

## Integrated Reporting Committee of South Africa

### Response to the International Auditing and Assurance Standards Board (IAASB) on the Exposure Draft ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

The IRC draft response addressed only those questions of relevance to integrated reporting. The response was submitted as an online survey submission using the survey template on the IAASB website.

29 November 2023

#### **Global Baseline Standard for Assurance Engagements on Sustainability Information** **(Question 1)**

*What is the IAASB's aim in issuing [ED-5000](#)?*

*Sustainability reporting has quickly become a matter of global importance, and stakeholders are increasingly demanding assurance on sustainability information. The IAASB developed ED-5000 in response to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements. ED-5000 is principles-based but with sufficient specificity to drive consistency in the conduct of sustainability assurance engagements for all entities, regardless of size and complexity. It was developed on the basis that it can be applied for:*

- *All sustainability topics (e.g., climate, labor practices, biodiversity) and aspects of topics (e.g., risks and opportunities, governance, metrics and key performance indicators)*
- *All mechanisms for reporting of sustainability information (e.g., a stand-alone sustainability report, inclusion in an annual report or an integrated report)*
- *Sustainability information prepared in accordance with a recognized reporting framework or any other suitable criteria*
- *All intended users, whether concerned with the impacts of the entity on the environment, society, economy or culture, or the impacts of sustainability matters on the entity*
- *Limited and reasonable assurance engagements*
- *Use by all assurance practitioners, whether professional accountant or non-accountant assurance practitioners (i.e., profession agnostic).*

**Q 1: Do you agree that it is important for ED-5000 to be capable of being applied for each of the items listed above to provide a global baseline for sustainability assurance engagements?**

Overall View \*

Yes

- We support that the proposed standard is designed to be framework neutral.
- We also support the inclusive approach taken for the proposed standard to be profession agnostic in the context of the diverse sustainability information reported and the skill set required to assure such information appropriately. We support the stated aim of avoiding fragmentation of practice as this would not be in the public interest. As part of capacity building, we suggest that the IAASB should consider liaising with other bodies, including regulators, standard setters and educational bodies, to explore training and guidance for practitioners in respect of core assurance concepts to ensure consistent application.
- The scope of the proposed standard covers all assurance engagements on sustainability information, except for when the practitioner is providing a separate conclusion on a greenhouse gas (GHG) statement, in which case ISAE 3410 applies. This may not be clear to users given that ISSA 5000 is positioned as fit for purpose and covers all sustainability assurance engagements. We suggest the IAASB should consider the future of ISAE 3410 as a priority once ISSA 5000 is finalised, with possibly a view to its placement within the ISSA 5000 suite of standards. This can ensure clarity and consistency in practice in applying different standards to similar information, e.g., where GHG information forms most of the sustainability information and ISSA 5000 is considered fit for purpose.
- Regarding the integrated report and the use of the Integrated Reporting Framework which is a principles-based framework: The suitable criteria for assurance purposes as stated in the proposed standard (namely, relevance, completeness, reliability, neutrality and understandability) are appropriate and we note that they are aligned with the existing criteria in the ISAE 3000 standard.
- We would, however, like to raise the point that further consideration may be needed as to whether the proposed standard adequately addresses an entity-wide view, being the nature of the information in the reporting entity's integrated report (this is further explained in our response to Question 3).

**Terminology – Sustainability Matters, Sustainability Information and Disclosures**

**(Question 3)**

*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.*

*In the IAASB proposals, sustainability-related information ('sustainability information') is information about sustainability matters. The term "sustainability matters" is difficult to define given the different uses and descriptions in sustainability reporting standards and numerous other sources.*

*Similarly, sustainability reporting frameworks may refer to or describe "disclosures" about sustainability information in different ways. Regarding the specific disclosures that may be required, reporting frameworks may address different topics (e.g., climate, biodiversity, labor practices, human rights) and aspects of those topics (e.g., governance, metrics, risks and opportunities). The IAASB's proposals refer to disclosure(s) as the specific information provided by an entity about an aspect of a topic (e.g., disclosures about an entity's governance practices related to climate). Disclosures can be in various forms (qualitative information or quantitative information) and may be limited to a single paragraph or table or may span multiple pages in a sustainability report or other reporting mechanism.*

*ED-5000 is intended to be framework neutral - in other words, capable of being used for sustainability*

information prepared under any established framework or other suitable criteria. Therefore, the definitions in ED-5000 are intentionally broad in order to be reflective of the current sustainability environment and the concepts embedded in various sustainability reporting frameworks.

### **Q3: Do you agree with the terminology for sustainability matters, sustainability information and disclosures in ED-5000?**

Overall View \*

No

- In the stated definition of sustainability matters, we suggest the inclusion, under (i), of the words 'by-products and waste' so that the sentence reads as follows: (i) The impacts of an entity's activities, products and services, including by-products and waste, on the environment, society, economy or culture, or the impacts on the entity...
- The proposed standard's definition of sustainability matters is, as it is explained, written broadly to accommodate the diverse sustainability information that may be reported and in scope for assurance. The definition is positioned at a sustainability topic level (e.g., climate and biodiversity) and not at an entity-wide level covering information such as the reporting entity's organisational overview, external environment, business model, risks and opportunities, strategy and resource allocation, performance, and governance – all of which are information areas required to be disclosed in the reporting entity's integrated report. This may lead to confusion or inconsistency with respect to the information that constitutes "sustainability matters" within the integrated report and which may be subject to assurance in terms of ISSA 5000 (compared to ISAE 3000), and, further, the proposed standard's applicability to the assurance of the integrated report in its entirety.

### **The Entity's "Materiality Process" and the Notion of "Double Materiality" (Questions 4 and 5)**

*Materiality plays a critical role under the IAASB proposals. Entities make materiality judgments to focus their reporting on sustainability-related information that is useful to the primary users of that information. In deciding whether to accept or continue a sustainability assurance engagement, ED-5000 requires the practitioner to obtain a preliminary knowledge of the engagement circumstances, including an understanding about the sustainability information the entity expects to report. In doing so, the practitioner may consider whether management has applied an appropriate process regarding the disclosure of material information. This process may be referred to as the entity's "materiality process," or "materiality assessment," among other terms, and is critical to determining whether the disclosures comply with the reporting framework or other suitable criteria. The entity's "materiality process" also may be relevant to the practitioner's determination of the appropriateness of the scope of the proposed assurance engagement. One of the preconditions to accepting or continuing a sustainability assurance engagement is whether the engagement exhibits a rational purpose. An engagement may not have a rational purpose if the scope of the engagement includes only part of the sustainability information expected to be reported, and that would be misleading to intended users.*

*How does the standard consider "double materiality?" Some reporting frameworks require "double materiality" to be applied in preparing the sustainability information to assist decision-making by intended users. Intended users may be interested in the impacts of sustainability matters on the entity, the impacts of the entity on sustainability matters, or both. When intended users are interested in the "two-way" impacts, this can be referred to as double materiality. However, the criteria may not require consideration of, and certain users may not be focused on, both perspectives. Therefore, the notion of double materiality is not always relevant to every sustainability assurance engagement.*

*The requirements of the reporting framework related to the entity's "materiality process" provide a frame of reference for the assurance practitioner's consideration of materiality. However, it is not the same as the*

practitioner's materiality, which is used in developing the approach to the assurance engagement and when evaluating whether the sustainability information is free from material misstatement. If the notion of double materiality is relevant to the engagement, the practitioner will apply that "lens" in considering whether a misstatement may be material to intended users of the sustainability information.

#### **Q5: Do you agree that ED-5000 appropriately addresses the notion of "double materiality" in a framework-neutral way?**

Overall View \*

Yes

- We agree conceptually with the proposed standard's consideration of double materiality in identifying the information needs of intended users i.e. including both the impact of sustainability matters on the entity as well as the impact of the entity on sustainability matters (society and the environment). This encompasses stewardship by the reporting entity's governing body and accountability through balanced and transparent reporting of the entity's process of value creation, preservation and erosion, which extends beyond merely the financial effects of sustainability factors on the entity. As the proposed standard is framework neutral, this infers that all materiality definitions are covered, not only double materiality, and this should be clear in the proposed standard for its wide applicability.

#### **The Practitioner's Assurance Report (Questions 8 and 9)**

*The importance of clarity and transparency in the assurance practitioner's report is often cited by users of sustainability information. In the IAASB's ongoing outreach, stakeholders frequently raise issues such as clarifying the level of assurance obtained for users of the assurance report, the scope of the assurance engagement, and the importance of consistency to enable comparability between reports. It is also noted that there is a heightened need for communication by the assurance practitioner in the assurance report to meet the information needs of the intended users in a reporting environment that is evolving and maturing, reinforcing the need for flexibility and the option of long-form reporting. The reporting requirements in ED-5000, and the illustrative report examples, were based on the requirements in ISAE 3000 (Revised) and ISAE 3410. However, the IAASB's post-implementation review (PIR) of its auditor reporting standards indicated some demand from stakeholders for considering changes to assurance reports to align with the auditor's report on an audit of financial statements. This included putting the practitioner's conclusion first followed by the basis for that conclusion, a statement about independence and other ethical responsibilities, and requiring the name of the engagement leader (for listed entities). Feedback suggested that this would help to enable consistency across audit and assurance reports, particularly for reports on the same entity.*

*The IAASB also discussed whether ED-5000 should require, or allow for, the communication of "key sustainability assurance matters" (a concept equivalent to key audit matters in a financial statement audit for listed entities). The IAASB acknowledged the potential public interest benefits of such communication but also noted concerns expressed by stakeholders in the auditor reporting PIR, including that users may perceive a greater level of assurance than is intended (particularly in a limited assurance report), and that costs may outweigh benefits for assurance engagements. As a result, the IAASB decided not to address "key sustainability assurance matters" in ED-5000. Instead, the IAASB will consider this in a future ISSA.*

#### **8. Do you agree that the requirements in ED-5000 will drive reporting on sustainability assurance engagements that meets the information needs of intended users?**

Overall View \*

Undecided

- We agree with the proposed standard's perspective of the intended users of sustainability reporting being broader than those to whom the sustainability assurance report is addressed. This is consistent with integrated reporting, where it is expected that a broad range of stakeholders will be interested

in the entity's reporting of integrated information. In this regard, we put forward that the governing body is responsible to the entity, and through it, to the entity's stakeholders.

- The proposed standard contemplates a potentially broad intended user base with a wide range of interests in sustainability information (including sustainability impacts on the entity, as well as the entity's impacts on society and the natural environment), and with different areas of focus/granularity for different users. Regarding the practitioner's assurance report on such information, we suggest that, in the final standard, consideration is given to more guidance on the identification of the intended users of the assurance report when this may be a broad group and the reliance that they may place on it. For example, it might be helpful for the IAASB's application material to discuss the identification of "principal" intended users as the addressees of the assurance report and the factors to consider in making such a determination, e.g., prevailing laws and regulations in a particular jurisdiction and the legal and regulatory consequences.

### **Other Matters**

**10. Are there any other matters for which you wish to provide comments, or that the IAASB should consider in finalizing ED-5000? If so, please be specific about the matter(s) and whether you agree with the approach taken in ED-5000 and why. If you disagree with the approach taken, please indicate why and provide suggestions for how to improve or clarify the approach. \***

- We support the inclusion and consideration of the concept of the external assurance provider using the work of the internal audit function for sustainability assurance. This is relevant and integral to achieving integrated assurance (called combined assurance in South Africa) to ensure the overall reliability of the sustainability information reported.

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