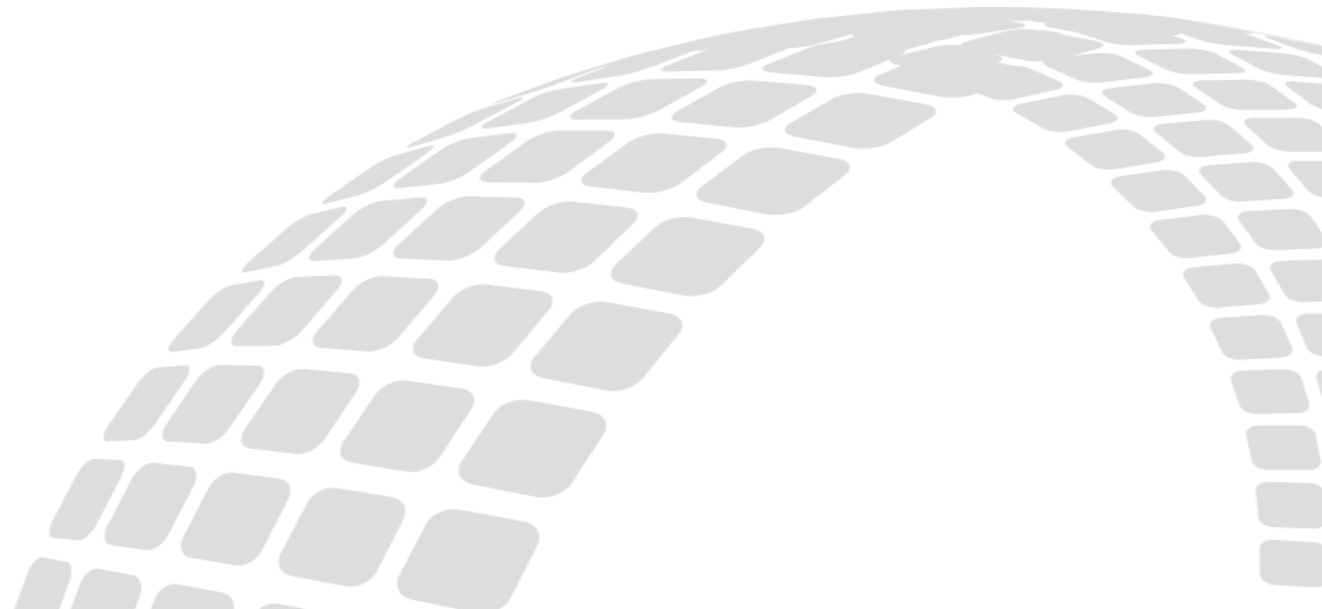




# **Call on IASSB proposed sustainability assurance standards**

**Brussels, 18 October 2023**



# Agenda

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- 1** Competition Policy Statement
- 2** General Background Information
- 3** IASSB Consultation background
- 4** Overall section
- 5** Specific questions
- 6** Next steps

# 1. Competition Policy Statement

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- STATEMENT

## 2. Background information (1/2)

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- There are currently no assurance standards for sustainability information (apart than ISA 3410 for GHG statements)
- The IASSB is an independent organisation set up to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.
- The proposed ISSA 5000 was developed for both reasonable and limited assurance engagements on sustainability information, and is framework agnostic (works for ISSB and ESRS)

## 2. Background information (2/2)

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- **The EC is expected to use standards developed by the IASSB as a basis for their own proposed standards.** In the meantime, some member states may introduce national rules.

1 October 2026



1 October 2028

- EC to adopt standards for **limited assurance** of sustainability information

- EC to adopt standards for **reasonable assurance** of sustainability information

# 3. IASSB consultation

- Open for comments until 1 December 2023
- Consultation is made up of 25 questions, divided in the following sections:

## Overall section

- Global Baseline Standard for Sustainability Assurance
- Public interest responsiveness

## Specific questions

- |   |  |
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| <ul style="list-style-type: none"><li>■ Applicability of ED-5000 and the Relationship with ISAE 3410</li><li>■ Relevant Ethical Requirements and Quality Management Standards</li><li>■ <b>Definitions of Sustainability Information and Sustainability Matters</b></li><li>■ <b>Differentiation of Limited Assurance and Reasonable Assurance</b></li><li>■ Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement</li><li>■ Suitability and Availability of Criteria</li><li>■ <b>Materiality</b></li></ul> | <ul style="list-style-type: none"><li>■ Understanding the Entity’s System of Internal Control</li><li>■ Using the Work of Practitioner’s Experts or Other Practitioners</li><li>■ <b>Estimates and Forward-Looking Information</b></li><li>■ Risk Procedures for a Limited Assurance Engagement</li><li>■ Groups and “Consolidated” Sustainability Information</li><li>■ <b>Fraud</b></li><li>■ <b>Communication with Those Charged with Governance</b></li><li>■ Reporting Requirements and the Assurance Report</li><li>■ <b>Other Matters</b></li></ul> |
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# 4. Overall section

**1. Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item).**

(See Explanatory Memorandum Section 1-A, paragraph 14)

## **Public Interest Responsiveness**

**2. Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal? If not, why not?**

### Paragraph 14:

- ED-5000 has been developed to allow its application to reporting on all sustainability topics and aspects of topics.
- ED-5000 has been developed to allow its application to reporting via any mechanism and to accommodate evolving reporting practices.
- ED-5000 has been developed to be framework-neutral so that it can be used for assurance on sustainability information prepared using any suitable criteria, whether framework criteria, entity-developed criteria or a combination of both.
- ED-5000 has been developed with a focus on entities' general purpose sustainability reporting (i.e., in accordance with criteria designed to meet the common information needs of intended users as a group).
- ED-5000 has been developed to allow for criteria that provide for either perspective or for both, often referred to as "double materiality."
- As an overarching standard, ED-5000 addresses both types of engagements in response to this demand and differentiates the requirements and application material that apply only to limited or reasonable assurance.
- ED5000 is intended to be used by both professional accountant and non-accountant assurance practitioners, subject to the fundamental premises in the standard regarding relevant ethical requirements and quality management

# 5. Specific Questions

## Definitions of Sustainability Information and Sustainability Matters

### Definitions of Sustainability Information and Sustainability Matters

5. Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

(See Explanatory Memorandum Section 1-E, paras. 27-32)

Paragraph 17:

(uu) Sustainability information – Information about sustainability matters. Sustainability information results from measuring or evaluating sustainability matters against the applicable criteria. For purposes of the ISSAs, sustainability information is the equivalent of “subject matter information” in other IAASB assurance standards. (Ref: Para. A32)

(vv) Sustainability matters – Environmental, social, economic and cultural matters, including: (i) The impacts of an entity's activities, products and services on the environment, society, economy or culture, or the impacts on the entity, and (ii) The entity's policies, performance, plans, goals and governance relating to such matters. For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards.

# 5. Specific Questions

## Limited vs Reasonable assurance

7. Does ED-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?

	Limited "understand"	Reasonable "understand and evaluate"
The control environment	✓	✓
The information system	✓	✓
The entity's risk assessment process	Only the results	✓
Control activities	Maybe	✓
The entity's process to monitor the system of internal control		✓

**Reasonable assurance:** more detailed requirement that specify either what needs to be understood or evaluated

# 5. Specific Questions

## Limited vs Reasonable assurance

	Limited	Reasonable
Designing and performing further procedures	Nature, timing and extent focused on the <b>disclosures</b> where material misstatements are likely to arise	Nature, timing and extent responsive to the assessed risks of material misstatements <b>at the assertion level</b>
Test of controls	<b>Only if</b> obtaining evidence about operating effectiveness	<b>Only if</b> obtaining evidence about operating effectiveness
Substantive procedures	<b>May be included</b> , will vary in nature and timing and is less in extent than a reasonable assurance engagement	<b>Required</b> for risks at higher end of the spectrum  Irrespective of assessed risk, consider need for disclosures that are important to information needs of intended users

**Limited assurance:** “Deep dive” if the practitioner becomes aware of a matter(s) that causes the practitioner to believe the sustainability information may be materially misstated

# 5. Specific Questions

## Limited vs Reasonable assurance

	Limited	Reasonable
<b>IF Estimates &amp; Forward-Looking Information (FLI)</b>	<p>Practitioner shall evaluate appropriateness of:</p> <ul style="list-style-type: none"><li>• Management’s application of criteria</li><li>• Methods used to develop estimate and FLI</li><li>• <u>Changes from prior period in reported estimates/ FLI</u></li><li>• Changes from prior period in method used</li> <li>• Consider whether other policies are necessary</li></ul>	<p>Practitioner shall undertake one or more of the following:</p> <ul style="list-style-type: none"><li>• Test how management developed estimate/ FLI and related disclosures, and underlying information</li><li>• Develop a point estimate or range to evaluate management estimate/ LFI</li><li>• Obtain evidence from events occurring up to assurance report date</li></ul>

# 5. Specific Questions

## Materiality

**12. Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?**

**(See Explanatory Memorandum Section 1-F, paras. 65-74)**

“Bifurcated approach”

Paragraph 91-93:

91. For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall: (Ref: Para. A270-A277, A282)

- (a) Consider materiality for qualitative disclosures; and (Ref: Para. A278)
- (b) Determine materiality for quantitative disclosures. (Ref: Para. A279-A281)

92. For quantitative disclosures, the practitioner shall determine performance materiality as applicable in the circumstances. (Ref: Para. A283-A285)

Documentation

93. The practitioner shall include in the engagement documentation:

The factors relevant to the practitioner’s consideration of materiality for qualitative disclosures, and the determination of materiality for quantitative disclosures, in accordance with paragraph 91; and

When applicable, the basis for the practitioner’s determination of performance materiality in accordance with paragraph 92.

# 5. Specific Questions

## Estimates and Forward-Looking Information

**16. Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information? If not, what do you propose and why?**

### Estimates and Forward-Looking Information

94. Stakeholders noted the importance for ED-5000 to address the unique considerations related to estimates and forward-looking information. Such considerations include:

- Estimation uncertainty, which may arise due to incomplete knowledge about the measurement of an area, activity or event, or the measurement or evaluation of an estimate may depend on the forecast of an outcome of one or more events or conditions.
- The use of judgment by management in preparing the estimates (including the possibility of management bias) and the use of professional judgment by the practitioner.
- Obtaining sufficient appropriate evidence about the estimates or forward-looking information.

95. Forward-looking information may include forecasts, projections, or future plans of the entity. Forwardlooking information may be prepared using scenarios based on best-estimate assumptions or hypothetical assumptions, which are affected by management's judgment. A future event, occurrence or action relating to the sustainability matters may be subject to greater uncertainty, and therefore ordinarily able to be evaluated with less precision than historical underlying subject matter(s).

96. As explained in paragraph A392 of ED-5000, regardless of the source or degree of estimation uncertainty, or the extent of judgment involved, it is necessary for management to appropriately apply the applicable criteria when developing estimates and forward-looking information and the related disclosures, including selecting and using appropriate methods, assumptions and data. Therefore, the IAASB concluded that the most appropriate approach was to address estimates and forwardlooking information together in the "Responding to Risks of Material Misstatement" section of ED5000 (see paragraphs 134L-135R). In developing these requirements and the related application material, the IAASB considered the requirements and application material in ISA 540 (Revised).<sup>10</sup> 97. The IAASB also noted that estimates and forward-looking information could be addressed further in a separate topic-specific ISSA in the future.

# 5. Specific Questions

## Fraud

**19. Do you agree that ED-5000 appropriately addresses the topic of fraud (including “greenwashing”) by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?**

17(t) 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

A295. The characteristics of events or conditions that could give rise to material misstatement of the disclosures may include complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud, thus resulting in susceptibility of the disclosures to material misstatement, whether due to fraud or error.

A296. Material misstatements due to fraud in sustainability information may relate to matters such as the following:

- Misstating sustainability information (including omitting information) to avoid penalties or fines, potentially aggressive or overly optimistic internal or external goals, intentionally inaccurate or misleading product or corporate public statements or claims.
- Misstating sustainability information to enable the entity to be favorably considered in relation to future endeavors, or to be a factor in funding, supplier or customer arrangements or negotiations.
- Misstating sustainability information to reduce carbon tax liabilities or overstate carbon credits created.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way in order to influence the outcome of the performance reward or compensation.
- Pressures linked to obtaining certain credentials or recognitions (e.g., a ‘green’ seal or rating), or to meet certain contractual conditions.
- Immature systems of internal control over sustainability reporting.

# 5. Specific Questions

## Communication with Those Charged with Governance

**20. Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?**

**(See Explanatory Memorandum Section 1-G, paras. 111-112)**

**A137.** Significant matters that may be appropriate to communicate with management, those charged with governance or others include:

- Identified or suspected fraud or non-compliance with law or regulation.
- Identified deficiencies in internal control.
- Management bias in the preparation of the sustainability information.
- Significant matters discussed or subject to correspondence with management.
- Material misstatements of the sustainability information or other information that management has refused to correct.
- Significant difficulties encountered during the engagement.

**A138.** Significant matters discussed, or subject to correspondence with management, may include such matters as:

- Significant events or transactions that occurred during the year.
- **Concerns about management's use of work of an expert or information obtained from external sources.**
- Significant matters on which there was disagreement with management.

**A139.** Significant difficulties encountered during the engagement may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the practitioner to perform procedures.
- An unreasonably brief time within which to complete the engagement.
- Extensive unexpected effort required to obtain sufficient appropriate evidence.
- The unavailability of expected information.
- Restrictions imposed on the practitioner by management.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the practitioner's assurance conclusion.

**A 140** Considerations Specific to Public Sector Entities

- A public sector practitioner may be obliged to report on identified or suspected non-compliance to the legislature or other governing body or to report them in the practitioner's report.

# 5. Specific Questions

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## Other matters

### Other Matters

**24. Are there any public sector considerations that need to be addressed in ED-5000?**

**(See Explanatory Memorandum Section 1-I, para. 135)**

A427. Examples of subsequent events

- The publication of revised factors, assumptions or benchmarks by a body such as a government agency (e.g., revised emissions factors),
- Changes to relevant legislation or regulations,
- Significant improved scientific knowledge,
- Significant structural changes in the entity,
- The availability of more accurate quantification methods,
- The discovery of a significant error
- The discovery of significant water pollution or soil contamination., or
- Fatality and other significant health and safety events.

# 6. Next steps

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## Consultation calendar

- 18 October: Call with members to gather initial views
  - 25 October: Secretariat issues first draft response
  - 8 November: Deadline for first round of comments
  - 15 November: Secretariat issues second draft response
  - 24 November: Deadline for second round of comments
  - 29 November: Secretariat issues fatal flaw response
  - 1 December: deadline for submission
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- Possibility to draft a joint response with the CFOF ?