cause practical issues. The applicable criteria will provide requirements or guidance for preparers regarding the topics and aspects of topics (i.e., sustainability matters) about which information is presented. Put simply, the disclosures are the specific “pieces” of information about aspects of the topic (e.g., metrics and key performance indicators related to emissions).

### **B.3 Part 1: Conduct of an Assurance Engagement in Accordance with the ISSAs**

#### *Previous IAASB Discussion*

21. The Board was presented with an outline of the preliminary draft requirements of Part 1 in September 2022. The requirements were based primarily on those in ISAE 3000 (Revised). The Board was generally supportive of the preliminary drafting.

#### *Task Force Discussion and Recommendations*

22. The Task Force was of the view that the requirements and related application material previously shown to the Board are generally appropriate for proposed ISSA 5000, with minor revisions for sustainability assurance engagements.
23. The Task Force noted that the preliminary draft requirements for Part 1 referred only to “this ISSA” in the singular, whereas ISAE 3000 (Revised) refers to other ISAEs “relevant to the engagement.” The Task Force noted that the approved [project proposal](#) contemplates additional standards being developed within the “ISSA suite” in the future, and therefore deemed it appropriate to “future proof” proposed ISSA 5000 by referring to “other ISSAs relevant to the engagement” in the requirements and application material in Part 1.

### **B.4 Part 2: Fundamental Concepts, General Principles and Overarching Requirements**

#### **B.4.1 Using the Work of Others**

##### *Background*

24. An assurance engagement involves the engagement team obtaining sufficient appropriate evidence to support a conclusion on the sustainability information. Depending on the scope of the engagement, the engagement team may need to engage a practitioner’s expert or may seek to use the work of another practitioner.

##### *Task Force Discussion and Recommendations*

25. The Task Force addressed two specific issues:
- Clarifying which individuals form part of the engagement team; and
  - The circumstances in which work of another practitioner that has already been performed for a different purpose can be used for purposes of the assurance engagement.
26. The Task Force has sought to bring clarity to the definition of engagement team by explaining that the engagement team comprises:
- Firm personnel;
  - Practitioner’s internal experts (also part of firm personnel); and
  - Another practitioner (whether from a network firm or non-network firm) when the engagement team can be sufficiently involved in directing, supervising and reviewing the work of the other practitioner.



27. Consistent with the changes to ISA 220 (Revised),<sup>5</sup> any individuals who perform procedures on the engagement (other than a practitioner’s external expert – see paragraph 22 below) are members of the engagement team.
28. As defined in ISAE 3000 (Revised) and ISA 220 (Revised), a practitioner’s external expert is not part of the engagement team. Accordingly, to be able to use the work of a practitioner’s external expert, proposed ISSA 5000 requires the engagement team to be sufficiently involved in the work to be performed by such expert (i.e., be able to direct the work to be performed and review the findings). Part 2 paragraph 18 requires the engagement leader to determine whether the practitioner will be able to be sufficiently and appropriately involved in work to be performed by a practitioner’s external expert. This requirement focuses only on external experts because an internal expert is, by definition, a member of the engagement team and therefore is subject to the direction, supervision and review requirements of the standard i.e., it is assumed that there can and will be sufficient involvement in the work of an internal expert). Based on a positive determination in accordance with paragraph 18 regarding the ability to be sufficiently and appropriately involved, Part 2 paragraph 27 specifies the other requirements and conditions that must be met to be able to use the work of a practitioner’s external expert.

#### Using the Work of Another Practitioner That Has Already Been Performed for a Different Purpose

29. In some circumstances, the practitioner cannot be sufficiently involved in the work of another practitioner. An inability to be sufficiently involved may arise due to:
  - The other practitioner refusing to cooperate with the practitioner; or
  - The work may already have been completed for a different purpose, e.g., a separate assurance engagement.

In these circumstances, individuals from the other practitioner are not part of the engagement team.

30. The Task Force received clear input from Reference Group #1 that it was critical for proposed ISSA 5000 to accommodate the ability to use work of another practitioner that had already been performed for another purpose as evidence from that engagement may be relevant to the practitioner’s assurance engagement. To address this point, when the engagement leader concludes in accordance with Part 2 paragraph 18 that the practitioner cannot be sufficiently involved in the work of another practitioner, Part 2 paragraph 28 applies. Part 2 paragraph 28 sets out the requirements and conditions for being able to use the work of another practitioner (similar to the equivalent requirement that applies to a practitioner’s external expert).
31. The matrix included in Appendix 3 to this Agenda Item provides a useful visual illustration of the individuals that may be involved in an assurance engagement and the requirements that are applicable to the work of such individuals.

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<sup>5</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

## B.5 Part 5: Planning

### B.5.1 Aggregation and Disaggregation of the Sustainability Information for Purposes of Performing the Engagement

#### *Previous IAASB Discussion*

32. In the December 2022 IAASB meeting, Board members asked the Task Force to further consider various aspects of how aggregation and disaggregation has been addressed in proposed ISSA 5000, including exploring different terms, as the Board found the terms “aggregating and disaggregating” to be confusing. The Board also suggested clarifying that:
- Management is responsible for the aggregation or disaggregation of the information disclosed in accordance with the applicable criteria, including exploring whether a requirement is needed for the practitioner to understand management’s aggregation or disaggregation.
  - In order to perform the assurance engagement, the practitioner “aggregates and disaggregates” the disclosures, and would take into account what management has done in presenting the sustainability information in view of the requirements of the applicable criteria. The Board noted that there may be circumstances when the practitioner’s “aggregation or disaggregation” of the disclosures differs from what management has done.
33. Other suggestions from the Board in December 2022 included:
- Clarifying the level at which the disaggregation would take place, and how that disaggregation is used for purposes of materiality, risk identification and assessment and evaluating misstatements. The Board emphasized the need for a consistent understanding and flexibility appropriate to the engagement circumstances.
  - Simplifying the requirement in paragraph 6 (see Agenda Item 7-D for the December 2022 IAASB meeting) as it was unclear how the practitioner’s aggregation of disclosures related to expressing the conclusion(s) in the practitioner’s report. The Board also asked the Task Force to explore whether this paragraph is appropriately located in Part 5 (Planning) or Part 8 (Forming the Assurance Conclusion).

#### *Task Force Discussion and Recommendations*

34. The Task Force considered the Board comments and the confusion about the terminology and the requirement in paragraph 6. The Task Force also looked again at the requirements in ISAE 3000 (Revised) and ISAE 3410, and the Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements (the EER guidance), and concluded that the explicit requirements in paragraphs 5L, 5R and 6 regarding aggregation and disaggregation of disclosures were not needed. Accordingly, these paragraphs have been deleted in **Agenda Item 4-B**.
35. The Task Force noted Board comments that the focus of the practitioner is on determining an appropriate approach to planning and performing procedures to obtain evidence to support the practitioner’s assurance conclusion. As described in Part 5 paragraph A9, understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting (i.e., how

management has grouped the information for purposes of presentation), may assist the practitioner in identifying the disclosures at an appropriate level of disaggregation for purposes of planning the approach to the assurance engagement. Paragraph A9 also includes matters that may be relevant in this regard, including whether the applicable criteria address how the sustainability information should be presented.

36. Therefore, the Task Force was of the view that the broad requirement in Part 5 paragraph 4, supported by the application material in paragraphs A9-A10A, is sufficient to describe how the practitioner may use professional judgement in identifying the appropriate approach to planning, considering how management may aggregate or disaggregate the sustainability information.

### **B.5.2 Performance Materiality**

#### *Previous IAASB Discussion*

37. In December 2022, the Board suggested that the Task Force reconsider whether aggregation risk and performance materiality should be addressed in the requirements. The Board provided suggestions for how it could be addressed, recognizing that performance materiality may not be suitable for all circumstances.

#### *Task Force Discussion and Recommendations*

38. The Task Force agrees that aggregation risk is an important concept in sustainability assurance engagements, and had previously included application material in proposed ISSA 5000 to address it (see Planning paragraph A30). As explained in paragraph A30, it may be appropriate for the practitioner to consider setting performance materiality for quantitative disclosures to reduce aggregation risk to an appropriately low level.
39. The Task Force noted that performance materiality is defined in ISAE 3410 and ISA 320<sup>6</sup> as “an amount or amounts,” which suggests that it applies only to quantitative information. ISAE 3410 includes a requirement for performance materiality because the underlying subject matter (greenhouse gas emissions) and subject matter information (the greenhouse gas statement) is primarily quantitative in nature, and therefore more similar to a financial statement audit.
40. The Task Force’s previous decision to not include a requirement in the December 2022 draft of Part 5 (see Agenda Item 7-D for the December 2022 IAASB meeting) for the practitioner to determine performance materiality was based on the fact that it is not always possible to determine an amount lower than materiality for the various types of information, including narrative information, covered by proposed ISSA 5000. This is consistent with ISAE 3000 (Revised), which also has no requirement for performance materiality.
41. Nonetheless, the Task Force agreed with the Board that a requirement to consider whether performance materiality is needed for purposes of planning and performing the engagement would be appropriate to address aggregation risk. Accordingly, the Task Force added Planning paragraph 7A in **Agenda Item 4-B**. The Task Force considered making this a conditional requirement (i.e., for quantitative disclosures) but concluded that was unnecessary as the definition of performance

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<sup>6</sup> ISA 320, *Materiality in Planning and Performing an Audit*

materiality added to the proposed standard (Definitions paragraph 1(cc)) is clear that it relates to quantitative disclosures.

42. The Task Force also discussed whether the concept of aggregation risk, and therefore the concept of performance materiality, would also extend to qualitative disclosures. The Task Force concluded that it is most appropriate to focus these concepts on quantitative disclosures but added application material (see Planning paragraph A30A) from the EER guidance to give consideration to the concept of aggregation risk for qualitative disclosures.

## **B.6 Part 6: Risks of Material Misstatement and Part 7: Responding to Risks of Material Misstatement**

### **B.6.1 Differentiation in Work Effort between Limited and Reasonable Assurance**

#### *Background and Previous IAASB Discussion*

43. As noted in the approved [project proposal](#), one of the priority areas identified by the IAASB in developing an overarching standard on sustainability assurance was the difference in work effort between limited and reasonable assurance, including sufficiency of evidence.
44. In December 2022, the Board discussed a draft of Part 6 (see Agenda Items 7-E and 7-E.1 for the December 2022 IAASB meeting). Among the Board's comments on Part 6 was encouragement for the Task Force to further consider the differentiation in work effort between limited and reasonable assurance engagements, including how the required understanding obtained in performing risk procedures would drive the practitioner's work effort to respond to the risks.

#### *Task Force Discussion and Recommendations*

45. See **Agenda Item 4-A** for a description of how the Task Force addressed Board comments from December 2022 on Part 6, including with respect to the differentiation between limited and reasonable assurance.
46. In developing Part 7, the Task Force sought to further explain and differentiate the work effort in responding to risks of material misstatement for limited and reasonable assurance engagements. In doing so, the Task Force leveraged helpful material in the EER guidance, particularly in Appendix 3 to that guidance, as well as in ISAE 3000 (Revised) and ISAE 3410.
47. For example, Part 7 paragraph A3 explains that consideration of the reasons for identifying disclosures where material misstatements are likely to arise (for limited assurance engagements) assists the practitioner in designing and performing further procedures that are focused on those disclosures. Part 7 paragraph A4 explains that consideration of the reasons for the assessment given to the risk of material misstatement at the assertion level for each disclosure (for reasonable assurance engagements) assists the practitioner in designing and performing further procedures that are responsive to those risks.
48. Many of the requirements in Part 7 apply to both limited and reasonable assurance engagements, although the nature and extent of the procedures may be different. The related application material highlights differences in the work effort or approach between the two types of engagements, where

applicable. However, certain requirements in Part 7 apply only for one type of engagement, for example:

- For limited assurance:
  - Part 7 paragraph 18L requires the practitioner to design and perform additional procedures if the practitioner becomes aware of a matter(s) that causes the practitioner to believe the sustainability information may be materially misstated. These procedures (sometimes referred to as the “deep dive”) are in addition to the other required procedures performed to address those disclosures identified during the risk procedures where material misstatements are likely to arise.
- For reasonable assurance:
  - Part 7 paragraph 9R requires the practitioner to perform further procedures (i.e., substantive procedures) for each risk for which the assessment of that risk is close to the upper end of the spectrum of risk.
  - Part 7 paragraph 10R requires the practitioner to consider whether external confirmation procedures are to be performed.
  - Part 7 paragraph 12R includes a conditional requirement to design and implement overall responses to address the assessed risk of material misstatement at the level of the sustainability information as a whole in certain circumstances where control deficiencies have been identified.

## **B.7 Part 8: Concluding**

### **B.7.1 Other Information**

#### *Background*

49. The IAASB has not previously discussed the concept of “other information” in the context of a sustainability assurance engagement. Broadly speaking, in this context other information is information (other than the sustainability information within the scope of the engagement and the assurance report thereon) which is included in a document or documents containing the sustainability information and the assurance report thereon (see Definitions paragraph 1(aa) in **Agenda Item 4-B**).

#### *Input from the Reference Groups*

50. Some members of the Reference Groups have noted the importance of requiring the practitioner to read the other information to identify any material inconsistencies between the other information and the sustainability information, or misstatements in the other information or the sustainability information. Reference Group Members further noted that often the scope of the assurance engagement is very limited so there is an increased risk of practitioners being associated with misleading information within the information reported by the entity, only some of which is the sustainability information subject to the assurance engagement. One Reference Group member stressed that there was a need to emphasize the practitioner’s responsibilities with respect to other information, including other information not related to the sustainability information or the practitioner’s knowledge obtained in the engagement.

### *Task Force Discussion and Recommendations*

51. The Task Force discussed the requirements for other information and concluded that ISA 720 (Revised)<sup>7</sup> should be used as the basis, as it is the most recent relevant standard and therefore reflects the latest thinking of the IAASB. The Task Force also noted that the market is expecting reasonable assurance on sustainability reporting to be comparable to audits of financial statements and so similar expectations about the practitioner's responsibilities for other information should be reflected in proposed ISSA 5000.
52. However, the Task Force also expressed caution about requiring the practitioner to obtain and consider other information not available until after the date of the assurance report, as required in ISA 720 (Revised). The Task Force noted that ISA 720 (Revised) contains a differential requirement for listed entities to identify the other information to be obtained after the date of the auditor's report. Given that many sustainability assurance engagements may be narrow in scope, and the other information may therefore be voluminous in relation to the sustainability information within the scope of the assurance engagement, there are boundaries as to what is practically achievable and reasonable to expect. Therefore, the Task Force concluded that it would be unreasonable to require procedures on other information available after the date of the assurance report for all sustainability assurance engagements. However, the practitioner is not precluded from reading and considering other information that becomes available after the date of the assurance report. The Task Force added application material in Concluding paragraph A42 to provide guidance in these circumstances.

## **B.8 Part 9: Reporting**

### *Background*

53. The IAASB has not previously discussed the practitioner's report for a sustainability assurance engagement. However, communicating effectively in the assurance report is one of the areas addressed in the EER guidance. In addition, the IAASB's engagement with key stakeholders leading to the development of the project proposal, and in the IAASB's ongoing outreach, stakeholders have frequently raised issues related to reporting, such as clarifying the level of assurance to users of the assurance report and the scope of the assurance engagement. In addition, a potential priority area raised by some is the importance of consistency in the approach to assurance reporting to support the quality of reporting and enable comparability between reports.

### *Input from the Reference Groups*

54. Feedback from the Reference Groups with respect to assurance reporting has focused primarily on the need to allow for long-form reporting. The Reference Group members considered there is a heightened need for communication by the assurance practitioner in assurance reports on sustainability reporting to meet the information needs of the intended users in a reporting environment that is evolving and still maturing.

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<sup>7</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

*Task Force Discussion and Recommendations:*

55. Overall, the Task Force supported the development of assurance reporting requirements that were based on the requirements in ISAE 3000 (Revised) and ISAE 3410. With respect to the elements of the assurance report, including the ordering of the elements within the report, the Task Force discussed and considered the following:
- The IAASB’s recently completed [auditor reporting post-implementation review](#) indicated some demand from stakeholders for considering changes to assurance reports for other engagements (e.g., engagements under ISAE 3000 (Revised) or ISAE 3410 to align with the auditor’s report on an audit of financial statements. Stakeholders indicated that adopting certain elements of the auditor’s report – such as putting the practitioner’s conclusion first followed by the basis for the conclusion, naming the engagement partner, and including a statement about independence and other ethical responsibilities – would help to enable consistency across assurance reports, especially for those elements that relate to the structure of the report (e.g., reordering to put the opinion/conclusion first).
  - The auditor reporting post-implementation review also explored demand for extending the concept of key audit matters (KAM) to other assurance reports. Respondents to the IAASB’s Auditor Reporting Post-Implementation Review stakeholder survey were not supportive of communicating KAM in other assurance reports. Concerns expressed included that:
    - Users may perceive a greater level of assurance than that provided in a limited assurance engagement;
    - Costs may outweigh benefits for these types of engagements; and
    - A need to maintain a clear distinction between other types of assurance engagements and audits of financial statements, including flexibility in reporting for the former.
  - The auditor reporting post-implementation review also indicated that the requirement to disclose the name of the engagement partner is often a jurisdiction-specific matter, and that there were many jurisdictions where the engagement partner’s name was already required by regulation prior to introduction of the new requirements and was therefore not considered a significant or new change.
  - Practitioners may have other reporting responsibilities in some jurisdictions in addition to reporting on an assurance engagement conducted under ISSA 5000. For example, the practitioner may be required to provide a conclusion on specific matters, such as compliance of the sustainability information with a digital taxonomy. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities as part of their assurance report on the sustainability information. In other cases, the practitioner may be required or permitted to report on them in a separate report.
56. Based on its discussions and in view of the above, the Task Force concluded the following regarding the practitioner’s report for sustainability assurance engagements:

- ISA 700 (Revised)<sup>8</sup> reflects the latest thinking of the IAASB about the form and content of the auditor’s report, including the ordering of the report elements. The Task Force was of the view that using ISA 700 (Revised) as a guide for the elements of the assurance report would help to promote consistency in reporting.
- It is not appropriate at this time to include the communication of “key sustainability assurance matters” in proposed ISSA 5000, even on a voluntary basis. The Task Force acknowledged the potential public interest benefits of such a communication, but also noted the concerns raised by stakeholders during the auditor reporting post-implementation review as described in paragraph 55 above.
- The name of the engagement leader will be required to be included in the assurance report on sustainability information of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see Reporting paragraph 4). This requirement mirrors the requirement in ISA 700 (Revised).
- The report may address other reporting responsibilities that are in addition to the practitioner’s responsibilities in accordance with proposed ISSA 5000 (see Reporting paragraphs 6-8).
- As noted in paragraph 5 above, the Task Force has not yet discussed or developed illustrative assurance reports. The Appendix containing the illustrative reports will include illustrative reports for limited assurance and reasonable assurance. In addition, the Task Force will consider the need for an illustrative report for combined assurance (i.e., an assurance report for an engagement for which part of the sustainability information is subject to limited assurance and part is subject to reasonable assurance).

**Matters for IAASB Consideration**

1. The IAASB is asked for its views on proposed ISSA 5000, as presented in **Agenda Items 4–B and 4-C**, including with respect to the matters discussed in **Section B** above.
2. The IAASB is asked whether there are any other matters that the Task Force should consider in progressing the draft of proposed ISSA 5000.

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<sup>8</sup> ISA 700 (Revised), *Forming and Opinion and Reporting on Financial Statements*



## Appendix 1

### Task Force Members and Activities

#### Task Force Members

1. Information about the Task Force members and the project can be found [here](#).

#### Task Force Activities since the December 2022 IAASB Meeting

##### *Meetings*

2. The Task Force met in person for four days in January 2023 and again virtually for three days in February 2023. In addition, Task Force members met informally after the December 2022 Board meeting and between Task Force meetings with staff and the drafting team members, with whom they were partnered on specific Parts of proposed ISSA 5000. Those meetings, along with offline communications, provided detailed advice and input on the drafting of proposed ISSA 5000 as reflected in **Agenda Items 4-B and 4-C**.

##### *Outreach Activities*

3. Engagement with the IAASB Sustainability Assurance Reference Groups as discussed in paragraph 10.
4. The IAASB Chair, Program and Technical Director, project Staff, and Drafting Team and Task Force members have engaged with representatives of the following stakeholders, through in person or virtual meetings and presentations at stakeholder events:
  - International Organization of Securities Commissions (IOSCO)
  - World Bank
  - Financial Stability Board
  - International Sustainability Standards Board (ISSB)
  - European Financial Reporting Advisory Group (EFRAG)
  - International Organization for Standardization (ISO)
  - AccountAbility
  - Taskforce on Nature-related Financial Disclosures (TNFD)
  - United Nations Environmental Program (UNEP), Financial Initiative
  - United Nations Development Program (UNDP), Sustainable Development Goals (SDG) Impact Standards Initiative
  - Association of Chartered Certified Accountants (ACCA)

For details about the above Sustainability Assurance project-specific outreach, refer to **Agenda Item 1** to be posted on the [IAASB Meetings webpage](#).

5. In addition, the topic of sustainability assurance was specifically addressed in meetings or presentations with representatives of the following stakeholders as part of the IAASB general outreach program: International Association of Insurance Supervisors (IAIS); Le Haut Conseil du Commissariat aux Comptes (H3C); Institut der Wirtschaftsprüfer in Deutschland (IDW); Institute of Chartered Accountants in England and Wales (ICAEW).

## Appendix 2

### Approach for the Walkthrough of Agenda Items 4–B and 4-C

Section of Proposed ISA 500 (Revised)	Paragraphs in Agenda Items 4–B and 4-C <sup>9</sup>	Related Discussion in this Agenda Item
Introduction	[June 2023]	
Objectives	1-2, A1	B.1
Definitions	1(a)-(ss), A1–A13	B.2.1
Part 1: Conduct of an Assurance Engagement in Accordance with the ISSAs	1, A1–A9	B.3
Part 2: Fundamental Concepts, General Principles and Overarching Requirement	1-7, A1–A18	-
	8-10, A19–A27	-
	11-20, A28-A47	B.4.1
	21-26, A48-61	-
	27-29, A62-A78	B.4.1
	30-39, A79-A93	-
Part 3: Acceptance and Continuance of the Assurance Engagement	1, A1-A6C	-
	2, A6D-A49E	-
	3-7, A16-A49L	-
	7A-7C, A49A-A49E	-
	10-17, A55-A57	-
Part 4: Evidence and Documentation <sup>10</sup>	1-14, A1–A68	-

<sup>9</sup> Also see related explanations in **Agenda Item 4–A** for significant changes to certain paragraphs.

<sup>10</sup> As described in **Agenda Item 4-A**, the only substantive change to Part 4 from December 2022 was to move certain requirements to other parts of the proposed standard. Accordingly, the Task Force Chair will take comments on Part 4 in its entirety.

<b>Section of Proposed ISA 500 (Revised)</b>	<b>Paragraphs in Agenda Items 4–B and 4-C<sup>9</sup></b>	<b>Related Discussion in this Agenda Item</b>
Part 5: Planning	3-4A, A1-A10B	B.5.1
	7-7A, A15-A30A	B.5.2
Part 6: Risks of Material Misstatement	1L/1R-1A, A1L-A10	B.6.1
	2-7, A11-A23	B.6.1
	7A-11L/11R, A23A-A42R	B.6.1
	12L/12R-20L/20R, A42AL-A63R	B.6.1
Part 7: Responding to Risks of Material Misstatement	1L/1R-8, A1-A12	B.6.1
	9R-17, A13-A25	B.6.1
	18L-21L/21R, A26-A32	B.6.1
Part 8: Concluding	1-6, A1-A13	-
	7-8, A14-A24	-
	9-17, A25-A35	-
	18-23, A36-A43	B.7.1
	24-30, A44-A68	-
Part 9: Reporting	1-3(d), A1-A15	B.8
	3(e)-3(l), A16-A27	B.8
	4-13, A28-A40	B.8
	14-19, A41-A56	B.8

**Individuals Involved in the Engagement**

Individuals Involved in the Engagement	Practitioner <u>can</u> be sufficiently and appropriately involved in the work	Practitioner <u>cannot</u> be sufficiently and appropriately involved in the work
Firm Personnel	<b>Engagement Team Member</b> – Direction, Supervision & Review (DS&R) applies (Part 2, Para. 21-24)	N/A
Practitioner’s Internal Expert	<b>Engagement Team Member</b> – DS&R applies (Part 2, Para. 21-24)	N/A
Practitioner’s External Expert	<b>Work Performed by Others</b> Practitioner’s External Expert (Part 2, Para. 18 & 27)	N/A
Another Practitioner ( <i>incl. Network Firms and Non-Network Firms</i> )	<b>Engagement Team Member</b> – DS&R applies (Part 2, Para. 18 & 21-24)	<b>Work Performed by Others</b> Another Practitioner (Part 2, Para. 28)
Internal Audit	<b>Work Performed by Others</b> Internal Audit (Part 2, Para. 29)	<b>Work Performed by Others</b> Internal Audit (Part 2, Para. 29)