

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)	CFA Institute
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Matthew P. Winters, CPA, CFA Sandra J. Peters, CPA, CFA
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Matt.Winters@cfainstitute.org Sandra.Peters@cfainstitute.org
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.	Global
	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.	User of sustainability information/ external reporting
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	<p>With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.</p> <p>CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate reporting and disclosures and the related assurance provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.</p>

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:

We applaud the IAASB for exposing ED-5000 on an accelerated timeline in light of the requirements for certain entities to begin reporting, and receive limited assurance on that reporting, under the European Sustainability Reporting Standards (ESRS) in 2025 for the 2024 fiscal year.

ED-5000 builds on ISAE 3000, which has been employed successfully [in many limited and some reasonable assurance engagements](#) for sustainability reporting prepared using a variety of reporting frameworks.

The key question is whether ED-5000 is fit for purpose as sustainability reporting enters the ESRS era, which requires a much greater volume of disclosure by many more entities than in the present, mostly voluntary era.

On this question **we agree with other commenters that ED-5000 is an operable baseline but more guidance in certain areas** such as:

- 1) **materiality;**
- 2) **assuring information obtained from a reporting entity's value chain;**
- 3) **connectivity with the financial statement audit;** and
- 4) **differentiating limited and reasonable assurance engagements;**

will be required.

As sustainability reporting matures further, we agree with the IAASB and other commenters on the need for a more comprehensive suite of ISSAs.

We provide comments to select questions below and separate, high-level comments in our response to Question 25.

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: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

We support the objective of a globally applicable, general sustainability assurance standard. Our members invest globally. Sustainability reporting frameworks and practices are at an early stage and are likely to develop in different jurisdictions at different paces. It may take many years to reach a consensus on what sustainability information is most decision-useful, how it is measured, and in what form that information should be presented and disclosed.

A comprehensive set of assurance standards from an independent assurance standard setter can improve investors' confidence in sustainability reports and enhance the comparability of information disclosed across reporting entities by shaping entities' information systems and controls. Sustainability assurance standards should be based on fundamental principles that are well-established from decades of financial statement auditing, including ethical behavior, practitioner independence, competence, and quality management.

Our [2021 member survey](#) showed strong support for some type of assurance of sustainability information, with 84% of respondents supporting third-party verification. A significant plurality (41%) of respondents support assurance only after sustainability reporting standards are mandated, like the ESRS, while 23% of respondents support assurance whether the sustainability information is prepared in accordance with a regulated or private sector framework. **Based on these results and the evolving nature of sustainability reporting frameworks, we support ED-5000's applicability to "any suitable criteria."**

In our [2015](#) and [2017](#) member surveys, a slight majority of respondents agreed that a "professional services firm skilled in ESG matters" is best positioned to provide independent verification of entities' ESG disclosures, while 30% indicated that a public accounting firm specifically would be best positioned. **Based on these results, we support ED-5000 to be useable by "all assurance practitioners."**

[IFAC found that, in 2021](#), 95% of audit firms that provided assurance on sustainability reporting applied ISAE 3000 (revised), the predecessor standard to ED-5000, while only 38% of non-accountant assurance practitioners applied ISAE 3000, down from 39% in 2020. Neither the IFAC report nor the ED-5000 Application and Other Explanatory Material or Explanatory Memorandum explain reasons as to why most non-accountant sustainability assurance practitioners choose a different standard than ISAE 3000.

While ED-5000 is explicitly intended to be usable by non-accountants and incorporates language changes to ISAE 3000 to broaden its applicability to non-accountants, the language and supporting materials are heavily reliant on the existing body of assurance knowledge applicable to professional accountants and uses terms of art specific to experience gained by professional accountants – as

well as underlying ethical standards which are specific to professional accountants and which may not be applicable to non-professional accountants. We are concerned that investors may not be aware of these differences in qualifications and ethical standards.

In the absence of greater transparency and further research we're not sure if ED-5000 can be applied by most non-accountant sustainability assurance providers.

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 comments below](#)

Detailed comments (if any):

As a baseline, foundational standard for sustainability assurance, we agree that ED-5000 is responsive to the public interest. However, ***we believe that additional guidance through a suite of assurance standards aimed at the unique characteristics of sustainability information (for example, assuring value chain information) will be required from the IAASB*** to achieve two of the six qualitative standard-setting characteristics described in the Explanatory Memorandum that fulfill the public interest: *comprehensiveness* and *enforceability*.

The ESRS adopted by the European Commission on 31 July 2023 requires entities to disclose a significant volume of metrics and qualitative information across many topics. Additional industry-specific standards are forthcoming. ***ED-5000 is a principles-based, general standard that leaves much of the detail of what procedures to perform and how to execute them to the practitioner.*** Not only will this produce heterogeneous practices, but ***vague standards are also more challenging to enforce.***

As reporting under ESRS gets underway, ***the IAASB must be responsive in issuing guidance to remain responsive to the public interest.***

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: [No \(with no further comments\)](#)

Detailed comments (if any):

Our understanding is that a practitioner providing a conclusion on sustainability information, broadly, and a separate conclusion on greenhouse gas emissions information would apply *both* ISSA 5000 and ISAE 3410 and state as much in the assurance report(s). It is also our understanding that only ISSA 5000 would apply to an assurance engagement over sustainability information that includes greenhouse gas emissions information, so long as the practitioner is not providing *separate* conclusion on the emissions information..

If this is correct, we recommend amending ED-5000 by adding clarifying language to Paragraph 2 for these instances.

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: [Neither yes/no, but see comments below](#)

Detailed comments (if any):

While the concept of “at least as demanding” ethical requirements and systems of quality management is clear, what is less clear to us is whether ED-5000 requires a practitioner to be subject to “at least as demanding” enforcement of those requirements and systems. Laws and regulations governing audit firms’ independence, ethical behavior, and systems of quality management are enforced by regulators. For investors to have confidence that non-audit firms comply with requirements that are “at least as demanding,” then ***they must be confident that non-audit firms are subject to enforcement that is “at least as demanding” as that for audit firms regarding the requirements in ED-5000.***

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: [No, with comments below](#)

Detailed comments (if any):

We disagree with the IAASB’s determination that governance is only an “aspect” of individual sustainability topics. While there may be unique aspects of governance related to individual sustainability topics, this is true of traditional financial reporting risks as well. Both topic-specific aspects of governance and overall governance matters must be considered. **In our view, [Governance is a fundamental, overarching topic](#) that includes all controls and procedures by which an entity’s activities and resources are managed.**

Our [2017 member survey](#) showed that investors view governance factors as most important in their consideration of ESG or sustainability factors. Governance factors such as board independence and accountability to shareholders, pay for performance, anti-corruption and bribery policies and actions, and maintaining effective internal controls over financial reporting do not fit neatly into other sustainability risks and opportunities topics.

We also view the inclusion of “economy” and “cultural” in the definition of “sustainability matters” as redundant with matters covered in financial reporting and with the rest of the definition. We acknowledge the difficulty in defining abstract and politically charged terms like “sustainability.” The difficulty is evident in, for example, the ISSB’s decision to not define “sustainability” despite its centrality in the IFRS S1 standard.

We recommend revising the definition of “sustainability matters” to the following (deletions ~~struck through~~, additions **bolded**):

*Sustainability matters – Environmental, social, ~~economic~~ and **governance** ~~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 internal controls through which the entity’s activities and resources are managed** ~~governance relating to such matters.~~*

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):

Yes, provided that the diagram is updated to elevate governance from only an “aspect” of sustainability topics to a sustainability “topic” itself.

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: [No, with comments below](#)

Detailed comments (if any):

Other than the assurance report, the assurance process is unobservable to investors. Assurance is a credence good.

The nuances raised by the questions in this consultation related to the applicability of ethical and quality management standards – including the differences in the application of those standards to non-professional accountants; the use of experts; and the level of underlying work performed to support limited versus reasonable assurance - highlight the real lack of transparency investors have into the assurance process. This has long been an issue in financial reporting audit and assurance reports. In our view, the sustainability assurance process – including the differing nature of the information, its more forward-looking nature and the differing definitions of materiality - will only make the challenge investors have faced with the lack of the transparency in assurance reporting more evident.

Without more transparency, investors are unable to clearly differentiate limited and reasonable assurance in terms of work effort, outcomes, and implications for the risk of material misstatement.

Additionally, assurance standards (ED-5000 included) are written in abstract language with unclear meanings for those who are not practitioners. For example, Paragraphs 114L and 114R for limited and reasonable assurance:

114L: “The practitioner shall design and perform further procedures whose nature, timing and extent are focused on the disclosures where material misstatements, whether due to fraud or error, are likely to arise.”

114R: “The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the assertion level.”

These small language differences are pervasive; see Paragraphs 126R/L, 130R/L, 134 R/L, and 135 R/L as additional examples.

We are not sure what the outcome of these differences is in terms of work effort or, more simply, engagement hours. Is it accurate to assume that a limited assurance is approximately half the number of hours for a given engagement than a reasonable assurance engagement?

We recommend clear language and definitions to differentiate limited and reasonable assurance in ED-5000. The definitions should give investors clearer expectations regarding the differences in work effort (e.g., a ratio of work hours between the two types of engagements) and procedural differences (e.g., which procedures are *not* performed in limited assurance engagements but are performed in reasonable assurance engagements) in the two levels of assurance.

Additionally, as a more stylistic matter, we recommend better emphasizing the differences in ED-5000 by using bold text, underlining, or other cues in the reasonable assurance paragraphs when they are presented next to limited assurance paragraphs. For example, the aforementioned Paragraphs 114L and R would include the underlining as we have included above to highlight the differences.

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

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: [No, with comments below](#)

Detailed comments (if any):

Materiality is fundamental to sustainability reporting under both ESRS and the IFRS Sustainability Standards. The reporting entity's materiality decisions will determine what it reports to investors and what it does not. Investors will rely on management and assurance providers to a greater extent in achieving completeness of material disclosure than in financial reporting because sustainability reporting standards are less mature and prescriptive than both financial reporting standards and the securities laws governing financial reporting.

Paragraphs 91 and 92 of ED-5000 are unclear and insufficient in detailing the responsibilities of management and those of the assurance provider regarding materiality. The staff FAQ on materiality released in October 2023 is clarifying and should be incorporated into the final standard. Specifically: management's responsibilities with respect to developing a materiality process, how a practitioner applies materiality in a sustainability reporting engagement, and how the practitioner "considers" the entity's materiality process.

The required steps and procedures for the practitioner to "consider" the entity's materiality process described on page 4 of the staff FAQ document should be consolidated and moved into a single section on materiality where Paragraphs 91 and 92 are located. Given the importance of the entity's materiality process, we urge the IAASB to elevate the requirement for the practitioner to "consider" the entity's materiality process to requiring the practitioner "evaluate" the entity's materiality process.

We strongly recommend the IAASB require the disclosure of materiality thresholds in the assurance report, [similar to what is required by financial statement auditors in the United Kingdom](#). The complexity of materiality assessments and their importance in sustainability reporting demand greater transparency. Unlike financial reporting where auditors utilize one or a small number of quantitative materiality thresholds (e.g., percentage of a summary measure like pre-tax profit), sustainability assurance practitioners will be required to use many types of materiality thresholds because sustainability information is expressed in multiple units (e.g., money, CO2 equivalent emissions, accident rate, etc.) and often does not have summary measures.

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: [No response](#)

Detailed comments (if any):

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 comments below](#)

Detailed comments (if any):

Yes, ED-5000 explains the notion of “double materiality” in Paragraphs A180 and A274 and does so in a framework-neutral way. **However, we emphasize the significance and novelty of “double materiality” and see this as an area where further IAASB guidance is essential. While management will be responsible for making materiality decisions using double materiality, the assurance practitioner is responsible for an independent check on that process and those decisions.**

See our comments to Question 9 regarding the disclosure of materiality thresholds in the assurance report. Greater transparency will make “double materiality” clearer to investors.

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: [Disagree, with comments below](#)

Detailed comments (if any):

See our comments in response to Question 9.

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: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

As we note above, the differences in the approaches to gaining an understanding of the entity's system of internal control will not be evident to investors reading the limited or reasonable assurance report. While the charts included in the standard are useful to assurance practitioners, these differences are not transparent to investors.

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: [Neither yes/no, but see comments below](#)

Detailed comments (if any):

See our comments in response to Question 15.

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: [Neither yes/no, but see comments below](#)

Detailed comments (if any):

The requirements in ED-5000 for using the work of a practitioner's external expert, another practitioner, management's expert, and the internal audit function of the entity are clear but a requirement to disclose the use of this work to investors is missing. ***We urge the IAASB to require the disclosure of the use of external experts, other practitioners, management's experts, and the internal audit function, a description of the work product and how it used by the practitioner during the audit, and a brief discussion of independence considerations.***

Our [2010 member survey](#) showed that investors overwhelmingly favor (91%) the disclosure of the identity and specific roles of all participants in an audit. Finally, we note that IESBA standards regarding Use of Experts and Sustainability are in progress, which complicates our ability to respond in this area and to the differences in applicability of ethical standards to professional accountants versus non-accountants.

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: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

We agree with the requirements to evaluate management's estimates and forward-looking information in Paragraphs 134L and 134R.

We strongly recommend a requirement for the practitioner to evaluate the appropriateness of management's disclosures regarding estimates and forward-looking information, as well as any changes to them, are not misleading to investors, including omissions and inconsistencies with disclosures elsewhere in the sustainability information or in "other information" (e.g., the financial statements).

In the future, we would anticipate that the IAASB consider such estimates and forward-looking information to be the subject of Key Audit Matters ("KAMs").

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: [Neither yes/no, but see comments below](#)

Detailed comments (if any):

As we noted above, this is another example of a distinction that investors/users will not necessarily be able to glean from the assurance report.

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: [No response](#)

Detailed comments (if any):

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: [Disagree, with comments below](#)

Detailed comments (if any):

ED-5000, including the Application and Other Explanatory Material and the Explanatory Memorandum, does not define “greenwashing” nor use the term. While difficult to reach a consensus on the definition, “greenwashing” can resemble other types of misstatements (e.g., an entity making false or misleading assertions about environmental impacts) but it can also take more subtle forms such as overemphasizing an immaterial “green” initiative in management reporting.

We support assurance practitioners evaluating management’s disclosures for “greenwashing” because it speaks to the “tone at the top” of the reporting entity and thus factors into the practitioner’s risk assessment procedures.

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: [No response](#)

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: [No, with comments below](#)

Detailed comments (if any):

See our comments on Questions 9, 15, 22, and 23.

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: [Disagree, with comments below](#)

Detailed comments (if any):

The assurance report is the only part of the assurance process visible to investors. Without a “key audit matters” (KAMs) requirement, the sustainability assurance report is likely to be a boilerplate document without meaningful engagement-specific information. **We strongly disagree with the suggestions in Paragraphs 122 and 123 of the Explanatory Memorandum that KAMs would be inappropriate or misleading for a limited assurance engagement.** So long as the assurance report does not contain inappropriate or misleading language, KAMs would help investors better understand the work that the practitioner performed.

While KAMs may not be practical in the initial sustainability assurance reports, we believe that a KAMs requirement should be a short-term goal (i.e., 2-3 years) for the IAASB.

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: [No, with comments below](#)

Detailed comments (if any):

It is sufficiently prominent, but insufficiently detailed for investors to understand the difference between limited and reasonable assurance. A brief list of procedures that were performed complemented by another brief list of example procedures that were not performed but would have been performed in a reasonable assurance engagement (e.g., confirmations) should be provided. Additionally, for a limited assurance engagement, the report should explicitly state that the level of assurance provided is substantially lower than the level of assurance provided on the financial statements and notes.

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: [No response](#)

Detailed comments (if any):

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):

Transparency

Many of our responses to the questions above focus on the lack of transparency that investors have with respect to the matters which impact on the degree and quality of the assurance process which sits behind a boilerplate assurance report. The lack of transparency and the generic nature of assurance reports has long been an issue for investors and other users of audit reports¹. A recent ruling by the United States Court of Appeals for the Second Circuit— as explained in a recent WSJ article, [Burned Investors Ask ‘Where Were the Auditors?’ A Court Says ‘Who Cares?’](#), has asked the U.S. SEC to explain how the boilerplate auditors report is useful to investors. See the article below:

One of the country’s most influential courts has asked the [nation’s top securities regulator](#) for its views on an uncomfortable subject: whether audit reports by outside accounting firms actually matter.

The court already ruled that, at least in one case, they didn’t. That case, where an insurer overstated profits and an auditor signed off on its books, led to an investor lawsuit against the auditor that was dismissed. In its ruling, the court said the audit report was so general an investor wouldn’t have relied on it.

The decision could have broad ramifications for the Securities and Exchange Commission, which oversees corporate financial disclosures, and for [the auditing industry](#), which charged about \$17 billion last year for blessing the books of publicly listed companies in the U.S.

The ruling, by a three-judge panel of the Second U.S. Circuit Court of Appeals, prompted three former SEC officials to tell the court it got the answer wrong. They asked the court to reconsider its decision, noting that the SEC in a previous [enforcement case](#) had said that “few matters could be more important to investors” than whether a company’s financial statements had been subjected to a properly conducted annual audit.

The court responded by inviting the SEC to file a brief expressing its views on the former officials’ arguments. The SEC in a court filing said that “the commission has an interest in ensuring its views on this issue are considered by the court.” Its brief is due Feb. 16. An SEC spokeswoman declined to comment.

The court ruling involved a lawsuit by investors over an audit gone wrong. AmTrust Financial Services, an insurance company, [had overstated its profit](#), and BDO USA, its outside accounting firm, had blessed the numbers.

Three BDO accountants were accused in 2018 of signing off on their audit work prematurely.

*Investors sued BDO, and a court dismissed their claims. They appealed, and **the Second Circuit this summer said the language of BDO’s audit report was so general that an investor wouldn’t have relied on it. Consequently, the court said the audit report wasn’t material— meaning it didn’t matter—and upheld the dismissal of the claims against BDO.***

Audit reports operate on a pass-fail model, and their language is standardized. Either a company gets a clean opinion on its financial statements from the outside auditor, or it doesn’t.

The notion that the standardized language is essentially meaningless raises larger questions about whether audit reports serve a useful purpose. Total audit fees at U.S.-listed companies were almost \$17 billion last year, according to the research firm Ideagen Audit Analytics. Independent audits have been a legal requirement for public companies since Congress passed the Securities Act of 1933, four years after the stock market crash that spurred the Great Depression.

Andrew Bailey, a former SEC deputy chief accountant and one of the three former agency officials who wrote a brief for the court, said that “investor reliance on the audit opinion has a long history in practice, regulation and law.” Audit opinions that [warn of problems](#) often send stocks tumbling. “This observable fact in the marketplace seems to directly contradict the court’s position that the current audit report is not material to investors.” he said.

BDO and AmTrust declined to comment. AmTrust in 2017 restated five years of earnings downward, and its shares are no longer publicly traded. In 2020, the company and its former chief financial officer settled [SEC fraud claims](#) covering several years and were fined, without admitting or denying the allegations.

¹ [How to Make an Audit Report Useful](https://www.wsj.com/articles/SB10001424127887324183204578567763939957362)
(<https://www.wsj.com/articles/SB10001424127887324183204578567763939957362>)

The SEC in a 2018 order accused [three BDO accountants](#) of signing off on their audit work for AmTrust's 2013 annual report without completing all the required audit procedures beforehand. The trio agreed to be suspended from auditing public companies, without admitting or denying the agency's misconduct claims. The SEC didn't allege any violations by BDO.

The matter of transparency is an important – and yet unsolved issue – related to financial reporting, but will be even more important and challenging for investors as it relates to sustainability reporting given the:

- a) variety of novel sustainability topics;
- b) increased use of experts;
- c) variety of practitioners applying the standards – and the differing ethical and quality management standards they may be subject to;
- d) differing levels of assurance (limited vs. reasonable) applied, but only explained, in vague terms with context regarding the degree of underlying work performed;
- e) differing materiality standards (i.e., single vs. double materiality) applied but not disclosed or explained;
- f) variety of estimates and forward-looking assumptions on a plethora of non-financial topics;
- g) varying procedures related to internal controls;
- h) lack of disclosure around key audit matters; and
- i) the ongoing evolution of related standards such as fraud and sustainability ethics standards.

While we understand the profession must begin somewhere, we are concerned there is much to do and little transparency to investors regarding the nature of the work.

Connectivity between the sustainability assurance engagement and the financial statement audit.

As indicated in Paragraph 12 of ED-5000, audited financial statements presented together with sustainability information as part of an annual report or similar document results in the audited financial statements being considered “other information” for the purposes of the sustainability assurance engagement. This situation is highly likely as the ESRS require sustainability information to be included in management reporting and for reporting entities to describe the relationships between sustainability information and the financial statements. At the same time, the sustainability information will be considered “other information” for the purposes of the financial statement audit.

ED-5000 should be clear in encouraging communication and collaboration between the financial statement auditor and the sustainability assurance provider, taking into account applicable laws and regulations about professional secrecy and confidentiality. Both groups of practitioners will be assuring complementary information about the same reporting entity, performing similar procedures, communicating with many of the same functions or individuals in the reporting entity, and sharing many of the same users.

Timing of sustainability assurance and financial statement audit engagements

ED-5000 does not specify whether a sustainability assurance engagement should occur before, simultaneously, or after a financial statement audit of an entity reporting both financial statements and sustainability information (e.g., a listed entity reporting under ESRS in 2025). We believe that the sustainability assurance engagement should strengthen the financial statement audit and vice versa. To best achieve this, we recommend the IAASB specify that a sustainability assurance engagement should occur simultaneously with a financial statement audit to the maximum extent possible unless it causes a delay in the issuance of the financial statements.

Enforcement

The quality of standards and their development over time is heavily dependent on the quality of enforcement by audit regulators. We are curious as to whether there is sufficient capacity and expertise for vigorous enforcement once assurance standards are finalized and released.

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: [No response](#)

Detailed comments (if any):

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

Detailed comments (if any):