

BRIEFING MEMO
IAASB
April 19, 2023
Mid-quarter call

Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB/CAG meeting, applying their best knowledge and their own judgement in identifying and communicating matters of public interest and due process. PIOB Staff views are discussed with the PIOB observer and the PIOB Board and do not pre-empt further PIOB's views or discussions. The main objectives of this memo are to support the PIOB member in his/her SSB/CAG meeting observation and to help maintaining consistency and continuity of oversight.

The agenda includes the following item:

SUSTAINABILITY ASSURANCE (ISSA 5000)

Background and Status: the IAASB discussed a draft ISSA 5000 in March 2023, with all requirements and application material (AM). At this meeting, the introduction of the standard, as well as Illustrative Reports, will be presented and discussed.

Notes/key points from the review of the documentation for this meeting:

The documentation includes the issues paper (item 1), the draft Introduction of ISSA 5000 (item 1-A) and illustrative examples of assurance reports (items 1-B.1 – 1-B.3).

The proposed Introduction (item 1):

1. Includes the “sustainability information” in the scope and the concept comprises ESG matters, as well as policies, performance and plans. In the AM, it explains the double impact of the sustainability matters over the entity and of the entity over the sustainability matters (i.e. double materiality).
2. Subjects the engagement team members and engagement quality reviewer to the provisions of the IESBA Code (or equivalent). In the AM, it expands on the fundamental principles and the Conceptual Framework in the Code.
3. Refers to ISQM1 and subjects the practitioners to the relevant firm’s system of quality management. The AM expands some of those concepts.
4. Mentions that ISSA 5000 deals with both limited and reasonable assurance.
5. Explains the relationship of ISSA 5000 with ISAE 3000 and ISAE 3410, as well as with the Audited Financial Statements (e.g. when sustainability information is included in the entity’s annual report. In those circumstances, the audited financial statements are considered “other information”).

6. States that ISSA 5000 applies to all entities, regardless of size or complexity, but it also refers to the proportionality of requirements and the different level of assurance between limited and reasonable.

The Illustrative examples of assurance reports have been provided for: 1. Unmodified Reasonable Assurance, 2. Unmodified Limited Assurance and 3. Unmodified Combined Assurance (for “hybrid” cases, where part of the sustainability information is subject to reasonable assurance and part is subject to limited assurance). The TF debated whether to provide also examples for “Modified” assurance reports, but concluded that they could be developed in the future (as the matter will evolve), and input from the consultation will be considered.

Public Interest Issues

PIOB Staff comments on PI

Some of the PI issues raised for the body of ISSA 5000 (requirements and AM), as discussed in March 2023, can be extended also to the Introduction of ISSA 5000.

Specifically, while commending the IAASB for producing at a fast pace a full standard, we would like to raise the following comments/recommendations:

- The description of “sustainability information” in the introduction is more inclusive than the definition discussed in March (i.e. it now refers to ESG matters and to the double materiality). We recommend further work on that, using clear and non-technical language. The TF is committed to do so (according to the issues paper), and that effort needs to be coordinated with the IESBA, to achieve consistent terminology and definitions.
- Overall, to meet the public interest and the objectives set up at the inception of the project, it is crucial that language in the standard is clear, to make it accessible also to assurance providers who are not Professional Accountants.
- As raised in March by the PIOB observer, a balance needs to be found on what would be reasonable to require, in terms of ethical requirements included in ISSA 5000 and the quality management system at firm level for assurance providers who are not Professional Accountants, to ensure a level playing field and, at the same time, not to raise a threshold which would prevent adoption of ISSA 5000 by non-Professional Accountants.
- On the relationship between ISSA 5000 and the audited financial statements, especially when the latter are considered “other information”, it is important to evaluate what implications this could have, as “other information” currently requires less stringent work by the assurance provider. Also, when the sustainability information is included in an integrated report, how would that be treated?

- On the scalability/proportionality of ISSA 5000, as well as on the difference between limited and reasonable assurance, it would be helpful to provide more guidance (not in the Introduction, but as future work for the IAASB).

On the illustrative examples of assurance reports, it is true that the sustainability information will evolve over time and will become more mature, hence it is likely that “modified opinion” will be needed. Illustrative examples could be anticipated as much as possible, to submit them to the consultation (ED expected to be approved in June 2023), and advance stakeholders’ input.

In line with the IAASB’s decision in March not to include KAMs in the assurance report, the illustrative examples do not contain that paragraph. We would like to reiterate that it would be useful to include KAM for PIEs in the assurance reports, so that assurance providers may provide further insight about significant risks assessed and difficult areas encountered while performing the engagement.