

RESPONSE TEMPLATE FOR EXPOSURE DRAFT OF PROPOSED ISSA 5000, *GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS*

Guide for Respondents

Comments are requested by **December 1, 2023**. *Note that requests for extensions of time cannot be accommodated due to the accelerated timeline for finalization of this proposed standard.*

This template is for providing comments on the Exposure Draft of proposed International Standard on Sustainability Assurance Engagements™ (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* (ED-5000), in response to the questions set out in the Explanatory Memorandum to ED-5000. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in ED-5000, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of ED-5000 that your response relates to, for example, by reference to sections, headings or specific paragraphs in ED-5000.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the [ED-5000 webpage](#) to upload the completed template.

Responses to IAASB’s Request for Comments in the Explanatory Memorandum for ED-5000, General Requirements for Sustainability Assurance Engagements

PART A: Respondent Details and Demographic information

Your organization’s name (or your name if you are making a submission in your personal capacity)	Anita Foerster Mukesh Garg Luisa Langer
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Same as above
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Mukesh Garg
E-mail address(es) of contact(s)	Mukesh.garg@monash.edu
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on ED-5000). Select the most appropriate option.	Asia Pacific
	If “Other”, please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on ED-5000). Select the most appropriate option.	Academic or Academic body
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	The research team comprising Anita, Mukesh, and Luisa are academics engaged in research with a strong track record of publications that are impactful and inform practice.

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB’s preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to ED-5000).

Information, if any, not already included in responding to the questions in Parts B and C:

PART B: Responses to Questions in in the Explanatory Memorandum for ED-5000

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Overall Questions

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)

Overall response:

[Agree \(with no further comments\)](#)

Detailed comments (if any):

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?

(See Explanatory Memorandum Sections 1-B, and Appendix)

Overall response:

[Agree \(with no further comments\)](#)

Detailed comments (if any):

Specific Questions

Applicability of ED-5000 and the Relationship with ISAE 3410

3. Is the scope and applicability of ED-5000 clear, including when ISAE 3410 should be applied rather than ED-5000? If not, how could the scope be made clearer?

(See Explanatory Memorandum Section 1-C)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

Relevant Ethical Requirements and Quality Management Standards

4. Is ED-5000 sufficiently clear about the concept of “at least as demanding” as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm’s responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?

(See Explanatory Memorandum Section 1-D)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

Application of the provisions of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to assurance engagements can be difficult to achieve especially when assurance providers may seek the services of consultants who have the expertise but not necessarily have professional requirements. Though we expect high quality from assurance, some flexibility could be useful in the early years as we develop capacity and capabilities.

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)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

6. Is the relationship between sustainability matters, sustainability information and disclosures clear? If not, what suggestions do you have for making it clearer?

(See Explanatory Memorandum Section 1-E, paras. 35-36)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

While it is good to provide some examples of topic areas such as climate, labor practices, and biodiversity, we believe these examples are not sufficient. It will be good to provide a few more examples on these topics of importance.

Differentiation of Limited Assurance and 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?

(See Explanatory Memorandum Section 1-F, paras. 45-48)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

We believe that in some instances the assurer may not be able to provide reasonable assurance. Hence, it would be good to offer the option of “limited assurance” that may apply to certain matters related to the financials.

Preliminary Knowledge of the Engagement Circumstances, Including the Scope of the Engagement

8. Is ED-5000 sufficiently clear about the practitioner's responsibility to obtain a preliminary knowledge about the sustainability information expected to be reported and the scope of the proposed assurance engagement? If not, how could the requirements be made clearer?

(See Explanatory Memorandum Section 1-F, para. 51)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

9. Does ED-5000 appropriately address the practitioner's consideration of the entity's “materiality process” to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?

(See Explanatory Memorandum Section 1-F, paras. 52-55)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

Suitability and Availability of Criteria

10. Does ED-5000 appropriately address the practitioner’s evaluation of the suitability and availability of the criteria used by the entity in preparing the sustainability information? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-F, paras. 56-58)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

Supplemental information may not only consider specific entity-developed criteria but also include industry-related developed criteria. This will allow for some potential homogeneity and consistency in the criteria across industries or sectors. Nonetheless, the reporting frameworks are likely to be widely accepted in the future, so this specific developed criterion might not be too relevant.

11. Does ED-5000 appropriately address the notion of “double materiality” in a framework-neutral way, including how this differs from the practitioner’s consideration or determination of materiality? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-F, paras. 59-60 and 68)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

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)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any):

Materiality will depend on assumptions made in the scenarios that are considered for estimation and forward-looking information for events that are currently unknown. However, the estimation of asset values and providing forward-looking information can be subject to scrutiny. Entities may use materiality threshold at their discretion to avoid having to disclose negative information about the impact of climate change on their business. Therefore, qualitative disclosures should be encouraged even if an entity believes the impact is not material.

Understanding the Entity's System of Internal Control

13. Do you agree with the differentiation in the approach in ED-5000 for obtaining an understanding of the entity's system of internal control for limited and reasonable assurance engagements? If not, what suggestions do you have for making the differentiation clearer and why?

(See Explanatory Memorandum Section 1-F, paras. 75-81)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

Paragraph 79, Table comparing the key requirements for limited assurance and for reasonable assurance: For the third point there is no difference in the text between the limited assurance and the reasonable assurance. We recommend changing slightly the wording for limited assurance as follows: 'Obtain an understanding, and evaluate the design and **consider** the implementation, of controls that the practitioner plans to test'.

Using the Work of Practitioner's Experts or Other Practitioners

14. When the practitioner decides that it is necessary to use the work of a firm other than the practitioner's firm, is ED-5000 clear about when such firm(s) and the individuals from that firm(s) are members of the engagement team, or are "another practitioner" and not members of the engagement team? If not, what suggestions do you have for making this clearer?

(See Explanatory Memorandum Section 1-G, paras. 82-87)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

Figure 2: Individuals involved in the engagement. It is not very clear what is the specific involvement of the practitioner in the case where there is an external expert, given that this person is not a member of the engagement team. Will the practitioner direct, supervise, and/or review this work? It is highly likely that audit firms will engage experts outside of those equipped with expertise related to financial audits. Therefore, clarity on the scope of work and responsibilities should be clear.

15. Are the requirements in ED-5000 for using the work of a practitioner's external expert or another practitioner clear and capable of consistent implementation? If not, how could the requirements be made clearer?

(See Explanatory Memorandum Section 1-G, paras. 88-93)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

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?

(See Explanatory Memorandum Section 1-G, paras. 94-97)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

Reporting entities are expected to make adjustments and revalue their long-term assets considering the impact of climate change and other risks on their operations and future cashflows (Scholten et al., 2019). Since climate science predicts an increase in the frequency and severity of extreme weather events as a result of climate change caused by anthropogenic greenhouse gas (GHG) emissions, the loss and damage arising from natural disasters is likely to rise in the future (e.g., IPCC, 2012; Van Aalst, 2006). These events could impact an entity's future cash flows associated with their production assets, therefore, impacting their reported assets and accumulated depreciation and amortization. However, the estimation of asset values and providing forward-looking information can be subject to scrutiny. In light of the high cost of audit and shortage of appropriate skills, the findings of our study suggest that auditors may only be able to provide limited assurance considering increased qualifications if reporting entities are pushed too hard and too early. Climate-related litigation cases have more than doubled from 884 in 2017 to 2,180 in 2022 in the U.S. alone (UN Environment program, 2023).

Risk Procedures for a Limited Assurance Engagement

17. Do you support the approach in ED-5000 to require the practitioner to design and perform risk procedures in a limited assurance engagement sufficient to identify disclosures where material misstatements are likely to arise, rather than to identify and assess the risks of material misstatement as is done for a reasonable assurance engagement? If not, what approach would you suggest and why?

(See Explanatory Memorandum Section 1-G, paras. 98-101)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

Yes, we agree with risk assessment procedures to be designed and performed in a limited assurance engagement. Risk procedures should also be in place if the engagement outcome is 'no assurance' which would be the decision between the audit firm and the client.

Groups and “Consolidated” Sustainability Information

18. Recognizing that ED-5000 is an overarching standard, do you agree that the principles-based requirements in ED-5000 can be applied for assurance engagements on the sustainability information of groups or in other circumstances when “consolidated” sustainability information is presented by the entity? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, paras. 102-107)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

Due to the heterogeneous nature of climate, sustainability, and risk-related financial disclosures, it is imperative for the IAASB to develop sector/industry-specific standards or guidelines to increase the uniformity of disclosures in the financial statements. Such standards or guidelines would assist the IAASB in developing assurance guidelines that will benefit auditors in providing financial reporting assurance.

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?

(See Explanatory Memorandum Section 1-G, paras. 108-110)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any):

Paragraph 109 – Application material first point, it is not only due to fraud or error, but it could also be due to omission of information. Some specific examples in this paragraph would be beneficial. It is still clear in the profession as to what type of greenwashing should be considered fraud. The magnitude of greenwashing should be taken into consideration.

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)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

Reporting Requirements and the Assurance Report

21. Will the requirements in ED-5000 drive assurance reporting that meets the information needs of users? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included.

(See Explanatory Memorandum Section 1-G, paras. 116-120, 124-130)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

Our analyses of current disclosure practices suggest that specific reporting guidelines or standards could improve the quantity and quality of disclosures in financial statements and notes. One potential financial implication arising from climate-related risks includes asset impairment and changes in the asset's useful life. From a practical point of view, we provide evidence that entities making voluntary climate change, sustainability, and other risk-related financial disclosures (in response to existing regulatory signals) revalue their long-term assets, considering the future cash flow implications. Therefore, we recommend emphasis on the scenarios considering the impact of climate change on long-term asset values.

22. Do you agree with the approach in ED-5000 of not addressing the concept of "key audit matters" for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, paras. 121-123)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

Key Audit Matters are a valuable source of information. We believe that in the future, KAM related to sustainability assurance engagement might be demanding because of higher efforts to combine sustainability and financial reporting. Identifying sustainability-related KAM would confirm that sustainability and climate risk reporting may be linked directly to financial statement categories. We propose a separate sub-section in KAM that refers to issues specific to climate change and sustainability-related risks and other issues of concern. The IAASB could encourage auditors to report on concerns related to audit clients' valuation of reported long-term assets considering the impact of climate change on future cash flows as part of the key audit matters (KAM).

23. For limited assurance engagements, is the explanation in the Basis for Conclusion section of the assurance report that the scope and nature of work performed is substantially less than for a reasonable assurance engagement sufficiently prominent? If not, what do you propose and why?

(See Explanatory Memorandum Section 1-G, para. 131)

Overall response: [Yes \(with no further comments\)](#)

Detailed comments (if any):

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*)

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

Therefore, auditors must make additional efforts to verify the value of reported long-term assets when providing financial reporting assurance. Higher fees charged by auditors from entities making climate change-related disclosures signal a commitment towards thorough audit investigation and high-quality reporting.

25. Are there any other matters you would like to raise in relation to ED-5000?

Overall response: [Yes, as further explained below](#)

Detailed comments (if any):

Our analyses of current disclosure practices suggest that specific reporting guidelines or standards could improve the quantity and quality of disclosures in financial statements and notes. One potential financial implication arising from climate-related risks includes asset impairment and changes in the asset's useful life. From a practical point of view, we provide evidence that entities making voluntary climate change, sustainability, and other risk-related financial disclosures (in response to existing regulatory signals) revalue their long-term assets, considering the future cash flow implications. Therefore, we recommend emphasis on the scenarios considering the impact of climate change on long-term asset values.

Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

26. Translations—Recognizing that many respondents may intend to translate the final ISSA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-5000.

Overall response: [See comments on translation below](#)

Detailed comments (if any):

Ensuring an appropriate translation is important for the effective adoption of the final ISSA. Official translation may be required with the IAASB reviewing the final document to ensure consistency.

27. Effective Date—As explained in paragraph 138 of Section 1-I – Other Matters, the IAASB believes that an appropriate effective date for the standard would be for assurance engagements on sustainability information reported for periods beginning or as at a specific date approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged.

Do you agree that this would provide a sufficient period to support effective implementation of the ISSA. If not, what do you propose and why?

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

We advocate for a gradual adoption of the standard. Our research study on climate change and sustainability disclosures by Australian listed companies suggests that large companies could be required to implement the ISSA earlier than small companies. This is due to large companies having more activities that will need to be evaluated during the assurance engagement. Small entities will then have more time to prepare and ensure their effective adoption. Proposed requirements for the phased introduction of independent assurance requirements are considered appropriate in light of the need to upskill and build capacity for disclosures of credible information and independent audit of climate disclosures. In light of the high cost of audit and shortage of appropriate skills, the findings of our research study suggest that auditors may only be able to provide limited assurance considering increased qualifications if reporting entities are pushed too hard and too early.