1 December 2023
Willie Botha, Technical Director
International Auditing and Assurance Standards Board
Via email

Dear Willie,

Exposure Draft: Proposed International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements

Thank you for the opportunity to comment on Exposure Draft (ED-5000). The NZAuASB supports the ambition of developing a global baseline standard for assurance over sustainability reporting. We acknowledge the significant effort that went into producing ED-5000 so quickly in response to international developments in sustainability reporting. We can see that ED-5000 drew upon existing IAASB material to achieve the ambitious timeline. We encourage the IAASB to take this opportunity to refine ED-5000 to ensure it is, and perceived to be, open to all professions. We summarise our key concerns below and in our responses to selected questions we include our suggestions to address our concerns:

- The scope of the standard should be clearly limited to assurance over general purpose reporting. As currently drafted, the standard has a broad scope, and doesn't clearly convey that it relates to assurance over general purpose reporting. This risks causing confusion amongst practitioners who perform a range of activity, e.g., assurance of claims or eco-labels or business-to-business engagements across supply chains.

- We do not believe that the "at least as demanding" approach will result in a profession agnostic standard. The language, length, density, and the large number of "shall" requirements will create a barrier (real or perceived) to other professions "adopting" the IAASB standard. Many other professionals working in the field of sustainability reporting and assurance have high quality ethical and quality management principles. We do not believe it is appropriate for one profession to insist that their approach should form the baseline for another profession, without fully assessing the other profession's ethical and quality management standards. We recommend a more proportionate principles-based approach is needed to bring together assurance practitioners across a range of professions to add depth and capacity to the assurance market.

- As drafted, the standard presents a significant risk to increasing the assurance expectation gap rather than narrowing it. Drawing from existing material where known issues already exist, heightens that risk in the context of sustainability reporting:

  o In our view, obtaining reasonable assurance may not be feasible over all elements of a sustainability report, notably extensive forward-looking information. We caution against setting the expectation that reasonable assurance is always possible until more is known about the nature and extent of the reporting frameworks in practice.

  o Limited assurance is not well understood. ED-5000 focusses on the differing work effort between limited and reasonable assurance but does not seek to explain or address existing misconceptions about the spectrum of assurance provided.

  o The "traditional" conclusion is too restrictive for sustainability information. The information addressed in a sustainability assurance report is likely to be diverse. Multiple conclusions

or other communication tools that draw out various aspects will be needed, to better explain to the user what the assurance conclusion(s) actually means.

- The materiality judgements section is confusing. Referring to both the entity's materiality process and the practitioner's materiality process adds to this confusion.

We recommend amending ED-ISSA 5000 to:

- Limit the scope, to be applicable to assurance engagements over sustainability reporting prepared in accordance with a general-purpose reporting framework.

- Adopt a more principles-based approach to quality management and ethics and independence requirements to make it profession agnostic.

- Be more flexible in how an assurance practitioner may articulate the assurance conclusion and encouraging practitioners to be more innovative to better meet user needs.

We believe these changes would allow the spirit of the standard to be applied and time for capability and capacity building to meet new reporting and assurance requirements. We encourage the IAASB to continue to be willing to learn from others in their outreach and to continually make improvements to the standard as time passes.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Karen Tipper (karen.tipper@xrb.govt.nz).

Marje Russ
Chair, NZAuASB

Responses to Questions in the Explanatory Memorandum for ED-5000

Question 1

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*)

NZAuASB response: Disagree with comments

Use by all assurance practitioners

While we support the ambition of developing a global baseline standard for assurance over sustainability reporting, we consider that its language, length, density, and the large number of "shall" requirements may create a barrier to adoption, especially by non-accountants. We acknowledge that ED-5000 was drawn from existing material but believe the opportunity still exists for the IAASB to look wider than this. There is still the opportunity to learn about other approaches, through co-ordinated mapping and ongoing engagement. We encourage the IAASB to stand back and re-evaluate how best to enhance trust and confidence in sustainability reports. We recommend that ISSA-5000 as an umbrella standard be lifted to higher-level principles. This would enable more topic specific standards to be issued in due course as the reporting frameworks are still developing. We believe this would make the standard more widely acceptable.

The market is yet to agree on what sustainability reporting frameworks to apply. Standard setters, regulators and professional bodies acknowledge that capability and capacity is not yet at the required level. A depth and range of knowledge and sustainability competence is vital for quality assurance.

We do not consider that ED-5000 is profession agnostic, particularly with reference to the "at least as demanding" tests for Ethics and Independence and Quality Management. Both the Code of Ethics and ISQM 1 are comprehensive standards that have been built on over time and are always issued with time to transition. We are concerned the approach will create barriers to entry for competent practitioners and we recommend a more proportionate approach is needed to bring together assurance professionals to add depth and capacity to the assurance market. Other professions have existing quality management standards that may be more appropriate for the underlying subject matter. There is currently a great opportunity to learn about other approaches, through co-ordinated mapping and ongoing engagement. Refer to question 4 for further comments.

Appropriate for all Sustainability Topics and Aspects of Topics

We do not consider that the scope of the standard is clear. We have concerns that the standard is trying to be all things to all people. We are concerned that by trying to be broad enough to cover all "sustainability assurance engagements", the standard suggests that it is appropriate for too broad a range of activity (e.g., assurance of claims or eco-labels or special purpose business-to-business across supply chains assurance). We recommend that the IAASB narrow the scope of ISSA-5000 to be clear that it has been written for assurance over entity level sustainability reporting in accordance with general purpose reporting frameworks.

We recognise, that it may be used for special purpose engagements but may need to be tailored accordingly. Refer to question 3 for more detail.

All mechanisms for reporting

The information may be included in an annual report or in other documents or websites. We encourage the IAASB to develop more guidance to assist practitioners to be clear on what information has been assured and what their obligations to other information are, particularly where information may be spread and cross referenced between multiple documents or websites.

Intended users

More guidance or educational material is needed to help practitioners in identifying the intended users of the assurance report. These intended users may differ depending on the locations where the value chain activities occur and their specific environmental, social, economic, and cultural contexts. It will in turn reflect the nature of the entity's dependencies and/or impacts relevant to those contexts.

Reasonable and Limited Assurance

The risk of an ever-growing assurance expectation gap is high. There is existing confusion about the differences between limited and reasonable assurance. Carrying forward this confusion risks increasing the expectation gap into an evolving area of reporting. There is a real opportunity for the IAASB to re-examine how best to build trust and confidence in sustainability information, through deeper consideration of the different types of assurance. Refer to question 7 for further comments.

Question 2

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)*

NZAuASB: No response.

Question 3

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)*

NZAuASB response

Disagree with comments below.

The NZAuASB does not consider that the scope of the standard is clear. We recommend that the IAASB rename ISSA-5000 and amend paragraphs 2 and 8 to clarify that its scope covers assurance over sustainability reporting in accordance with general purpose reporting frameworks. We recommend adding application material with a description of what is meant by general purpose sustainability reporting, and including examples of what is within scope and what is excluded. This could be similar to the information in the EER guidance (Appendix 2). The statement in paragraph 8 that "regardless of the manner is what that information is presented" in ED-5000 adds confusion, especially for non-accountant

assurance practitioners as to when this standard should be applied. We believe this was meant to address the fact that the sustainability report may be included in an annual report or elsewhere, but as drafted lacks clarity and therefore makes the scope of the standard unclear.

We agree that ED-5000 is clear that it applies for assurance engagements over sustainability information, for example a climate statement, but that ISAE 3410 would apply when a separate assurance conclusion is required for greenhouse gas emissions.

The XRB has issued a temporary domestic assurance standard for the assurance of greenhouse gas disclosures within the climate statements. We followed a collaborative process to develop our standard, learning from a broad range of practitioners and requiring the application of one of two international standards ISO 14064-3:2019[1] and ISAE 3410. We think this is important as approaches to assurance and standard setting develop/mature. We note the reference to "standards issued by ISO" in page 9 of your explanatory memorandum and we encourage the IAASB to follow through with this inclusive approach.

We note that ISAE 3410 is a topic specific assurance standard under the umbrella standard of ISAE 3000. We recommend that ISAE 3410 be moved to sit under the umbrella standard ED-5000 and become the first topic specific standard for the assurance of greenhouse gas emissions. The benefit of this will be that all assurance over sustainability matters will be undertaken under the same suite of standards, rather than reference both ISAE 3000 for greenhouse gas emissions and ISSA 5000 for other sustainability matters. We understand that the risk assessment requirements for limited assurance engagements differ between ED-5000 and ISAE 3410. However, we note that this same difference in approach exists between ISAE 3000 and ISAE 3410, and therefore do not see that this concern should prevent ISAE 3410 from being the first standard under ISSA 5000. Given that ED-5000 is based on the approach used in ISAE 3000 and includes the same fundamental building blocks, we encourage this so that all assurance practitioners could choose to use the ISSA standards for assurance engagements over all sustainability-related matters.

Question 4

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)

NZAuASB response

Disagree with comments below.

The NZAuASB agrees that robust ethical and independence and quality management requirements are essential to enhancing trust and confidence.

The NZAuASB does not believe that the "at least as demanding" approach will result in a profession agnostic standard. The language, length, density and the large number of "shall" requirements will create a barrier (real or perceived) to other professions "adopting" the IAASB standard. Many other professionals working in the field of sustainability reporting and assurance have high quality ethical and quality management principles. We do not believe that it is credible or appropriate for one profession to

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[1] ISO 14064-3:2019 *Specification with guidance for the verification and validation of greenhouse gas statements*

insist that their approach should form the baseline for another profession. We encourage the IAASB to find a more inclusive approach and are concerned that the proposed approach will create a barrier to adoption by non-accountants.

Both the Code of Ethics and ISQM 1 are comprehensive standards that have been built on over time. Accountants, or those familiar with these standards, have had many years to develop systems and implement their detailed requirements. Other professions have their own ethical requirements and systems of quality management that have not been mapped to the IESBA Code or ISQM 1. It will be time-consuming to map these standards, and then implement any changes. A proportionate approach is needed based on principles, that can be refined over time to bring assurance professionals together to learn from each other, and build depth and capacity in the market.

The way in which we addressed this challenge in New Zealand for mandatory greenhouse gas assurance was to include higher level principles for both ethics and quality management, that are familiar to most professions, as the starting point, which could be added to or tailored over time. The XRB has recently issued non-authoritative guidance to expand on these principles and may continue to do so over time to aid in consistent understanding and application of the principles. We consider that this is a proportionate way to bring a range of practitioners, and skills together, recognizing that there is a shortage of experienced and competent practitioners in the market.

The IAASB has a key role to play in facilitating the application of ISQM 1 and the IESBA Code of Ethics for those who are new to these standards

The IAASB and the IESBA have a crucial role to play to facilitate and assist those not familiar with the ethics and quality management requirements. We encourage the IAASB to work with others, to learn more about the quality management requirements others apply, and to co-ordinate global mapping exercises. We welcome the collaboration with the International Accreditation Forum (IAF) on Quality Management. In doing so, the IAASB may also learn more about other quality management practices to inform a post implementation review of the IAASB's ISQM 1 standards in due course. Other professions have existing quality management standards that may be more appropriate for the underlying subject matter. There is currently a great opportunity to learn about other approaches, through co-ordinated mapping and ongoing engagement.

We encourage the production of a "Get Started" guide to assist practitioners. We encourage the IAASB to work closely and jointly with the IESBA on non-authoritative guidance.

Please refer to our answer to question 22.

Question 5

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)

NZAuASB response

Agree with comments below.

The NZAuASB believes that the definition of sustainability matters is clear and covers the broad range of sustainability considerations present within sustainability reporting frameworks. However, we question whether this definition could be too broad and could inadvertently capture information that is not

intended to be assured under such frameworks, for example, product claims or business-to-business "special purpose" assurance engagements.

We recommend that the definition be looked at in this context by clarifying that sustainability matters are limited to matters for information within an entity's general-purpose sustainability report.

The proposed definition of sustainability matters is as follows:

"17 (vv) 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. For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of "underlying subject matter" in other IAASB assurance standards."

We recommend that the last sentence (For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of "underlying subject matter" in other IAASB assurance standards) be deleted. This sentence may add confusion, especially for those practitioners that are not familiar with other IAASB assurance standards.

Question 6

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)

NZAuASB: No response.

Question 7

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)

NZAuASB response

Disagree with comments below.

The difference between limited and reasonable assurance is not well understood. The NZAuASB believes there is still confusion around the work effort required, in particular around risk assessment and internal controls for limited assurance. We recommend that the IAASB include additional guidance. We found Appendix 3 to the non-authoritative guidance on applying ISAE 3000 (Revised) to sustainability and other extended external reporting (EER) assurance engagements a helpful approach.

We understand that users may not appreciate the differing degree of assurance and how much reliance can be placed on a limited or reasonable assurance conclusion. We therefore have significant concerns that carrying forward the existing model will only increase the expectation gap risk over sustainability information as this will carry forward existing issues.

We have questions about whether reasonable assurance over some longer-term forward-looking information should be the goal. Our analysis of current practice confirms that assurance is mostly restricted to certain disclosures within a reporting framework and the assurance over these disclosures is limited assurance. We caution against setting the expectation that reasonable assurance is possible. Refer to our response in question 16 which notes that ISO 14064-3 (International Organization for Standardization (ISO) 14064-3: 2019 Greenhouse gases – *Specification with guidance for the verification and validation of greenhouse gas statements*) does not permit reasonable assurance to be provided over forecasted or validated emissions.

We encourage the IAASB to develop guidance to increase user and practitioner understanding about the spectrum of assurance that is likely to be needed over sustainability information. It could draw on, or reference, the IAASB EER Guidance on the spectrum of assurance and include some examples of assurance reporting approaches that provide more information to users, such as long-form reporting.

Please see our comments on the assurance reports in question 21 and 22 for further details.

Question 8

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)

NZAuASB response

Agree with comments below.

The NZAuASB agrees that ED-5000 is clear that the practitioner shall obtain a preliminary knowledge of the sustainability information and scope of the engagement. We recommend that this should be more specific about what this should include and involve.

We stress the importance of context, given the wide range of information that may be reported. What is relevant is context-specific, it may be global, local, regional, or very site-specific.

We stress the importance of the need for the practitioner to obtain a preliminary and appropriate level of understanding of the sustainability matters to be reported, to ensure that there is sufficient understanding of the sustainability considerations, and knowledge needed to accept and undertake the engagement.

Question 9

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)

NZAuASB response

Agree with comments below.

The NZAuASB supports a proportionate approach in obtaining a preliminary knowledge of the engagement circumstances at the pre-engagement stage. However, it is important that the practitioner has enough information about what is expected to be reported and how the entity went about making that judgement, how the entity will measure or evaluate the information and context about the entity and the condition of the relevant environmental, social, economic, or cultural context of what is to be reported on. Understanding the entity's processes and the sustainability information to be disclosed and assured is fundamental to the initial planning of the engagement.

We found the application material in A157 confusing. Referencing the assurance practitioner's materiality judgement at the pre-engagement stage is unhelpful. We recommend that different application material be developed to assist the practitioner to obtain enough preliminary knowledge to be able to make the engagement acceptance decision.

Paragraphs A156 and A157 acknowledge that there may be a something in the reporting framework or the entity's own process about "what" and "how" to report. In our domestic project on service performance information, we added more application material to prompt the practitioner to gain a better preliminary understanding, noting that this is likely to be an iterative process. Prompts may include asking the client:

- how the entity is applying the qualitative characteristics of the reporting framework and the characteristics of suitable criteria, especially where criteria may be entity developed.

- whether users or stakeholders were involved in the selection of what and how to report.

- what information does the entity have to support what it will report.

- how and where does the entity plan to present and disclose its information.

- what laws or regulatory requirements are there for the information being reported

- is there any information not reported that should have been due to difficulties in obtaining the information.

Question 10

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)

NZAuASB response

Agree.

The NZAuASB agrees that ED-5000 appropriately addresses the practitioner's evaluation of the suitability and availability of the criteria used by the entity.

Question 11

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)

NZAuASB response

Agree with comments.

The NZAuASB agrees with the explanations included in para A180 of ED-5000 the standard. The concept of impacts and related terms (impact materiality, financial materiality, double materiality) is related to sustainability reporting (it is not commonly known in financial audits). We note that the term "double materiality" is not framework neutral. However, we consider that the clarifications in the proposed standard are useful for many assurance practitioners.

Question 12

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)

NZAuASB response

Agree, with comments below.

The NZAuASB agrees with the proposed approach to consider materiality for qualitative disclosures and determine materiality for quantitative disclosures.

However, we believe that the standard could be enhanced in two ways:

- Minimizing confusion between the entity's materiality process from the practitioner's performance materiality. We outline our learnings and two step approach from our domestic service performance project below to articulate how we approached this challenge.

- Adding further application material or guidance to assist the practitioner make materiality judgements.

Minimising confusion

In New Zealand, to address some of the challenges related to an entity's materiality process, and the practitioner's materiality judgements, we adopted a two-step process:

- The first step is assessing whether "what and how" selected by the entity to report on is "appropriate and meaningful" and in accordance with the applicable reporting framework. This includes assessing the elements/aspects that the entity has selected to report on, the measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects during the reporting period, and the measurement basis or evaluation method used to measure or evaluate the subject matter. The approach would mean that even if the framework does not require an entity to follow or report about their "materiality process"

explicitly, there is a prompt in the standard for the practitioner to understand more about what and how the entity went about making its judgements about what aspects to report on.

- Step two is the performing the audit procedures step to gather evidence as to whether the reported information fairly reflects the actual subject matter and is not materially misstated.

These two steps are iterative, step one begins based on a preliminary knowledge of the engagement (at the pre-acceptance stage) but is built on throughout the engagement and informs the planning and materiality judgements in step 2.

We offer this approach as an alternative way to structure the requirements and application material by separating but linking the entity's materiality process from the practitioner's materiality judgements.

More guidance to assist the practitioner make materiality judgements

The practitioner's materiality requirements and application material do not take into account that the sustainability information may not be homogenous. It might be impractical to document considerations for all disclosures.

Identification of important disclosures, in the first place, using the concept of materiality would help focus the assurance practitioner on the areas that require further consideration and identification of disclosures where material misstatements are likely to arise (for limited assurance) or where risk of material misstatement at assertion level needs to be assessed (for reasonable assurance).

We encourage the IAASB to consider adding application material that prompts the practitioner to:

- Identify significant disclosures. This should be built on the understanding of the materiality process performed by the entity. The proposed standard should better explain that the practitioner needs to understand the entity's process for the purpose of identifying what would be material for the user.

- Consider/determine the practitioner's tolerance for error for the disclosures identified above.

Question 13

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)

NZAuASB: No response.

Question 14

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)

NZAuASB response Agree, with comments below.

It is very likely that there will be a greater use of others owing to the potential complexity and breadth of information reported. We encourage the IAASB to provide more educative material or guidance on the use of experts and other practitioners to assist in the application of this standard. Non-authoritative guidance material that helps the practitioner to navigate and identify the right expert or other practitioner to use and helps bring together individuals from various backgrounds is needed, to avoid duplication of effort. This would help practitioners identify and understand other practitioners who have already provided independent assurance that can be relied upon, for example accredited testing or inspection reports, or certifications. Material that explores the various activities that build trust and confidence in the underlying processes and information and helps the practitioner to leverage off what others are doing will be useful.

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)

NZAuASB: Agree, with comments below.

The NZAuASB supports the content in ED-5000 as we believe that experts and other practitioners will be used extensively, due to the complex and broad nature of sustainability information that may be reported. We stress the importance of the expert or other practitioner having sufficient understanding of the underlying subject matter (i.e., the condition of the relevant environmental, social, economic, or cultural context). This understanding and specific subject matter expertise should be evidenced by an assessment of competence in the field in which the expert or other practitioner is providing their input. We note that competency frameworks required by the ISO standards include topic or sector-based assessments of competency.

Question 16

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)

NZAuASB response

Agree with comments below.

The requirements regarding work required to be performed on estimates and forward-looking information are helpful. The NZAuASB also supports examples relating to forward-looking information in various parts of ED-5000.

However, we believe that the assurance report requirements do not capture the nature of all types of forward-looking information, especially projections. Projections are prepared on the basis of hypothetical assumptions about future events which are not necessarily expected to take place. An example of a projection is a scenario analysis. We recommend that the IAASB re-examine the required

assurance reporting to enable wording similar to the assurance conclusion required in ISAE 3400 *the Examination of Prospective Financial information*, with a focus on a conclusion over the reasonableness of underlying assumptions and appropriate caveats (that actual results may differ, and variation may be material) to avoid exacerbating an expectation gap. We believe that alternative wording in the assurance conclusions will be a helpful communication tool to the user, particularly to cover the hypothetical scenarios.

Alternatively, we encourage the IAASB not to prescribe the expression of the conclusion as articulated in paragraph 170c(vi) to enable more flexibility and encourage the practitioner to consider how best to convey the level of assurance that can be provided.

We note that the ISO framework considers future and forward-looking information within its assurance conclusion for ISO 14064-3 (International Organization for Standardization (ISO) 14064-3: 2019 Greenhouse gases – *Specification with guidance for the verification[2] and validation[3] of greenhouse gas statements*). The ISO does not permit reasonable assurance to be provided over forecasted or validated emissions. Limited and reasonable assurance can be either subject to verification for historical emissions or a mixture of verification and validation for a combination of historical and future emissions. Any greenhouse gas emissions that are included in the measurement but are emitted into the atmosphere in a subsequent period, must be validated rather than verified.

We recommend that a topic specific ISSA on scenario analysis would be useful.

Question 17

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)

NZAuASB: No response

Refer to our response to question 7 regarding our concerns at the lack of understanding of the difference between reasonable and limited assurance.

Question 18

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**

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[2] 3.6.2 of ISO 14064-3: 2019 *Specification with guidance for the verification and validation of greenhouse gas statements*, verification is the process for evaluating a statement of historical data and information to determine if the statement is materially correct and conforms to criteria.

[3] 3.6.3 of ISO 14064-3: 2019 *Specification with guidance for the verification and validation of greenhouse gas statements*, validation is the process for evaluating the reasonableness of the assumptions, limitations and methods that support a statement about the outcome of future activities.

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)

NZAuASB: Agree, with comments.

The NZAuASB recommends that a specific ISSA relating to groups and value chain considerations should be added as a next focus. More guidance will be needed, including on communication with the auditors of financial statements.

Question 19

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)

NZAuASB response

Agree with comments.

The NZAuASB considers that ED-5000 appropriately addresses fraud.

We support the IAASB not including the term "greenwashing" in the standard. As the reporting frameworks are still developing, we do not consider it would be appropriate for ED-5000 to contain requirements for practitioners around greenwashing. The wide range of sustainability matters which could be reported, and the inherent nature of sustainability information (particularly forward- looking information and projections) means it is likely to contain errors which are not intentional or be subsequently restated for valid reasons. We consider ED-5000 appropriately focuses on the susceptibility of the sustainability information to material misstatements, due to intentional fraud, or unintentional error, which is appropriate for the current state of sustainability reporting. We support the inclusion of omitted or obscured information within the definition of misstatement which captures the concepts that might be known colloquially as greenwashing or greenhushing.

Question 20

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)

NZAuASB: No response.

Question 21

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)

NZAuASB response

Disagree with comments below.

The NZAuASB does not consider that the assurance reporting will meet user needs.

We consider there is a good opportunity for the IAASB to continue to learn about other professions' approaches, to re-examine how best to build trust and confidence in sustainability information.

We have concerns that the form of the assurance report might not be fit-for-purpose for still-emerging sustainability reporting, given the broad definition of sustainability information and intended users.

Currently, assurance engagements over sustainability matters are often narrow in scope, focussed on certain sustainability disclosures only. Assurance conclusions are predominantly limited assurance. Given the lack of established systems and processes, and the forward-looking nature of the information which may look far into the future, we question whether reasonable assurance will ever be provided over parts of the information. This might change, but this may only become apparent over time. We caution against setting the expectation that reasonable assurance is the end goal until more is known to avoid an ever-growing expectation gap.

ED-5000 includes the "traditional" wording for assurance conclusions, being either a limited or reasonable assurance conclusion that the sustainability information has been prepared in accordance with the applicable criteria. We acknowledge that ED-5000 recognises that mixed opinions are likely, i.e., some limited, some reasonable.

However, we are concerned that this "traditional" approach might be too narrow and risk expanding the expectation gap. One or possibly two assurance conclusions over the sustainability report might not be enough to meet users' needs in all circumstances, given the varied topics and varying work performed by the assurance practitioner.

To promote trust and confidence, we encourage the IAASB to be less prescriptive in how to articulate the opinion or conclusion in this umbrella standard. We recommend that the IAASB does not prescribe the expression of the conclusion as articulated in paragraph 170(vi), to enable more flexibility and encourage the practitioner to consider how best to convey the level of assurance provided and encourage innovation with a focus on user needs. We recommend that the IAASB explore and require the use of additional communication tools in the assurance report, to encourage practitioners to innovate and communicate to users about the level of confidence that the engagement provides while highlighting aspects of uncertainty, given that the nature of the information to be assured may be increasingly uncertain.

Some ideas to explore include:

Other ways of expressing the assurance opinion or conclusions:

- Wording similar to the assurance conclusion required in ISAE 3400 *the Examination of Prospective Financial information*, with a focus on a conclusion over the reasonableness of underlying assumptions and appropriate caveats.

- multiple conclusions, where relevant, first concluding on the entity's materiality process followed by mixed conclusions over the various information reported.

Longer form reporting:

- about the assurance practitioner's observations on the entity's process to identify topics to report.

- that the assurance work was focussed on checking the assumptions, methods and inputs into a model, and that the actual results may differ.

- the potential scope exclusions inherent in the framework, for example including commentary that the entity has reported sustainability information in accordance with the criteria in a specific framework and that this may not include all sustainability information.

- how the work of an expert might be referenced in the report.

- any other information that could enhance the communicative value of the assurance report.

We recommend that ISSA 5000 does not include illustrative reports within the standard, but that the IAASB develop separate non-authoritative illustrations that can be added to over time, based on best practice examples that include innovative techniques to better meet user needs.

Question 22

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)

NZAuASB response

Disagree with comments below.

The NZAuASB does not agree.

KAMs, or an equivalent mechanism (e.g., "key sustainability assurance matters"), enables and encourages the communication of significant matters and what has been done to address them. We believe that this would be appropriate in both a limited and reasonable assurance engagement. We consider that the description of how matters have been addressed could be linked to the level of assurance. This could reduce the perceived risk of the level of assurance being greater than intended.

We agree with PIOB's view that it might be in the public interest to allow inclusion of KAMs in the assurance reports and that this practice should be promoted early on.

Overall, we believe that KAMs in the assurance report would be useful for:

- enhancing users understanding about the assurance engagement, especially in the context of different characteristics of sustainability information.

- communicating significant matters identified during the engagement by the assurance practitioner and how they have been addressed to promote transparency.

The XRB has required the inclusion of key matters in our recently released standard NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures,* even for limited assurance engagements. This was done to enhance the communicative value of the report.

Question 23

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)

NZAuASB: Please refer to our answer to question 7.

Disagree with comments below.

Drawing from existing material where known issues already exist heightens the expectation gap risk. The NZAuASB considers there is a good opportunity for the IAASB to continue to learn about other professions approaches, through co-ordinated mapping and ongoing engagement to re-examine how best to build trust and confidence in sustainability information.

As articulated in response to question 7, we have concerns that limited assurance is not well understood. Refer to our response to question 21 for our suggestions to better meet users' needs.

Question 24

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)

NZAuASB: No response.

Question 25

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

NZAuASB response:

Competence

We believe that the sustainability assurance provider must be both competent and independent. We note that specific competencies are not addressed in ED-5000, but includes the following provisions:

Acceptance stage

- o   Engagements can be accepted only if those who are to perform the engagement have collectively appropriate competence and capabilities (para 25 (b))

Engagement leader's competence

- o   The engagement leader needs to have competence in assurance and sustainability matters and understanding of relevant ethical requirements (para 32).

We encourage the IAASB to stress the importance of sustainability competence in this context of the preliminary knowledge of the engagement circumstances to make it clearer. We recommend that paragraph 25(b) be amended to emphasise both <u>assurance and</u> <u>sustainability</u> competence, noting that sustainability competence is defined in 17 (tt), to emphasise this early on.

We support the non-inclusion of specific competency requirements in this umbrella standard as it is important that the competency required be specific to the subject matter being assured. The competency required to assure the quality of water will be different to that required to assure a modern slavery framework, or a TCFD or climate statement.

We recommend that the IAASB include specific competency requirements when they develop the suite of topic specific standards that will sit under ED-5000.

We recommend that the IAASB amend the definition of sustainability competence to the following:

"Sustainability competence – Competence in the sustainability matters that are the subject of the sustainability assurance engagement and in their measurement or evaluation and understanding in the environments, societies, economies and cultures that are relevant to the sustainability matters and information."

Question 26

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.**

NZAuASB: No response.

Question 27

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 ISA. If not, what do you propose and why?**

NZAuASB response

The NZAuASB agrees with the proposed effective date. However, we encourage the IAASB to build in a transitional provision for those assurance practitioners who are not familiar with the IAASB and the IESBA standards and need to familiarize themselves with the requirements and adjust their processes accordingly. See our comments on question 4 for further details.