



## In depth

IAASB Exposure Draft of proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements

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# At a glance

The International Auditing and Assurance Standards Board ('IAASB', or the 'Board') has issued an Exposure Draft (ED) of the International Standard on Sustainability Assurance ('ISSA') 5000, **General Requirements for Sustainability Assurance** (hereafter 'ED-5000'). Comments are due by 1 December 2023.

The proposed general requirements standard is the first in what is anticipated to be a new series of assurance standards: the International Standards on Sustainability Assurance ('ISSAs').

The general requirements standard has been developed using existing requirements and guidance from ISAE 3000 (Revised) and ISAE 3410, the IAASB's non-authoritative guidance on **Applying ISAE 3000 (Revised) to Sustainability and Other Forms of Extended External Reporting (EER) Assurance Engagements**, and, to the extent deemed appropriate, certain requirements and guidance from more recently revised International Standards on Auditing ('ISAs').

## Headline messages – overview of key proposals

- ✓ **Overarching standard** – ED-5000 has been developed as an overarching standard that addresses baseline requirements covering the end-to-end process of a sustainability assurance engagement, from acceptance and continuance to reporting.
- ✓ **Relationship with ISAE 3000 (Revised) and ISAE 3410** – ED-5000 applies to all assurance engagements that address sustainability subject matters. ISAE 3000 (Revised) continues to apply to all other assurance engagements (that is, on non-sustainability-related subject matters), alongside ISAE 3410 that applies, together with ISAE 3000 (Revised), for assurance engagements on greenhouse gas statements.
- ✓ **Framework-neutral** – ED-5000 is intended to be framework-neutral, so that it can be used for assurance on sustainability information prepared using any framework criteria (ISSB, CSRD, ESRS, SEC etc), entity-developed criteria or a combination of both.
- ✓ **Applies to all sustainability topics and aspects of topics** – ED-5000 has been developed to be capable of being applied to all sustainability topics (such as environmental, social, economic and cultural matters) and aspects of such topics (such as risks and opportunities, governance, processes, strategy, scenario analysis, KPIs) – *see further explanation of 'Topics' and 'Aspects of Topics' under "Key Definitions" in the "Overview of proposed ISSA 5000" section below.*
- ✓ **Addresses both Limited and Reasonable assurance engagements** – ED-5000 addresses both limited and reasonable assurance engagements, recognising the need, and demand, for different levels of assurance in certain jurisdictions. Requirements and application material that apply only to limited or reasonable assurance are clearly differentiated.
- ✓ **Available for use by all assurance practitioners** – ED-5000 is designed to be applicable to both professional accountants and non-professional accountant assurance practitioners, provided that they can satisfy the requirements addressing compliance with expected relevant ethical requirements and systems of quality management.
- ✓ **What's not included** – As a baseline general requirements standard, ED-5000 does not address:
  - requirements tailored to specific reporting framework requirements (for example, CSRD);
  - detailed requirements targeted at specific subject matters or jurisdiction-specific assurance reporting requirements; and
  - more specific requirements addressing detailed sustainability assurance concepts (for example, application of 'double materiality').

# Introduction

## Why the standard is being developed

Reporting on sustainability information has quickly become a matter of global importance. A growing, global demand for sustainability reporting – in society, and in public and private organisations – has fuelled demand for enhanced corporate reporting. Companies are increasingly choosing to report on sustainability matters as part of their overall corporate reporting in response to user demand.

The reliability of such reporting is a key issue for many stakeholders – in particular, investors and other users of an entity's general purpose external reporting, regulators, and non-governmental organisations ('NGOs'). Stakeholders are increasingly demanding assurance on sustainability information, and mandatory assurance requirements have been promulgated or proposed in the European Union and other jurisdictions.

This, together with the formation of the International Sustainability Standards Board ('ISSB') and publication of its initial exposure drafts of IFRS® Sustainability Disclosure Standards (now released as final standards in June 2023: **IFRS S1, 'General Requirements for Disclosure of Sustainability-related Financial Information', and IFRS S2, 'Climate-related Disclosures'**), proved a catalyst for demand for complementary global assurance standards over corporate sustainability reporting.

The IAASB recognised the urgency of elevating sustainability assurance in its work plan and commenced a project in 2022 to develop a specific new stand-alone sustainability assurance standard, to be recognised as the globally accepted baseline assurance standard over corporate sustainability reporting.

### Public interest objective

The objective of the IAASB in developing ED-5000 is to develop a new overarching standard for assurance on sustainability reporting, that is:

- ✓ responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements;
- ✓ suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks; and
- ✓ implementable by all assurance practitioners.

## Positioning this standard in the global assurance framework

### Applicability of ED-5000

ED-5000 applies to all assurance engagements on sustainability information, except when the practitioner has been engaged to provide a separate conclusion on a greenhouse gas ('GHG') statement in accordance with ISAE 3410. Although ED-5000 incorporates certain requirements from ISAE 3410, the latter contains additional specific requirements and application material pertaining to a GHG statement and remains appropriate for assurance engagements when a separate conclusion is provided on an entity's GHG statement.

Since ED-5000 has been designed as a stand-alone standard that includes requirements and application material for all aspects of a sustainability assurance engagement, practitioners do not also apply ISAE 3000 (Revised) when undertaking a sustainability assurance engagement, unlike when applying other ISAE standards (ISAE 3402, 3410).

ISAE 3000 (Revised) remains applicable to all other assurance engagements on any subject matter that is not sustainability related.

### Assurance over controls

An area that will require judgement in determining the appropriate standard to be applied is with respect to assurance engagements over the operating effectiveness of controls. The nature of the subject matter to which the controls are being applied and the engagement-specific circumstances will determine which standard should be applied:

- If the underlying subject matter relates to sustainability matters, ISSA 5000 applies.
- If the underlying subject matter relates to any other non-sustainability matters, ISAE 3000 (Revised) applies.
- If the engagement is to report on controls at a service organisation, ISAE 3402 applies.



# Overview of proposed ISSA 5000

The remaining sections of this In depth address the key principles and concepts included in ED-5000. The following matters are addressed below:

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# A – Key principles and concepts

## Nature and scope of the standard

ED-5000 has been developed as an overarching standard that covers all requirements for a sustainability assurance engagement, from acceptance and continuance through to reporting. The standard retains principle-based requirements, while intended to provide sufficient specificity and guidance to drive consistency in the conduct of sustainability assurance engagements for all entities, regardless of their size and complexity.

The following key principles have been followed in developing ED-5000:

- ✓ **Reporting framework-neutral** – The standard is not contingent on the application by reporting entities of any single reporting framework. It is therefore intended to be suitable for use for assurance on sustainability information prepared using the standards of the ISSB, jurisdictional standards (such as CSRD in Europe or SEC in the US), or when the entity develops its own criteria (or a combination of these).
- ✓ **Suitable for assurance over reporting on all sustainability topics and aspects of topics** – Sustainability information reported can be very narrow or cover a wide range of sustainability matters, including many varied topics (such as environmental, social, economic and cultural) and aspects of topics (such as risk and opportunities, governance and KPIs). The standard has been developed to allow its application to reporting on all sustainability topics and aspects of topics (see ‘B – Key definitions’ for further explanation of the concepts of ‘topics’ and ‘aspects of topics’).
- ✓ **Intended user-agnostic** – ED-5000 is designed to be suitable for assurance engagements on sustainability information regardless of the intended users. It has been developed with a focus on entities’ general purpose sustainability reporting but acknowledges that, in some cases, specific users might request or arrange for an assurance engagement to be performed on sustainability information that has been prepared using criteria that are designed for a specific purpose.
- ✓ **Can be used by all assurance practitioners** – ED-5000 is designed to be applicable for use by both professional accountants and non-professional accountant assurance practitioners, provided that they adhere to the fundamental premises set out in the standard regarding relevant ethical requirements and quality management.

## Relevant ethical requirements

ED-5000 establishes a fundamental premise that a practitioner (the members of the engagement team and any engagement quality reviewer when appointed) performing a sustainability assurance engagement in accordance with the standard is subject to the provisions of the IESBA Code related to assurance engagements, or other professional requirements, or requirements in law and regulation, that are **at least as demanding**.

## Quality management

A second fundamental premise on which ED-5000 is based is that the practitioner performing the engagement is a member of a firm that is subject to ISQM 1, or other professional requirements, or requirements in law and regulation, regarding the firm’s responsibility for its system of quality management, that are **at least as demanding as ISQM 1**.

These fundamental premises are consistent with ISAE 3000 (Revised) and are widely recognised as being in the public interest and an integral part of high-quality assurance engagements. While the concept is not new, it is seen as being of increasing importance, with the introduction of ED-5000, on the basis of the significant number of non-accounting assurance firms undertaking sustainability assurance engagements in the market.

The IAASB recognises that regulators and national standard setters share the responsibility for determining what is considered ‘at least as demanding’ in their respective jurisdictions, as well as determining if, and how, to regulate enforcement of these important premises.

## Limited Assurance and Reasonable Assurance Engagements

ED-5000 addresses both limited assurance and reasonable assurance sustainability engagements, recognising that the prevalence and level of assurance on sustainability information being required by relevant regulatory bodies is developing across jurisdictions at different rates. As such, the IAASB recognised that there will likely be increasing demand for both limited and reasonable assurance engagements. The likelihood of assurance engagements that comprise limited assurance on some aspects of the sustainability information, and reasonable assurance on other aspects of the sustainability information, was also acknowledged.

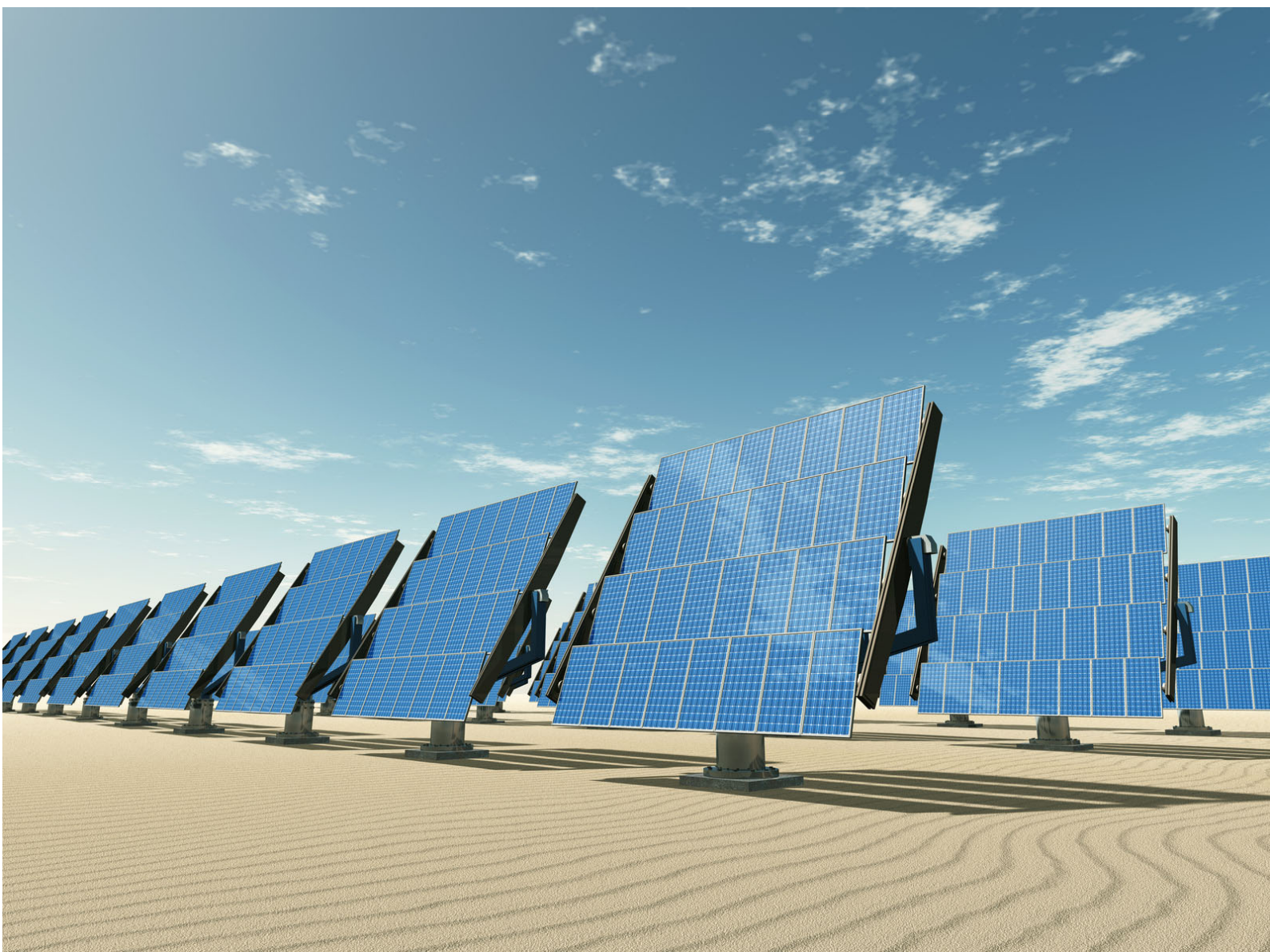


During the development of ED-5000, a key priority of the IAASB was to clearly distinguish the work effort between a limited assurance and a reasonable assurance engagement. To achieve this clarity, requirements and application material in ED-5000 have been marked with the letter 'L' (limited assurance) or 'R' (reasonable assurance) after the paragraph number, and the requirements have been split into columns, consistent with the approach in ISAE 3000 (Revised) and ISAE 3410. This helps to highlight the incremental procedures and work effort required to move from limited assurance to reasonable assurance. The application material also provides examples, when relevant, to seek to draw out the distinction in the scale of work.

### **Group or 'consolidated' sustainability information**

Although the exposure draft has no specific requirements that address 'consolidated' sustainability information or sustainability information for **groups**, ED-5000 clarifies that sustainability information might be prepared for a single entity or might include 'consolidated' information from entities that are **part of a group** or other entities in the reporting entity's value chain. The IAASB believes that the principle-based requirements in the proposed standard are capable of being applied for all types of sustainability assurance engagement.

When information resides in **multiple locations** within the entity's reporting boundary (that is, within the entity's organisational boundary) or outside the entity (for example, in the value chain), the practitioner needs to decide where evidence will need to be obtained and whether other practitioners will need to be involved in performing procedures (**see also 'F – The engagement team and using work of "Another Practitioner"' below**).





# B – Key definitions

ED-5000 includes several new definitions that are critical to understanding and appropriately applying the requirements of the new standard.

## Sustainability matters, sustainability information and disclosures

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.

Matters to be reported ordinarily are driven by the sustainability reporting framework or other applicable criteria, and the term ‘sustainability matters’ is described or used differently in various reporting frameworks and other sources. Therefore, the IAASB concluded that the best approach would be to define sustainability 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 ISAE 3000 (Revised). This definition is important in determining whether the subject matter of the engagement is sustainability related and, consequently, whether ISSA 5000 or ISAE 3000 (Revised) applies to the assurance engagement.

**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 ISAE 3000 (Revised). In its broadest sense, sustainability information is any information prepared and reported by an entity. For the purposes of ED-5000, the term is used to mean the information that is subject to assurance (unless otherwise stated in the standard).

**Disclosure(s)** – Specific sustainability information related to an aspect of a topic.

The term ‘disclosures’ has been adopted by the IAASB to describe a more granular level of the sustainability information that is reported. The definition notes that disclosures relate to an aspect of a topic.



The concepts of 'Topics' and 'Aspects of a topic' are used to describe the broad thematic categories of sustainability matters ('Topics'), and information about those sustainability matters ('Aspects of topics'), that an entity might address in its reporting. Examples of topics and aspects of topics include:

**Topics**

- ✓ Climate, including emissions.
- ✓ Energy, such as type of energy and consumption.
- ✓ Water and effluents, such as water consumption and water discharge.
- ✓ Biodiversity, such as impacts on biodiversity or habitats protected and restored.
- ✓ Labour practices, such as diversity and equal opportunity, training and education, and occupational health and safety.
- ✓ Human rights and community relations, such as local community engagement, impact assessments and development programs.
- ✓ Customer health and safety.
- ✓ Economic impacts, such as government assistance, tax strategy, anti-competitive behaviour, anti-corruption and market presence.

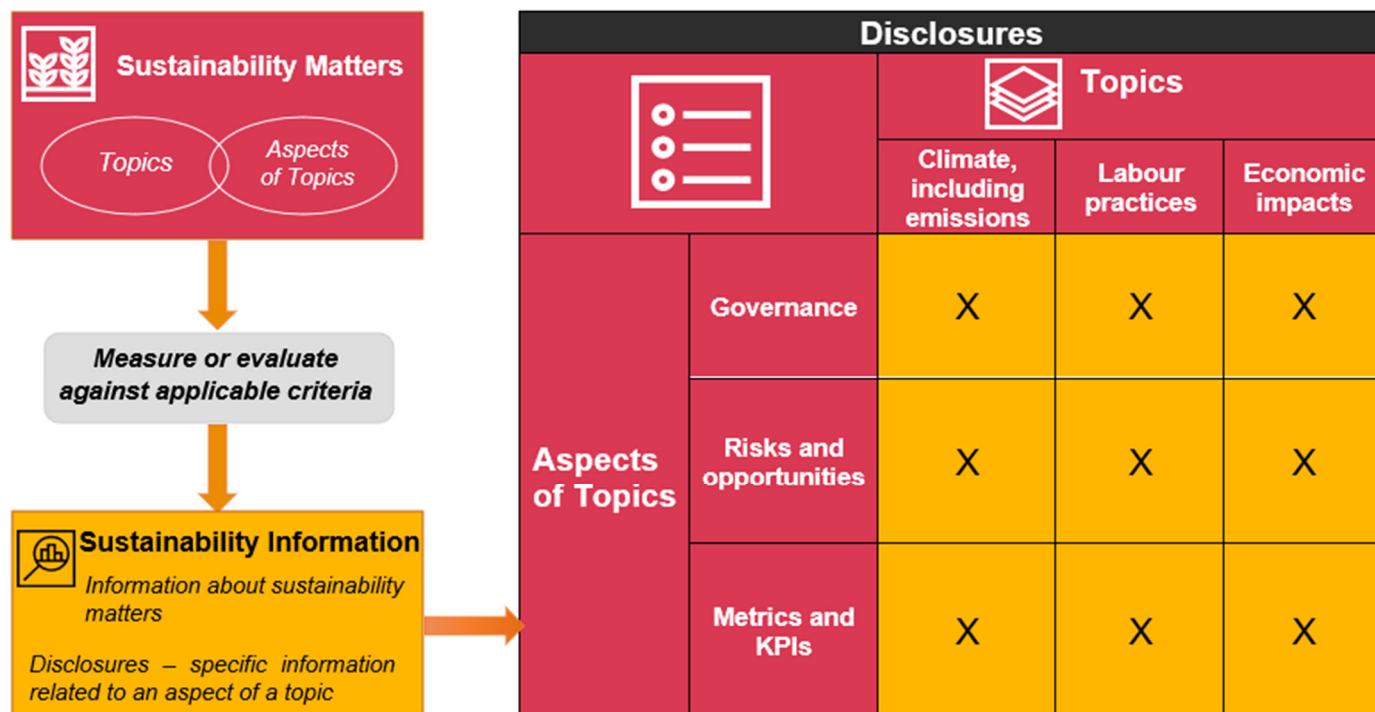
**Aspects of Topics**

- ✓ Governance.
- ✓ Strategy and business model.
- ✓ Risks and opportunities.
- ✓ Risk management or mitigation.
- ✓ Innovation to address risks and opportunities.
- ✓ Metrics and key performance indicators.
- ✓ Targets.
- ✓ Internal control over monitoring and managing risk.
- ✓ Scenario analysis.
- ✓ Impact analysis, including magnitude of impact.

The topics and aspects of topics of sustainability matters are considered by management in determining the information to be reported (see 'D – Entity's materiality process and "double materiality"' below).

Disclosures can be in various forms. They might be limited to a single paragraph or table, or they might span multiple pages in a separate sustainability report, part of the entity's annual report or some other reporting mechanism.

The relationship between sustainability matters, sustainability information, and the related disclosures is illustrated by the following diagram (from Appendix 1 to ED-5000):





## Criteria

**Criteria** – The benchmarks used to measure or evaluate the sustainability matters. The ‘applicable criteria’ are the criteria used for a particular engagement and comprise either framework criteria, entity-developed criteria or both. Framework criteria are either fair presentation criteria or compliance criteria.

The term ‘**fair presentation criteria**’ is used to refer to a sustainability framework that requires compliance with the requirements of the framework and:

- I. acknowledges explicitly or implicitly that, to achieve fair presentation of the sustainability information, it may be necessary for management to provide information beyond that specifically required by the framework; or
- II. acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the sustainability information. Such departures are expected to be necessary only in extremely rare circumstances.

The term ‘**compliance criteria**’ is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements noted above.

When the sustainability information has been prepared in accordance with fair presentation criteria, ED-5000 includes conditional requirements related to the practitioner’s evaluation of the overall presentation, structure and content of the sustainability information, and to the wording of the practitioner’s conclusion in the assurance report.



# C – Preconditions for an assurance engagement

Recognising the evolving nature of sustainability assurance engagements, additional focus has been given to the preconditions for assurance. Specifically, enhanced requirements address the practitioner's preliminary understanding of the engagement to determine whether the engagement meets the preconditions such that the engagement can be accepted.

The requirements include understanding:

- ✓ the sustainability information (topics and aspects of topics) expected to be reported;
- ✓ whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information; and
- ✓ whether the scope of the proposed assurance engagement extends to all or part of that sustainability information.

Other preconditions to be met, largely consistent with ISAE 3000 (Revised), include:

- ✓ **Appropriate sustainability matters** – the sustainability matters which are within the scope of the engagement are suitable, including being identifiable and capable of consistent measurement or evaluation against applicable criteria to facilitate obtaining sufficient appropriate evidence.
- ✓ **Suitable available criteria** – the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances, including being relevant, complete, reliable, neutral and understandable, address all the sustainability information within the scope of the engagement, and will be available to the intended users.
- ✓ **Available evidence and form of conclusion** – evidence needed to support the assurance conclusion is expected to be available and the practitioner's conclusion is to be contained in a written report in the form appropriate to either a reasonable assurance or a limited assurance engagement.
- ✓ **Rational purpose** – the engagement exhibits a rationale purpose.

## Rational purpose

The precondition requirement for the engagement to exhibit a rational purpose has been enhanced, recognising the evolving nature and varying scope of assurance that might be requested by entities. The requirement now explicitly requires the practitioner to determine whether:

- a. in the case of a limited assurance engagement, the practitioner expects to be able to obtain a meaningful level of assurance;
- b. the engagement as a whole will be useful and not misleading to intended users; and
- c. the scope of the assurance engagement is appropriate, including where the scope of the assurance engagement excludes part of the sustainability information expected to be reported.

Part (c), in particular, is important from the perspective of evaluating whether the proposed scope of assurance is in compliance with the applicable criteria and is not subject to cherry-picking by the entity – that is, reporting and seeking assurance only on favourable information, or so-called 'greenwashing' (see also 'D – Entity's materiality process and "double materiality"' and 'E – Scope of the assurance engagement').



## D – Entity’s materiality process and ‘double materiality’

Understanding the entity’s process to identify topics and aspects of topics to be reported, and the reporting boundaries, is critical to determining whether the reporting complies with the applicable reporting frameworks or entity-developed criteria. This initial understanding is expected to be obtained when complying with the new precondition requirements addressing: the sustainability information expected to be reported; whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information; and whether the scope of the proposed assurance engagement extends to all or part of that sustainability information.

The practitioner builds on the preliminary knowledge, including understanding the entity’s policies or procedures, to apply the applicable criteria and relevant components of the entity’s system of internal control, as part of performing risk assessment procedures (see ‘H – Risk assessment procedures including fraud’ below).

The entity’s process might often be referred to as the ‘process to identify reporting topics,’ ‘materiality assessment,’ or ‘materiality process’, among other terms. A key element of the entity’s materiality process is determining whether applicable criteria require the entity to consider the impact of sustainability matters on the entity (sometimes referred to as ‘financial materiality’) or the impacts of the entity on sustainability matters (sometimes referred to as ‘impact materiality’). When the needs of the intended users relate to both the impacts on the entity and the entity’s impacts, this may be referred to as ‘double materiality’. The needs of intended users will not always include both perspectives and, therefore, the concept of double materiality is not always relevant to every engagement.

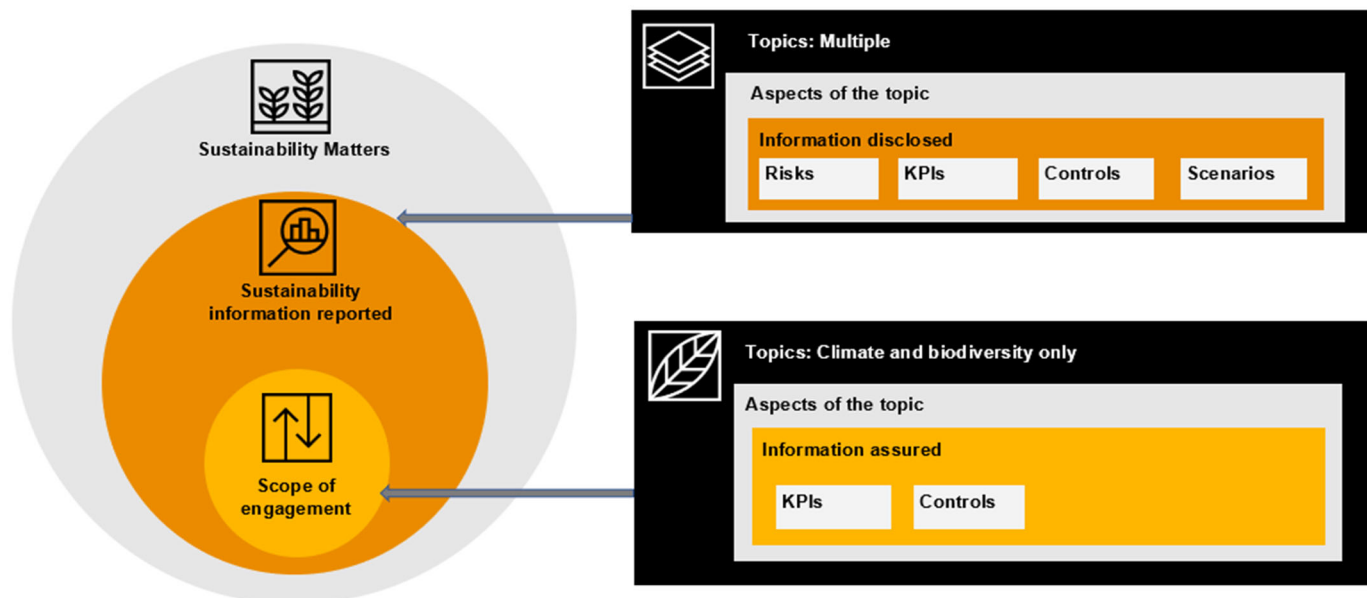
The consideration of the entity’s materiality process, or double materiality, is separate and distinct from how a practitioner thinks about planning and performing the assurance engagement (see also ‘G – Materiality’ below).





# E – Scope of the assurance engagement

ED-5000 recognises that the sustainability information reported might relate to multiple topics and aspects of topics, or it might be focused only on a particular sustainability matter.



The scope of the assurance engagement can vary. In some cases, the practitioner's assurance engagement might include all of the sustainability information. In other cases, the engagement might relate to only certain disclosures, or sustainability information for particular activities, regions, or operations within the reporting boundary. The practitioner also needs to have knowledge of the sustainability information outside the scope of the assurance engagement, so that the practitioner can avoid being associated with information that is materially false or misleading, and to determine whether the scope of the engagement is appropriate.

The reporting boundary of the sustainability information might be complex (for example, it might include the value chain), it might differ across disclosures (the applicable criteria might require different reporting boundaries), or it might be subject to management bias. In obtaining a preliminary knowledge of the scope of the assurance engagement, considerations relating to the reporting boundary or boundaries might be important, including whether the boundary:

- ✓ is related to the entity, multiple entities, the entity's value chain(s), specific jurisdictions, activities, operations, locations or facilities;
- ✓ extends beyond the operation control of the entity;
- ✓ is established in framework criteria or entity-developed criteria;
- ✓ is consistent between different topics, aspects of topics or disclosures and, if inconsistent, whether such inconsistency is appropriate based on the applicable criteria.

## F – The engagement team and using work of ‘Another Practitioner’

ED-5000 recognises that the performance of a sustainability assurance engagement will involve a multi-disciplinary team. The standard has adopted the engagement quality management principles introduced in recently approved ISA 220 (Revised), including the updated definition of the engagement team.

**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.**

A key quality management principle is that the practitioner (including the engagement leader) needs to be sufficiently involved in the work to be performed. The standard therefore includes requirements addressing the nature, timing and extent of the direction, supervision and review of members of the engagement team.

The sustainability information subject to the assurance engagement might include information for numerous entities within the entity’s organisational boundary or for entities up and down the value chain. In those circumstances, the engagement team might determine that it is necessary or appropriate to seek to use the work of a practitioner other than its own firm, which could be another network firm or a non-network firm. For example, another firm could be engaged to perform an assurance engagement on sustainability information of an entity further down the value chain that has been consolidated into the sustainability information of the entity that has engaged the assurance practitioner.

Following the quality management principle, if the practitioner intends to use the work of a firm other than the practitioner’s firm, ED-5000 requires the engagement leader to determine whether the practitioner will be able to be sufficiently and appropriately involved in that work. This determination is important, because it dictates which requirements of ED-5000 apply in the circumstances.

When the practitioner considers that the work of a firm other than the practitioner’s firm is relevant to the practitioner’s assurance engagement, and such work has not yet been performed, the practitioner ordinarily plans to be sufficiently involved in that work. In circumstances when the practitioner is able to engage and work with the other firm (that is, when the timing of the engagement of the other firm is such that the work is not already completed and the other firm agrees to cooperate with the practitioner) the practitioner should be able to direct, supervise and review the work to be performed by the other firm. In such cases, the individuals from the other firm are considered to be part of the engagement team.

In other circumstances, when the practitioner cannot be sufficiently involved in the work of the other firm (for example, the work has already been performed, or access to the work of the other firm is restricted by law or regulation), ED-5000 sets out alternative requirements for the practitioner to evaluate whether the work of the other firm can be used as evidence on the engagement. In such cases, ED-5000 refers to using the work of ‘another practitioner’.

The following table describes the individuals that can be involved in an assurance engagement and the relevant requirements that apply:

	<b>Practitioner is able to be sufficiently and appropriately involved in the work</b>	<b>Practitioner is unable to be sufficiently and appropriately involved in the work</b>
<b>Firm personnel</b>	<b>Engagement team member</b> Direction, supervision & review ('DS&R') applies (ED-5000, paras 45–48)	N/A
<b>Practitioner's internal expert</b>	<b>Engagement team member</b> DS&R applies (ED-5000, paras 45–48)	N/A
<b>Practitioner's external expert</b>	<b>Using the work of a practitioner's external expert</b> (ED-5000, paras 42 and 49–50)	N/A
<b>Other firms (including network firms and non-network firms)</b>	<b>Engagement team member</b> DS&R applies (ED-5000, paras 42 and 51–54)	<b>Using the work of another practitioner</b> (ED-5000, paras 42 and 51–54)
<b>Internal audit function</b>	<b>Using the work of the internal audit function</b> (ED-5000, para 55)	<b>Using the work of the internal audit function</b> (ED-5000, para 55)

The evaluation of whether the work of another practitioner can be used involves:

- ✓ evaluating whether that practitioner is independent and has the necessary competence and capabilities for the practitioner's purposes;
- ✓ enquiring of the other practitioner about threats to compliance with relevant ethical requirements, including those related to independence;
- ✓ evaluating whether the nature, scope and objectives of that practitioner's work are appropriate for the practitioner's purposes; and
- ✓ determining whether the other practitioner's work is adequate for the practitioner's purposes.

Assuming that the first three conditions are satisfied, the determination of the adequacy of the work for the practitioner's purposes will depend on the nature and significance of the work of another practitioner to the practitioner's overall engagement, with the nature, timing and extent of procedures undertaken by the practitioner, to make their determination, existing on a spectrum. Depending on the circumstances, this may include communicating with another practitioner about the findings from that other practitioner's work, evaluating whether such communications are adequate for the practitioner's purposes, and determining whether, and the extent to which, it is necessary to review additional documentation of the work performed by that practitioner.



# G – Materiality

Materiality considerations are important in planning and performing an assurance engagement on sustainability information and in evaluating whether the sustainability information is free from material misstatement.

Given the expected nature of disclosures of sustainability information (that is, qualitative and quantitative disclosures about a number of different topics and aspects of topics), the IAASB concluded that it is not practicable for practitioners to determine materiality for sustainability information as a whole, and so it decided on a ‘bifurcated’ approach.

Consequently, ED-5000 requires the practitioner to:

- a. **consider** materiality for qualitative disclosures; and
- b. **determine** materiality for quantitative disclosures.

Materiality is affected by the practitioner’s perception of the information needs of intended users of the sustainability information. The applicable criteria might include principles to assist the entity in identifying information relevant to users, which might include terms that refer to materiality (**as described in ‘D – Entity’s materiality process and “double materiality” above**). Such principles or terms, if present, might provide a frame of reference that could assist the practitioner in considering or determining materiality for the engagement. However, **the process applied by the entity to determine sustainability matters to be reported is distinct from materiality considered or determined by the practitioner:**

When an entity is required to consider both the impact of sustainability matters on the entity and the impacts of the entity on sustainability matters (‘double materiality’) when determining what to report, this does not mean that the practitioner sets two different materiality levels for a particular disclosure.

In setting the materiality level to be applied when planning and performing procedures for a given disclosure (or set of disclosures), qualitative factors considered by the entity and the practitioner might overlap but need not be identical. Similarly, for quantitative disclosures, the practitioner and entity will not necessarily arrive at the same materiality threshold.

The practitioner’s judgements about matters that are material to intended users of the sustainability information are based on a consideration of the common information needs of intended users as a group. Ordinarily, materiality is considered or determined for different disclosures. For different disclosures, the same intended users might have different information needs, or a different tolerance for misstatement, or the disclosures might be expressed using different units of measure. Considering qualitative factors might help the practitioner to identify disclosures that could be more significant to the intended users.

## Performance materiality

In addition to the requirement described above, ED-5000 also requires the practitioner to determine performance materiality for quantitative disclosures as applicable in the circumstances. This requirement is a response to the probability that the aggregate of uncorrected and undetected misstatements in a quantitative disclosure could be material (‘aggregation risk’). The definition of performance materiality in ED-5000 is consistent with, and was based on, the definition in ISAE 3410.

Performance materiality relates only to quantitative disclosures. While performance materiality does not address misstatements that would be material solely due to qualitative factors that affect their significance, ED-5000 explains that designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent that it is possible to do so, might also assist the practitioner in addressing aggregation risk.

# H – Risk assessment procedures including fraud

ED-5000 requires the practitioner to design and perform risk procedures sufficient to:

- ✓ for a limited assurance engagement, **identify disclosures where material misstatements are likely to arise** and thereby provide a basis for designing further procedures to focus on those disclosures; and
- ✓ for a reasonable assurance engagement, **identify and assess risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures**, and to design and perform further procedures.

The above requirements from ED-5000 are consistent with ISAE 3000 (Revised), which does not require a **risk assessment** for limited assurance engagements. The IAASB discussed the differentiation in work effort between limited and reasonable assurance, including whether the practitioner should also be required to identify and assess the risks of material misstatement at the disclosure level in a limited assurance engagement, but it concluded that, due to the wide range of sustainability disclosures, the ISAE 3000 (Revised) approach remains appropriate and provides an appropriate framework for the practitioner’s consideration of disclosures where material misstatements are likely to arise.

## Understanding the entity’s system of internal control in a limited or a reasonable assurance engagement

A further priority area that the IAASB has focused on is the extent of the practitioner’s understanding of components of the entity’s system of internal control relevant to the sustainability matters and the preparation of the sustainability information. The recent EER guidance also focused on this topic, since existing systems of internal control, established by entities to address financial information, might be immature or lack necessary controls addressing sustainability information. The level of formality of the entity’s system of internal control might also vary by size and complexity of the entity, and by the nature and complexity of the sustainability matters and the applicable criteria.

The practitioner’s understanding assists in identifying the types of misstatement that might occur and factors that affect whether disclosures might be materially misstated.

ED-5000 contains the following key requirements related to the practitioner’s risk procedures for understanding the system of internal control:

Limited assurance	Reasonable assurance
Obtain an understanding of certain components ( <b>control environment, results of the entity’s risk assessment process, and the information system and communication</b> ) (ED-5000, para 102L)	Obtain an understanding of <b>all components</b> (ED-5000, para 102R)
<b>Conditional requirement to obtain an understanding of controls</b> (and related IT general controls) if the practitioner plans to obtain evidence by testing the operating effectiveness of controls (ED-5000, para 107L)	<b>Obtain an understanding of controls</b> for which the practitioner plans to obtain evidence by testing their operating effectiveness, related IT general controls, and other controls that the practitioner judges are necessary to test (ED-5000, para 107R)
<b>Obtain an understanding, and evaluate the design and determine the implementation</b> , of controls that the practitioner plans to test (ED-5000, para 108L)	<b>Obtain an understanding, and evaluate the design and determine the implementation</b> , of controls that the practitioner plans to test (ED-5000, para 108L)
Based on the understanding of the components of internal control, <b>consider</b> whether one or more control deficiencies have been identified (ED-5000, para 109L)	Based on the understanding of the components of internal control, <b>determine</b> whether one or more control deficiencies have been identified (ED-5000, para 109L)

The primary differences in work effort when comparing a limited and a reasonable assurance engagement are that, for limited assurance:

- ✓ The practitioner is not required to obtain an understanding of the **entity's process to monitor the system of internal control or control activities** components.
- ✓ If the practitioner plans to obtain evidence by testing the operating effectiveness of controls, an understanding of those controls and general IT controls that address risks arising from the use of IT related to those controls is required.
- ✓ There is no requirement to **evaluate** the **control environment**.
- ✓ Only the **results** of the entity's **risk assessment process** need to be understood; while, for reasonable assurance, this is more robust and extends to evaluating whether the risk assessment process is appropriate to the entity's circumstances.

## Fraud

The risk of fraud, including the concept of 'greenwashing' (and other forms of 'washing', such as 'human' or 'rainbow' with respect to human rights or equality), are highly prominent with respect to sustainability-related reporting. Due to the relative immaturity of reporting and related systems of internal control related to sustainability matters and preparation of the sustainability information, this can increase the susceptibility of the sustainability information to misstatements due to fraud, particularly when there are pressures for management to meet publicly announced targets or goals.

Recognising the importance of the practitioner's consideration of risks of material misstatement due to fraud and responding appropriately to actual or suspected fraud identified during the engagement, ED-5000 includes numerous references to fraud throughout the requirements and application material.





# I – Evidence for qualitative information and forward-looking information

## **Evidence**

Sustainability information might comprise disclosures about a wide range of topics and aspects of topics, and the underlying characteristics of the disclosures might vary (for example, they might be qualitative or quantitative, they might relate to historical or forward-looking information, or they might be factual or involve the use of judgement). Recognising this diversity, ED-5000 adopts a principle-based approach for requirements relating to obtaining and evaluating evidence, leveraging new requirements and application material from proposed ISA 500 (Revised) **Audit Evidence**.

A key characteristic of sustainability assurance engagements is the anticipated broad range of sources of information intended to be used as evidence. This recognises the much broader range of sustainability matters addressed in reporting and the likely more extensive use of information sources external to the entity. Evaluating the relevance and reliability of information intended to be used as evidence is therefore important.

One key difference from the proposals in ISA 500 (Revised) is that ED-5000 only requires the practitioner to obtain evidence about the accuracy and completeness of information intended to be used as evidence that has been prepared by the entity, whereas proposed ISA 500 (Revised) requires this for all information sources, including those external to the entity. The IAASB made this decision in recognition of concerns about the ability to obtain evidence in relation to the accuracy and completeness of information from external sources, given the varying nature of sources and the wide range of sustainability matters that might be within the scope of the engagement.

## **Qualitative sustainability information**

The nature and extent of evidence that is deemed sufficient and appropriate for qualitative disclosures is inherently more subjective than for quantitative disclosures.

Some qualitative disclosures might be factual and directly observable or otherwise able to be subject to further procedures to gather evidence. However, other qualitative disclosures might be inherently judgemental, not directly observable and might be vulnerable to management bias. Consequently, ED-5000 recognises that, when designing and performing procedures for qualitative sustainability information, the practitioner can take into account the following considerations:

- ✓ Whether substantive testing alone will provide sufficient appropriate evidence (in the case of a reasonable assurance engagement). If not, the practitioner might need to perform tests of controls over the integrity of data, or other controls within the entity's information system that support the preparation of the qualitative information.
- ✓ The source of the information intended to be used as audit evidence, how such information has been captured and processed by the entity's information system, and how this might affect the reliability of information.

The practitioner might need to exercise significant professional judgement in evaluating what constitutes sufficient appropriate evidence in these circumstances.

## **Estimates and forward-looking sustainability information**

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

Regardless of the source or degree of estimation uncertainty, or the extent of judgement involved, it is necessary for management to appropriately apply the applicable criteria when developing the forward-looking sustainability information and the related disclosures, including selecting and using appropriate methods, assumptions and data.

Unlike historical information, it is not possible for the practitioner to determine whether the results or outcomes forecasted or projected have been or will be achieved or realised. The practitioner might obtain evidence about whether the forward-looking information has been prepared in accordance with the applicable criteria on the basis of the assumptions used by the entity.

Evidence might be available to support the assumptions on which the forward-looking sustainability information is based, but such evidence itself might also be forward looking and, therefore, speculative in nature. The nature and availability of evidence for forward-looking sustainability information, and what constitutes sufficient appropriate

evidence, will vary by topic, aspects of topic and disclosure. In some circumstances, the evidence available might support a range of possible outcomes, with the disclosure falling within that range. Accordingly, the practitioner might need to exercise significant professional judgement in determining whether the evidence is sufficient and appropriate.

The IAASB concluded that estimates and forward-looking information shared similar characteristics, and it therefore decided to leverage the requirements relating to methods, data and assumptions from ISA 540 (Revised).

It is also anticipated that estimates and forward-looking sustainability information could be addressed further in a future topic-specific ISSA, building on the general requirements standard.





## J – Other information

‘Other information’ is information not subject to the assurance engagement that is included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon.

ED-5000 incorporates the baseline requirements from ISA 720 (Revised) that apply to entities other than listed entities. The practitioner is therefore required to:

- ✓ identify the other information and to obtain it in a timely manner;
- ✓ read the other information obtained prior to the date of the assurance report and consider whether there are any material inconsistencies between the other information and the sustainability information or the practitioner’s knowledge obtained on the assurance engagement; and
- ✓ remain alert for indications of material misstatements in the other information not related to the sustainability information or the practitioner’s knowledge obtained during the engagement.

For purposes of the sustainability assurance engagement, other information includes (when such information is included in the same document as the sustainability information subject to assurance):

- ✓ any other sustainability information not subject to the assurance engagement; and
- ✓ historical financial information (whether audited or unaudited).

The practitioner has no obligations to obtain and read other information not available at the date of the assurance report, as required by ISA 720 (Revised) for listed entities. Given that many sustainability assurance engagements might be narrow in scope, and the other information might therefore be voluminous in relation to the sustainability information within the scope of the assurance engagement, there are limitations as to what is practically achievable and reasonable to expect after the date of the assurance report. However, the practitioner is not prohibited from reviewing and considering such information if it does become available after the date of the assurance report. The application material provides guidance in these situations.



# K – Assurance report

The reporting requirements in ED-5000 are based on the requirements of ISAE 3000 (Revised) and ISAE 3410. In addition, the IAASB considered recent reporting requirements included in the ISAs, in particular ISA 720 (Revised) (see ‘J – Other information’ above for the related work effort requirements with respect to other information).

Based on outreach, the IAASB decided to adopt the approach in ISA 700 (Revised) with respect to the ordering of elements of the assurance report. Consequently, the assurance conclusion is required to be expressed first within the report, followed by the basis for conclusion section.

Furthermore, for assurance engagements for listed entities, the IAASB has adopted the ISA 700 (Revised) requirement for the name of the engagement leader to be included in the assurance report, except in rare circumstances where such disclosure is reasonably expected to lead to a significant personal security threat.

Practitioners can include additional information in the assurance report beyond the baseline minimum elements specified by the standard.

## Limited versus reasonable assurance

ED-5000 retains the distinction in reporting specified in ISAE 3000 (Revised) with respect to including, within a limited assurance report, a section that contains an informative summary of the work performed as a basis for the practitioner’s conclusion, including a description of the nature, timing and extent of procedures performed that is sufficient to enable users to understand the limited assurance that the practitioner has obtained. No such summary is included in a reasonable assurance engagement report.

The IAASB has also proposed elevating, to the basis for conclusion section within the assurance report, the required statement that **“the procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed”**. This is to help further distinguish limited assurance and reasonable assurance reports, and to seek to ensure that users understand the nature of a limited assurance report from the outset.

## Illustrative reports

Appendix 2 to ED-5000 contains four illustrations of assurance reports on sustainability information. The illustrations cover the following scenarios:

- ✓ An unmodified reasonable assurance report on sustainability information of a listed entity prepared in accordance with fair presentation criteria.
- ✓ An unmodified limited assurance report on sustainability information of an entity other than a listed entity prepared in accordance with compliance criteria.
- ✓ An unmodified combined reasonable and limited assurance report on sustainability information for an entity other than a listed entity prepared in accordance with compliance criteria.
- ✓ A modified limited assurance report on sustainability information of an entity other than a listed entity prepared in accordance with compliance criteria.

**“Stakeholders noted that modified assurance reports on sustainability information are expected to be more common given that sustainability reporting is still maturing”**

The final illustrative report is important, because the IAASB recognises that there is a general expectation that, due to the nature of some sustainability information, the maturity of systems of internal control of entities relevant to the preparation of sustainability information, and potential challenges with respect to availability of sufficient appropriate evidence, many assurance reports might result in a modified conclusion, at least in the early years of reporting by entities, until reporting and systems of internal control mature.



## Key assurance matters

The IAASB considered the potential benefits to users of enhanced reporting for sustainability assurance reports but it decided, based on feedback from stakeholders, not to require communication of the equivalent of key audit matters (for example, 'key assurance matters').

Key audit matters are mandatory only for auditor's reports on general-purpose financial reporting for listed entities under the ISAs. Therefore, the communication of the equivalent of key audit matters might not be appropriate for sustainability information prepared for a specific purpose, for narrow-scope engagements that do not encompass the entirety of the sustainability information reported, or for entities other than listed entities. Concerns were also expressed about the risk of misinterpretation about the extent of work performed and assurance conveyed in a limited assurance report if such matters were included.

Since ED-5000 is an overarching standard developed to provide the necessary requirements to conduct all types of assurance engagements on sustainability information, inclusion of such a reporting requirement was not deemed appropriate. Instead, the IAASB will consider addressing the concept in the future suite of ISSAs.

As noted above, practitioners are not precluded from including additional elements in the assurance report, and ED-5000 does not prohibit inclusion of the equivalent of key audit matters in an assurance report.

## Effective date

A final standard is expected to be approved by the IAASB in September 2024. Following the Board's due process, the standard is expected to be given an effective date of approximately 18–24 months after approval by the Board. Therefore, the standard is expected to apply for assurance engagements on sustainability information reported:

- ∨ for periods beginning on or after 15 December 2026; or
- ∨ as at a specific date on or after 15 December 2026.

A dual approach to the effective date is due to the fact that sustainability information can be reported with respect to a period of time, or at a point in time.

Given that one or more jurisdictions might have mandatory assurance requirements impacting December 2024 or 2025 year ends, it is anticipated that the IAASB will encourage early adoption of the standard.

## Responding

The IAASB is inviting comments on all matters addressed in the ED by 1 December 2023.

## Future ISSAs

The IAASB envisages that a suite of standards for assurance on sustainability reporting that provide more specificity than an overarching general requirements standard will likely need to be developed over time. The IAASB will explore the further development of the suite of assurance standards on sustainability reporting as part of its future standard-setting activities. Future ISSAs might address specific sustainability topics and/or elements of the assurance process in more depth.

## Questions?

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**For more information, or if you have questions about the matters addressed in this In depth, please get in touch with your primary PwC engagement team contact.**

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