

Tom Seidenstein  
Chair, International Auditing and Assurance Standards Board  
529 5th Avenue New York  
New York 10017  
United States of America

27 November 2023

Dear Mr Seidenstein

### **ED-5000, *General Requirements for Sustainability Assurance Engagements***

We welcome the opportunity to comment on the above exposure draft for the proposed ISSA 5000 *General Requirements for Sustainability Assurance Engagements* ('the ED' or 'ED-5000').

#### **About us**

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#### **Our response – general comments**

We applaud the IAASB for ED-5000 and firmly believe ISSA 5000, when implemented, will substantially elevate the assurance landscape for sustainability engagements. We believe the ED establishes clear expectations over the quality, extent and overall approach for sustainability assurance engagements. We have proposed additional enhancements to the ED in the IAASB's preferred responses template on the following pages.

From our discussions with clients and other stakeholders, we have noticed considerable interest and appetite for ISSA 5000 engagements and expect significant demand for both limited and reasonable assurance engagements under the proposed standard. We strongly support the IAASB's approach to tackle fraud and greenwashing as outlined in the ED.

Notwithstanding the significant benefits that ISSA 5000 will bring once final, we have identified a higher number of inconsistencies and unclarified concerns than we might ordinarily expect from an exposure draft of this prominence, perhaps reflecting the accelerated timetable adopted by the IAASB. We strongly encourage the IAASB to invest the requisite time prior to finalising ED-5000 to ensure that the proposed standard is both practicable and understandable by practitioners and users alike.

We commend the IAASB for developing ISSA 5000 at pace and for its outreach activities with the profession and the public at large, which have been of a high quality and comprehensive. We are concerned however that ISSA 5000 may not yet be fully responsive or applicable in practice to the rigour and demands of *all* sustainability assurance engagements, contrary to the IAASB's aim as set out in the Explanatory Memorandum. Our detailed comments are provided in the IAASB's response template on the following pages and summarised in this letter below.

#### **Relevance of ED-5000 across environmental, social and governance-related matters**

We have assessed the proposed standard against the complete spectrum of environmental, social and governance issues on which we expect reporting entities to seek assurance. We conclude that ED-5000 is a high-quality draft standard and applicable for the full range of sustainability-related topics, however we do not believe the ED is sufficiently profession-agnostic for unregulated assurance practitioners.

### ***Interoperability of requirements and profession/framework-agnostic approach***

Our concerns primarily relate to the interoperability of the ED for use by assurance practitioners who are not professional accountants, such as environmental management consultancies that currently provide assurance reports under ISAE 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* or ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.

For example, we are concerned that such practitioners may not understand or be able to identify an ethical code that is “at least as demanding” as the IESBA Code of Ethics for Professional Accountants (‘the IESBA Code’), or a system of quality management that is “at least as demanding” as ISQM 1. Given that non-accountant assurance practitioners may not be subject to robust supervision by a regulated professional body, in many jurisdictions the sustainability assurance market is open to considerable abuse by unqualified practitioners, or subjected to poorer systems of quality management than the IAASB might otherwise expect. We draw the IAASB’s attention to the current geopolitical instability in Ukraine and the Middle East, and the resultant inflationary environment for many stretched businesses seeking external assurance on their sustainability information. Such economic conditions can cause audit committees and decision-makers with minimal prior exposure to sustainability assurance engagements to prioritise cost over quality of assurance provided.

As a further example of the quality issues we have observed in the sustainability assurance market, many sustainability assurance reports issued by non-accountants under ISAE 3000 (Revised) continue to refer to ISQC 1, when this has long been superseded by ISQM 1. We encourage the IAASB to work with the International Organization of Securities Commissions (‘IOSCO’) or the International Standards Organization (‘ISO’) to identify or develop standards equivalent to the IESBA Code and/or ISQM 1, and to publicise these with non-accountant assurance practitioners. If the IAASB is unable to identify comparable standards, then the ISSA 5000 should mandate full compliance with the IESBA Code and ISQM 1, regardless of the professional affiliation of the assurance practitioner. Given the IAASB’s stated ambition for ED-5000 of reducing the scope for ‘greenwashing’ and similar bias in sustainability reporting, we urge the IAASB to prioritise refinements to this topic in the final issued standard.

Further detail is provided in our response to questions 4 and 14.

### ***Application of ED-5000 to double materiality assurance engagements***

The introduction of the EU’s Corporate Sustainability Reporting Directive (‘CSRD’) and European Sustainability Reporting Standards (‘ESRS’) issued by EFRAG means that greater emphasis will, rightly in our view, be placed on double materiality on sustainability assurance engagements. Over time, and recognising the paradigm shift that double materiality requires, it more likely that the assurance practitioner and management of a reporting entity will have different and sometimes conflicting views as to which topics are deemed material to the reporting entity’s stakeholders, including those without a voice. ED-5000 is currently silent on how an assurance practitioner should approach and address these matters; we encourage the IAASB to develop its position in this regard in the final ISSA 5000 when finalised.

### ***Inconsistencies and omitted clarifications***

We have identified inconsistencies and areas where the explanation provided in the ED or accompanying Explanatory Memorandum and Frequently Asked Questions material is insufficiently detailed to permit the assurance practitioner to determine an appropriate assurance approach, in particular:

- Instances where an assurance practitioner should provide a separate assurance report on greenhouse gas emissions under ISAE 3410 versus a single assurance report on sustainability information that includes greenhouse gas disclosures under ISSA 5000 (see our response to question 3);
- The preconditions for an assurance engagement in ED-5000 do not consider materiality and the expectation gap that may arise between materiality thresholds or material topics identified by the reporting entity, and materiality as determined by the assurance practitioner (see our response to questions 8 and 9);

- Certain critical elements of the IAASB’s non-authoritative guidance on extended external reporting assurance engagements (April 2021) have been omitted in their entirety or insufficiently clarified in ED-5000 (see our response to question 12);
- The requirements for limited assurance engagements with regards to understanding the entity’s system of internal control are inconsistent with established practice (see our response to question 13);
- Insufficient guidance is provided on the approach for group sustainability assurance engagements (see our response to questions 14 and 18);
- Proposed requirements in relation to estimates and forward-looking information are conceptually consistent with ISA 540 (Revised) but insufficient clarity is provided to enable non-accountant assurance practitioners to adopt this approach (see our response to question 16);
- The use of assertions in risk procedures on limited assurance engagements (see our response to question 17);
- A definition of ‘greenwashing’ is paramount when considering the risk of misstatement due to fraud and error (see our response to question 19);
- The difference between the range of intended users of the sustainability assurance report and the addressee(s) of that report (see our response to question 21);
- Differentiating the level of work performed under a limited assurance engagement compared to a reasonable assurance engagement in the illustrative examples in Appendix 2 of the ED (see our response to question 23); and
- Unclear expectations where an assurance practitioner should provide separate assurance conclusions on specific aspects of sustainability information and disclosures (see our response to question 25).

While the list of areas for improvement is long, we remain confident in the IAASB’s ability to address these areas and provide clarity in the final standard. We are available to meet with the IAASB to discuss our detailed responses.

Yours sincerely

*Mark Lumsdon-Taylor*

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**PART A: Respondent Details and Demographic information**

Your organization’s name (or your name if you are making a submission in your personal capacity)	MHA
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Mark Lumsdon-Taylor, Partner, ESG Centre of Excellence Matthew Howells, Partner, Head of Technical
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Tim Dee-McCullough, Sustainability & ESG Technical Director Chisomo Kaferawanthu, Audit Technical Director
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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.	<a href="#">Europe</a>
	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.	<a href="#">Assurance practitioner or firm - accounting profession</a>
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	We are an international firm of chartered accountants, tax, and business advisers. From offices across the UK and overseas, we provide a full range of financial and business services to enterprises and individuals helping them to achieve growth and long-term success. MHA is the UK independent member firm of Baker Tilly International, ranked 9th globally.  For more details on our firm please visit <a href="https://www.mha.co.uk">https://www.mha.co.uk</a> .

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 refer to our cover letter on pages 1 to 3 of this response.

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

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

### Overall Questions

1. Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item).

(See Explanatory Memorandum Section 1-A, paragraph 14)

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

### Detailed comments (if any):

In considering the IAASB's application criteria in paragraph 14 of the Explanatory Memorandum, we agree that the principles-based approach of ED-5000 means it can be applied as an overarching standard and provides a useful global baseline. However, we have identified the following areas where ED-5000 may not prove as useful in practice as the IAASB intends:

- **All sustainability topics and aspects of topics:** ED-5000 currently provides little in the way of guidance on appropriate assurance techniques over forward-looking or future-oriented information, for example certain scope 3 CO<sub>2</sub> emissions calculated under the Greenhouse Gas Protocol. There remains considerable diversity in practice over the assurance approach to such sustainability metrics. While we note the non-authoritative guidance issued by the IAASB in April 2021 in relation to extended external reporting engagements under ISAE 3000<sup>1</sup>, we believe that the non-authoritative guidance should be incorporated into the body of ISSA 5000 and considered authoritative.
- **All intended users:** the range and diversity of intended users of the sustainability assurance report can be vast, with contrasting and often conflicting views on material topics. Unless the scope of the intended users is clarified by the IAASB, we fear that assurance practitioners will be unable to perform a sustainability assurance engagement under the proposed standard because engagement risk will exceed the practitioner's risk appetite.
- **Limited and reasonable assurance engagements:** the approaches mandated for limited assurance engagements in ED-5000 are inconsistent with market practice under ISAE 3000 and ISAE 3410 engagements, particularly the requirement for limited assurance engagements to include tests of control operating effectiveness.
- **Use by all assurance practitioners:** we applaud the IAASB's ambition to introduce a profession-agnostic standard that can be applied by a variety of skillsets and expertise. However, there are significant challenges in ascertaining whether a non-accountant assurance practitioner both understands and complies with standards "at least as demanding" as the IESBA Code or ISQM 1. We have also noted several instances where concepts have been lifted from International Statements on Auditing and embedded in the proposed standard without further explanations, but where non-accountants would require greater assistance and clarity to comply with ED-5000.

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<sup>1</sup> [Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Sustainability and Other Extended External Reporting \(EER\) Assurance Engagements](#), April 2021

### *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):**

We concur that the proposals broadly align with the public interest. The overarching standard provides a high-level framework that fosters consistency in these engagements. However, we have raised concerns regarding specific instances of inconsistency throughout this response.

It is crucial to thoroughly examine the operationalisation of the proposed standard, particularly given its profession-agnostic scope and scalability considerations. The IAASB must consider the broader implications and potential challenges when implementing this standard.

We are particularly concerned that non-professional accountants acting as assurance providers will find ISSA 5000 challenging to implement, in terms of following the methodology or collating and examining the necessary documentation to assess whether they have sufficient, appropriate evidence on which to report. Consequently, we propose that the IAASB take action to address this concern by providing basic guidance materials for non-accountant assurance practitioners. The Frequently Asked Questions document issued by the IAASB on *The Application of Materiality by the Entity and the Assurance Practitioner*<sup>2</sup> in October 2023 is itself evidence of the need to provide further comprehensive materials to support practitioners.

We note that the differentiation between the requirements for reasonable assurance versus limited assurance engagements could be strengthened throughout ED-5000.

We urge the IAASB to consider these concerns and take proactive measures to ensure the successful implementation of this vital standard. By addressing these issues, we can strengthen the narrative and facilitate a smoother transition for all assurance practitioners involved.

### **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 comments below](#)

#### **Detailed comments (if any):**

We do not believe it is sufficiently clear when each standard should be applied. At present, there is considerable scope for user confusion regarding the need for a separate conclusion on greenhouse gas emissions (where ISAE 3410 is applicable) and whether this conclusion should be presented in a separate assurance report or the same assurance report as under ISSA 5000.

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<sup>2</sup> [Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner | IAASB](#), 25 October 2023

We believe the IAASB needs to expand the narrative of the proposed standard to clarify when it is appropriate for an assurance practitioner to provide a separate assurance report on a greenhouse gas emissions statement under ISAE 3410 versus a single assurance report on sustainability information that includes greenhouse gas data under ISSA 5000.

We note that ISAE 3410 requires practitioners to identify and assess risks of material misstatement for each individual statement, as well as at the disclosure level or assertion level depending on the level of assurance being provided. The proposed standard merely requires practitioners to “*identify disclosures where material misstatements are likely to arise*” (limited assurance) or “*identify and assess risks of material misstatement at the assertion level for the disclosures*” (reasonable assurance)<sup>3</sup>. Unless this aspect of ED-5000 is more robust, we fear that the proposed standard as drafted could, contrary to the IAASB’s ambitions, facilitate and foster an increase in greenwashing and the risk of material misstatements escaping the assurance practitioner’s attention because the practitioner is not directed to consider the overall balance of information reported or the specificity of the disclosure.

It is very likely that assurance reports will contain elements of both limited and reasonable assurance over different sustainability disclosures in the initial adoption of ISSA 5000, potentially with a high number of qualifications and/or emphasis of matter statements. Accordingly, we believe that mandating two separate assurance reports for ISAE 3410 and ISSA 5000 would strengthen the separate terms of engagement for the two engagements and empower directors to appoint separate practitioners where appropriate.

#### *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:** [No, with comments below](#)

#### **Detailed comments (if any):**

While paragraph A56 of ED-5000 provides a concise explanation what is expected in terms of a practitioner’s quality management system, we are concerned that non-accountant assurance practitioners will not understand the “at least as demanding” concept in relation to the IESBA Code, and may still be confused as to their responsibilities in relation to ISQM 1 given the brevity of paragraph A56. We concur with other respondents who highlight the risk of a two-tier quality outcome; meanwhile, many reporting entities may find it difficult to assess whether the assurance practitioners under consideration fulfil both sets of requirements. We believe that regulators will also be unable to enforce the ethical and quality management requirements of ISSA 5000 without further clarity.

We recommend that the IAASB rephrases the “at least as demanding” concept to “equally rigorous” and then provide specific detail as to which non-accountant professional bodies, regulators or standards are considered to fulfil this criterion. Further detail should be provided on what a system of quality management and ethical standard should contain if it is to meet these thresholds. If the IAASB believes it is unable to provide this specific detail, ISSA 5000 should explicitly require assurance practitioners to adhere to the IESBA Code and ISQM 1 while ensuring the proposed standard does not exclude non-accountant assurance practitioners.

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<sup>3</sup> Paragraph 110 of ED-5000

While professional accountancy firms are subject to regulatory supervision concerning their system of quality management, many non-accountant assurance practitioners are not and we continue to observe many assurance reports prepared under ISAE 3000 by non-accountants that reference ISQC 1, despite this being superseded by ISQM 1 several years ago. We encourage the IAASB to collaborate with bodies such as IOSCO or the International Standards Organization to develop an equivalent standard to ISQM 1 that can be understood and operationalised by non-accountant assurance practitioners.

### *Definitions of Sustainability Information and Sustainability Matters*

5. Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

*(See Explanatory Memorandum Section 1-E, paras. 27-32)*

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

#### **Detailed comments (if any):**

Conceptually, the definitions of “sustainability information” and “sustainability matters” in ED-5000<sup>4</sup> are cohesive and appropriate, in view of the IAASB’s framework-agnostic approach. The diagram in Appendix 1 to the ED is particularly helpful and should arguably be contained within the body of the proposed standard instead of an appendix.

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):**

As noted above, we believe the relationship between “sustainability matters” and “sustainability information” is sufficiently clear, although we believe the diagram in Appendix 1 should form part of the body of the proposed standard. We welcome the clarity of the ‘dimensional’ view that paragraph A32 introduces with respect to “topics” and “aspects of the topics” in relation to the definition of “disclosure(s)” in paragraph 17(i) and recommend that the table in paragraph A32 is added to paragraph 17(i) to emphasise the difference between “disclosures” and “sustainability information”.

While we understand the IAASB’s desire for ISSA 5000 to remain framework-agnostic, we believe that some specific examples, perhaps under the IFRS Sustainability Disclosure Standards issued by the ISSB, or European Sustainability Reporting Standards issued by EFRAG, in an appendix or supplementary material would aid the practitioner in understanding the dimensional approach adopted by the IAASB.

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<sup>4</sup> Paragraph 17(uu) and (vv) of ED-5000



### *Differentiation of Limited Assurance and Reasonable Assurance*

7. Does ED-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?

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

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

#### **Detailed comments (if any):**

At a high level, we agree that the proposed standard differentiates the two types of engagement, consistent with ISAE 3000 and ISAE 3410, but the over-emphasis on conceptual differences in ED-5000, without additional practical guidance, may prove challenging to implement.

As the IAASB is aware, the introduction of ESRS reporting under the Corporate Sustainability Reporting Directive (CSRD) in the European Union will substantially increase the quantity and scope of sustainability assurance engagements. We encourage the IAASB to recognise that the first year of an assurance engagement, particularly a limited assurance engagement, on sustainability information that has not previously been assured, can increase the risk that the assurance practitioner may not identify all risks of material misstatement. We are therefore concerned that paragraphs 114L and 126L of ED-5000 do not explicitly require substantive procedures to be performed on limited assurance engagements.

We recommend the IAASB drafts supplementary guidance, relevant to sustainability information, on analytical procedures performed in paragraphs 130L to 131R. These paragraphs do not clearly explain the different expectations of a limited assurance versus a reasonable assurance engagement. We are available to meet with the IAASB to discuss this area further.

Paragraph 74(a) refers to a “meaningful level of assurance” on limited assurance engagements, supplemented by further explanation in paragraphs A193L to A195L. We are concerned however that these paragraphs are too conceptual in nature and do not provide sufficient practical guidance. We recommend that these paragraphs are enhanced by providing specific examples of where “*the intended users’ confidence about the sustainability information [is enhanced] to a degree that is clearly more than inconsequential*”<sup>5</sup>, beyond that already provided in paragraph A195L. The word “meaningful” is itself open to interpretation and each assurance practitioner, whether or not they are a professional accountant, could define the term differently.

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<sup>5</sup> Paragraph A193L of ED-5000

*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:** [No, with comments below](#)

**Detailed comments (if any):**

We are disappointed to note that this section of the proposed standard does not mention materiality. We find that management of the reporting entity, the intended user(s) of sustainability information, and the assurance practitioner may have different perspectives on what information is material and the level at which a misstatement might be regarded as material, particularly in relation to qualitative sustainability information where the risk of greenwashing can be greater than quantitative data. We encourage the IAASB to address this omission in the finalised standard, as differences in the perception of materiality can lead to engagement failure or the assurance practitioner needing to withdraw from the engagement.

A significant challenge with paragraph 25(c) is that the preconditions for an assurance engagement stated in paragraphs 69-70 of ED-5000 are ordinarily associated with the final stages of forming a conclusion prior to issuance of the assurance report. Our concern is that this requirement forces assurance practitioners to perform significant preliminary procedures (potentially unremunerated) prior to agreeing the terms of engagement.

We invite the IAASB to consider the commercial realities of a sustainability assurance engagement at the outset when finalising the proposed standard.

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):**

The proposed standard does not adequately explain the distinction between materiality as defined by the reporting entity and materiality as defined by the assurance practitioner, causing confusion. We agree it is appropriate for the assurance practitioner to consider the reporting entity's materiality process in identifying topics and aspects of topics to be reported, but believe it appropriate for the assurance practitioner to form an independent assessment of materiality for the purpose of performing the assurance engagement. We are disappointed to note that the proposed standard does not address what should happen when the assurance practitioner disagrees with the reporting entity's assessment of topics it considers material.

It is crucial to have a specific requirement in the standard that addresses the reporting entity's materiality process, which is a fundamental aspect of the practitioner's approach. This requirement should refer to materiality based on applicable criteria, meaning assurance providers must consider both assessments in reporting standards with double materiality. It is important to understand how management identifies topics and aspects of topics to be reported on, aiding in detecting management bias and potential instances of greenwashing. This consideration should be added during risk identification and assessment for reasonable assurance engagements and areas where material misstatements are likely to arise for limited assurance

engagements. Although the proposed standard mainly considers the entity's materiality process, further refinement may be necessary given that ISSA 5000 is principles-based and intended to be framework-neutral.

We encourage replacing the term "double materiality" in the application material with the interoperability concept (referring to financial materiality and impact materiality) used in corporate reporting frameworks such as GRI. This would make ISSA 5000 a framework-neutral assurance standard that aligns with evolving corporate reporting practices, including mandatory requirements such as ESRS.

### *Suitability and Availability of Criteria*

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

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

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

#### **Detailed comments (if any):**

We concur that the proposed standard addresses the suitability and availability of the criteria used by the reporting entity in preparing the sustainability information, but are concerned at the phrasing of paragraph A165, which appears to insinuate that sufficient appropriate evidence may not be obtained for forward-looking and other qualitative or subjective information.

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):**

As noted in our response to question 9 above, we encourage the IAASB to replace the term "double materiality" with the interoperability concept to ensure the final standard is framework-agnostic.

## Materiality

12. Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?

(See *Explanatory Memorandum Section 1-F, paras. 65-74*)

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

### Detailed comments (if any):

While we believe the approach outlined in ED-5000 is appropriate, we are concerned that the concepts expressed in the ED may not be well understood by non-accountant assurance practitioners. We recommend that the IAASB replaces the word “consider” with “determine” when explaining materiality requirements in the final standard, and includes some examples to aide understanding.

We believe the final standard should provide greater detail on aggregation risk, together with examples, as this is considered solely in paragraphs A284-285 of the ED and would be better presented within the main body of the standard. For example, a breach of a specific environmental regulation on a single day at a single site might be regarded by the assurance practitioner as ‘clearly trivial’, but when breaches of different environmental regulations across other sites in isolated incidents arise, the intended users may consider these breaches in aggregation to be material. Similarly, a breach of a safety-related metric in scope of an assurance engagement on a single day might be regarded as clearly trivial by the assurance practitioner, but could be regarded as material by the intended users if this breach coincided with other safety-related breaches occurring on the same day or at the same location over an extended period. In both examples, the other breaches identified do not necessarily have to be within the scope of the sustainability assurance engagement for the intended users to regard the breaches as material in aggregate.

We would also highlight that the IAASB has not addressed the nature of materiality where the sustainability information subject to the assurance engagement is prepared and provided on a consolidated basis across a group of reporting entities. The component approach to materiality on group financial statement audits is not generally applicable to sustainability assurance engagements and we believe detailed guidance on this topic would significantly enhance the final standard.

While we welcomed the IAASB’s non-authoritative guidance on Extended External Reporting under ISAE 3000 engagements published in April 2021 (‘the EER guidance’)<sup>6</sup>, some critical areas are either insufficiently clarified or omitted in their entirety from ED-5000, for example:

- **Statistical sampling of non-financial or future-oriented sustainability information:** the EER guidance considers sampling in just two paragraphs<sup>7</sup>, while paragraph A385 of ED-5000 does not discuss the appropriateness of sampling techniques that might be applied by an assurance practitioner. We strongly recommend that the IAASB incorporates the requirements of ISA 530 *Audit Sampling*<sup>8</sup> into ISSA 5000, or that specific sampling techniques are recommended or explained in ISSA 5000 (or supplementary material) to enable consistent adoption of the final standard across sectors, professions and frameworks.

<sup>6</sup> [Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Extended External Reporting Assurance Engagements](#), April 2021

<sup>7</sup> Paragraphs 31 and 317 of the EER guidance

<sup>8</sup> International Standard on Auditing 530 *Audit Sampling*

- **Substantive procedures over future-oriented sustainability information:** while chapter 11 of the EER guidance provides high level guidance over how an assurance practitioner might obtain evidence over future-oriented sustainability information<sup>9</sup>, we believe the implementation of ISSA 5000, and significant increase in sustainability assurance engagements, necessitates this non-authoritative guidance being incorporated into ISSA 5000 as authoritative literature.

### *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:** [Disagree, with comments below](#)

#### **Detailed comments (if any):**

We agree it is appropriate for the approach to be differentiated between limited and reasonable assurance engagements when obtaining an understanding of the reporting entity's system of internal control, but have reservations that the limited assurance approach to this area may be insufficient where reasonable assurance may be required in the future, such as under the CSRD in the European Union.

We have identified the following areas where we believe the proposed standard deviates from established market practice:

- Paragraph 102L omits "the entity's process to monitor the system of internal control"<sup>10</sup> and "control activities"<sup>11</sup>, but it is not clear why these elements are excluded or why the IAASB considers these irrelevant to limited assurance engagements. Dependent on the engagement scope, MHA considers these as fundamental components of our approach on sustainability assurance engagements under ISAE 3000 and ISAE 3410, regardless of whether we are providing a limited or reasonable assurance report.
- Similarly, paragraph 103 of the ED in relation to the control environment refers only to paragraph 102R while we would consider this an essential component of a limited assurance engagement.
- Conversely, it is not common for a limited assurance engagement performed under ISAE 3000 or ISAE 3410 to include tests of operating effectiveness of controls, as is proposed in paragraph 107L of the ED. While tests of operating effectiveness may be appropriate under particular circumstances (for example, where the volume of data is such that statistical sampling or other substantive procedures may be ineffective), we do not believe it appropriate for ISSA 5000 to mandate this approach. We encourage the IAASB to include operating effectiveness testing as an option, but not a requirement, accompanied by illustrative guidance as to the circumstances where this approach may be suitable (and any additional procedures deemed appropriate). Ultimately, we believe this is a topic best left to the assurance practitioner to determine, based on their understanding of the scope and extent of the sustainability assurance engagement.
- Paragraph 121 of ED-5000 is more prescriptive than ISA 330<sup>12</sup> paragraph 12 concerning the extent of work and evidence an assurance practitioner should obtain over operating effectiveness subsequent to the interim period.
- Paragraph 123R of ED-5000 is also more prescriptive than ISA 330 paragraph 15, which requires testing of controls in the current period for significant audit risks only.

<sup>9</sup> Paragraphs 373 to 386 of the EER guidance

<sup>10</sup> Paragraph 102R(c) of ED-5000

<sup>11</sup> Paragraph 102R(e) of ED-5000

<sup>12</sup> International Standard on Auditing 330 (Revised) *The Auditor's Responses to Assessed Risks*

- The first part of paragraph 133L of ED-5000, concerning additional procedures where the practitioner believes the sustainability information may be materially misstated, should arguably apply to reasonable assurance engagements as well as limited assurance engagements, albeit with more robust additional requirements for reasonable assurance engagements.

Given the range and extent of inconsistencies flagged above, we do not believe the proposed standard can be issued as drafted without authoritative application guidance to address these points.

### *Using the Work of Practitioner’s Experts or Other Practitioners*

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

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

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

#### **Detailed comments (if any):**

We believe Figure 2 of the Explanatory Memorandum<sup>13</sup> is sufficiently clear to demonstrate the differences between the practitioner’s expert(s) versus using the work of another practitioner and could meaningfully be incorporated into the proposed text of the standard itself.

Notwithstanding our comments above, the challenges of involving a practitioner’s expert or using the work of another practitioner are significant, and are particularly exacerbated where:

- The lead assurance practitioner’s professional experience and skillset does not necessarily align with those of the expert or other practitioner; and/or
- the expert/the other practitioner does not directly subscribe to the IESBA Code or adopt ISQM 1 but instead states their ethical requirements and quality management systems are “at least as demanding”.

We would not reasonably expect the lead assurance practitioner qualified under one profession’s requirements to assess, measure and evaluate the competence, capabilities, objectivity and outputs of an external expert or other practitioner who has qualified under another, unrelated profession’s requirements, without detailed and extensive guidance from IAASB on how to perform these evaluations as required by paragraphs 49 to 54 of ED-5000.

To illustrate the above, it is common for professional accountants in the UK to engage or use the work of qualified actuaries when auditing insurance liabilities or defined benefit pension schemes as part of a financial statement audit; the auditor can establish whether the actuary is a member of a recognised and regulated professional body, and the intersection of relative skillsets and regulatory supervision means the auditor could satisfy themselves of the “at least as demanding” requirement in relation to the IESBA Code and ISQM 1. In contrast, where the external expert or other practitioner is qualified through experience, or primarily qualified to perform the assurance work by means of academic qualification such as a specialist scientific or technical PhD or similar qualification, it is unlikely (though possible) that they would have received a sufficient grounding in professional ethics or quality management systems to satisfy the lead assurance practitioner that they meet these criteria. As such, we believe that the requirements of paragraphs 49 to 54 of the proposed standard are only practicable if the expert/other practitioner positively asserts and provides the lead assurance practitioner with evidence that they comply with the IESBA Code and ISQM 1.

<sup>13</sup> Explanatory Memorandum to ED-5000, paragraph 8, *Individuals Involved in the Engagement*

As CSRD and other frameworks become mainstream for larger groups, with many subsidiaries located in different jurisdictions, we expect the emergence of group sustainability assurance engagements to increase. Given that the data compilation and reporting processes and controls for sustainability information can be very different to processes and controls over financial reporting, the traditional approach to a group financial statement audit does not necessarily translate to a group sustainability assurance engagement. We encourage the IAASB to expand guidance to specifically address this situation, given that the lead assurance practitioner may not necessarily enjoy right of access to the component assurance practitioner's working papers or to the underlying records of the component in relation to sustainability information.

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

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

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

**Detailed comments (if any):**

As noted in our response to question 14 above, we are concerned at the feasibility of the approach outlined in ED-5000, particularly where the subject matter for the external expert or other practitioner is in an emerging, or unregulated, area of expertise. We believe this can only reasonably be achieved if the IAASB issues detailed application guidance.

### *Estimates and Forward-Looking Information*

16. Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information? If not, what do you propose and why?

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

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

**Detailed comments (if any):**

Assurance over estimates and forward-looking information is particularly challenging for sustainability-related engagements, given relevant disclosures under sustainability reporting frameworks have not yet reached maturity. We welcome the implicit application of ISA 540 (Revised)<sup>14</sup> paragraph 18(b) in ISSA 5000, concerning the testing of how management made an accounting estimate, to sustainability estimates and forward-looking information.

While professional accountant assurance practitioners understand and are competent in the application of ISA 540 (Revised) to sustainability estimates and forward-looking information, we are concerned that non-accountant assurance practitioners will not adequately comprehend or implement these requirements. Given the IAASB's ambition for a profession-agnostic standard, we strongly encourage the IAASB to develop further guidance to explain the application and its expectations of ISA 540 (Revised) paragraphs 18(b), and 22 to 27, to sustainability assurance engagements.

We are further concerned that paragraph 134L of ED-5000 only requires assurance practitioners to evaluate criteria, methods and changes to estimates and forward-looking information, without considering the assumptions applied and source data used. We do not believe this is sufficient, and, as drafted, ED-5000 would require less rigour in this regard than we currently apply to sustainability assurance engagements under ISAE 3000 and ISAE 3410.

<sup>14</sup> International Statement on Auditing 540 *Auditing Accounting Estimates and Related Disclosures*

### *Risk Procedures for a Limited Assurance Engagement*

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

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

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

#### **Detailed comments (if any):**

In principle, we support the IAASB's approach to risk procedures on a limited assurance engagement but would highlight that we expect many assurance engagements to be a 'hybrid' engagements, with reasonable assurance provided on particular sustainability disclosures and limited assurance on other specified sustainability information. The ED as currently drafted does not make it clear how such hybrid engagements should approach risk procedures, and we encourage the IAASB to address this situation in its application guidance.

Further application guidance would be useful for first time engagements or where an engagement transitions from limited to reasonable assurance.

Paragraph 94L of the ED requires practitioners to identify where material misstatements "are likely to arise" as a basis for designing further procedures. We believe this approach is both less robust than the assertion-based approach of paragraph 94R and less demanding than the limited assurance engagements we currently undertake under ISAE 3000 and ISAE 3410; it may also not be as well understood by non-accountant assurance practitioners. Risks of material misstatement should always be identified and assessed on both limited assurance and reasonable assurance engagements.

We are further confused by the suggestion in paragraph A354L that the practitioner of a limited assurance engagement may find it useful to adopt an assertion-based approach, even though paragraph 94L does not require this.

We strongly urge the IAASB to address these inconsistencies to ensure consistent quality of sustainability assurance engagements, regardless of the profession of the assurance practitioner.



### ***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:** [Disagree, with comments below](#)

#### **Detailed comments (if any):**

We do not believe that the IAASB has adequately considered the circumstances of group sustainability assurance engagements, which will predominantly affect large groups in the UK and European Union, together with groups with material business interests in the State of California. The principles-based requirements can, in broad terms, be applied at the component assurance practitioner level but paragraphs A11, A12, A93 and A105 of ED-5000 are simply insufficient for the lead assurance practitioner and do not consider the practicalities of group engagements.

While professional accountant assurance practitioners leading a group sustainability assurance engagement are typically members of an international network of firms and are versed in collaborating across jurisdictions to plan, design and perform the group sustainability engagement under a universal methodology and universal tools, the same cannot necessarily be said of non-accountant assurance practitioners or smaller assurance firms that are not members of an international network.

The omission of sufficient content in the proposed standard on group sustainability assurance engagements will have a significant impact on the quality, consistency and willingness of assurance practitioners to undertake such engagements. We would expect the IAASB to provide definitive and authoritative guidance on the following topic areas, as a minimum:

- Scoping;
- Materiality;
- Risk assessment and aggregation of risks identified;
- Access restrictions and other limitations on value chain reporting;
- Communication, assurance file access requirements and cooperation expectations between component and lead assurance practitioners;
- Communication and consideration of misstatements identified; and
- Consistency of adherence to ISQM 1 and the IESBA Code.

We strongly urge the IAASB to incorporate the above points into the final standard, recognising the IAASB’s profession-agnostic ambitions for ISSA 5000.

## *Fraud*

19. Do you agree that ED-5000 appropriately addresses the topic of fraud (including “greenwashing”) by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?

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

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

### **Detailed comments (if any):**

We are strongly supportive of the IAASB’s endeavours to address the topic of fraud in the proposed standard and welcome the inclusion of greenwashing as a specific example of fraud. We believe the IAASB has struck the appropriate path in focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error in paragraphs 59-61 and A131 of ED-5000. We especially welcome the inclusion of “deliberate bias” in paragraph A131 as an example of fraud, which, in our experience, is a significant risk with sustainability disclosures and the risk of greenwashing.

As can be the case with financial statement audits, there remains a significant expectation gap concerning assurance practitioner’s responsibilities in relation to addressing fraud on a sustainability assurance engagement, particularly on limited assurance engagements. The non-financial nature, and diverse characteristics of many sustainability-related metrics and information subject to assurance can increase the risk of misstatement, however whether this is due to fraud or error is not always readily apparent. The emerging trend for executive compensation to be linked to sustainability metrics is particularly relevant in assessing the risk of fraud. As such, we believe the proposed standard would benefit from elevating the risk of management override to a requirement to be considered on each sustainability assurance engagement, consistent with ISA 240 (Revised)<sup>15</sup> for financial statement audits.

We believe the final standard would also benefit from a salient and comprehensive definition of ‘greenwashing’, given this term has a wide range of possible interpretations.

ED-5000 does not, in its current draft, explicitly require assurance practitioners to detail where material sustainability information is derived from, or prepared by, third parties to the reporting entity. This is a significant omission from the proposed standard and we advocate strongly for its inclusion. Users of the sustainability assurance report and the sustainability information need to clearly understand which disclosures have been recorded and reported by the reporting entity, as opposed to those sourced from third parties.

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<sup>15</sup> International Statement on Auditing 240 (Revised) *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

### *Communication with Those Charged with Governance*

20. Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?

*(See Explanatory Memorandum Section 1-G, paras. 111-112)*

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

#### **Detailed comments (if any):**

Our review of ED-5000 and the supporting explanatory materials published by the IAASB has not identified an explicit requirement for the assurance practitioner to communicate uncorrected misstatements to those charged with governance. This is a critical shortcoming and one we encourage the IAASB to address in the final standard. We find that some sustainability disclosures are more susceptible to misstatements than others, and it is not uncommon for a sustainability assurance engagement to identify a higher number of uncorrected misstatements than a financial statement audit on the same reporting entity.

### *Reporting Requirements and the Assurance Report*

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

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

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

#### **Detailed comments (if any):**

The potential intended users of a sustainability assurance report are diverse, and such a report cannot be reasonably be expected to meet the needs of all intended users. It is critical that the addressee(s) identified under paragraphs 170(b) and A467 of ED-5000 are updated to identify whether the addressee(s) are the primary intended user(s) of the sustainability report. In the UK, the inclusion of a 'Bannerman paragraph' will be paramount to limit the assurance practitioner's liability.

Given the heightened scrutiny of sustainability assurance reports, we are concerned to note that the proposed standard does not incorporate the IAASB's EER guidance, in particular the clarity over which data have been assured, for example the following extract from Illustration I in the EER guidance:

*...Our assurance engagement does not extend to information in respect of earlier periods or to any other information included in the Annual Report 20X1 or linked to from the Sustainability Information or from the Annual Report 20X1, including any images, audio files or embedded videos...<sup>16</sup>*

We also recommend that the assurance report examples in the proposed standard are expanded to include a summary of the work performed by the practitioner, consistent with the EER guidance.

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<sup>16</sup> Extract from EER guidance, Illustration I: Unmodified Reasonable Assurance Report, page 115

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

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

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

**Detailed comments (if any):**

We agree that the concept of “key audit (or assurance) matters” would be better addressed in a future ISSA rather than the proposed standard, given this is a less urgent consideration. We encourage the IAASB to focus such a standard on sustainability assurance engagements where the reporting entity is a Public Interest Entity or Other Entity of Public Interest, and where the engagement is a reasonable assurance engagement.

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

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

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

**Detailed comments (if any):**

The illustrative examples provided in Appendix 2 of ED-5000 are broadly consistent with expectations, however Illustration 2 (for limited assurance reports) does not provide a sufficient explanation of the differences between a reasonable assurance and limited assurance report or adequately emphasise that the assurance practitioner has performed fewer procedures in arriving at the report conclusion. We believe this difference is best disclosed in both the ‘basis for conclusion’ and ‘summary of work performed’ sections of the assurance report.

### *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):**

None.

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):**

In addition to our comments above, we would welcome further clarification from the IAASB on the following areas of concern, which, in our view, are not currently addressed to an appropriate level of detail in the proposed standard:

- **Use of separate conclusions on specific aspects of sustainability information and disclosures:** paragraph A10 of ED-5000 is particularly vague and does not clarify the circumstances under which an assurance practitioner should provide separate assurance conclusions.
- **Compliance with laws and regulations:** paragraph A135 of ED-5000 refers to the practitioner’s “understanding” of laws and regulations insofar as they affect the sustainability information. The use of the word “understanding” as opposed to “general understanding” applied in ISA 250 (Revised) Part A<sup>17</sup> indicates a greater burden on the assurance practitioner in an assurance engagement to have a more detailed and specialist knowledge of the range and specific requirements of laws and regulations applicable to the reporting entity and the sustainability information reported. We question whether this is a reasonable expectation of the IAASB, given that the underlying data for many ESG metrics can derive from multiple jurisdictions and sources, and may not have a bearing on the accuracy or quality of the sustainability information being assured. We are not convinced that non-accountant assurance practitioners would sufficiently understand this requirement and are concerned that a two-tier quality outcome will arise as a result.
- **The assurance practitioner’s responsibilities in relation to ‘other information’:** given the critical need for the assurance practitioner to challenge the work performed where a discrepancy arises between the assured sustainability information and other information not subject to assurance, the traditional “read and consider” approach outlined in paragraph A434 of ED-5000 is less helpful, particularly for non-accountant assurance practitioners. We encourage the IAASB to develop more robust application guidance on this topic.
- **Emphasis of matter topics:** we would reasonably expect the frequency of ‘emphasis of matter’ paragraphs to increase in sustainability assurance reporting. It would be helpful if the IAASB provided greater clarity on when it expects such a paragraph to be necessary, by expanding the range of examples provided in paragraph A500.

### 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):**

None.

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<sup>17</sup> International Standard on Auditing 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 13

27. Effective Date—As explained in paragraph 138 of Section 1-I – Other Matters, the IAASB believes that an appropriate effective date for the standard would be for assurance engagements on sustainability information reported for periods beginning or as at a specific date approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Do you agree that this would provide a sufficient period to support effective implementation of the ISSA. If not, what do you propose and why?

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

**Detailed comments (if any):**

We have identified significant market interest in the development and application of ISSA 5000, and believe the effective date proposed is appropriate; indeed, we expect many sustainability assurance engagements to early adopt ISSA 5000.