



BRIEFING MEMO | IAASB CAG

June 15, 2023 | Virtual Meeting

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 items:

B – SUSTAINABILITY ASSURANCE (ISSA 5000)

Objective of the project: the IAASB is developing an overarching standard for assurance on sustainability reporting with the aim to support the consistent performance of quality sustainability assurance engagements. The standard should be suitable for all sustainability topics and disclosures, neutral from a framework and assurance providers perspective.

Background and Status: the IAASB approved the project proposal for the Sustainability Assurance standard in September 2022 and presented a full draft of ISSA 5000 in March 2023, as well as the Introduction section and illustrative reports in the mid-quarter call in April 2023. At the June meeting, the IAASB is expected to approve the ED for ISSA 5000. The CAG is going to be updated on the work done since it last met and provide its input before the IAASB meeting.

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

The documentation includes, among the others, the issues paper (item B-5), the ISSA 5000 requirements and AM marked-up from the previous version (items B-2 and B-3, respectively), conforming amendments (item B-7), and appendices (item B-4).

This BM has been prepared after review of the documentation distributed for the IAASB June meeting, even if part of that is provided for reference only to the CAG.

Since the discussions in March and April, the TF has proposed the main following changes in ISSA 5000:

- Revision of the definition of “sustainability information”: the “sustainability information” definition makes reference to “information about sustainability matters”. “Sustainability matters” are defined as follows: *“Environmental, social, economic and cultural matters, including: (i) The impacts of an entity’s activities, products and services on such matters, or the impacts of such matters on the entity, and (ii) The entity’s policies, performance, plans, goals and governance relating to such matters. Sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards”*. While drafting it, the TF has considered the current definition of sustainability information formulated by the IESBA, but concluded on a different one, which makes reference to “sustainability matters”. In ISSA 5000 “sustainability information” means the information that is subject to assurance.
- The TF’s proposals distinguish between “sustainability information”, which is the information in scope of the assurance engagement, and “other information” which is information not subject to the assurance.
- Materiality: the “impact materiality” has been expanded and explained in addition to “financial materiality” (see parr. A 268, A268A, A480 in item B-3).
- Consideration of group and consolidated sustainability information and group assurance engagements: the TF has concluded that, being ISSA 5000 an overarching standard, it should not include detailed requirements from ISA 600, which is a “special consideration” standard. The TF proposes maintaining general requirements in ISSA 5000 and possibly develop a separate ISSA on groups. This will be explained in the Explanatory Memorandum and input from stakeholders will be sought. On the other hand, IESBA in its June proposals, has already considered some drafting related to independence requirements affecting group assurance engagements.
- Further redrafting in the different requirements for Limited and Reasonable Assurance.

- The relationship among topics, aspect of topics and disclosures has been explained and further examples have been provided. The relationship among the different concepts is explained in the appendices (item B-4 – Appendix 1).
- Revision of the Illustrative Reports and addition of an illustrative example for a modified limited assurance conclusion. The illustrative reports contain the Emphasis of Matter paragraph but not Key Audit Matters, as previously agreed by the IAASB. See Appendices (item B-4 – Appendix 2).

The reference to the ethics requirements in the Code has been further explained and expanded in the AM, including specific independence provisions (e.g fees, NAS, Long Association).

Practitioners' external experts have been expanded (please see AM: A87-A91), including guidance to distinguish the cases where the practitioner can direct and supervise the external expert and when not, and to what extent the work of the external expert can be used (A109 and following). The practitioner is required to evaluate, among other things, the independence of another practitioner who is not part of the engagement team (par. 50).

Conforming amendments (item B-7) are minor and impact, among others, ISQM1, ISQM2, ISAE 3000 and ISAE 3410. They include, for example, the reference to ISSA 5000 in the body of standards issued by the IAASB and the reference to "auditor or practitioner", replacing the term "professional accountant", whenever needed.

Coordination with the IESBA is taking place, as well as input from the Sustainability Reference Groups has been taken into account. The IAASB has continued its outreach, including with the ISSB and GRI.

The proposed draft ISSA 5000 has been subject to CUSP review.

The PIF qualitative characteristics which the development of ISSA 5000 intends to address are: scalability, timeliness, relevance, comprehensiveness, implementability, enforceability. The TF selected the most relevant ones.

The EM will include explanations on topics such as: ethical requirements at least as demanding as the IESBA's; use of experts; concept of double materiality.



The ED is targeted for approval on June 28th. Publication of the ED and opening of the comment period should occur by the beginning of August, with a minimum 120-day comment period. As the consultation would close by the beginning of December, the TF would have a chance to present the first analysis of comments in March 2024. Approval of the standard is targeted for September 2024. The implementation period suggested is of 18 months from the approval, to allow proper time to adopt and translate the standard. Early application would be permitted.

In terms of due process, the TF believes that all significant issues have been brought to the IAASB's attention and that no consultation paper or field testing is needed. The IAASB will embark on further targeted outreach, with different groups of stakeholders and global roundtables.

Public Interest Issues

Please refer to the PIOB's Public Interest Issues as of March, published in the PIOB website:

https://ipiob.org/wp-content/uploads/2023/05/PIOB-PI-Issues-IAASB-projects_April-2023.pdf

PIOB Staff comments on PI

The work advanced by the IAASB since the last meeting has aimed to complete the draft ISSA 5000, covering the outstanding items and should allow the Board to approve the ED at this meeting.

Among the proposals, there has been a revision of definitions. One of the most important ones is "sustainability information". The AM (A32A) reads "sustainability information relates to information about sustainability matters and may cover a number of topics and aspects of those topics". The AM includes a table where a list of topics (e.g. climate, energy, water, biodiversity, human rights) and aspects of the topics (e.g. governance, strategy, risks and opportunities, risk management or mitigation, metrics, targets, internal controls) are provided. This definition has been

enhanced since the previous draft. We need to note that, as highlighted in the BM we prepared for the IESBA meeting in June, the two SSBs have been coordinating their work on the sustainability projects. The IESBA TF has mentioned in the issues paper its “concerns” for a different definition from the IAASB, which has opted to refer to “sustainability matters”. However, there is awareness that the TFs/SSBs need to continue their efforts to achieve an alignment of definitions. The IAASB will benefit from an earlier consultation than the IESBA’s, which could provide a helpful input to both Boards. It would be desirable that both SSBs agree on the same definition of sustainability information.

The concept of double materiality has been embedded and developed. Reference to financial materiality and impact materiality, as well as examples, are provided in different parts of the standard (see above and in A179, A265, A268A).

Examples of factors to consider for materiality of qualitative disclosures (A272) and quantitative disclosures are provided as well (A273).

Par. A27, in the definition of “intended users” mentions investors, creditors, others interested in the impact of the organization, including consumers, taxpayers, etc. That can also be considered a de facto double materiality concept embedded in the standard.

The “underlying subject matter” expression has been replaced in ISSA 5000 with “sustainability matters”, which achieves a simplified and clearer language.

A291 and A352 provide examples of misstatements due to fraud in sustainability information (within the examples there is also greenwashing).

Relationships, resources, and up and down value chain information are included in the definition of “reporting boundary”.

Forward-looking information is explained in A222 and following. Estimates and forward-looking information in A385A.

For “other information”, par. 154 requires the practitioner to read other information obtained and consider whether there is a material inconsistency with the sustainability information (subject to assurance). Other information, if obtained, needs to be included in a separate section of the report (par. 178). In the AM, A427 and following



paragraphs explain that, as other information is not part of the assurance engagement, the practitioner has no responsibilities of assurance over that.

On the use of experts, which has been expanded as explained above, it is important that requirements and terms are consistent with the IESBA project on Use of experts.

We reiterate the importance of coordination between the two SSBs, which is not limited to definitions, but extends to concepts used in the standards and relevant requirements applicable. It is about “transposing” concepts which are usually familiar to professional accountants, to make them accessible also to other professionals, given that one of the objectives of the projects is developing profession-agnostic standards.