



Reporting on Sustainability/ESG Information: ASB Meeting October 2022

Diane Hardesty, ASB ESG Task Force Chair

Executive Summary

Discussion Objectives

To consider ASB action in response to the IAASB Sustainability/ESG project

Discussion Items

1. Summary of IAASB direction
2. Considerations specific to the USA
3. Questions for the ASB

ESG Task Force

Objective

- Monitor the IAASB's sustainability project, gather input from the ASB, and influence the direction of the IAASB project through ASB IAASB representative.
- Based on the IAASB project, assess whether changes may be needed to the ASB's attestation standards and the direction such changes might take (i.e., should the ASB have a separate set of sustainability standards, or is the current structure of the attestation standards effective)

Members of the ESG Task Force

Diane L. Hardesty, Chair, Ernst & Young LLP, assisted by Kristen Quattlebaum

Antonia Chong, Deloitte, assisted by Christina Baker

Richard A. Davisson, RSM US LLP, assisted by Lauren Hornoff

Catherine Ide, PwC LLP

Renee Rampulla, Rampulla Advisory Services LLC

Dyan K Rohol, KPMG LLP, assisted by Susan Jones

Soma Sinha, Mazars LLP

Staffed by Judith Sherinsky and Ahava Goldman

Summary of September IAASB Meeting: Assurance on Sustainability Reporting

Focus of the IAASB Discussion

Obtain the Board's input on the following:

- **The draft Project Proposal for the Development of an Overarching Standard for Assurance on Sustainability Reporting**
- **The overall structure for an overarching standard for assurance on sustainability reporting**
- **The Sustainability Assurance Working Group's (SACG) initial proposals regarding the defined terms for the overarching standard**
- **The SAWG's approach to developing the requirements for the overarching standard**

*IAASB meeting observations:
The SAWG made significant progress moving the standard along,*

It's clear that the IAASB is dedicating a significant amount of time and resources to this project.

The Project Proposal was unanimously approved at the meeting.

New suite of standards: ISSAs

Title of Overarching Standard

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Agenda Item 4

**International Standard on Sustainability Assurance™ (ISSA) 5000,
General Requirements for Sustainability Assurance Engagements**

- Allows for a new suite of standards
- Stand-alone standard separate from the ISAEs
- Unique numbering
- Impact on IAASB Standards and Framework to be considered in due course

*IAASB meeting observations:
Questions were raised, but
not much was said yet about
the overall structure of the
IAASB standards and how
this new suite of standards
would fit into that framework.*

*Note that the 1000-4000
numbering sequence is
already used in ISAEs, so
they choose to start with
5000 to avoid confusion.*

Project Proposal: Objectives

Project Proposal: Project Objectives

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Agenda Item 4-A,
Section C

Develop a new overarching standard for assurance on sustainability reporting, that is:

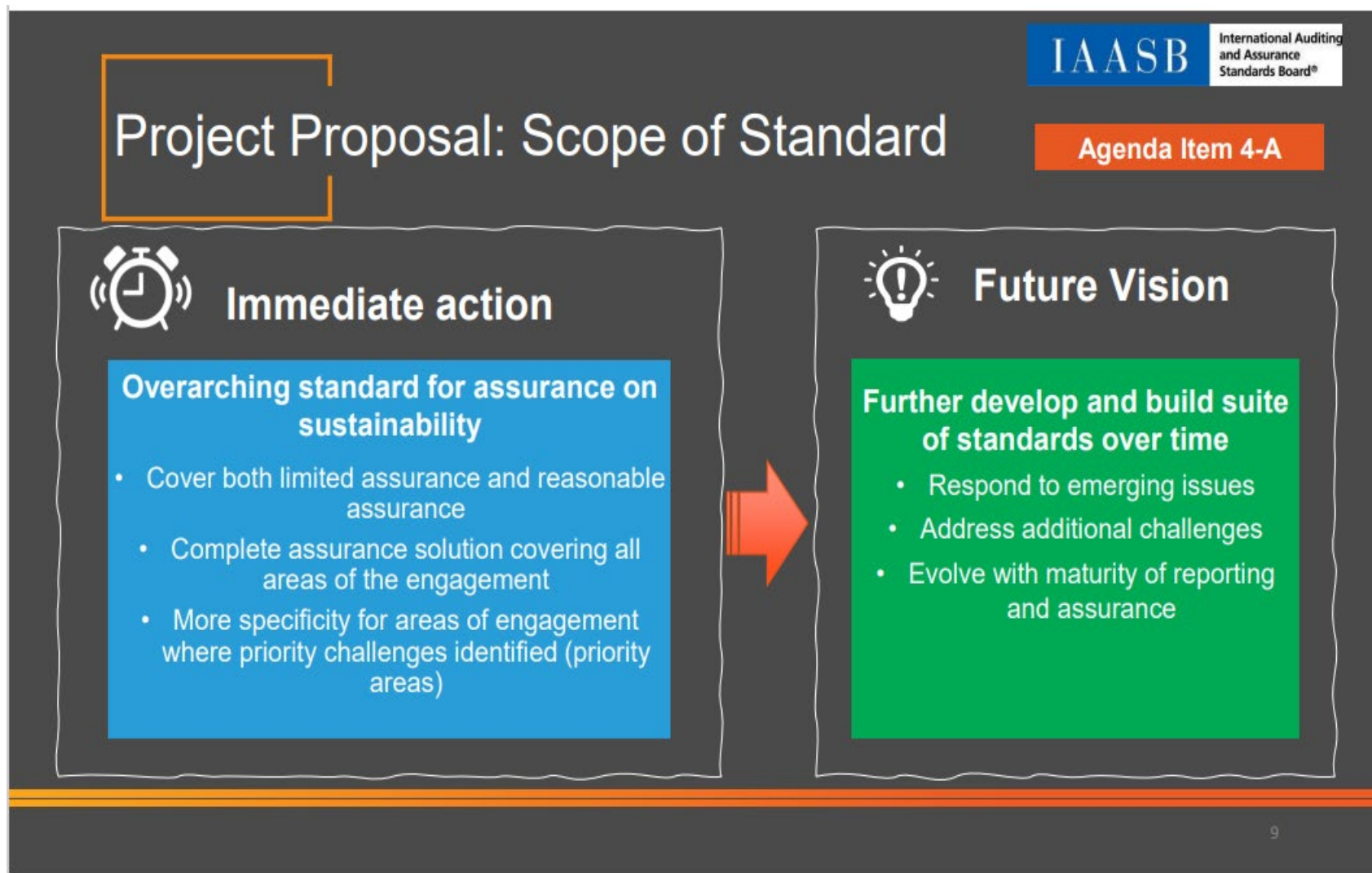
- a) Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements; and
- b) Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks, and is implementable by all assurance practitioners.



**Proposed International Standard on Sustainability Assurance (ISSA) 5000,
General Requirements for Sustainability Assurance Engagements**

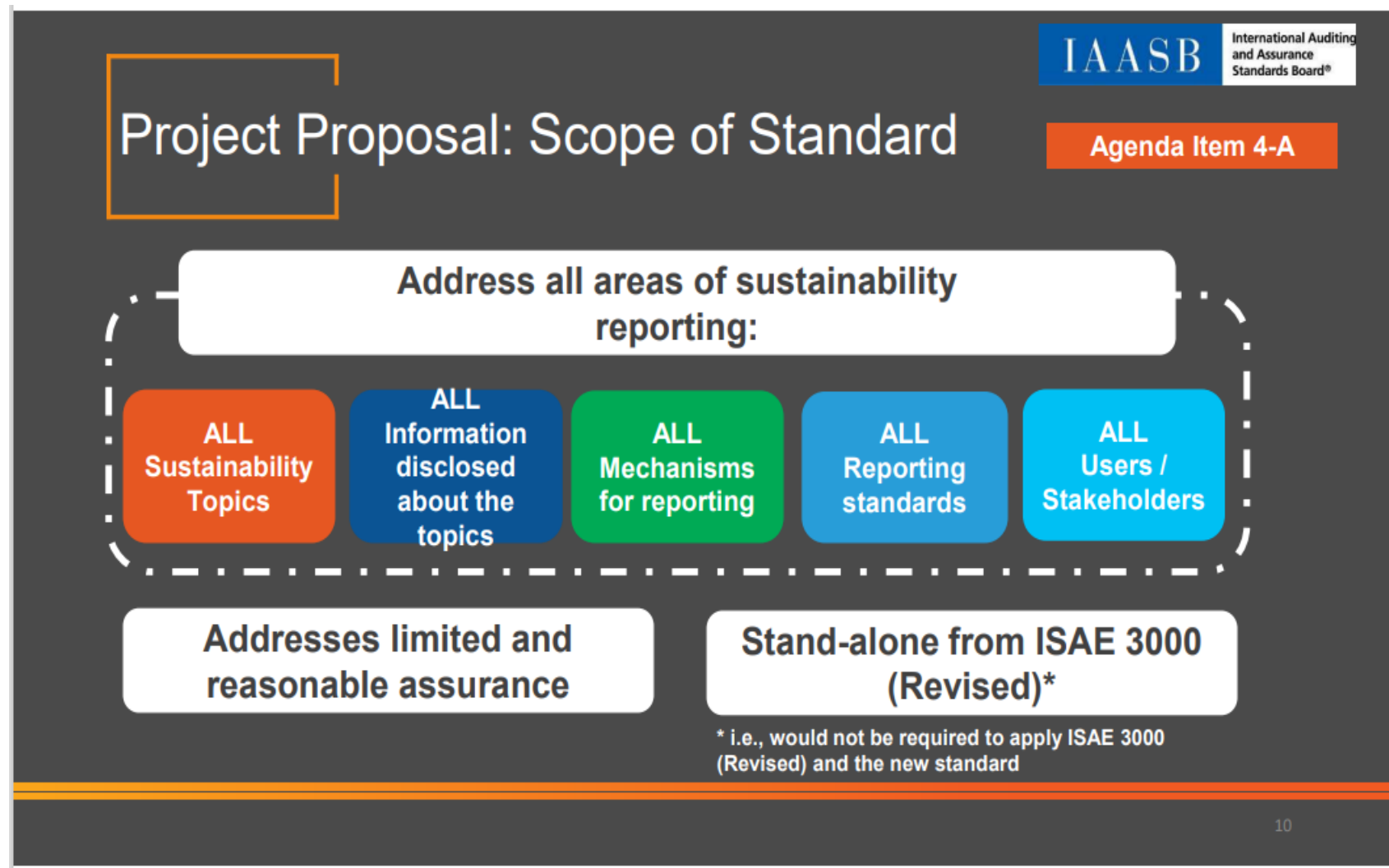
*IAASB meeting observations:
There was also discussion about being careful to not use language in the Project Proposal that implies that ISAE 3000 is not fit for purpose (as practitioners are using this now to complete sustainability assurance engagements).*

Project Proposal: Scope of Standard



*IAASB meeting observations:
There was significant discussion about what to say about the “future suite of standards” related to sustainability. The project proposal was revised to indicate that further standards will likely be developed to supplement this initial overarching standard.*

Project Proposal: Scope of Standard



Practitioner not expected to apply ISAE 3000. The new standard will apply.

Project Proposal: Priority Areas

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Project Proposal: Priority Areas

Agenda Item 4-A

More specificity for the following priority areas:


Work effort - limited versus reasonable assurance


Suitable reporting criteria


Scope of engagement


Evidence


Internal Controls


Practitioners' Materiality

Reporting also specifically noted; already extensive guidance available that will be signposted

11

*IAASB meeting observations:
The task force noted that other suggestions for priority areas have been raised, but do to timing and capacity issues, they would need to remove one of these priorities to add others.*

Project Proposal: Approach to drafting

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Project Proposal: Approach to drafting

Agenda Item 4-A

- 1 **Identify defined terms:**
 - Based on terms in ISAE 3000 (Revised) and ISAE 3410, and refer to similar or related terms in the ISAs and EER Guidance
 - Adapt defined terms, as appropriate, to be more relevant and suitable to assurance on sustainability reporting
- 2 **Identify requirements and application material from ISAE 3000 (Revised) and ISAE 3410:**
 - Includes identifying whether to use the ISAE 3000 (Revised), ISAE 3410 or a combination of both.
 - Will also consider ISAE 3400
- 3 **Consider the ISAs:**
 - Develop criteria to use as a basis for identifying ISAs that should be considered for including requirements and application material in the new standard - identify which ISAs to consider
 - Analyze the ISAs identified, to consider whether there are requirements or application material appropriate for inclusion in the new standard

*IAASB meeting observations:
IAASB was supportive of this
approach to drafting the new
standard.*

Project Proposal: Approach to drafting

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Project Proposal: Approach to drafting

Agenda Item 4-A

4

Review EER Guidance:

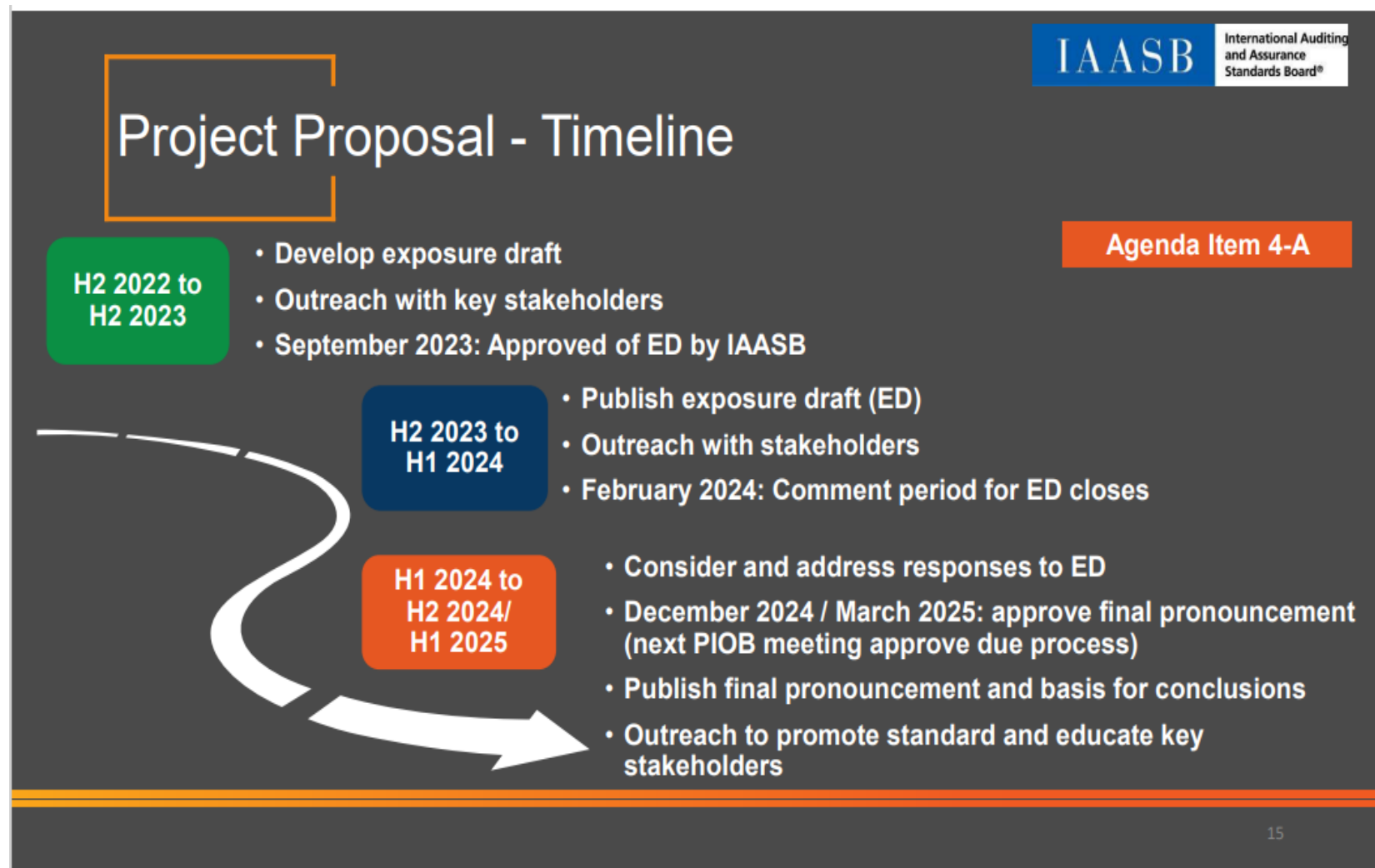
- Identify material that should be built into the standard

5

Address priority areas:


- Understand the specific issues
- Consider whether the material identified through actions 1–4 appropriately address the issue
- Develop further material, as appropriate

Project Proposal - Timeline



*IAASB meeting observations:
IAASB was supportive of the
timeline in the Project
Proposal, but acknowledged
it was a very accelerated
timeline.*

ISSA 5000 Structure



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Developing Proposed ISSA 5000: Structure

1

Conduct of an Assurance Engagement in Accordance with ISSA

2

Fundamental Concepts, General Principles and Overarching Requirements

3

Engagement Scope and Other Preconditions for a Sustainability Assurance Engagement

4

Audit Evidence and Documentation

5

Planning

6

Risk Identification and Assessment

7

Responding to Assessed Risks of Material Misstatement

8

Concluding

9

Forming a Conclusion and Reporting

Agenda Item 4-B

Similar structural approach to Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)

*IAASB meeting observations:
Board was supportive of the structure of the new standard to be organized like ISA for LCEs (to address all aspects of an engagement, from acceptance to reporting).*

ISSA 5000 Definitions

Developing Proposed ISSA 5000: Definitions


Agenda Item 4-C

Approach:

- Identify definitions in ISAE 3000 (Revised) and ISAE 3410
- Identify similar terms in the ISAs and EER Guidance
- Consider most appropriate definition for sustainability assurance – adapt where needed

IAASB meeting observations: Board was generally supportive of revisions to defined terms to make them more specific to sustainability engagements but cautioned the SAWG not to create unnecessary differences (or perceived differences) to the definitions already in ISAE 3410 and ISAE 3000.

ISSA 5000 Criteria for considering ISAs



Developing Proposed ISSA 5000: Criteria for ISAs

Agenda Item 4-D

Establish criteria as a basis for identifying which ISAs may be considered in determining whether there are concepts to add to Proposed ISSA 5000

Criteria for identifying which ISAs may be considered:

- Addresses a priority area
- Updated recently
- Greater specificity than ISAE 3000 (Revised) or ISAE 3410 that may be appropriate for the overarching standard

27

*IAASB meeting observations:
There were a lot of differing
views from the Board
regarding:*

- The extent of ISA requirements that should be included in the new standard*
- Whether the requirements from the ISAs are brought over as is, or the wording modified to be more suitable to sustainability engagements*

No clear consensus on these points.

ISSA 5000 Next Steps for the IAASB



Considerations Specific to the USA

Existing IAASB and AICPA Standards and Guidance Applicable to Reporting on ESG

IAASB	ASB
<ul style="list-style-type: none"> • International Standard on Assurance Engagements (ISAE) 3000 (Revised), <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i> • International Standards on Related Services 4400 (Revised) 	<ul style="list-style-type: none"> • Statements on Standards for Attestation Engagements (SSAEs or attestation standards) • AT-C 105 - <i>Concepts Common to All Attestation Engagements</i> • AT-C 205 - <i>Assertion-Based Examination Engagements</i> • AT-C 206 - <i>Direct Examination Engagements</i> • AT-C 210 - <i>Review Engagements</i> • AT-C 215 - <i>Agreed-Upon Procedures Engagements</i>
<p>ISAE 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i></p>	<p>AT-C Section 300 Subject Matter Sections No current subject matter section related to sustainability</p> <p>AICPA Audit Guide: <i>Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information)</i> (as of June 2017) [This is an authoritative interpretive publication]</p>
<ul style="list-style-type: none"> • <u>Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements;</u> • <u>Non-Authoritative Support Material: Extended-Credibility and Trust Model relating to Sustainability and other Extended External Reporting (EER);</u> • <u>Non-Authoritative Support Material: Illustrative Examples of Selected Aspects of Sustainability and Other Extended External Reporting (EER) Assurance Engagements</u> 	<p>AICPA nonauthoritative guidance <u>Materiality Considerations for Attestation Engagements Involving Aspects of Subject Matters That Cannot be Quantitatively Measured</u></p>
Audit-Related Guidance	
<p>Staff Audit Practice Alert, <u>The Consideration of Climate-Related Risks in an Audit of Financial Statements</u> (October 2020)</p>	<p><u>AICPA Practice Aid Consideration of ESG-Related Matters in an Audit of Financial Statements</u> (December 2021)</p>

Considerations on a new set of "sustainability assurance" standards in the USA

- The ASB is only authorized to issue auditing, attestation and quality control standards, so issuing “assurance standards” technically is not be allowed. [ET Appendix A]
 - In fact, an “assurance engagement” is not defined in the Code of Professional Conduct. Engagements under ASB standards are either attest or nonattest engagements
 - Attest engagement: an engagement that requires independence, as set forth in the SASs, SSARS, and SSAEs (ET sec. 0.400.04)
 - Engagements that don’t require independence are referred to as non-attest services (e.g., compilations and agreed-upon procedures engagements)
 - Therefore, *if* the ASB were to issue a new suite of standards, the “A” would have to be for “Attestation”: Statements on Standards for Sustainability Attestation (SSSAs)
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Considerations on a new set of "sustainability attestation" standards in the USA

- AICPA Council Resolutions would need to be revised, to incorporate the new set of standards. This would require AICPA Council action.
- The Uniform Accountancy Act (UAA) would have to be amended to include SSSAs, as it specifically references the SASs, SSARSs, and SSAEs. This would require action by the Joint UAA Committee, a committee comprised of AICPA and NASBA members; and ratification of the revised UAA by all jurisdictions subject to it (all US states and territories).
- The AICPA Code of Professional Conduct would need to be revised, to include SSSAs when the other standards are specifically referenced. This would require conforming amendments by PEEC.

The ASB is asked to consider the viability of issuing a new set of standards, considering actions needed to be performed by others if it does so

AICPA Market Research on Sustainability Assurance Practice

- Survey of 27 firms of varying sizes
 - 11 have current practices; 7 are likely or very likely to start these engagements in the future
 - 2 have dedicated teams; rest have variety of firm expertise
 - 82% expect significant increase in demand in the next 3 years
 - Biggest concern is competing with non-CPA prices
 - Biggest challenge is immature reporting system
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Considerations for ASB

Possible Directions for the ASB

1. Develop a new stand-alone sustainability standard (e.g., AT-C 4XX) that mirrors the IAASB standard and is not predicated on AT-C sections 105, 205 and 210
 2. Develop a new subject-matter specific standard for all sustainability engagements (e.g., AT-C 3XX), predicated on AT-C sections 105, 205 and 210
 3. Update the AICPA Attestation Guide “*Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions)*”
- Continue to monitor PCAOB request for information and comment on application and use of PCAOB’s interim attestation standards

- Has the ASB already resolved what the IAASB is trying to address by issuing a revised Sustainability Guide?
- Are there other possible directions the ASB ESG Task Force should be considering?
- What else should the Task Force be doing at this time?