

Agenda Item C.2

For Reference

Please note: This paper includes an extract from proposed ISSA 5000¹ with the draft definitions. This paper is provided to the IAASB CAG Representatives in March 2023 for reference purposes.

Proposed ISSA 5000 – Draft Definitions

Objective of Agenda Item

The draft definitions at the time of posting the CAG papers are provided below for information purposes.

Extract from Proposed ISSA 5000: Definitions

1. For purposes of this ISSA, the following terms have the meanings attributed below:
 - (a) **Assertions** – Representations by the entity, explicit or otherwise, that are embodied in the sustainability information, as used by the practitioner to consider potential misstatements that may occur. (Ref: Para. A1R)
 - (b) **Assurance engagement** – An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information. Each assurance engagement is either a:
 - (i) **Reasonable assurance engagement** – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the underlying subject matter, against applicable criteria.
 - (ii) **Limited assurance engagement** – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the sustainability information to a degree that is clearly more than inconsequential.
 - (c) **Appropriate party(ies)** – Management or those charged with governance, as appropriate, or the engaging party, if different.

¹ Proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*

- (d) Assurance skills and techniques – Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner.
- (e) Comparative information – The sustainability information presented for one or more prior periods.
- (f) Criteria – The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. (Ref: Para. A2)
- (g) Disclosures – Specific sustainability information presented by the entity related to an aspect of a topic. (Ref: Para. A3)
- (h) Engagement circumstances – The broad context defining the particular engagement, which includes: the terms of the engagement; the scope of the assurance engagement and whether it is a reasonable assurance engagement or a limited assurance engagement; the topics, aspects of the topics and disclosures comprising the sustainability information; the applicable criteria; the information needs of the intended users; relevant characteristics of the entity and its reporting boundary; the characteristics of the entity’s management and those charged with governance; and other matters that may have a significant effect on the engagement.
- (i) Engagement leader – The partner or other staff member appointed by the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and where required, has the appropriate authority from a professional, legal or regulatory body. “Engagement leader” should be read as referring to its public sector equivalents where relevant. (Ref: Para. A4–A5)
- (j) Engagement risk – The risk that the practitioner expresses an inappropriate conclusion when the sustainability information is materially misstated. (Ref: Para. A6–A8)
- (k) Engaging party – The party(ies) that engages the practitioner to perform the assurance engagement, which may be management or those charged with governance, or another party.
- (l) Engagement team – The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner’s external expert.
- (m) Entity – The legal entity, economic entity, or the identifiable portion of a legal or economic entity, or combination of legal or other entities or portions of those entities to which the sustainability information relates. (Ref: Para. A9)
- (n) Evidence – Information, to which procedures have been applied, that the practitioner uses to draw conclusions that form the basis for the practitioner’s assurance conclusion and report. For purposes of the ISSAs:
 - (i) Sufficiency of evidence is the measure of the quantity of evidence.
 - (ii) Appropriateness of evidence is the measure of the quality of evidence.
- (o) Firm – A sole practitioner, partnership or corporation or other entity of individual practitioners. “Firm” should be read as referring to its public sector equivalents where relevant. (Ref: Para. A10)

- (p) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- (q) Further procedures – Procedures performed in response to areas in the sustainability information where material misstatements are likely to arise (limited assurance) and assessed risks of material misstatement (reasonable assurance), including tests of controls and substantive procedures, such as tests of details and analytical procedures.
- (r) Historical financial information – Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (s) Intended users – The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the sustainability assurance report. In some cases, there may be intended users other than those to whom the sustainability assurance report is addressed.
- (t) Internal audit function – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.
- (u) Management – The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner–manager.
- (v) Management’s expert – An individual or organization possessing expertise in a field other than assurance, whose work is used by the entity to assist the entity in preparing the sustainability information.
- (w) Misstatement – A difference between the sustainability information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the applicable criteria. Misstatements can arise from error or fraud, may be qualitative or quantitative, and include omissions.
- (x) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).
- (y) Network – A larger structure:
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (z) Network firm – A firm or entity that belongs to the firm’s network.

- (aa) Other information – Information (other than the sustainability information and the assurance report thereon) which is included in a document or documents containing the sustainability information and the assurance report thereon.
- (bb) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement. (Ref: Para. A11)
- (cc) Performance materiality – The amount or amounts set by the practitioner at less than the amount considered to be material for quantitative disclosures for purposes of performing procedures on those disclosures.
- (dd) Personnel – Partners and staff in the firm.
- (ee) Practitioner – The individual(s) conducting the engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm). Where this ISSA expressly intends that a requirement or responsibility be fulfilled by the engagement leader, the term “engagement leader” rather than “practitioner” is used.
- (ff) Practitioner’s expert – An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm), or a practitioner’s external expert.
- (gg) Professional judgment – The application of relevant training, knowledge, and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
- (hh) Professional skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
- (ii) Professional standards – International Standards on Sustainability Assurance (ISSAs) and relevant ethical requirements.
- (jj) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. For professional accountants, relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to assurance engagements [on sustainability information], together with national requirements that are more restrictive. For other practitioners who are not professional accountants, relevant ethical requirements comprise the ethical requirements in relevant law, regulation or professional requirements related to assurance engagements on sustainability information, that are at least as demanding as the IESBA Code.
- (kk) Reporting boundary – Activities, operations, relationships or resources to be included in the entity’s sustainability information. (Ref: Para. A12–A13)
- (ll) Risk of material misstatement – The risk that the sustainability information is materially misstated prior to the engagement.
- (mm) Risk procedures – The procedures designed and performed to:

- (i) In a limited assurance engagement, identify areas in the sustainability information where material misstatements are likely to arise, whether due to fraud or error; and
 - (ii) In a reasonable assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error.
- (nn) Staff – Professionals, other than partners, including any experts the firm employs.
- (oo) Sustainability competence – Competence in the underlying subject matter of the sustainability assurance engagement and in its measurement or evaluation.
- (pp) Sustainability information – Information that results from measuring or evaluating the underlying subject matter against the applicable criteria. Sustainability information is the equivalent of “subject matter information” in other IAASB assurance standards.
- (qq) Those charged with governance – The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the sustainability reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner–manager.
- (rr) Uncorrected misstatements – Misstatements that the practitioner has accumulated during the assurance engagement and that have not been corrected.
- (ss) Underlying subject matter – What is being measured or evaluated in accordance with the applicable criteria.

Application Material – Definitions

Assertions (Ref: Para. 1(a))

A1R. Assertions are used by practitioners to consider the different types of potential misstatements that may occur when identifying and assessing, and responding to, the risks of material misstatement. Examples of categories of assertions are provided in paragraph X of Part 6.

Criteria (Ref: Para. 1(f))

A2. The criteria may specify or include guidance about the sustainability information to be presented. The criteria also may define metrics or other terms to support the evaluation or measurement of the underlying subject matter, as well as the measurement or evaluation basis to be used.

Disclosures (Ref: Para. 1(g))

A3. Sustainability information may relate to a number of topics (e.g., climate, labor practices, biodiversity). The information presented by the entity may relate to different aspects of those topics (e.g., risks and opportunities, targets, metrics and key performance indicators). The disclosures about the aspects of the topics can be in various forms (e.g., narrative descriptions, tables with key performance indicators and other quantitative information) and may be limited to a single paragraph or table or may span multiple pages in the sustainability report.

Engagement Leader (Ref: Para. 1(i))

- A4. The individual appointed as the engagement leader may be a partner or another senior staff member in the firm (e.g., a director or principal) I. Whether the individual is permitted to be an engagement leader in accordance with this standard depends on how the firm assigns responsibilities, and whether law, regulation or professional standards include requirements that specify who may be permitted to accept responsibility for the engagement (e.g., law, regulation or professional standards may include requirements for the professional licensing of engagement leaders, including requirements regarding their professional education and continuing professional development).
- A5. The term “engagement leader” in this ISSA is intended to be the equivalent of “engagement partner” in ISQM 1.

Engagement Risk (Ref: Para. 1(j))

- A6. Engagement risk does not refer to, or include, the practitioner’s business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular subject matter information.
- A7. In general, engagement risk can be represented by the following components:
- (a) Risks that the practitioner does not directly influence, which consist of:
 - (i) The susceptibility of the sustainability information to a material misstatement before consideration of any related controls applied by the entity (inherent risk); and
 - (ii) The risk that a material misstatement that occurs in the sustainability information will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control (control risk); and
 - (b) The risk that the practitioner does directly influence, which is the risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk).
- A8. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, reasonable assurance is less than absolute assurance, as a result of factors such as the following:
- The use of selective testing.
 - The inherent limitations of internal control.
 - The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
 - The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
 - In some cases, the characteristics of the underlying subject matter when evaluated or measured against the criteria.

Entity (Ref: Para. 1(m))

- A9. An example of an identifiable portion of a legal or economic entity is a single factory or other form of facility, such as a landfill site.

Firm (Ref: Para. 1(o))

A10. The legal nature of the entity performing the assurance engagement may take many forms and may not be described as a firm for legal purposes.

Partner (Ref: Para. 1(bb))

A11. As noted in paragraph A10, the entity performing the assurance engagement may not be described as a firm for legal purposes. Therefore, the individual with authority to bind the firm with respect to the performance of the engagement may not carry the title of partner.

Reporting Boundary (Ref: Para. 1(kk))

A12. Although the entity's sustainability information and financial statements may relate to the same reporting entity, the reporting boundary for sustainability information may differ from the boundary for purposes of preparing financial statements. For example, the reporting boundary may include activities, operations, relationships or resources up and down the entity's value chain. An entity's supply chain is part of the value chain.

A13. The reporting boundary is determined by the applicable criteria. In some cases, framework criteria may specify the reporting boundary. In other circumstances, the reporting boundary may need to be determined by the entity, in which case the reporting boundary will be part of the entity-developed criteria. The reporting boundary may vary across underlying subject matter (e.g., some key performance indicators may have different boundaries from other key performance indicators because of the nature of the underlying subject matter).