Assurance on Sustainability Reporting

Josephine Jackson

Sustainability Assurance Task Force Chair

IAASB CAG Meeting

March 7-8, 2023

Agenda Item C.1

Sustainability Assurance Task Force

Project Objective: Develop overarching standard

Responsive to the public interest need for a <u>timely</u> standard that supports consistent performance of quality sustainability assurance engagements

Suitable across all sustainability topics, information about these topics and reporting frameworks

Can be implemented by all assurance practitioners

Public Interest Framework: Relevant Qualitative Characteristics

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Qualitative Standard-Setting Characteristics

Scalability
Addresses both less and more complex circumstances

Enforceability
Through clearly stated responsibilities

Timeliness
Addressing identified needs without sacrificing quality

Implementability
Ability of being consistently applied

Comprehensiveness
Limiting the extent of exceptions from the principles

Relevance
Responding to emerging issues and changes in the business environments

Focused on the Targeted Actions of the Project Proposal

Agenda

01   **Progress to date**

02   **Priority Areas: How they have been addressed**

03   **Other Key Areas: How they have been addressed**

04   **Way forward**

Progress to Date

December 2021 — Information gathering on sustainability assurance commenced

September 2022 — Project proposal approved

December 2022 — Proposed ISSA 5000 requirements and application material addressing priority areas

March 2023 — All requirements and application material

Ongoing engagement with key stakeholders

Progress to date

Timing of discussion by IAASB Board

1ˢᵗ read   2ⁿᵈ read   3ʳᵈ read

ISSA 5000 *General Requirements for Sustainability Assurance Engagements*	Dec 2022	Mar 2023	Jun 2023
Introduction			▬
Objectives		▬	▬
Definitions	▬	▬	▬
Part 1: Conduct of an Assurance Engagement in Accordance with ISSA		▬	▬
Part 2: Fundamental Concepts, General Principles and Overarching Requirements		▬	▬
Part 3: Acceptance and Continuance	▬	▬	▬
Part 4: Evidence and Documentation	▬	▬	▬
Part 5: Planning	▬	▬	▬
Part 6: Risk Identification and Assessment	▬	▬	▬
Part 7: Responding to Assessed Risks of Material Misstatement		▬	▬
Part 8: Concluding			
Part 8.1: Consideration of Identified Misstatements	▬	▬	▬
Part 8.2: Evaluating the Description of Applicable Criteria	▬	▬	▬
Part 8.3: Subsequent Events		▬	▬
Part 8.4: Written Representations		▬	▬
Part 8.5: Other Information		▬	▬
Part 8.6: Forming the Assurance Conclusion		▬	▬
Part 9: Reporting		▬	▬
Illustrative Reports			▬

Priority Areas: How they have been addressed

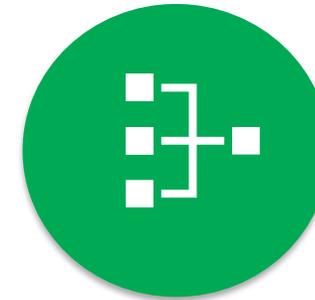Limited assurance versus reasonable assurance

Suitability of criteria
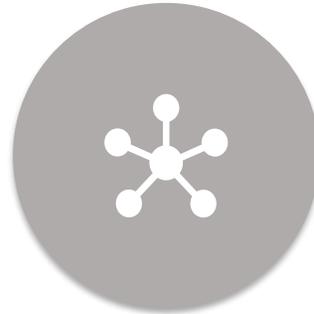
Scope of the engagement

Evidence

System of Internal Control

Practitioners' Materiality

Priority Area: Limited vs Reasonable Assurance

The difference in work effort between limited and reasonable assurance needs to be clear

How addressed?

Proposed ISSA 5000

- Covers both reasonable and limited assurance engagements

- Clearly signposts the difference in work effort between limited and reasonable assurance, focusing on risk and response

- Letters (R) and (L) used as paragraph number suffix to indicate which material applies to the respective engagements

- Columnar format to distinguish requirements for limited and reasonable assurance

Where addressed

Throughout ISSA 5000 and specifically in

Part 6: *Risks of Material Misstatement*

Part 7: *Responding to Assessed Risks of Material Misstatement*

Do the Representatives support the approach in proposed ISSA 5000 to differentiate limited and reasonable assurance

Priority Area: Suitability of Criteria

The suitability of the reporting criteria

How addressed?

Proposed ISSA 5000

- Requires evaluation of the suitability of the criteria the entity will apply and availability to users

- Provides detailed application material on each characteristic of suitable criteria and sources of criteria

- Recognises that there may be many sources of criteria being applied

- Addresses availability of criteria when concluding and reporting

- The Task Force will further consider references to double materiality in the proposed standard

Where addressed

- Part 3 *Acceptance and Continuance of the Assurance Engagement*

- Part 5 *Planning*

- Part 8 *Concluding*

- Part 9 *Reporting*

Do the Representatives support the approach in proposed ISSA 5000 to address suitability of criteria

Priority Area - Scope

The scope of the assurance engagement
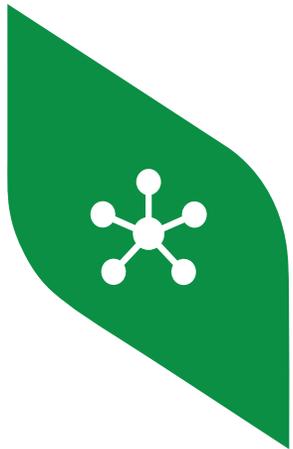
How addressed

Proposed ISSA 5000

- Requires an evaluation of the appropriateness of both the scope of the sustainability information and the assurance engagement, which is relevant to evaluating rational purpose

- Includes specific requirements to recognize that some sustainability information may be excluded from the scope of the engagement

- Application material on the entity's process to identify sustainability topics and aspects of topics to be reported

- Clarifies that scope is explained in the report

Where addressed

- Part 3 *Acceptance and Continuance of the Engagement*

- Part 9 *Reporting*

Do the Representatives support the approach in proposed ISSA 5000 to address the scope of the engagement

Priority Area - Evidence

Evidence, including the reliability of information and what comprises sufficient appropriate evidence

How addressed

- Overarching principles regarding evidence were adapted from ED-500, which reflects the latest thinking about the relevance and reliability of information intended to be used as evidence

- Proposed ISSA 5000 has included application material discussing challenges in obtaining relevant and reliable evidence related to qualitative information, forward-looking information, and estimates (based on EER guidance)

Where addressed

Throughout the ISSA 5000 and specifically in

Part 4 *Evidence and Documentation*

Part 8.6 *Forming a Conclusion*

Do the Representatives support the approach in proposed ISSA 5000 to address evidence

Priority Area – System of Internal Control

The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence
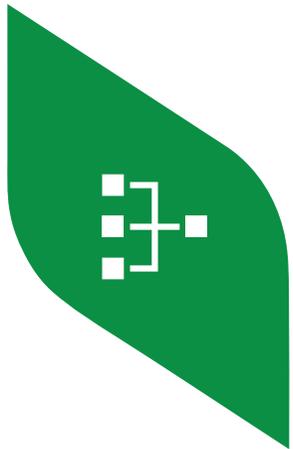
How addressed

Proposed ISSA 5000

- Understanding the entity's control environment is required for both limited (some components) and reasonable assurance (all components)

- Provides more detailed requirements that specify what needs to be understood or evaluated from the components of internal control

- Requires tests of operating effectiveness if the practitioner is planning to rely on internal controls (updated ISAE 3000 (Revised) using ISA 315 (Revised 2019) and ISAE 3410)

- Addresses the challenges arising from the level of maturity of the entity's processes to prepare the sustainability information

Where addressed

Part 3: Acceptance and Continuance of the Assurance Engagement

Part 4: Evidence and Documentation

Part 6: Risks of Material Misstatement.

Part 7: Responding to Assessed Risks of Material Misstatement and also other parts.

Do the Representatives support the approach in proposed ISSA 5000 to address internal control

Priority Area - Materiality

Materiality in the context of the assurance engagement, including materiality in the context of narrative and qualitative information

How addressed

Proposed ISSA 5000

- Does not distinguish between level of assurance when considering materiality

- Provides qualitative and quantitative factors to consider

- Requires the practitioner to consider whether performance materiality is needed for quantitative information

Where addressed?

Part 5 *Planning*

Part 8.1 *Consideration of Identified Misstatements*

Do the Representatives support the approach in proposed ISSA 5000 to address materiality

Other Key Areas: Definitions

How addressed

- Definitions were individually evaluated and were only included if necessary to support consistent interpretation and application

- Definitions were generally not amended from original source as far as possible (e.g., underlying subject matter, applicable criteria), but further explanation sometimes given (e.g., sustainability information is the equivalent of subject matter information)

- The term "engagement leader" in ISSA 5000 is intended to be the equivalent of "engagement partner" in ISQM 1

- Continue engagement with IESBA to align definitions/terms

Where addressed

Definitions

Do the Representatives support the approach in proposed ISSA 5000 regarding the definitions

Other Key Areas: Quality Management

How addressed

Proposed ISSA 5000

- Requires the practitioner to be a member of a firm that is subject to ISQM 1

- The members of the engagement team and the engagement quality control reviewer are subject to relevant ethical requirements, ordinarily being the provisions of the IESBA Code related to assurance engagements

- Adopts the applicable requirements of ISA 220 (Revised), especially in relation to the overall responsibilities of the Engagement Leader for managing the quality of the engagement, including the direction and supervision of members of the engagement team and review of their work

- Includes requirements related to sufficient appropriate involvement in the work of others, including experts and other practitioners

Where addressed

Part 2: Fundamental Concepts, General Principles and Overarching Requirements

Do the Representatives support the approach in proposed ISSA 5000 to address quality management, including relevant ethical requirements

Other Key Areas: Reporting

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How addressed

Proposed ISSA 5000

- Requires basic content elements that follow the flow of the assurance report (similar to ISA 700 (Revised))

- Requires the engagement leader's name in the assurance report for listed entities

- Addresses that assurance on other reporting responsibilities required by law and regulations can be incorporated into the assurance report

- Includes a separate section regarding practitioner responsibilities for other information (using the approach from ISA 720 (Revised)

- Does not require KAM (Key Sustainability Assurance Matters) – *will ask question on exposure*
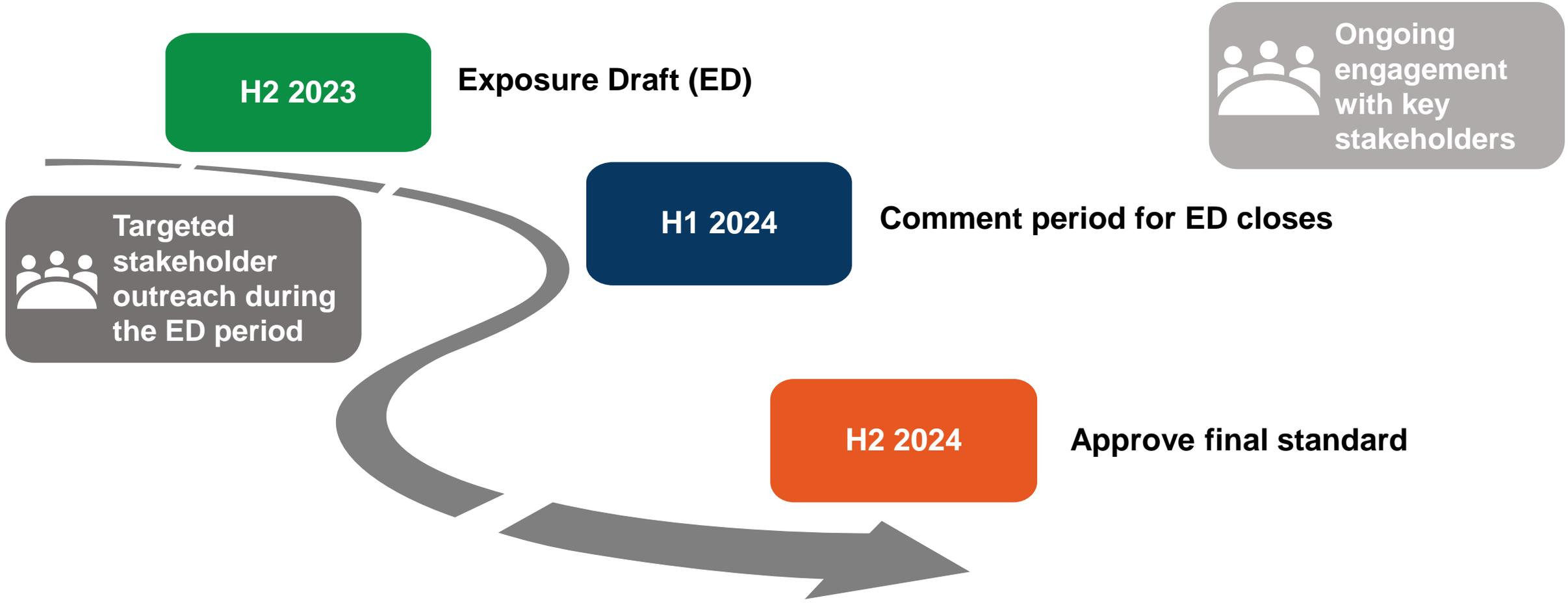
Where addressed

Part 8.5: *Other Information*

Part 8.6: *Forming the Assurance Conclusion*

Part 9: *Reporting*

Are there any other matters related to reporting that the Representatives suggest the SATF should consider

Way forward

H2 2023 — Exposure Draft (ED)

Targeted stakeholder outreach during the ED period

H1 2024 — Comment period for ED closes

Ongoing engagement with key stakeholders

H2 2024 — Approve final standard

Overall Question

? Are there any other matters related to proposed ISSA 5000 that the Representatives suggest the SATF should consider

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