

NZAuASB Board Meeting - APRIL 2025

Supplementary Pack

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Domestic Project	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due
Review standard for service performance information	NZAuASB approved at its December meeting. Gazetted in February. Walk through and Deep Dive to promote awareness	Available	Medium	Standard issued	Feb 25
ISA (NZ) for LCE	Consultation document issued. Discuss analysis of submissions	Available	High	ED issued	June 25
Monitor adoption of audit and review of service performance	Monitor developments, hold workshops, and issue guidance as needed. Update on guidance and discussion paper .	Available	High	Discussion Paper Guidance	April 25
Value of audit	Monitor audit reform in UK/Aus.	To manage	TBD	TBD	Ongoing
	Monitor inspection findings issued late early Dec. No actions identified, however links to work on going concern and fraud.	To manage	TBD	N/A	Feb
Monitor and comms over mandatory GHG assurance	Monitor developments, hold workshops and issue guidance. Guidance on scope 3 reporting and assurance due in April .	Available	High	Snapshots Insights and FAQs Amendments	Ongoing
	Explore user needs and value of adding to assurance reports	TBD	TBD	TBD	Defer
Limited versus reasonable assurance	Assist the market understand the spectrum of assurance, what limited assurance means and the value of assurance. Update	Available	High	Animation/video	April
XRB strategy for climate assurance – adoption of ISSA 5000/ISO or something else	Continue to monitor international developments and government policy decisions. Refer agenda discussion 5000	Available	TBD	TBD	TBD
Competency requirements for sustainability assurance	At the August meeting the Board agreed that no further action is needed at this time.	Available	Low	Agreed no action at this time	N/a
Update standard setting policy based on developments in assurance over climate disclosures	Revise EG Au2 and update harmonisation/convergence policy. Discussion pending on approach for sustainability matters	Available	TBD	Updated policy as appropriate	TBD
Consider assurance related issues related to He Tauira and engage on audits of Māori entities	Monitor developments and if appropriate, consider assurance Engage proactively to seek Māori views on relevant issues	To manage	TBD	TBD	Ongoing
Digitisation	Standards navigator is live. Compiled standards included	To manage	TBD	TBD	Ongoing
Technology	IAASB technology position . Establish a technology reference group	To manage	TBD	TBD	TBD
Update EG AU8 in conjunction with AUASB	Refer agenda for update and issues to explore in project plan	To manage	TBD	Revised guidance	TBD

IAASB

IAASB	2024/25 planned action	Resource	Priority /effort	Key deliverable	Due
Going concern revised standard	IAASB approved in Dec 2024. Issue final updated standard in New Zealand by June 2025 once certified by the PIOB.	Available	Medium	Standard	June 2025
Public Interest Entity track 2	IAASB limited consultation closed. NZAuASB agreed not to submit. The IASB expect to approve in June.	Available	Low	Standard	Delay
Vision and roadmap for technology	IAASB approved technology position statement . Monitor developments	Available	Medium	TBD	TBD
Reference framework model in relation to audit evidence	Project proposal approved by the IAASB in Dec 2024. Refer to JSS agenda discussion .	Available	Low	Exposure draft	April 2026
Performance aspects in relation to responding to assessed risk and analytical procedures	Project proposal approved by the IAASB in Dec 2024. Refer to JSS agenda discussion .	Available	Low	Exposure draft	April 2026
Narrow scope amendments from IESBA's use of experts	IAASB approved ED in March. Agenda to discuss	Available	Low	Exposure draft	April
Explore issues on materiality in practice to inform international project to revise materiality standard	IAASB project deferred	Available	Medium	Delay	Delay
Fraud standard (ISA (NZ) 240)	IAASB approved in March 2025 . Adopt in New Zealand once issued (expected Sep 2025). Agenda to discuss	Available	High	Standard	TBD
ISSA 5000 Sustainability	IAASB has approved ISSA 5000. Agenda to discuss .	Available	Medium	TBD	TBD
ISRE 2410 Interim Review Engagements	IAASB discussed issues and draft project proposal in March supported by XRB and AUASB staff. Refer to JSS agenda discussion .	Available	High	Project proposal	June 2025
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained. Participate and lead a discussion at NSS meeting. Agenda to discuss	Available	High	Input and report back	May 2025

IESBA

IESBA	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Sustainability ethics and independence revisions (IESSA)	IESBA approved standard in Dec 2024 and issued in Jan 2025. Agenda item to discuss	Available	High	Exposure draft	June 2025
Use of experts	IESBA approved standard in Dec 2024 and issued in Jan 2025. Discussed in Feb. Work ongoing pending discussion on IESSA	Available	High	Exposure draft	June 2025
Collective investment vehicles	IESBA approved a consultation at its March meeting. Agenda item to discuss consultation approach	Available	Low	Submission	June 2025
Firm Culture and Governance	Participate in Roundtable discussions and monitor developments	Available	Medium	TBD	TBD
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD		TBD		Delay
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	Delay
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host IESBA members/staff Participate and lead a discussion at NSS meeting. Agenda to discuss	Available	High	Input and report back	May 2025

Domestic Project	2025/26 planned action	Resource	Priority/effort	Key deliverable	Due
ISA (NZ) for LCE	If XRB progress, issue standard and support adoption and implementation	Available	High	Webinars and guidance	Ongoing
Monitor adoption and implementation of audit and review of service performance standards	Engage in consultation with preparers, practitioners and users and respond to feedback received	Available	High	TBD	TBD
Public Sector performance reporting	Contribute to parliamentary enquiry from assurance perspective	Available	High	TBD	TBD
Value of audit	Monitor audit reform in UK/Aus.	To manage	TBD	TBD	Ongoing
	Monitor inspection findings.	To manage	TBD	N/A	Ongoing
Monitor and issue guidance for GHG assurance	Monitor developments, hold workshops and issue guidance.	Available	High	TBD	Ongoing
ISO developments	Monitor developments for GHG and sustainability assurance	Available	TBD	TBD	TBD
XRB strategy for climate assurance and implications for NZ SAE 1 Consider adoption of ISSA 5000 and the IESSA and use of experts	Continue to monitor developments to inform longer term plan Issue consultation document and respond based on feedback	Available	High	Consultation and exposure drafts	July 2025
Update standard setting policy based on developments in assurance over climate disclosures	Revise EG Au2 and update harmonisation/convergence policy. Discussion pending on approach for sustainability matters	Available	TBD	Updated policy as appropriate	TBD
Consider assurance related issues related to He Tauira and engage on audits of Māori entities	Monitor developments and if appropriate, consider assurance Engage proactively to seek Māori views on relevant issues	To manage	TBD	TBD	Ongoing
Digitisation	Standards navigator is live. Compiled standards included	To manage	TBD	TBD	Ongoing
Technology	<u>IAASB technology position</u> . Monitor opportunities and challenges and respond accordingly. Contribute to IAASB JSS group	To manage	High	TBD	TBD
Update EG AU8 in conjunction with AUASB	Joint project with AUASB to update existing guidance	To manage	High	Revised guidance	Dec 25

IAASB

IAASB	2025/26 planned action	Resource	Priority /effort	Key deliverable	Due
Going Concern revised standard	Support adoption and implementation of revisions	Available	Medium	Webinars and guidance	Ongoing
Public Interest Entity track 2	Final standard expected to be issued in September 2025. To determine if and how to adopt in New Zealand	Available	Low	Amending Standard	October 2025
Technology focus on quality management	Gather info and contribute to JSS monitoring group.	Available	Medium	TBD	TBD
Audit evidence and performance aspects in relation to responding to assessed risk and analytical procedures	IAASB Exposure drafts expected to be approved in March 2025	Available	High	Exposure draft Submission	April 2026 July 2026
ISA 501, 505, 530	Information gathering	To manage	Low	TBD	TBD
Narrow scope amendments use of experts	IAASB expected to approve final standard Sep 2025	Available	Low	Standard	Dec 2025
Fraud standard (ISA (NZ) 240)	Support adoption and implementation of revisions	Available	Medium	Standard	Aug 2025
ISSA 5000 Sustainability	Implementation guidance monitoring	Available	Low	Monitor	Ongoing
ISRE 2410 Interim Review Engagements	IAASB expected to approve ED in June 2026	Available	High	Exposure draft	July 2026
Post implementation review of ISA 540	IAASB approval of consultation expected in Dec 2025	Available	Medium	Respond to PIR	April 2026
IAASB Strategy and work plan 2028-2031	IAASB to approve a survey in December 2025	Available	Medium	Submission	March '26
Revisions to ISA for LCE	IAASB to develop an exposure draft	Available	Medium	Exposure draft	May 2026
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained. Participate and lead a discussion at NSS meeting.	Available	High	TBD	May 2026

IESBA

IESBA	2025/26 planned action	Resource	Priority/effort	Key deliverable	Due date
Collective investment vehicles	IESBA to develop an exposure draft	Available	Low	Submission	TBD
Firm culture and governance	IESBA to issue an exposure draft expected approval Dec 2025	Available	Medium	Submission	April 2026
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD	TBD	TBD	TBD	TBD
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	TBD
IESBA Strategy and Work plan 2028-2031	IESBA to issue a survey	Available	Medium	Submission	April 2026
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host IESBA members/staff Participate and lead a discussion at NSS meeting.	Available	High	TBD	May 2026

SAC MEETING HIGHLIGHTS

NOVEMBER 2024

This summary of the Stakeholder Advisory Council (SAC) public session discussions has been prepared for information purposes only.

The SAC met in New York on November 4 and 5, 2024. The video recordings of the meeting are available on the [IAASB YouTube](#) and [IESBA YouTube](#) channels.

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INTRODUCTION

Mr. Alan Johnson, SAC Chair, welcomed all SAC members to the second SAC meeting both those attending in person and virtually, Ms. Gabriela Figueiredo Dias (IESBA Chair) and Mr. Tom Seidenstein (IAASB Chairs), the IESBA Vice Chair, Staff of the International Foundation for Ethics & Assurance (IFEA), the Standard Setting Boards' (SSBs) Task Force and Working Group members, the Public Observers and Mr. Robert Buchanan, the PIOB Observer.

Apologies had been received in advance from Ms. Ivanyra Correia, Mr. Duane DesParte and Mr. Matthew Winters.

Mr. Johnson noted that the first meeting in April 2024 had been very successful and based on the feedback from that meeting the agenda for this second meeting was structured to be more strategic and to focus on a fewer number of key topics.

SESSION 1: DIALOGUE WITH THE STANDARD-SETTING BOARDS

Part A: Audit and Ethics for Accountants

SAC members received a presentation from the Chairs of the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB) on non-sustainability-related matters that are pertinent to the strategic direction of their ongoing and upcoming initiatives.

IESBA

SAC members were generally supportive of the proposed next steps for the IESBA's ongoing non-sustainability-related work streams, particularly with respect to Firm Culture and Governance (FCG) and Technology.

On the anticipated new work streams, SAC members pointed out the link between different work streams, such as between the FCG work stream and the Business Relationships and Audit Firm-Audit Client Relationship work streams. SAC members also highlighted the impact of technology developments on the role of CFOs and the link between the latter and the Sustainability project. While acknowledging the critical role of post-implementation reviews (PIRs), SAC members suggested that the IESBA should carefully consider the scope of these reviews given the number of PIRs under the current strategy period. SAC members provided different views with respect to relative prioritizations.

IAASB

SAC members supported the IAASB's decisions and progress on its ongoing projects, highlighting the IAASB's projects on Fraud, Going Concern, and Listed Entity and Public Interest Entity (Track 2). They also encouraged the IAASB to continue its ongoing coordination with the IESBA and agreed with the IAASB's prioritization of projects related to technology. In that regard, they encouraged the IAASB to identify other areas where technology may have an impact on auditing and assurance standards, including audits of digital reporting (e.g. eXtensible Business Reporting Language (XBRL)) and artificial intelligence.

SAC members reflected on the need to continue working on sustainability assurance standards, including the adoption and implementation of the IAASB's sustainability standard and the connectivity between sustainability reporting and financial reporting. In addition, SAC members highlighted the need to also prioritize projects on audits of historical financial information as this remains the core of the IAASB's work.

Part B: Shaping Coordinated Adoption and Implementation Strategies for Maximum Use and Impact of New Sustainability Standards

SAC members received an update from IAASB and IESBA staff on the Boards' coordinated adoption and implementation strategies, including a joint launch of the Boards' respective sustainability-related standards,¹ proposed adoption and implementation materials, and proposed stakeholder engagement activities.

SAC members supported the IAASB's and IESBA's planned adoption and implementation strategies and stressed the importance of continued robust and close collaboration between the two Boards. Given the Boards' resource constraints, SAC members emphasized the importance of developing a targeted outreach plan focusing on jurisdictions and stakeholders that will have the most significant impact on the adoption and implementation landscape, including preparers, investors, advisory groups, rating agencies, regulators and national standard setters.

¹ This includes the IAASB's International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA 5000), and the IESBA's:

- *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA);
- Other Revisions to the Code Relating to Sustainability Assurance and Reporting; and
- Revisions to the Code on *Using the Work of an External Expert*.

Amongst other matters, key discussion points raised by SAC members included ensuring that adoption and implementation materials:

- Provide consistent global messaging to avoid fragmentation resulting from different jurisdictional approaches to adoption and implementation.
- Not only address the different needs of professional accountants and non-accountant assurance practitioners, but also promote a level playing field in terms of quality.
- Emphasize the interoperability of ISSA 5000 and the IESSA and incorporate considerations for large versus small and medium-sized entities, and large firms versus small and medium practices.
- Highlight the critical importance of the IESBA's ethics standards to address "greenwashing" and other forms of fraud.
- Explain the difference between reasonable and limited assurance, and manage users' expectations regarding potentially modified conclusions in the early stages of sustainability assurance.

SESSION 2: TECHNOLOGY AND THE IMPACT ON AUDIT, ASSURANCE, AND ETHICS

IAASB and IESBA Staff presented the SAC members with an update on the IAASB's and IESBA's respective technology initiatives which are examining the auditing and ethical implications of digital transformation. Also, the IAASB provided an update on its Audit Evidence and Risk Response project, which covered the project's background and objectives.

SAC members were asked for their perspectives on the role that the standard-setting boards should take in setting guardrails around the responsible and ethical use of technologies by professional accountants and assurance practitioners, and how the evolving technology landscape may impact the performance of audit engagements, and how audit evidence is obtained.

SAC members commended the Boards for their work in this area and highlighted some matters for both Boards to consider:

- The importance of providing guardrails while retaining principles-based standards that are future-proof and adaptive to different technologies used by firms of all sizes.
- The need for proper governance over the use of innovative technologies to address possible risks relating to data security and confidentiality, and to the reliability of tools themselves.
- The effect of technology on the auditor's professional judgment and maintaining an attitude of skepticism.
- The potential benefit of technology for audit effectiveness, alongside the possible risk of affecting the expectations gap (i.e. users' expectations of what an audit is and how audit evidence is obtained may shift).
- The importance of outreach to understand stakeholders' expectations.
- The need for auditors to be adequately trained to use new technologies and make the complex judgments required, and an acknowledgment of a likely increased role for experts on engagements.

The Auditors' Role Relating to Internal Controls

The IAASB sought SAC members' perspectives on what an auditor's role should be in relation to an entity's internal controls.

SAC members emphasized the importance of appropriately evaluating possible threats to auditor independence when considering any expansion to the auditor's role in relation to an entity's internal controls. At the same time, they acknowledged the benefits to entities when auditors test the operating effectiveness of controls and report to management on their findings. They also highlighted that it could be in the public interest to consider the need for a separate opinion on the effectiveness of the entity's system of internal controls rather than expanding the auditor's responsibilities with respect to internal controls in a financial statement audit. Members also emphasized that the standards should remain principles-based and should enable auditors to make appropriate judgments about controls.

SESSION 3: FUTURE OF ACCOUNTING FIRMS

Part A: Charting a Part Forward on Firm Culture and Governance (FCG)

Following an update on the IESBA's FCG work stream, SAC members provided input on the FCG Working Group's preliminary views and proposals for future actions. SAC members were generally supportive of the need for a broad governance framework covering not only leadership and oversight but also other areas such as transparency, education and training. SAC members also highlighted the following:

- What does the concept of public interest mean in the context of FCG, including the significance of the public interest in the profession and whether there is a shared understanding of what it entails across private and public sectors?
- Potential conflicts of interest inherent in the current client-payer model, with suggestions for alternative structures that could better align auditors' responsibilities with public accountability.
- Technology's impact on professional judgment and accountability, and the risk that professional accountants might feel less responsible for decisions when technology is used as a primary decision-making tool.
- Consideration of how to best address the issues through a standard-setting project and the development of guidance material to ensure optimal effectiveness.
- Fragmentation and limits of regulatory frameworks in emerging markets may impact the consistency of application and enforcement of standards.
- The need for support from regulators and firm leadership to ensure standards are effectively implemented.

Part B: Impact of Private Equity on Firms

David Madon, IFAC Director of Sustainability, Policy & Regulatory Affairs, presented research undertaken by IFAC on Private Equity Investments in accounting firms. Following his presentation, SAC members divided into small groups to discuss the impact of these investments on public trust, audit quality and independence, and governance and oversight in relation to accounting firms.

SAC members acknowledged the positive aspects, as well as the risks, of private equity investments. They emphasized the need for accounting firms to understand the private equity investment strategy, maintain high standards of quality and ethics, and manage associated risks. While private equity investment can enhance efficiency, growth and innovation, accounting firms should address potential threats such as conflicts of interest and possible impacts on audit quality. SAC members stressed the importance of accounting firms aligning on key principles, ensuring that the public interest is prioritized.

CLOSING REMARKS

Mr. Johnson invited Mr. Buchanan, the PIOB Observer, to share his remarks from his observation of the meeting. He also invited Ms. Gabriela Figueiredo Dias and Mr. Tom Seidenstein to share any final remarks.

He thanks all SAC members for their very active participation in all of the sessions and their valuable contributions and advice to the SSBs. He also thanked the IFEA staff for preparing the papers for the meeting and leading many of the discussions.

CLOSED SESSION

The SAC members, together with the SSB Chairs and the IFEA staff, held a Closed Session with the purpose of receiving observations and feedback from the SAC members as important input to planning the next SAC meeting.

NEXT MEETING

The next SAC meeting is scheduled for May 5-6, 2025 in New York, USA.



PIOB's Public Interest Issues - IAASB projects

(document updated as of January 2025)

The PIOB's Public Interest Issues presented in this document are based on the status of IAASB's projects after the IAASB December 2024 meeting and the PIOB meeting in January 2025. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IAASB to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IAASB projects, please refer to the website: <http://www.iaasb.org/consultations-projects>.

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Use of main acronyms and abbreviations

Code	The IESBA's Code of Ethics
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Auditing Standards
ISAE	International Standard on Assurance Engagements
ISSA	International Standard on Sustainability Assurance
ISQM	International Standard on Quality Management
ISSA	International Standard on Sustainability Assurance
PIOB	Public Interest Oversight Board

1. ASSURANCE ON SUSTAINABILITY REPORTING (ISSA 5000)

Background

Following the PIOB certification of the IESBA and IAASB sustainability standards, market participants and policymakers around the world now have a robust global baseline to instill confidence in sustainability reporting. Sustainability reporting has wide relevance for users both within and outside of capital markets and it requires additional information sources and the exercise of key judgments beyond financial reporting. There are also heightened risks, such as greenwashing, where organizations might seek to misrepresent their performance. Avoiding such risks, which could undermine public trust and capital flows into sustainable development, is clearly in the public interest.

The IAASB sustainability assurance standard, ISSA 5000, has been developed in an accelerated timeline, to meet, to the greatest extent possible, the expectations of users placing reliance on reported information. The next step is a successful implementation of ISSA 5000, which will not only require further work of the IAASB, but also significant input from assurance practitioners, regulators, preparers and those charged with governance¹.

As sustainability reporting and assurance are at the start of a long journey and the new IAASB standard is central to this journey, it will necessarily need to evolve in line with public interest needs. The PIOB is encouraging all stakeholders to share feedback from implementation, draw key lessons from experience, to enable timely refinements to the standard.

Status

The IAASB approved ISSA 5000 in September 2024, and the PIOB certified in November 2024 that it followed due process and is responsive to the public interest. The Public Interest Issues below reflect the key background noted above and highlight those areas that require further refinement in the context of necessary evolution of the standard.

1.1. Supporting implementation through monitoring and rapid response

As sustainability assurance is a relatively new field and ISSA 5000 is to be set as an overarching standard, it should be foreseen that questions will arise, and necessary clarifications will be needed across jurisdictions as sustainability assurance practitioners start implementing the standard.

The PIOB encourages the IAASB to create a fit-for-purpose formal monitoring and rapid response mechanism(s) to monitor and identify implementation issues and to respond to them accordingly. Engaging all relevant stakeholders in this exercise will help ensure the success in the adoption of ISSA 5000 through wide collaboration within the sustainability ecosystem. In this context, the PIOB emphasizes the need for on-going cooperation between the IESBA and the IAASB in view of the interoperability of their respective sustainability standards.

The formal monitoring mechanism(s) should lead to timely and regular reporting of matters that enable an understanding of the issues being encountered and allow the

¹ *The PIOB notes that, in the context of implementation of the global standards on sustainability assurance, there are public interest matters beyond the remit of the IAASB. The implementation will require a robust level of public interest oversight, where regulators and those charged with governance have a role to ensure that preparers of the sustainability information as well as assurance providers have the appropriate skills and experience and comply with ethical reporting and assurance standards.*

IAASB to consider the need for any timely refinements and improvements to the standard.

1.2. ISSA on Group sustainability assurance

We assume that ISSA 5000 will be most likely at first applied on assurance engagements of sustainability reporting by large corporations, which mostly have group structures and require input of diverse professionals. The PIOB welcomed the initiative of the IAASB to address our earlier concerns in respect of group structures, by including overriding principles as an interim measure within ISSA 5000 to group sustainability assurance. The PIOB recommends the IAASB, as part of its future work on sustainability, address in further detail matters specifically related to group assurance engagements, potentially in a dedicated ISSA similar to ISA 600 (Revised), or in a future development of ISSA 5000. This could include matters such as materiality, supervision of the work of component practitioners, value chain components and communication among members of the engagement team, among others.

1.3. Communication between different assurance providers

Based on the inter-connectivity between sustainability and financial reporting, the PIOB underlines the importance of broader two-way communication between various assurance providers, to ensure adequate and timely follow-up of identified issues in both the financial statements audit and the sustainability assurance engagements. While communication may be more straightforward where the financial statements auditor is from the same firm, or a member of the same network, as the sustainability assurance provider, the communication is necessary in all cases, including where different individuals and firms are involved.

The PIOB noted that, due to time constraints and recognizing the overall benefits of finalizing the new standard before the end of 2024, ISSA 5000 only contains requirements for one-way communication, without consequential amendments to relevant ISAs. The PIOB encourages the IAASB to address the need for two-way communication in future sustainability-related work on the ISAs, including the issues of confidentiality and timing of sustainability and financial reporting.

1.4. Key audit matters in sustainability assurance reports

One of public interest considerations during the development of ISSA 5000 was whether to include a requirement for Key Audit Matters (KAMs) in the sustainability assurance report. The PIOB notes that the IAASB concluded not to include such a requirement, even in the instance of public interest entities (PIEs), with reasoning in

this regard explained in terms of the balance between costs and benefits. We acknowledge and support the IAASB's commitment to consider addressing the use of KAMs in the future development of the sustainability assurance standards.

2. GOING CONCERN (ISA 570)

Background

Considering the impact of various corporate and audit failures and the additional going concern risk placed on entities due to global economic and geopolitical risks, auditors have an important public interest role to play in this regard. The PIOB continues to consider "Going Concern" a high priority project with the key objectives as formulated in the project proposal:

- Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern;
- Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism; and
- Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.

Status

The Exposure Draft ED-570 was approved at the March 2023 Board meeting and subsequently issued with a deadline for comment letters by 24 August 2023. The IAASB has deliberated on comments received and proposed revisions to ED-570 during its June, September and December 2024 meetings. The IAASB unanimously approved the final pronouncement of ISA 570 (Revised) in December 2024. In March of 2025, the PIOB will assess whether the approved pronouncement followed due process and is responsive to the public interest, as part of the certification process.

The following Public Interest Issues express the PIOB's views and comments that were put forward for the IAASB's consideration prior to the final approval of the standard.

2.1. Period of going concern assessment and the extent of relating disclosures

The revised standard aims to strengthen audit procedures in relation to identification of events and conditions that may contradict management's assessment of going concern, the evaluation of cash-flow forecasts, underlying assumptions and scenarios and the impact on the going concern assessment of subsequent events. We have noted that some respondents raised concerns in their comment letters that some of

the requirements of ED-570 (the 12-month period for going concern review, extension of this period, and the extent of going concern disclosures in the financial statements) may go beyond the relevant financial reporting standards. These requirements have been retained in the approved ISA 570 (Revised) as supported by the PIOB,

In case material uncertainties are identified in respect of the going concern assumption, it is normal practice for the auditor to seek sufficient appropriate audit evidence to support a longer period of management's going concern assessment. The purpose of additional audit procedures is to form a more robust view on the going concern assumption as well as on the adequacy of the relevant disclosures. Therefore, the PIOB maintains its view that it is in the public interest that auditors are required to request and obtain management's going concern assessment for such an extended period.

In this context, the PIOB also continues to encourage further dialogue with the International Accounting Standards Board (IASB) about the need for enhanced reporting requirements on going concern.

2.2. Transparency: Separate section on going concern in the auditor's report

The requirement for explicit conclusion in the auditor's report on the use of the going concern assumption is of such importance that it was defined as one of the goals for this project. During the development of the ED-570, the PIOB encouraged the IAASB to explore how this might be implemented, for example through a conclusion as to whether the going concern assumption applied in the preparation of the financial statements in terms of the relevant financial reporting framework was appropriate.

Subsequently, the PIOB welcomed the IAASB's proposals in ED-570 to include such an explicit conclusion despite some strong reservations against it by certain respondents. The reservations were that the auditor's explicit reference and conclusion on going concern could be interpreted as an opinion on a specific matter rather than the opinion on the financial statements as a whole. The PIOB is of the view that there needs to be a specific mandatory conclusion in the auditor's report about whether the going concern assumption used in preparing the financial statements is appropriate. The PIOB acknowledges that this approach has been retained in the approved ISA 570 (Revised).

2.3. Minimum scope of audit procedures and scalability

It is in the public interest to clearly define the minimum scope of audit procedures in the going concern area of audit while maintaining their scalability based on the complexity of each situation being assessed. The revised ISA 570 requires

performance of audit procedures even in cases where there is no risk of material misstatement, with risk-based considerations in the application material guidance. The minimal scope of such procedures should allow the auditor to reach a conclusion about the risk of material misstatement and without performing them the auditor would not be able to assess the going concern related risks properly. The PIOB therefore supports the clear definition of the minimal mandatory scope of audit procedures in the going concern area with a note that the scalability aspect is also covered by the ISA for LCE.

2.4. Specific guidance for auditors of the banking sector

It is in the public interest for the revised standard to enable auditors to identify and deal with risks to going concern issues which appear in the banking sector. The PIOB has recommended including the relevant requirements and guidelines in the application material as part of the final standard. In this context, the PIOB also continues to encourage further dialogue with the IASB about the need for enhanced reporting requirements on going concern, which are specific to the banking sector.

2.5. Dealing with “close call” situations

In the public interest, the PIOB has encouraged the IAASB to consider higher transparency requirements to appropriately communicate to users of financial statements any going concern matters of the entity. Such a communication would ensure that the auditor meets the expectations of stakeholders and provides them with decision useful information.

The PIOB noted that application material which cautions against disclosing “original information” (i.e. information not specifically disclosed in the financial statements) in the auditor report may limit the usefulness of disclosures made by the auditor, especially in “close call” situations. The PIOB has similarly noted concerns about disclosing “original information” in auditors’ reports which were expressed in the comment letters from certain respondents. However, in instances where a “close call” situation results in a modified opinion, the communication by the auditor of information in support of such modification (including so called “original information”) is nothing new or extraordinary. Therefore, the PIOB maintains its view in favor of requirements for auditors to communicate in their reports significant going concern matters in a more transparent way.

In respect of information on “close call” situations in the auditor’s report the PIOB emphasizes its longstanding view that this should be in a separate going concern section rather than in the “Key Audit Matters” (KAM) section. In this way, there will be consistency across all auditors’ reports. The PIOB welcomes the inclusion of a cross



reference to the going concern section for those auditors' reports which contain a KAM section.

2.6. Communication with authorities

It is in the public interest that the auditors are required to communicate directly with external authorities, such as regulators or prudential supervisors, under specific circumstances of doubts about the entity's ability to continue as a going concern. The PIOB therefore supports the enhancements of the ISA 570 (Revised) of stronger requirements for auditors to communicate with appropriate authorities even without a direct legal responsibility, with an emphasis on early reporting.

2.7. Extension of requirements from listed entities to PIEs

The PIOB supports the extension of the additional disclosures related to going concern for listed entities to public interest entities (PIE) because the obvious scope of public interest is in all PIEs. It has been noted by the PIOB that the support for such a requirement was expressed by many respondents in their comment letters. The PIOB acknowledges that the consideration to extend differential requirements beyond listed entities is part of the PIE and Listed Entities project. See further comments in relation to PIEs in section 5 below.

3. FRAUD (ISA 240)

Background

Holistic enhancement of the role that auditors play in the identification and reporting of fraud in financial statements audits and narrowing the related expectation gap is needed and overdue. Therefore, the PIOB has supported the project to enhance ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" as a high priority.

Status

The Exposure Draft ED-240 was approved at the December 2023 Board meeting and subsequently issued with a deadline for comment letters by 5 June 2024. The IAASB is currently deliberating proposed revisions to ED-240 based on feedback received, with a targeted date of approval of the final pronouncement in March 2025.

3.1. Strengthening requirements in respect of fraud

The PIOB has welcomed the IAASB's intention to strengthen, and not just clarify, the auditor's responsibilities within ISA 240. Inherent audit limitations should not be

perceived as diminishing an auditor's responsibilities to identify material misstatements due to fraud. The standard should clearly enhance and articulate the auditor's work effort in respect of fraud to sufficiently address the risk of misstatements and to bring this risk to an acceptably low level.

The PIOB has encouraged the IAASB, in pursuing the project objective, to explore how the auditor should consider aspects such as external sources of information, culture, tone at the top, the role of the group auditor in respect of the risk of material misstatement at a component level, and the use of IT tools, and consider how these could impact the detection of fraud.

The PIOB has also welcomed the requirements in the risk assessment process: "suspected" and identified fraud; consideration of significant deficiencies in internal controls, which may help preventing or detecting fraud, professional skepticism and professional judgment required throughout the audit; additional procedures which the auditor may be required to perform; and new requirements on the communication with those charged with governance and on documentation. All these proposals should strengthen the auditor's responsibility in the fraud area and help address the expectation gap.

3.2. Transparency requirements and impact of fraud on auditor's report

Auditors have an important role to play in providing early warning relating to fraud through two-way and ongoing communication with those charged with governance and with external authorities and, where appropriate, in the auditor's report. The set of requirements about what the auditor needs to disclose can be expected to drive changes in auditor behavior, and in turn contribute to enhanced transparency in management's and those charged with governance's reporting on fraud, thus helping to further address the expectation gap.

We acknowledge the outreach conducted by the IAASB to specific groups of stakeholders which gathered input in respect of various options for enhancing transparency in the auditor's report. The PIOB believes that the inclusion of a separate section in the auditor's report describing the identified and assessed fraud risks, the auditor's response and the relevant findings/observations, would strengthen transparency and is in the public interest. In this respect, the PIOB encouraged the IAASB to explore this approach to achieve consistent presentation of fraud related matters in all auditor's reports, i.e. both those which do, and which do not, contain the KAM sections. According to the current ED-240, the PIOB acknowledges the IAASB intention to retain the approach in the ED, where fraud related information would be included under the "Key Audit Matters" (KAM) section, as a filtering mechanism for auditors to determine what and when to communicate about fraud in a manner that is entity specific. The PIOB is of the view that such approach risks reducing the emphasis given to fraud and notes that it would be required only when the auditor's report

contains the KAM section, i.e. for listed entities or publicly traded entities (once the PIE Track 2 project is approved and becomes effective).

3.3. Auditor's role with respect to the authenticity of documentation

During the process of drafting ED-240, the PIOB noted different views about the auditor's role with respect to the authenticity of documentation. On the grounds that it would compromise the professional skepticism of auditors, the IAASB decided to delete the following sentence from the ED-240: *"Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine"* but to retain the sentence in another standard: ISA 200 (application paragraph A.24). The retention of this sentence raises concerns about the degree of professional skepticism required of auditors across all ISAs, including requirements on robustness of audit evidence. It is recalled that some major scandals over the last years involved auditor failures with respect to falsified documents and therefore there are valid public interest expectations regarding auditors' responsibilities in this area.

The PIOB acknowledges the IAASB decision to consider any changes to paragraph A24 of ISA 200 as part of the Audit Evidence and Risk Response project (Section 4), as the removal of this sentence would require broader analysis that cannot be addressed through a consequential amendment.

3.4. Impact of ISA 240 on other standards

The PIOB has called for the Fraud project to focus not only on ISA 240, but also on identifying revisions to strengthen requirements in other standards. Specifically, it is important to consider revisions which have the potential to drive significant changes in the attitude and behavior of auditors throughout the audit process, including testing internal controls and through the exercise of professional skepticism and professional judgment. In this respect, the PIOB notes the proposals to add a fraud lens in proposed ISA 240 in applying certain requirements of ISA 220 (Revised), ISA 315 (Revised) and ISA 330.

While transparency on fraud is an important consideration for the auditor's report, the PIOB has noted that other projects, including Going Concern, also have implications for the auditor's report. The PIOB has therefore welcomed the coordination among the different IAASB task forces considering issues involving enhanced transparency.

3.5. Coordination with the IESBA in respect of fraud

The PIOB notes the importance of the IAASB coordinating with the IESBA (for potential changes needed in the Code of Ethics), and with the other stakeholders involved in

the corporate reporting ecosystem. However, changes elsewhere in the ecosystem do not diminish the need to strengthen the auditor's responsibilities in relation to fraud.

4. AUDIT EVIDENCE AND RISK RESPONSE (ISA 330, ISA 500 AND ISA 520)

Background

The IAASB undertook a public consultation in 2022 on ED-500 "Audit Evidence" but subsequently decided to pause the project with a re-scoping in mind, including a focus on Technology and Internal Controls. As a result, the IAASB undertook work to identify, understand and scope the risk response elements of a new project: *"Standards that address Audit Evidence and the Auditor's Responses to Assessed Risks of Material Misstatement"* (the "Audit Evidence and Risk Response" project).

Status

The IAASB approved the project proposal for Audit Evidence and Risk Response in December 2024. The current Strategy and Work Plan 2024-2027 includes several milestones for the project and the PIOB looks forward to overseeing the most significant topics to strengthen ISA requirements around audit evidence and risk response.

4.1. Scoping and objectives of the project

The PIOB continues to regard the overarching topics of auditing standards of audit evidence, risk response, technology and internal controls as highly relevant to the public interest and for achievement of higher quality work from auditors. The PIOB notes that the project proposal sets out the specific objectives for this project as they relate to the Public Interest Framework. This will help to ensure that the entire project stays focused, and that its public interest objectives are achieved in a timely way.

4.2. Audit evidence aspects of the project

The PIOB reiterates its calls for the IAASB to consider the following topics to strengthen the ISA requirements around audit evidence:

- the auditors' role in respect of the relevance and reliability of information which is used as audit evidence, in view of possible fraudulent information or unreliable sources of information;

- encouraging auditors, where appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client;
- strengthening of professional skepticism in evaluating whether there is sufficient appropriate audit evidence obtained to support the opinion and regarding the reliability of information which will be used as audit evidence; and
- considering the balance between Application Material and Requirements in the revised standard, in view of driving improved behavior, clarity and enforceability (e.g. persuasiveness of audit evidence).

4.3. Internal control aspects of the project

The PIOB encourages the IAASB to address instances of inconsistent requirements of ISAs in respect of internal controls to enhance audit quality. For example, there is the opportunity to make clear in which circumstances an auditor is required to test internal controls, thereby overcoming the limitations of substantive testing. It is also appropriate to clarify how to address situations where there is a lack of internal controls, including pervasive internal controls, such as IT general controls or segregation of duties, within an entity.

4.4. Importance of Technology throughout the suite of ISAs

The PIOB supports the IAASB in its efforts to integrate and consider the pervasive impact of technology in the consideration of its standards, in a way which ensures timely responsiveness to public interest needs by enhancing audit quality. To this end, the revisions of relevant standards ought to go beyond embedding concepts already used in the audit practice (such as automated tools and techniques, blockchain, etc.). The PIOB welcomes the work carried out in relation to the IAASB's Technology Position, including a gap analysis to identify specific opportunities to enhance the ISAs and ISQMs for technology related matters. Co-ordination with the IESBA, which has a similar technology-related on-going initiative, is important.

The PIOB emphasizes that assessing the most significant inspection findings reported by regulators would be a useful source of information, especially in identifying main causes/factors which impair audit quality. A further discussion with regulators on the risks of improper overreliance on technology tools in audit or overreliance by auditors on IT General Controls of audited entities would be useful to obtain further input and address their concerns.

5. LISTED ENTITY AND PUBLIC INTEREST ENTITY

Background

The IAASB aim is to address the impact of revisions of Listed Entity and Public Interest Entity (PIE) which have been updated in the Code of Ethics. In the first phase of this project (Track 1, certified by the PIOB in 2023), transparency requirements regarding independence in the audit report (ISA 700) and in communication with those charged with governance (ISA 260) were addressed. The current phase (Track 2) is envisaged as a broader project addressing convergence of concepts between the Code, ISQMs and other ISAs, and whether differential requirements should be extended to PIEs.

Status

The Exposure Draft with narrow scope amendments to the ISQMs, ISAs and ISRE 2400 (Revised) was approved at the December 2023 IAASB meeting and subsequently issued, with a deadline for comment by 8 April 2024. The IAASB has discussed proposed revisions to the Exposure Draft based on feedback received, as well as the impact of the IESBA's updated Staff Questions and Answers (Staff Q&A) publication², which addresses the scenario where a jurisdiction either lacks a PIE definition, or has excluded one or more of the mandatory categories in the IESBA PIE definition.

In February 2025, the IAASB issued the final provisions for public consultation with a deadline for comments by 27 March 2025 and expected approval in June 2025.

5.1. Coordination with the IESBA to ensure alignment between the ISAs, ISQMs, and the Code

The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the ISAs, ISQMs and the Code of Ethics.

The PIOB notes the coordination between the IESBA and the IAASB, which is of critical importance to ensure alignment of the ISAs with the Code of Ethics and the consistent application of the two sets of standards. The PIOB supported the IAASB's proposals in its exposure draft to include, in the ISQMs and ISAs, the relevant provisions in the Code of Ethics relating to PIEs, including the definition of three mandatory categories of PIEs and replacing "listed entity" with the definition of "publicly traded entity" in the Glossary. This is a good example of leveraging the work of the IESBA and moving in the direction of harmonization with the Code of Ethics.

The PIOB notes the IAASB's subsequent decision, following feedback received and the impact of the IESBA's updated Staff Q&A publication, to revise its proposals to only adopt the definition of "Publicly Traded Entity", replacing current references to

² IESBA Staff Q&A - Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, updated September 3, 2024 (<https://www.ethicsboard.org/publications/iesba-staff-qa-revisions-definitions-listed-entity-and-public-interest-entity-code>)

“Listed Entity”, and without adopting the PIE definition. The PIOB recommended and supported that as part of the public consultation the IAASB clearly articulates why it is not viable to adopt a conditional requirement with the four categories of PIEs in the ISAs and ISQMs, that fully aligns with the definition in the Code. It would be meaningful to understand the impact of this more limiting amendment versus the fully aligned PIE definition in the Code in so far as the various public interest criteria are concerned, and the potential tradeoffs between them, which resulted in the IAASB reaching its conclusion.

The PIOB further recommends that the IAASB considers potential unintended consequences of adopting this proposed narrower definition, and hence not extend differential requirements to the full suite of entities envisaged in the Code, especially in jurisdictions where such broader categories of entities are included.

5.2. Engagement with stakeholders

Given the information arising for IESBA’s updated Staff Q&A publication after the close of the comment period for IAASB’s exposure draft and the significant revisions to its proposals, that reduce the scope of adoption of the PIE definitions and alignment with the Code, the PIOB recommended that the IAASB further consult with stakeholders, especially those that supported an adoption that aligned with IESBA’s definition, as it is crucial from the public interest perspectives of relevance, completeness, and global interoperability of the future standard. In this context, the PIOB welcomes the IAASB’s decision to issue a public consultation with the final revised standard, which include explanations of the options considered and will gather input from stakeholders, also on potential unintended consequences and the path forward to achieve alignment with the IESBA Code as soon as possible.



PIOB's Public Interest Issues - IESBA projects

(document updated as of January 2025)

The PIOB's Public Interest Issues presented in this document are based on the status of IESBA's projects after the IESBA December 2024 meeting and the PIOB meeting in January 2025. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IESBA to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IESBA projects, please refer to the website: <https://www.ethicsboard.org/consultations-projects>.

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Use of main acronyms

Code	The IESBA's Code of Ethics
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Auditing Standards
ISSA	International Standard on Sustainability Assurance
PIOB	Public Interest Oversight Board



1. SUSTAINABILITY REPORTING AND ASSURANCE

Background

Following the PIOB certification of the IESBA and IAASB sustainability standards, market participants and policymakers around the world now have a robust global baseline to instill confidence in sustainability reporting. Sustainability reporting has wide relevance for users both within and outside of capital markets and it requires additional information sources and the exercise of key judgments beyond financial reporting. There are also heightened risks, such as greenwashing, where organizations might seek to misrepresent their performance. Avoiding such risks, which could undermine public trust and capital flows into sustainable development, is clearly in the public interest.

The new IESBA sustainability standards for robust and consistent ethics and independence for sustainability reporting and assurance has been developed in an accelerated timeline, to meet, to the greatest extent possible, the expectations of users placing reliance on reported information. The next step is a successful implementation of the sustainability standards, which will not only require further work of the IESBA, but also significant input from assurance practitioners, regulators, preparers and those charged with governance¹.

As sustainability reporting and assurance is at the start of a long journey and the new IESBA standards are central to this journey, it will necessarily need to evolve in line with public interest needs. The PIOB is encouraging all stakeholders to share feedback from implementation, draw key lessons from experience, to enable timely refinements and, ideally, simplifications to the standards.

Status

In January 2025 the PIOB certified the standard *“International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting”* (also referred to as the “standards” in this section), which was approved at the December 2024 IESBA meeting. The Public Interest Issues below reflect the key background noted above and highlight those areas that require further refinement in the context of necessary evolution of the standard.

¹ The PIOB notes that, in the context of implementation of the global standards on ethics and independence for sustainability reporting and assurance, there are public interest matters beyond the remit of the IESBA. The implementation will require a robust level of public interest oversight, where regulators and those charged with governance have a role to ensure that preparers of the sustainability information as well as assurance practitioners have the appropriate skills and experience and comply with ethical reporting and assurance standards.

1.1. Supporting implementation through monitoring and rapid response

As sustainability reporting and assurance is a relatively new field, it is foreseen that questions will arise and necessary clarifications will be needed across jurisdictions as sustainability practitioners start implementing the standards. Such challenges might arise, for example, in respect of expected involvement of those practitioners who are less familiar with IESBA standards or in relation to the deferral of the effective date of the independence clauses for value chain components.

The PIOB encourages the IESBA to create a fit-for-purpose formal monitoring and rapid response mechanism(s) to identify implementation issues and to respond to them accordingly. Engaging with all relevant stakeholders in this exercise will help ensure success in the standards' adoption through wide collaboration within the sustainability ecosystem. In this context, the PIOB emphasizes the need for on-going cooperation between the IESBA and the IAASB in view of the interoperability of their respective sustainability standards.

The formal monitoring mechanism(s) should lead to timely and regular public reporting of matters that enable an understanding of the issues being encountered and allow the IESBA to consider the need for any timely refinements, simplifications or other improvements to the standards.

1.2. Scope of new Part 5 and applicability of Part 4B of the Code

The certified standards have been scoped to cover specific types of assurance on sustainability information as defined in the new Part 5 of the Code. While this approach is appropriate to have a global baseline at this point of time, further work is needed to achieve consistency in the standard's application for all sustainability assurance practitioners. The PIOB acknowledges that there remains a difference in the application of the Code between professional accountants on one hand, and other practitioners who are not professional accountants, on the other:

- Both professional accountants and other practitioners have to follow Part 5, which covers specific types of assurance on sustainability reporting with respect to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making.
- Only professional accountants have to follow Part 4B, which relates to other sustainability assurance services which are not covered under the scope of independence requirements in Part 5. Other practitioners are only encouraged to apply the requirements of Part 4B.

It is in the public interest, for the benefit of users of reliable and trustworthy sustainable information and the quality of its assurance, to have a level playing field for all

sustainability assurance practitioners, i.e. both professional accountants and other sustainability assurance practitioners, who should be subject to the same requirements, for all sustainability assurance engagements, even for those which are not covered in the scope of independence requirements in Part 5.

The PIOB acknowledges the commitment of IESBA to address this matter within the current Strategy and Work Plan 2024-2027, taking into account considerations in relation to the expansion of the scope of the Code, as further described in section 4 of this document.

1.3. Categorization of sustainability assurance and independence

The certified Standard addresses, to a large extent, the concerns previously expressed by the PIOB relating to the categorization of sustainability assurance engagements. These concerns were raised in respect of possibly imposing too stringent independence requirements in situations where the sustainability assurance and financial audit by the same assurance practitioner.

In this context, the standards treat the sustainability assurance fees in the same way as statutory audit fees, however only in instances where the sustainability assurance falls within the scope of Part 5 of the Code, i.e. assurance with respect to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making. In instances where sustainability assurance is outside the scope of Part 5, the sustainability assurance fees are classified as fees for non-audit services, which implies the application of the Code's provisions on threats to the financial auditor's independence.

As sustainability assurance and financial audit, both of which are assurance services, are performed in the public interest and are in principle compatible, the PIOB is concerned that classifying the mentioned sustainability assurance engagements as a non-audit service could be challenged from the conceptual point of view and result in adverse unintended consequences on the market. The PIOB therefore encourages the IESBA to articulate and fully explain its approach going forward.

1.4. Strengthening NOCLAR communication

The certified standards require communication on suspected or actual non-compliance with laws and regulations (NOCLAR), from the sustainability assurance practitioner to the financial statements auditor, or vice versa, unless prohibited by law or regulation. This requirement is currently only applicable if the sustainability assurance client is also an audit client, or a component of an audit client, of the same firm. In other instances, the standard only requires that the assurance practitioner shall

consider whether to communicate, which is consistent with the general approach of the Code.

In this context, the PIOB acknowledges the IESBA's plan to expand and strengthen this requirement in a holistic way and in the near term, as described below.

Two-way NOCLAR communication between the financial statements auditor and sustainability assurance practitioner, in all instances

The PIOB underlines the importance of two-way communication between different assurance practitioners to ensure adequate and timely follow-up of identified instances of suspected, or actual, NOCLAR, which may include suspected greenwashing, in both the financial statements audit and the sustainability assurance engagement.

While communication may be easier in instances where the group and component sustainability assurance practitioners, as well as the financial statements auditor are from the same firm, the communication is necessary in all instances to address the risk of an uneven level-playing field for all assurance arrangements.

Two-way communication between the group sustainability assurance practitioner and assurance practitioners of the value chains

The PIOB notes that the approved standards only contain requirements for communication between the group sustainability assurance team and sustainability assurance practitioners of group components. There is no required communication by another practitioner performing work for the group assurance practitioner at a value chain component.

The PIOB encourages the IESBA to address the need for timely broader two-way communication in the context of NOCLAR between all relevant assurance practitioners. The PIOB notes that the IESBA has committed to address the NOCLAR communication matter throughout the Code in a holistic manner during a planned NOCLAR post-implementation review which will start in 2025, per the current version of Strategy and Work Plan 2024-2027.

2. FIRM CULTURE AND GOVERNANCE

Background

This is a relatively new project included in the Strategy and Work Plan 2024-27 due to a clear need to respond to persistent cases of unethical behavior within firms and to consider the broader issue of firm culture and governance and how these might impact the ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

Status

Work on the topic of Firm Culture and Governance was discussed for the first time during the March 2024 IESBA meeting and again tabled at the following IESBA meetings in 2024. At its December 2024 meeting the IESBA considered and accepted the Firm Culture and Governance Working Group's final report. In light of the Working Group's recommendations, the IESBA approved a project proposal with an expectation to issue an exposure draft in December 2025 and the final standard by the end of 2026. Two workstreams are envisaged, one being a standard-setting project and the other focused on developing non-authoritative material.

The Public Interest Issues outlined below were expressed prior to the IESBA's approval of the project proposal and will be subject to discussion by the PIOB and updated accordingly.

2.1. Scope and goals of the project

While recognizing the importance of fact-finding, the PIOB encourages the IESBA to clearly articulate the risks impacting the public interest which the project intends to address and specifically the behaviors which give rise to such risks. This articulation will focus the fact-finding and support the scoping of any proposed sections of the Code to be developed or revised. In turn, this will help ensure that the Code can be enhanced in a timely way within the timeframe of the Strategy and Work Plan 2024-2027.

The PIOB supports the intention of the IESBA addressing risks which arise within legal structures used by firms in the market, with attention to their interplay with incentives for unethical behavior and corporate governance arrangements, but it is important that the IESBA remains within its remit and leaves the regulation of legal structures to regulators. The PIOB supports the IESBA's focus on ensuring the ethical behavior of individuals of different backgrounds and expertise within the firm and ethical functioning of governance arrangements.

The PIOB welcomes the IESBA's decision to consider all service lines within the firm, including audit, rather than a narrow approach focused only on the audit service line of the firm. An ethical culture that is integrated in the firm's strategy covering all service lines with supporting performance indicators, measurement and monitoring can guide a systematic approach to continuous improvement. Considering these factors, the project will more completely address "firms" as the market-facing multi-service practitioners they are in reality. It could thereby take into consideration the interplay between traditional service lines such as audit with others that are not necessarily undertaken by professional accountants. Equally, it is important to cover arrangements within and across jurisdictions often housed under "network" arrangements.



The PIOB supports a wide fact-finding approach but cautions against potential distraction into matters outside the remit of the IESBA. It is important from the public interest perspective to consider the diversity of market experiences across jurisdictions. Case studies relating to a limited number of national frameworks are useful but must not unduly influence the standard-setting process by constraining consideration of potential amendments of the Code for global benefit.

2.2. Achievement of behavioral changes

Clearly defined objectives of the project should be aimed at instilling behavioral changes in specific areas through focused amendments of the Code. In scoping those objectives, the PIOB encourages the IESBA to focus on factors which contribute to unethical behavior, and the pursuit of targeted amendments of the Code to achieve behavioral change, rather than “compliance” steps. It appears to be in the longer-term public interest to build on the fundamental ethical principles of the Code.

3. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS

Background

The revised definition of “Public Interest Entity” (completed in 2022) does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code contains a strong encouragement for local bodies to explicitly consider adding CIVs and PFs as categories of PIEs in their own jurisdictions. The PIOB supported this approach as the PIE definition was revised in 2022, regarding this as appropriate at that point in time. Equally, the PIOB strongly encouraged the IESBA, at the time, to undertake further research activities in respect of CIVs and PFs, specifically with respect to their interaction with related entities, and relationships with and between trustees, managers and advisors.

Status

In line with the approved Strategy and Work Plan for 2024-2027, the IESBA had first discussions of the CIVs and PFs project at the March, June and September 2024 Board meetings, presenting initial findings of its research on this topic to gain a deeper understanding. The topic was not on the agenda of the December 2024 IESBA meeting; however, it is expected to continue during 2025. The preliminary conclusions are that unrelated third parties that undertake significant management responsibilities on behalf of CIVs and PFs are currently not captured by the Code’s definitions of “audit client” and “related entity” and therefore there is a risk that the auditor would not apply the conceptual framework in a consistent manner. The IESBA’s intended way forward is to solicit further in-depth views about the mentioned

gap in the Code, through a consultation paper. This could inform whether there is a need to extend the Code to address this gap.

The Public Interest Issue considerations below reflect the fact that the project is still in its initial fact-finding phase.

3.1. Incorporation of Collective Investment Vehicles and Pension Funds into the Code

The PIOB supports the IESBA's activities to identify to what extent there is currently a public interest "gap" in coverage of the Code – i.e. risks arising from the absence of the specific independence provisions addressing audits of CIVs and PFs. The PIOB acknowledges that it is now the intention of IESBA to consider potential enhancements to independence provisions in the Code rather than reconsidering inclusion of CIVs and PFs explicitly in the PIE definition.

The PIOB supports the proposed way forward by the IESBA, through a consultation paper. It will be important to ensure that risks to the public interest are clearly articulated so that any eventual proposed revisions to the Code are tailored appropriately, also with scalability in mind, in order that they meet the public interest without unintended consequences.

4. POTENTIAL EXPANSION OF THE SCOPE OF THE CODE OF ETHICS

Consideration of the potential expansion of the impact of the Code, including possibly expanding the scope and application of the Code, is part of the IESBA's 2024-2027 Strategy and Work Plan, which the PIOB concluded in April 2024 has been developed in a manner consistent with agreed due process and is responsive to the public interest. The PIOB has already acknowledged the intention of the IESBA to expand the applicability of Part 4B to other practitioners who are not professional accountants (see section 1.2 for details).

As the IESBA considers further expanding the applicability of the Code to individuals other than professional accountants, the PIOB underlines the importance of clear articulation of the anticipated benefits as well as any specific risks from the public interest perspective. Robust engagement would be imperative with investors, users, regulators and stakeholders both within the accountancy profession as well as among other professionals who would be the subject of any such extension of application of the Code. Equally, a wider impact analysis would be required to identify any potential unintended consequences regarding the efficacy of the Code as a whole where professional accountants are concerned. By way of example, this analysis would cover



potential risks arising from the use of more universal language in any extension to enable other professionals to understand and apply the Code.

In summary, taking into account all the relevant perspectives, a potential extension of the application of the Code will require time and resources and therefore impact on other areas of IESBA's work. Therefore, careful evidence-based evaluation of priorities will be needed, considering the significance of risks to public interest issues to be addressed.

IESBA's mandate to serve the public interest lies in setting ethics standards, including independence, as a cornerstone to ethical behavior. By definition, this mandate is distinct from, while complementary to, the remit of regulators. Preserving this complementarity while guarding against any overlap will help ensure that the Code continues to be responsive to the public interest and assist regulators in achieving efficient regulation.

DATE: 22 March 2025

TO: NZAuASB members

FROM: Greg Schollum, IAASB member
Misha Pieters, Technical Advisor to Greg and Director Assurance

SUBJECT: **March 2025 IAASB meeting**

Action: To **NOTE** the update from the IAASB March meeting and **CONSIDER** the areas of high strategic importance arising.

Areas of high strategic importance to the XRB

1. Key areas of strategic importance arising are summarised below. The full meeting report is in the appendix.

Project	Timing	Strategic Priority for XRB
Fraud	The IAASB approved the revised standard in March 2025.	High. The adoption of the package of fraud and going concern revisions is under consideration by the NZAuASB. Clear communication of the desired outcomes of the revisions will support implementation.
Audit Evidence and Risk Response	Deferred by 3 months. The IAASB expects to approve an exposure draft in March 2026.	High. This project is exploring some key fundamental principles that underpin reasonable assurance. Engagement at this stage of the project will inform the developing exposure draft.
Technology position	Ongoing.	Medium. A catalogue of issues and possible actions has been developed. The IAASB has requested input from the XRB, as part of an IAASB-NSS Liaison group. The XRB has established a NZ reference group to inform our environmental scanning on technology and to inform input to the IAASB.
Review of interim financial statements	Approval of the project plan expected in June 2025.	Medium. The revision of this standard is needed as it was last revised over 20 years ago. XRB staff are on the project team with opportunities to influence the direction.
Withdrawal of ISAE 3410	The IAASB approved the withdrawal at its March meeting.	High. The NZAuASB will discuss the implications for New Zealand and the XRB's temporary GHG assurance standard at its April meeting.

Appendix: Full report from the IAASB March 2025 meeting in New York

2. The IAASB welcomed four new members in line with the implementation of the monitoring group's changes to the composition of the Board. These changes reduce the number of members overall, and the number of practitioner members. The IAASB now comprises of 16 members, reduced from 18 in 2024.
3. Greg is now the IAASB/IESBA co-ordination member. During the meeting, the importance of close co-ordination on the IESBA's firm culture and governance project was emphasized.

Fraud

4. The IAASB unanimously approved ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. The revised standard will be effective for periods beginning on or after 15 December 2026 and aligns with the effective date of the revised going concern standard. Greg has been on the Fraud Task Force since the start of 2024. To finalise the standard, discussions included:
 - **Standback:** The IAASB agreed to include a standback requirement. There had been mixed views throughout the project, with some concerned at the proliferation of standback requirements across the suite of ISAs. Greg emphasised the rationale for prior decisions of the Board to not have a standback in ISA 240, including due process considerations.
 - **Management override of controls:** The IAASB agreed that assessed risks of material misstatement (ROMMs) due to fraud are always treated as significant risks. The changes agreed at the meeting clarify that ROMMs due to fraud at the financial statement level can be a significant risk, in addition to ROMMs at the assertion level. In applying ISA 315 (Revised)¹, ISA 240 (Revised) designates ROMMs at the financial statement level as significant risks and includes requirements for what the auditor needs to do as a result. ISA 240 (Revised) highlights that ROMMs due to fraud related to management override of controls are first to be considered at the financial statement level. The auditor is also required to determine whether they affect risks at the assertion level. We understand that this "top-down" approach reflects the current approach taken by practitioners to management override of controls.
 - **Relationship between Fraud and non-compliance with laws and regulations (NOCLAR):** The exposure draft proposed that fraud equals NOCLAR (i.e. an instance of fraud also results in NOCLAR). The IAASB agreed to soften the link, noting that "fraud ordinarily constitutes an instance of NOCLAR". This recognises that third party fraud may not always be an instance of non-compliance, however it is expected in most cases that fraud would constitute an instance of NOCLAR.
 - **Written representations:** ISA 240 requires written representations about disclosure to the auditor of knowledge of any fraud or suspected fraud affecting the entity by management or employees who have significant roles in internal control. A key change agreed to by the IAASB is that the auditor shall also obtain written representations relating to *any* fraud or suspected fraud involving others where it could have an effect (rather than a material effect as reflected in the ED) on the financial statements.

¹ ISA 315 (Revised 2019), Identifying and Assessing Risks of Material Misstatement

- **Conforming amendments:** The IAASB added a requirement in ISA 600 (Revised)² for the group auditor to take responsibility for obtaining an understanding of identified or suspected fraud. This was on the basis that it does not matter who identifies a fraud, the group auditor still needs to take responsibility for understanding those matters. The response may be delegated to the component auditor to obtain the understanding.

Implications for the XRB:

The key XRB's submission points have been addressed. The NZAuASB will discuss the adoption of the revised standard at its April meeting.

Reviews of Interim Financial statements

5. The IAASB members provided input into issues to explore during the project and a draft project proposal to revise ISRE 2410³. The IAASB have agreed to slow the approval of the exposure draft, now expected in March 2026. This is in recognition of the extent of recent standard setting activity and allowing time for the market to absorb these changes. It is also needed to stagger upcoming consultations and exposure drafts.
6. The discussion highlighted that these review engagements are unique, they have a different purpose to review engagements that are conducted in accordance with ISRE 2400 (Revised)⁴, i.e. reviews that are not undertaken by the auditor. However, the discussion also emphasised that the engagement is still a limited assurance engagement. The key issue will be to set requirements applicable to the purpose of a ISRE 2410 engagement, where there is a need to differ from ISRE 2400 given the different purpose of the engagement. In revising the standard, the project will draw from both ISRE 2400 (Revised) and revisions to the ISAs, as appropriate for a review engagement.
7. The IAASB members confirmed the project would not look to revise ISRE 2400 (Revised). However, given that ISRE 2400 (Revised) was last updated more than 10 years ago, it is likely that many of the issues to explore may prompt conforming and consequential amendments to ISRE 2400 (Revised).
8. The IAASB members agreed that the project proposal be clear that there will be no consideration of reporting akin to key audit matters for ISRE 2410 engagements.
9. In terms of due process, the need for further engagement with several stakeholders was highlighted, including the public sector, co-ordination with the IESBA and for specific and targeted outreach with users, given that the project proposal highlights heightened stakeholder needs.

Implications for the XRB:

XRB staff are working with AUASB and IAASB staff on the project team. This provides the opportunity to influence both this project and the way in which projects are run more generally.

² ISA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

³ ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity

⁴ ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

Audit evidence and risk response project proposal

10. The IAASB discussed issues related to the integrated project to revise three standards: ISA 330⁵, ISA 500⁶ and ISA 520⁷. In summary, the project objectives are:

- To enhance auditors' work on internal controls, where appropriate.
- To clarify the impacts of technology. Currently certain requirements may be a barrier to the use of technology or may result in unclear work effort.

11. The discussion included:

- **Standback requirements** – IAASB members supported the development of a framework and criteria for when to include standback requirements, noting concerns at the proliferation of such requirements throughout the ISAs. The subject matter specific criteria include more complex areas, where there are special considerations (e.g. group audits) and pervasive matters. Other factors include the need for strong work effort and where there are opportunities for enhancement. In terms of the existing standback requirement in ISA 330, IAASB members expressed a preference to move the requirement to ISA 700⁸ with a hook in ISA 500. This recognises that the ultimate standback is made before you reach the conclusion. Greg reflected that there is a distinction between whether the auditor has the evidence needed, as distinct from considering the impact on the auditor's report.
- **Audit procedures used for more than one purpose** – Given advancements in technology, increasingly auditors may follow a procedure for dual or multiple purposes. The IAASB supported adding a requirement when using an audit procedure for more than one purpose, to require the auditor to evaluate separately whether the audit evidence obtained meets each intended purpose. There is a need for further outreach to better understand multi-purpose procedures that combine risk assessment procedures with others.
- **Material classes of transactions, account balances and disclosures** – the discussion explored the ongoing need for inclusion of the "safety net" requirement for the auditor to perform more audit work on material amounts even when there is no assessed risk of material misstatement. This requirement is designed to safeguard against imperfect risk assessment. The IAASB members agreed that the issue has been correctly captured and agreed with the need for more outreach. Greg noted that the circumstances being considered may not be that rare (e.g. Property, Plant and Equipment, Equity). Engagement with users is sought but will be tricky given the technical nature of the issue. The need to gather more information from practitioners about how often a material misstatement has been detected where the auditor has not assessed a risk will provide the evidence as to the value of the "safety net", given the enhancements to risk assessment.
- **Tests of Controls** -the majority of IAASB members agree that tests of controls alone can be enough in certain circumstances and agreed to explore this further to clarify in the drafting. This may encourage auditors to focus more on testing internal controls.
- **Substantive Procedures** – the IAASB members expressed mixed views on whether the distinction between tests of details and substantive

⁵ ISA 330, The Auditor's Responses to Assessed Risks

⁶ ISA 500, Audit Evidence

⁷ ISA 520, Analytical Procedures

⁸ ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

analytical procedures remains appropriate. There was agreement that defining these procedures may be useful. The next steps are to do more outreach. From a regulatory perspective, it was emphasized that typically substantive analytical procedures are poorly done and therefore at this stage, they are not enough without tests of details.

12. The PIOB observer emphasised that in many instances audits continue to use a substantive approach. The PIOB is supportive of this project to encourage more of a focus on internal controls.

Implications for the XRB:

The XRB may wish to prioritise deeper engagement on these matters at this stage to inform the developing exposure draft, including engagement with practitioners, preparers, regulators and users.

Technology position

13. The technology catalogue is an “issues log” to operationalise the IAASB’s technology position statement. The catalogue will be published following the March 2025 meeting. It is expected to be a living document, to be updated six monthly as the IAASB continues to monitor developments. The analysis identifies the source of issues, potential actions (i.e., monitor, develop guidance or standard setting) and the relative priority of actions. This will influence the work plan going forward as well as individual projects e.g., the audit evidence and risk response project.
14. The IAASB members expressed general support for the catalogue, however emphasised that the language needs to be enhanced to be clear that many of the issues may be better addressed by non-authoritative guidance rather than standard setting activity. Greg emphasised the need to be clearer about the priority of each possible action.
15. In terms of quality management, the discussion emphasised the need to do more fact finding to consider whether the principles in the new standards are suitable. Some members cautioned that the catalogue should not imply that ISQM 1⁹ is broken. Outreach should explore regulatory perspectives on the need for additional guardrails for the appropriate use of technology, while canvassing the firms to understand how operationalising ISQM 1 has enabled acceptance and use of technology.
16. The PIOB member encouraged the IAASB to reconsider the tone of the catalogue so as not to undermine public trust.

Implications for the XRB:

XRB staff are on an IAASB-NSS liaison group with Canada, United States, United Kingdom and Japan. The XRB has established a technology reference group to better understand New Zealand perspectives and opportunities to develop guidance to support and encourage use of technology.

⁹ ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

Narrow scope amendments: Use of Experts

17. The IAASB unanimously approved a project plan and exposure draft of narrow scope amendments to ensure interoperability between the IAASB standards and the new IESBA standard, as to when the auditor can use the work of an expert, after considering their competence, capability and objectivity. The amendments proposed cover ISA 620¹⁰, ISRE 2400 (Revised)¹¹, ISAE 3000 (Revised)¹² and ISRS 4400 (Revised)¹³. The exposure draft does not propose changes to ISSA 5000¹⁴, as in finalising this standard, interoperability with the IESBA standards was addressed.

Implications for the XRB:

The NZAuASB will discuss whether to respond to the consultation and exposure draft at its April meeting.

ISSA 5000 Implementation

18. The IAASB reflected on implementation and adoption support, noting publications already issued and plans to develop illustrative assurance reports and issue joint FAQs with the IESBA, followed by possible further guidance on quality management. The IAASB have established an online form as a way to submit implementation challenges. A sustainability assurance implementation working group, comprising staff, technical advisers and board members has been set up that meets monthly. In addition, the IAASB is looking to establish a technical implementation group, an external group comprising of 12 practitioners (both accountants and non-accountants) to provide insights about practical implementation challenges. Greg highlighted the need to continue to collaborate with the IESBA.

Withdrawal of ISAE 3410

19. The IAASB unanimously voted to withdraw ISAE 3410¹⁵. Greg highlighted the need to retain the useful application material, relevant to GHG emissions, within the implementation support, especially noting the material on materiality, which was noted as especially useful by the New Zealand reference group members.

Implications for the XRB:

The NZAuASB will discuss the impact of the withdrawal of ISAE 3410 at its April meeting.

¹⁰ ISA 620, Using the Work of an Auditor's Expert

¹¹ ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

¹² ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information

¹³ ISRS 4400 (Revised), Agreed-upon Procedures Engagements

¹⁴ ISSA 5000, General Requirements for Sustainability Assurance Engagements

¹⁵ ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

NZAuASB Board Meeting Summary Paper

Meeting date: 9 April 2025
Subject: IESBA Update
Date: 24 March 2025
Prepared By: Lisa Thomas and Karen Tipper

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

1. To UPDATE the Board from the staff review of the IESBA's March 2025 meeting.
2. The key agenda items covered at the IESBA's March meeting included:
 - i. Collective investment Vehicle Consultation Paper (Refer to agenda item 9)
 - ii. Firm Culture and Governance
 - iii. Adoption and Implementation
 - iv. Technology

Firm Culture and Governance

3. Outreach for phase two of the project is taking place during March to May 2025. This includes forums with firms, the Joint Standard Setters meeting and a series of global roundtable discussions. The NZAuASB Chair and XRB CE participated in the Melbourne roundtable.
4. The questions discussed are designed for stakeholders from different backgrounds to share their experiences, best practice examples and challenges over the 8 elements of the framework proposed in the working groups final report. Those elements are:
 - i. Ethical leadership
 - ii. Oversight and Governance
 - iii. The provision of independent input
 - iv. Accountability across the firm
 - v. Incentives and rewards that align with ethical behaviour
 - vi. Culture of open discussion and challenge
 - vii. Continuous education and training
 - viii. Transparency about the firm's ethical performance
5. The IESBA continues work on non-authoritative guidance to complement any standard setting activity. Proposed topics for guidance include *Common characteristics of an ethical firm* and *Contribution of stakeholders within the ecosystem in promoting ethical behaviour*. Feedback is sought on other useful areas for guidance.
6. An analysis of feedback is anticipated for the IESBA June meeting, with a first draft of an exposure draft in September. To date there is no decision on the format for the framework.

Implications for the XRB:

The XRB will continue to monitor the developments on this project and the interaction with quality management standards,

Engagement with the International Accreditation Forum (IAF)

7. The IESBA provided an update of its engagement with the IAF. The IESBA and the IAF have met twice to discuss the IAF's comparison of the International Ethics Standards for Sustainability Assurance (including International Independence Standards) ([IESSA](#)) to the IAF's ethical and independence requirements.
8. The IAF has completed an analysis between the IESSA requirements and the IAF requirements.
9. The IAF is requesting that a joint factual statement from the IESBA, IAF and TIC council (an international association representing independent testing, inspection and certification companies) be released in July 2025. Following this, the IAF intends to develop a scheme requiring compliance with the IESSA, ISSA 5000 and ISQMs in October 2025.

Implications for the XRB:

We will continue to monitor developments on the progress of this project and the collaboration between the IAF and IESBA.

Technology Update

10. The IESBA monitors technology developments as an ongoing work stream. IESBA staff provided an update on their working groups monitoring efforts including the latest AI models, and a report by Karbon on the use of AI in accounting. Their focus for 2025 includes: environmental scanning, stakeholder engagement and continued coordination with the IAASB on technology.

Implications for the XRB:

The XRB is forming a technology monitoring reference group to help monitor technology use in reporting and assurance in NZ. We will also keep track of IESBA's monitoring results and technology project updates as part of our environmental scan.

Emerging Issues and Outreach Committee Update – Private Equity Investment in Accounting Firms

11. Internationally there is a significant increase in private equity investment in accounting firms.
12. This has been identified by the IESBA due to the potential impact on auditor independence and they are exploring the ethical and independence requirements.

Implications for the XRB:

We are not aware of private equity investments in firms in New Zealand but we will monitor this emerging issue with interest and consider relevance for New Zealand.

SRB meeting on 7 March 2025: Proposed changes to the CSRD

Summary

On 26 February 2025, the European Commission issued a ‘Simplification Omnibus Package’ to simplify European Union rules. It will, among other things, make the following changes to the Corporate Sustainability Reporting Directive (**CSRD**):

- reduce the number of reporting entities by 75-82%
- reduce the number and complexity of disclosures
- simplify the application of the double materiality principle
- streamline assurance.

The context

The Simplification Omnibus Package is one of several reforms to be proposed by the European Commission in 2025 to reduce regulatory burdens. The aim is to reduce the administrative burden by 25% for all companies and by 35% for SMEs. These reforms are part of a broader five-year Competitiveness Compass that is also aimed at addressing innovation gaps and fostering a more integrated single market.

The proposed changes

The number of reporting entities

The 75-82% reduction in CSRD numbers will be achieved by replacing a two-out-of-three rule of total assets of €20m+, annual turnover of €40m+ and 250+ employees with a new 1,000+ employee rule. Tables 1 and 2 outline the consequential changes.

Table 1: Changes to the reporting entity definition

Entity type under the current CSRD	The timing rules under the current CSRD	The proposed changes
Wave 1 Public Interest Entities with more than 500 employees	Report for the first time in 2025 for FY 2024.	• All Wave 1 entities will continue to report under the current CSRD until the revised CSRD comes into force. • Wave 1 entities with 501-1,000 employees will not be subject to the revised CSRD.
Wave 2 Other large companies	Report for the first time in 2026 for FY 2025.	Wave 2 and 3 companies will not be required to comply with the current CSRD because: • A 2-year postponement Directive will be implemented by 31 December 2025 • It is expected that the revised CSRD with the 1000+ employee rule will be issued before the 2-year period ends.
Wave 3 SMEs with securities listed on EU regulated markets	Report for the first time in 2027 for FY 2026.	

Table 2: CSRD numbers estimated by the European Commission

	Lower estimate	Upper estimate
Current CSRD	30,673 (100%)	76,556 (100%)
Revised CSRD	7,689 (25%)	13,707 (18%)

Reducing the number and complexity of disclosures

A Commission staff working document (**SWD**) outlines the proposed changes to the CSRD and European Sustainability Reporting Standards (**ESRS**). The SWD states that:

- A requirement in the current CSRD stating that the Commission shall adopt sector-specific standards will be removed.
- The Commission will revise the current set of ESRS. The SWD states that the revisions are expected to:
 - substantially reduce the number of datapoints by removing those considered to be least important for general purpose sustainability reporting
 - clarify provisions that are deemed to be unclear
 - provide clearer instructions on how to apply the materiality principle
 - simplify the structure and presentation of the ESRSs.

Streamlining assurance

The CSRD currently requires limited assurance and allows the Commission to require reasonable assurance. The SWD states that:

- The power to impose reasonable assurance will be removed.
- The current requirement on the Commission to adopt assurance standards by means of delegated acts by 2026 will be removed. The Commission will instead issue targeted assurance guidelines by 2026.

Two simplified voluntary standards

The Commission will issue two simplified voluntary standards:

- An LSME for SMEs listed on a regulated European market.
- A VSME for SMEs whose securities are not listed on a regulated European market.

We infer that these standards will replace an LSME (that would have been mandatory for Wave 3 entities) and a VSME that were prepared by EFRAG and finalised in December 2024.

**Final Pronouncement
January 2025**

*International Ethics Standards Board
for Accountants®*

**International Ethics Standards
for Sustainability Assurance
(including International
Independence Standards)
and Other Revisions to the
Code Relating to
Sustainability Assurance and
Reporting**



International
Ethics Standards
Board for Accountants®



PIOB Certification of
“International Ethics Standards for Sustainability Assurance
(including International Independence Standards) and Other
Revisions to the Code Relating to Sustainability Assurance and
Reporting”

The Public Interest Oversight Board (PIOB) has overseen the standard-setting process throughout the full development cycle of the International Ethics Standards Board for Accountants (IESBA) “International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting” (the ‘Standard’).

The recommendations and the public interest issues, raised by the PIOB and provided to the IESBA throughout the standard-setting process, are available on the [PIOB website](#).

The IESBA has provided a written statement that the Standard has been developed in accordance with agreed due process and is responsive to the public interest, informed by the concepts and principles of the Public Interest Framework (PIF), which is being implemented in the standard-setting process, and which is available in the PIOB website¹.

The PIOB considers that the Standard has been developed in a manner consistent with agreed due process. The PIOB also considers that the Standard is responsive to the public interest, informed by the concepts and principles of the PIF.

January 2025

¹ [Public Interest Framework](#)

This document was developed and approved by the [International Ethics Standards Board for Accountants®](#) (IESBA®).

About the IESBA

The IESBA is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

The structures and processes that support the operations of the IESBA are facilitated by the International Foundation for Ethics and Audit™ (IFEATM).

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CHAPTER 1 – INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

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PART 5 – INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

SECTION 5100

COMPLYING WITH PART 5

Introduction

General

- 5100.1 It is in the public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. High-quality ethics and independence standards alongside other high-quality, globally accepted reporting and assurance standards will help users of sustainability information such as investors, customers, employees, suppliers, regulators and governments to confidently rely on such information in their decision-making.
- 5100.1a Sustainability assurance practitioners are expected to have relevant skills, knowledge and experience to perform sustainability assurance engagements and have appropriate training to ensure their assurance skills are continually up to date with relevant developments.
- 5100.2 This Part sets out ethics (including independence) standards for sustainability assurance practitioners and comprises:
- (a) Sections 5100 to 5390 which set out ethics standards for all sustainability assurance engagements (including those within the scope of the International Independence Standards in this Part) and other professional services performed for sustainability assurance clients; and
 - (b) Sections 5400 to 5600 which set out independence standards for sustainability assurance engagements that are within the scope of the International Independence Standards in this Part as set out in paragraphs 5400.3a and 5400.3b.
- 5100.2a When a sustainability assurance practitioner performs a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part, Part 4B of the Code sets out the applicable independence standards as set out in paragraph 5400.3e.
- 5100.2b Sustainability assurance practitioners might perform professional activities and have professional and business relationships that are not covered by this Part, in which case:
- (a) Parts 1 to 4B of the Code apply to a practitioner who is a professional accountant.
 - (b) A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance. This includes circumstances where the practitioner:
 - (i) Prepares or presents financial or non-financial, including sustainability, information for a client, the firm or others.
 - (ii) Faces conflicts of interest when providing professional services to entities that are not sustainability assurance clients.

- (iii) Is offered an inducement by a supplier of the firm or by entities that are not sustainability assurance clients.
- (iv) Encounters suspected non-compliance with laws and regulations, such as fraud, by management, those charged with governance or other individuals at the firm.
- (v) Is asked by an entity that is not an existing sustainability assurance client to provide a second opinion on the preparation of sustainability information or the application of other standards or principles to specific circumstances.
- (vi) Provides tax planning services to entities that are not sustainability assurance clients.

5100.3 This Part sets out high quality standards of ethical behavior expected of sustainability assurance practitioners for:

- (a) Adoption by those responsible for setting ethics (including independence) standards for sustainability assurance practitioners in particular sectors or jurisdictions.
- (b) Use by firms in developing their ethics and independence policies.

5100.4 This Part establishes five fundamental principles to be complied with by all sustainability assurance practitioners. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and threats to independence. This Part also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that sustainability assurance practitioners might encounter.

Sustainability Information Subject to Assurance

- 5100.4a Sustainability information might include comprehensive disclosures about many different topics or aspects of topics as required by the sustainability reporting framework or by law or regulation, or that an entity chooses to prepare in accordance with other criteria. Alternatively, the sustainability information prepared by an entity might be limited to certain matters, such as metrics, targets or key performance indicators.
- 5100.4b The criteria used for the reporting of sustainability information on which the sustainability assurance practitioner expresses an opinion might be framework criteria, entity-developed criteria or a combination of both. Framework criteria might be embodied in law or regulation or issued by authorized or recognized bodies that follow a transparent due process.
- 5100.4c Depending on the criteria used, the sustainability information might be prepared on a single entity or group basis, and might include information from other entities in the reporting entity's value chain.
- 5100.4d Sustainability information might be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, or presented as part of the management report or management commentary), or in an integrated report.

Requirements and Application Material

- 5100.5 A1 The requirements in this Part, designated with the letter "R," impose obligations.
- 5100.5 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of

this Part. In particular, the application material is intended to help a sustainability assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of this Part, including application of the conceptual framework.

R5100.6 A sustainability assurance practitioner shall comply with this Part when providing a professional service described in paragraph 5100.2.

5100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of this Part enable sustainability assurance practitioners to act in the public interest when providing sustainability assurance.

5100.6 A2 Complying with this Part includes giving appropriate regard to the aim and intent of the specific requirements.

5100.6 A3 There might be unusual or exceptional circumstances in which a sustainability assurance practitioner believes that complying with a requirement or requirements in this Part might not be in the public interest when providing sustainability assurance or would lead to a disproportionate outcome. In those circumstances, the practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body, or obtain legal or other expert advice, as appropriate.

5100.6 A4 In acting in the public interest, a sustainability assurance practitioner considers not only the preferences or requirements of an individual sustainability assurance client, but also the interests of other stakeholders when performing professional services for sustainability assurance clients.

5100.6 A5 When providing a professional service described in paragraph 5100.2(a), a sustainability assurance practitioner may be subject to certain professional and ethics standards as part of the practitioner's profession or professional affiliation. Those standards might comprise provisions on topics also addressed in this Part. In that case, this Part and those other professional and ethics standards both apply to the practitioner.

R5100.7 If there are circumstances where laws or regulations preclude a sustainability assurance practitioner from complying with certain provisions in this Part, those laws and regulations prevail, and the practitioner shall comply with all other provisions in this Part.

5100.7 A1 The principle of professional behavior requires a sustainability assurance practitioner to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in this Part. Practitioners in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

Breaches of Part 5

R5100.8 Paragraphs R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of independence requirements in this Part. A sustainability assurance practitioner who identifies a breach of any other provision in this Part shall evaluate the significance of the breach and its impact on the practitioner's ability to comply with the fundamental principles. The practitioner shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

5100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 5110

THE FUNDAMENTAL PRINCIPLES

General

5110.1 A1 There are five fundamental principles of ethics for sustainability assurance practitioners:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to exercise professional or business judgment without being compromised by:
 - (i) Bias;
 - (ii) Conflict of interest; or
 - (iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to:
 - (i) Comply with relevant laws and regulations;
 - (ii) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
 - (iii) Avoid any conduct that the sustainability assurance practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

R5110.2 A sustainability assurance practitioner shall comply with each of the fundamental principles.

5110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a sustainability assurance practitioner. The conceptual framework establishes the approach which a practitioner is required to apply in complying with those fundamental principles. Subsections 5111 to 5115 set out requirements and application material in this Part related to each of the fundamental principles.

5110.2 A2 A sustainability assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the practitioner from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

- 5110.2 A3 The sustainability assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 5111 – INTEGRITY

- R5111.1** A sustainability assurance practitioner shall comply with the principle of integrity, which requires a practitioner to be straightforward and honest in all professional and business relationships.

- 5111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

- 5111.1 A2 Acting appropriately involves:

- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
 - (b) Challenging others as and when circumstances warrant,
- in a manner appropriate to the circumstances.

- R5111.2** A sustainability assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the practitioner believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

- 5111.2 A1 If a sustainability assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the practitioner is not in breach of paragraph R5111.2.

- R5111.3** When a sustainability assurance practitioner becomes aware of having been associated with information described in paragraph R5111.2, the practitioner shall take steps to be disassociated from that information.

SUBSECTION 5112 – OBJECTIVITY

- R5112.1** A sustainability assurance practitioner shall comply with the principle of objectivity, which requires a practitioner to exercise professional or business judgment without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

- R5112.2** A sustainability assurance practitioner shall not undertake a professional activity for a sustainability assurance client if a circumstance or relationship unduly influences the practitioner's professional judgment regarding that activity.

SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE

- R5113.1** A sustainability assurance practitioner shall comply with the principle of professional competence and due care, which requires a practitioner to:
- (a) Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (b) Act diligently and in accordance with applicable technical and professional standards.
- 5113.1 A1 Serving sustainability assurance clients with professional competence involves the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.
- 5113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organizational skills facilitate the practitioner's interaction with entities and individuals with whom the practitioner interacts.
- 5113.1 A3 Maintaining professional competence requires a sustainability assurance practitioner to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the practitioner. Continuing professional development enables a practitioner to develop and maintain the capabilities to perform competently within the professional environment.
- 5113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- R5113.2** In complying with the principle of professional competence and due care, a sustainability assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the practitioner's authority have appropriate training and supervision.
- R5113.3** Where appropriate, a sustainability assurance practitioner shall make sustainability assurance clients or other users of the practitioner's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

SUBSECTION 5114 – CONFIDENTIALITY

- R5114.1** A sustainability assurance practitioner shall comply with the principle of confidentiality, which requires a practitioner to respect the confidentiality of information acquired in the course of professional and business relationships. A practitioner shall:
- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
 - (b) Maintain confidentiality of information within the firm;
 - (c) Maintain confidentiality of information disclosed by a prospective sustainability assurance client; and
 - (d) Take reasonable steps to ensure that personnel under the practitioner's control, and individuals from whom advice and assistance are obtained, comply with the practitioner's duty of confidentiality.

5114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the sustainability assurance practitioner taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

R5114.2 Subject to paragraph R5114.3, a sustainability assurance practitioner shall not:

- (a) Disclose confidential information acquired in the course of professional and business relationships;
- (b) Use confidential information acquired in the course of professional and business relationships for the advantage of the practitioner, the firm or a third party;
- (c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and
- (d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

R5114.3 As an exception to paragraph R5114.2, a sustainability assurance practitioner may disclose or use confidential information where:

- (a) There is a legal or professional duty or right to do so; or
- (b) This is authorized by the sustainability assurance client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

5114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the sustainability assurance client to the sustainability assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where sustainability assurance practitioners might be required or have the duty or right to disclose confidential information:

- (a) Disclosure is required by law or regulation, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:
 - (i) To comply with the quality review, practice assessment or equivalent monitoring activity of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of a practitioner in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

5114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the sustainability assurance client authorizes the disclosure or use of information by the sustainability assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

5114.3 A3 The circumstances in which a firm seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorization of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R5114.4 A sustainability assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the practitioner and a sustainability assurance client. When acquiring a new sustainability assurance client, the practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

SUBSECTION 5115 – PROFESSIONAL BEHAVIOR

R5115.1 A sustainability assurance practitioner shall comply with the principle of professional behavior, which requires a practitioner to:

- (a)** Comply with relevant laws and regulations;
- (b)** Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
- (c)** Avoid any conduct that the practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

A sustainability assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair public trust in sustainability information that is subject to assurance, and as a result would be incompatible with the fundamental principles.

5115.1 A1 Conduct that might adversely affect public trust in sustainability information that is subject to assurance includes conduct that a reasonable and informed third party would be likely to conclude has such an effect.

R5115.2 When undertaking marketing or promotional activities, a sustainability assurance practitioner shall be honest and truthful and shall not make:

- (a)** Exaggerated claims for the services offered by, or the qualifications or experience of, the practitioner; or
- (b)** Disparaging references or unsubstantiated comparisons to the work of others.

5115.2 A1 If a sustainability assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the practitioner is encouraged to consult with an appropriate body, for example a relevant professional or regulatory body, or obtain legal or other expert advice, as appropriate.

SECTION 5120

THE CONCEPTUAL FRAMEWORK

Introduction

- 5120.1 The circumstances in which sustainability assurance practitioners operate might create threats to compliance with the fundamental principles. Section 5120 sets out requirements and application material, including a conceptual framework, to assist practitioners in complying with the fundamental principles and acting in the public interest when performing sustainability assurance engagements. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by this Part.
- 5120.2 The conceptual framework specifies an approach for a sustainability assurance practitioner to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

- R5120.3** The sustainability assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 5110.

[Paragraphs 5120.3 A1 and R5120.4 are intentionally left blank]

- R5120.5** When applying the conceptual framework, the sustainability assurance practitioner shall:
- (a) Have an inquiring mind;
 - (b) Exercise professional judgment; and
 - (c) Use the reasonable and informed third party test described in paragraph 5120.5 A9.

Having an Inquiring Mind

- 5120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:
- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
 - (b) Being open and alert to a need for further investigation or other action.
- 5120.5 A2 When considering the source, relevance and sufficiency of information obtained, the sustainability assurance practitioner might consider, among other matters, whether:
- New information has emerged or there have been changes in facts and circumstances.
 - The information or its source might be influenced by bias or self-interest.

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the practitioner.
- There is an inconsistency between the known facts and circumstances and the practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

5120.5 A3 Paragraph R5120.5 requires all sustainability assurance practitioners to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all practitioners regardless of the professional activity undertaken. Under sustainability assurance standards, including those issued by the IAASB, practitioners are also required to exercise professional skepticism, which includes a critical assessment of evidence.

Exercising Professional Judgment

5120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved. For example, application of knowledge of certain location-specific environmental, social, economic, cultural or other sustainability-related issues might be relevant when performing sustainability assurance engagements.

5120.5 A5 Professional judgment is required when the sustainability assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the practitioner might consider matters such as whether:

- The practitioner's expertise is sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise.
- The practitioner's own preconception or bias might be affecting the practitioner's exercise of professional judgment.

5120.5 A6 The circumstances in which sustainability assurance practitioners carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgment exercised by practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

5120.5 A7 Managing complexity involves:

- Making the firm and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R5113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the sustainability assurance practitioner has made. (Ref: Para. R5120.5 to 5120.5 A3, and R5120.9 to 5120.9 A2)

5120.5 A8 Managing complexity might also involve:

- Analyzing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyze relevant data to inform the sustainability assurance practitioner's judgment.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

5120.5 A9 The reasonable and informed third party test is a consideration by the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the practitioner's conclusions in an impartial manner.

Identifying Threats

R5120.6 The sustainability assurance practitioner shall identify threats to compliance with the fundamental principles.

5120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the sustainability assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the practitioner's profession, legislation, regulation, or the firm that can enhance the practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 5120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

5120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

5120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner's judgment or behavior;
- (b) Self-review threat – the threat that a sustainability assurance practitioner will not appropriately evaluate the results of a previous judgment made, or an activity performed by the practitioner or by another individual within the practitioner's firm, on which the practitioner will rely when forming a judgment as part of performing a current activity;

- (c) Advocacy threat – the threat that a sustainability assurance practitioner will promote a sustainability assurance client's position to the point that the practitioner's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a sustainability assurance client, a sustainability assurance practitioner will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a sustainability assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the practitioner.

5120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R5120.7 When the sustainability assurance practitioner identifies a threat to compliance with the fundamental principles, the practitioner shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

5120.7 A1 An acceptable level is a level at which a sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the practitioner complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

5120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the sustainability assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable.

5120.8 A2 The existence of conditions, policies and procedures described in paragraph 5120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements.
- Effective complaint systems which enable the sustainability assurance practitioner and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R5120.9 If the sustainability assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the practitioner shall re-evaluate and address that threat accordingly.

5120.9 A1 Remaining alert throughout the professional activity assists the sustainability assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

5120.9 A2 If new information results in the identification of a new threat, the sustainability assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R5120.7 and R5120.10).

Addressing Threats

R5120.10 If the sustainability assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the practitioner shall address the threats by eliminating them or reducing them to an acceptable level. The practitioner shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

5120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

5120.10 A2 Safeguards are actions, individually or in combination, that the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgments Made and Overall Conclusions Reached

R5120.11 The sustainability assurance practitioner shall form an overall conclusion about whether the actions that the practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the practitioner shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

5120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

5120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

5120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Firm Culture

5120.13 A1 The effective application of the conceptual framework by a sustainability assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in this Part is promoted through the internal culture of the firm.

5120.13 A2 The promotion of an ethical culture within a firm is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the firm;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The firm adheres to ethical values in its dealings with third parties.

5120.13 A3 Sustainability assurance practitioners are expected to:

- (a) Encourage and promote an ethics-based culture in their firm, taking into account their position and seniority; and

- (b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioners or the firm has a professional or business relationship.

Considerations for Sustainability Assurance Engagements

Additional Consideration for Firm Culture

5120.14 A1 Quality management standards might address firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for sustainability assurance. For example, ISQM 1 requires the firm to establish a quality objective that the firm demonstrates a commitment to quality through its culture, which recognizes and reinforces, among others, the importance of professional ethics, values and attitudes.

Independence

5120.15 A1 Sustainability assurance practitioners are required by Sections 5400 to 5600 and Part 4B, as applicable, to be independent when performing sustainability assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or a sustainability assurance team member's integrity, objectivity or professional skepticism has been compromised.

5120.15 A2 Sections 5400 to 5600 and Part 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing sustainability assurance engagements. Sustainability assurance practitioners and firms are required to comply with these requirements and application material in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 5120.6 A3 are also the categories of threats to compliance with independence requirements.

5120.15 A3 Conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of sustainability assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

Professional Skepticism

5120.16 A1 Under sustainability assurance standards, including those issued by the IAASB, sustainability assurance practitioners are required to exercise professional skepticism when planning and performing sustainability assurance engagements. Professional skepticism and the fundamental principles that are described in Section 5110 are inter-related concepts.

5120.16 A2 In a sustainability assurance engagement that is within the scope of the International Independence Standards in this Part, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the sustainability assurance practitioner to be straightforward and honest. For example, the practitioner complies with the principle of integrity by:
 - Being straightforward and honest when raising concerns about a position taken by a sustainability assurance client.
 - Pursuing inquiries about inconsistent information and seeking further evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
 - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:
 - (a) Standing one's ground when confronted by dilemmas and difficult situations; or
 - (b) Challenging others as and when circumstances warrant,in a manner appropriate to the circumstances.

In doing so, the practitioner demonstrates the critical assessment of evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the sustainability assurance practitioner to exercise professional or business judgment without being compromised by:
 - (a) Bias;
 - (b) Conflict of interest; or
 - (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

For example, the practitioner complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the sustainability assurance client, that might compromise the practitioner's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the practitioner's judgment when evaluating the sufficiency and appropriateness of evidence related to a matter material to the client's sustainability information.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the sustainability assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the practitioner complies with the principle of professional competence and due care by:

- (a) Applying knowledge that is relevant to a particular sustainability assurance client's industry and business activities in order to properly identify risks of material misstatement;
- (b) Designing and performing appropriate assurance procedures; and
- (c) Applying relevant knowledge when critically assessing whether evidence is sufficient and appropriate in the circumstances.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional skepticism.

SECTION 5270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

- 5270.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5270.2 Pressure exerted on, or by, a sustainability assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R5270.3** A sustainability assurance practitioner shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles;
or
 - (b) Place pressure on others that the practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 5270.3 A1 A sustainability assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity for a sustainability assurance client. Pressure might be explicit or implicit and might come from:
- The sustainability assurance client.
 - Within the firm, for example, from a colleague or superior.
 - Another external organization or individual such as a supplier, customer or lender of the sustainability assurance client or of the firm.
 - Internal or external targets and expectations.
- 5270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a counterparty to a transaction involving a sustainability assurance client to select the family member over other counterparties.
- See also Section 5310, *Conflicts of Interest*.
- Pressure to act without sufficient expertise or due care:
 - Pressure from a sustainability assurance client to express an opinion on sustainability information that is not supported by the evidence obtained from the assurance procedures performed.
 - Pressure from a sustainability assurance client to inappropriately alter the scope of the sustainability assurance engagement to influence how the client's sustainability goals or practices are perceived.

- Pressure from a sustainability assurance client to deviate from the recommended approach when setting the scope of a voluntary sustainability assurance engagement.
- Pressure from a sustainability assurance client not to inquire about strategy-related assumptions used in the forward-looking information prepared by the client and subject to assurance procedures.
- Pressure from superiors to inappropriately reduce the extent of work performed.
- Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
- Pressure related to inducements:
 - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential or existing sustainability assurance clients.

See also Section 5340, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
 - Pressure to overlook potential breaches of environmental or safety regulations applicable to a sustainability assurance client.

See also Section 5360, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees:
 - Pressure exerted by a superior or a colleague of a sustainability assurance practitioner to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 5330, *Fees and Other Types of Remuneration*

5270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the firm including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that personnel will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the firm has established, such as ethics or human resources policies that address pressure.

5270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the sustainability assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.

- Discussing the matter with the practitioner's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the firm, including when appropriate, explaining any consequential risks to the firm, for example with:
 - Higher levels of management.
 - Internal or external auditors.
 - Those charged with governance.
- Disclosing the matter in line with the firm's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
 - A colleague, superior, human resources personnel, or another sustainability assurance practitioner;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal counsel.

5270.3 A5 An example of an action that might eliminate threats created by pressure is the sustainability assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties relating to the professional services performed for a sustainability assurance client so that the practitioner is no longer involved with the individual or entity exerting the pressure.

Documentation

5270.4 A1 The sustainability assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

SECTION 5300

APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

5300.1 Sections 5300 to 5390 set out requirements and application material for sustainability assurance practitioners when applying the conceptual framework set out in Section 5120. They do not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires sustainability assurance practitioners to be alert for such facts and circumstances.

[Paragraphs 5300.2 and 5300.3 are intentionally left blank]

Requirements and Application Material

General

R5300.4 A sustainability assurance practitioner shall comply with the fundamental principles set out in Section 5110 and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to compliance with the fundamental principles.

[Paragraphs R5300.5 and 5300.5 A1 are intentionally left blank]

5300.5 A2 The more senior the position of a sustainability assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioner or the firm has a professional or business relationship in accordance with paragraph 5120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

(Ref: Paras. 5120.13 A1 to 5120.13 A3).

Identifying Threats

5300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 5120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a sustainability assurance practitioner when undertaking a professional service for a sustainability assurance client:

(a) Self-interest Threats

- A sustainability assurance practitioner having a direct financial interest in a sustainability assurance client.
- A sustainability assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A sustainability assurance practitioner having a close business relationship with a sustainability assurance client.
- A sustainability assurance practitioner having incentives linked to the outcome of a sustainability assurance engagement.
- A sustainability assurance practitioner discovering a significant error when evaluating the results of a previous professional service performed by a member of the practitioner's firm.

(b) Self-review Threats

- A sustainability assurance practitioner issuing an assurance report on the effectiveness of the operation of systems that generate sustainability information after designing or implementing the systems.
- A sustainability assurance practitioner having contributed to the preparation of data used to generate information that is subject to procedures in the sustainability assurance engagement.
- A sustainability assurance practitioner having provided sustainability-related services other than sustainability assurance engagements for an entity in a sustainability assurance client's value chain, the outcome of which is subject to procedures in the sustainability assurance engagement for the client.
- A sustainability assurance practitioner having provided a valuation or forecasting service the outcome of which is subject to procedures in the sustainability assurance engagement for the sustainability assurance client.

(c) Advocacy Threats

- A sustainability assurance practitioner promoting the interests of a sustainability assurance client.
- A sustainability assurance practitioner acting as an advocate on behalf of a sustainability assurance client in litigation or disputes with third parties.
- A sustainability assurance practitioner lobbying in favor of legislation on behalf of a sustainability assurance client.
- A sustainability assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a sustainability assurance client.

(d) Familiarity Threats

- A sustainability assurance practitioner having a close or immediate family member who is a director or officer of the sustainability assurance client.

- A director or officer of the sustainability assurance client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement leader.
- A sustainability assurance team member having a long association with the sustainability assurance client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A sustainability assurance practitioner being threatened with dismissal from a professional service performed for a sustainability assurance client or the firm because of a disagreement about a professional matter.
- A sustainability assurance practitioner feeling pressured to agree with the judgment of a sustainability assurance client because the client has more expertise on the matter in question.
- A sustainability assurance practitioner being informed that a planned promotion will not occur unless the practitioner agrees with an inappropriate sustainability-related analysis or conclusion.
- A sustainability assurance practitioner having accepted a significant gift from a sustainability assurance client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

5300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a sustainability assurance practitioner when undertaking a professional activity for a sustainability assurance client:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgment of the practitioner or firm.

Evaluating Threats

5300.7 A1 The conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- (a) The sustainability assurance client and its operating environment; and
- (b) The firm and its operating environment.

5300.7 A2 The sustainability assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Sustainability Assurance Client and its Operating Environment

5300.7 A3 The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is a sustainability assurance client:

- (a) For which the practitioner performs a sustainability assurance engagement within the scope of the International Independence Standards in this Part;
- (b) For which the practitioner also performs an audit engagement;
- (c) For which other assurance or non-assurance services are also provided and, if so, the nature of those services; or
- (c) Which is a public interest entity.

For example, providing a non-assurance service to a sustainability assurance client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the sustainability assurance engagement.

5300.7 A4 The corporate governance structure, including the leadership of a sustainability assurance client, might promote compliance with the fundamental principles. Accordingly, a sustainability assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

5300.7 A4a The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a sustainability assurance client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information that is subject to assurance comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

The Firm and its Operating Environment

5300.7 A5 A sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that sustainability assurance team members will act in the public interest when providing sustainability assurance.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single sustainability assurance client.
- The engagement leader having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a sustainability assurance client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

5300.7 A6 The sustainability assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

5300.7 A7 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the sustainability assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the sustainability assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R5120.9 and R5120.10).

5300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the sustainability assurance client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.

- When the sustainability assurance practitioner is jointly engaged by a sustainability assurance client and another client and a dispute emerges between the two clients.
- When there is a change in the sustainability assurance practitioner's personal or immediate family relationships.

Addressing Threats

5300.8 A1 Paragraphs R5120.10 to 5120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

5300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different leaders and teams with separate reporting lines for the provision of non-assurance services to a sustainability assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

5300.8 A3 The remaining sections of this Part describe certain threats that might arise during the course of performing professional services for sustainability assurance clients and include examples of actions that might address threats.

Appropriate Reviewer

5300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided to a sustainability assurance client. Such an individual might be a sustainability assurance practitioner.

Communicating with Those Charged with Governance

R5300.9 When communicating with those charged with governance in accordance with this Part, a sustainability assurance practitioner shall determine the appropriate individual(s) within the sustainability assurance client's governance structure with whom to communicate. If the practitioner communicates with a subgroup of those charged with governance, the practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

5300.9 A1 In determining with whom to communicate, a sustainability assurance practitioner might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

5300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R5300.10 If a sustainability assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the practitioner would otherwise communicate.

5300.10 A1 In some circumstances, all of those charged with governance are involved in managing the sustainability assurance client, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the sustainability assurance practitioner has satisfied the requirement to communicate with those charged with governance.

Using Non-Assurance Work of Another Practitioner

R5300.11 A sustainability assurance practitioner who intends to use non-assurance work performed by another practitioner for purposes of a sustainability assurance engagement shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfil the sustainability assurance practitioner's responsibilities to comply with the fundamental principles of integrity, objectivity and professional competence and due care.

5300.11 A1 For the purposes of this section, the non-assurance work performed by another practitioner excludes the work of an external expert. When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply. When a sustainability assurance practitioner intends to use assurance work performed by another practitioner for purposes of a sustainability assurance engagement, the requirements and application material set out in Section 5406 apply.

5300.11 A2 Factors to consider in determining the appropriate steps to take, if any, when a sustainability assurance practitioner intends to use the non-assurance work of another practitioner include:

- The reputation and competence of, and resources available to, that other practitioner.
- Whether that other practitioner is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, that other practitioner.

SECTION 5310

CONFLICTS OF INTEREST

Introduction

- 5310.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) A sustainability assurance practitioner provides a professional service related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict; or
 - (b) The interests of a sustainability assurance practitioner with respect to a particular matter and the interests of the sustainability assurance client for whom the practitioner provides a professional service related to that matter are in conflict.
- 5310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a sustainability assurance practitioner performs a sustainability assurance engagement, independence is also required in accordance with this Part or Part 4B, as applicable.

Requirements and Application Material

General

- R5310.4** A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgment.
- 5310.4 A1 Examples of circumstances that might create a conflict of interest include:
- Providing a transaction advisory service to a client seeking to acquire a sustainability assurance client, where the firm has obtained confidential information during the course of the sustainability assurance engagement that might be relevant to the transaction.
 - Providing advice to a sustainability assurance client and another client at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
 - Representing a sustainability assurance client and another client in the same matter who are in a legal dispute with each other.
 - Advising a sustainability assurance client to invest in a business in which, for example, the spouse of the practitioner has a financial interest.
 - Providing strategic advice to a sustainability assurance client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
 - Advising a sustainability assurance client on acquiring a business which the firm is also interested in acquiring.
 - Advising a sustainability assurance client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict Identification

General

R5310.5 Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The service and its implication for relevant parties.

5310.5 A1 An effective conflict identification process assists a sustainability assurance practitioner when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the practitioner being able to address threats created by the conflict of interest.

5310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

5310.5 A3 More information on client acceptance is set out in Section 5320, *Professional Appointments*.

Changes in Circumstances

R5310.6 A sustainability assurance practitioner shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

5310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a sustainability assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the practitioner initially might not be involved in a dispute.

Network Firms

R5310.7 If the firm is a member of a network, a sustainability assurance practitioner shall consider conflicts of interest that the practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

5310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

Threats Created by Conflicts of Interest

- 5310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.
- 5310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict. These measures include:
- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
 - Policies and procedures to limit access to client files.
 - Confidentiality agreements signed by personnel and leaders of the firm.
 - Separation of confidential information physically and electronically.
 - Specific and dedicated training and communication.
- 5310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:
- Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.
 - Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

Disclosure and Consent

General

- R5310.9** A sustainability assurance practitioner shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.
- 5310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:
- The circumstances creating the conflict of interest.
 - The parties that might be affected.
 - The nature of the issues that might arise.
 - The potential for the particular matter to develop in an unexpected manner.
- 5310.9 A2 Disclosure and consent might take different forms, for example:
- General disclosure to clients of circumstances where, as is common commercial practice, the sustainability assurance practitioner does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, a practitioner might make general disclosure in the standard terms and conditions for the engagement.

- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the sustainability assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

5310.9 A3 It is generally necessary:

- (a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and
- (b) To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.

5310.9 A4 If such disclosure or consent is not in writing, the sustainability assurance practitioner is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

When Explicit Consent is Refused

R5310.10 If a sustainability assurance practitioner has determined that explicit consent is necessary in accordance with paragraph R5310.9 and the sustainability assurance client has refused to provide consent, the practitioner shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

General

R5310.11 A sustainability assurance practitioner shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

5310.11 A1 Subsection 5114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

R5310.12 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for a sustainability assurance client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the teams serving the sustainability assurance client and the other client; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

5310.12 A1 A breach of confidentiality might arise, for example, when seeking consent to perform:

- A transaction-related service for a sustainability assurance client in a hostile takeover of another client of the firm.
- A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for a sustainability assurance client who might be involved in the fraud.

Documentation

R5310.13 In the circumstances set out in paragraph R5310.12, the sustainability assurance practitioner shall document:

- (a) The nature of the circumstances, including the role that the practitioner is to undertake;
- (b) The specific measures in place to prevent disclosure of information between the teams serving the sustainability assurance client and the other client; and
- (c) Why it is appropriate to accept or continue the engagement.

SECTION 5320

PROFESSIONAL APPOINTMENTS

Introduction

- 5320.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5320.2 Acceptance of a new sustainability assurance client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

- 5320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the sustainability assurance client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.
- 5320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance and business activities.
 - The sustainability assurance client's commitment to address questionable issues, for example, through improving corporate governance practices or internal controls.
- 5320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 5320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the sustainability assurance client's business;
 - The complexity of its operations;
 - The quantitative and qualitative characteristics of the sustainability assurance client's value chain;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matter.
 - Experience with relevant regulatory or reporting requirements.
 - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond

to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

- The level of fees and the extent to which they have regard to the resources required, taking into account the sustainability assurance practitioner's commercial and market priorities.

5320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Changes in a Professional Appointment

General

R5320.4 A sustainability assurance practitioner shall determine whether there are any reasons for not accepting an engagement when the practitioner:

- (a) Is asked by a potential sustainability assurance client to replace another sustainability assurance practitioner;
- (b) Considers tendering for an engagement held by a different practitioner for a sustainability assurance client; or
- (c) Considers undertaking work for a sustainability assurance client that is complementary or additional to that of a different practitioner.

5320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a sustainability assurance practitioner accepts the engagement before knowing all the relevant facts.

5320.4 A2 If a sustainability assurance practitioner is asked by a sustainability assurance client to undertake work that is complementary or additional to the work of an existing or predecessor practitioner, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

5320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor practitioner will be requested. This contact gives the proposed practitioner the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

5320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor practitioner to provide any known information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor practitioner that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the sustainability assurance client.

Communicating with the Existing or Predecessor Practitioner

5320.5 A1 A proposed practitioner will usually need the sustainability assurance client's permission, preferably in writing, to initiate discussions with the existing or predecessor practitioner.

R5320.6 If unable to communicate with the existing or predecessor practitioner, the proposed practitioner shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Practitioner

R5320.7 When an existing or predecessor practitioner is asked to respond to a communication from a proposed practitioner, the existing or predecessor practitioner shall:

- (a) Comply with relevant laws and regulations governing the request; and
- (b) Provide any information honestly and unambiguously.

5320.7 A1 An existing or predecessor practitioner is bound by confidentiality. Whether the existing or predecessor practitioner is permitted or required to discuss the affairs of a sustainability assurance client with a proposed practitioner will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor practitioner has permission from the sustainability assurance client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

5320.7 A2 Circumstances where a sustainability assurance practitioner is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 5114.3 A1.

Changes in Sustainability Assurance Appointments

R5320.8 In the case of a sustainability assurance engagement within the scope of the International Independence Standards in this Part, a sustainability assurance practitioner shall request the existing or predecessor practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R5360.21 and R5360.22:

- (a) If the sustainability assurance client consents to the existing or predecessor practitioner disclosing any such facts or other information, the existing or predecessor practitioner shall provide the information honestly and unambiguously; and
- (b) If the sustainability assurance client fails or refuses to grant the existing or predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, the existing or predecessor practitioner shall disclose this fact to the proposed practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and Engagement Continuance

R5320.9 For a recurring engagement for a sustainability assurance client, a sustainability assurance practitioner shall periodically review whether to continue with the engagement.

5320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the sustainability assurance practitioner to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity

might be created by improper sustainability reporting, such as changes in measurement methodology to create the appearance of a positive trend in a key performance indicator.

Using the Work of an Expert

R5320.10 When a sustainability assurance practitioner intends to use the work of an expert in the course of undertaking a professional activity, the practitioner shall determine whether the use is appropriate for the intended purpose.

5320.10 A1 For the purposes of this section, the work of an external expert is excluded. When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply.

5320.10 A2 Factors to consider when a sustainability assurance practitioner intends to use the work of an expert include:

- The reputation and expertise of, and the resources available to, the expert.
- Whether the expert is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the expert.

Using the Output of Technology

R5320.11 When a sustainability assurance practitioner intends to use the output of technology in the course of undertaking a professional activity for a sustainability assurance client, the practitioner shall determine whether the use is appropriate for the intended purpose.

5320.11 A1 Factors to consider when a sustainability assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the practitioner has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

5320.12 A1 When a sustainability assurance practitioner is considering using the work of experts or the output of technology, a consideration is whether the practitioner is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 5325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

- 5325.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 5325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer for a sustainability assurance client.
- 5325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 5300.8 A4. Therefore, the application material in this section might apply in circumstances where a sustainability assurance practitioner appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

General

- 5325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. For example, ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2.
- 5325.5 A2 An engagement quality reviewer is a leader, partner, or other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Identifying Threats

- 5325.6 A1 The following are examples of circumstances where threats to the objectivity of an individual appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
 - Two engagement leaders each serving as an engagement quality reviewer for the other's engagement.
 - (b) Self-review threat
 - An individual serving as an engagement quality reviewer on a sustainability assurance engagement after previously serving as the engagement leader.
 - (c) Familiarity threat
 - An individual serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

(d) Intimidation threat

- An individual serving as an engagement quality reviewer for an engagement has a direct reporting line to the leader responsible for the engagement.

Evaluating Threats

5325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

Addressing Threats

5325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

5325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Cooling-off Period

5325.8 A3 Quality management standards might require the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period before the engagement leader can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements. For example, ISQM 2 requires a cooling-off period of two years.

5325.8 A4 The cooling-off period that might be required by quality management standards such as ISQM 2 is distinct from, and does not modify, the leader rotation requirements in Section 5540, which are designed to address threats to independence created by long association with a sustainability assurance client.

SECTION 5330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

- 5330.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

Level of Fees

- 5330.3 A1 The level of fees might impact a sustainability assurance practitioner's ability to perform professional services for sustainability assurance clients in accordance with technical and professional standards.
- 5330.3 A2 A sustainability assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than a different practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 5330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the sustainability assurance client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered.
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 5330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work performed.

Contingent Fees

- 5330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.
- 5330.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.
 - The range of possible fee amounts.
 - The basis or metrics for determining the fee.
 - Disclosure to intended users of the work performed by the sustainability assurance practitioner and the basis of remuneration.
 - Quality management policies and procedures.
 - Whether an independent third party is to review the outcome or result of the work.

- Whether the level of the fee is set by an independent third party such as a regulatory body.

5330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the service review the work performed by the sustainability assurance practitioner.
- Obtaining an advance written agreement with the sustainability assurance client on the basis of remuneration.

5330.4 A4 Requirements and application material related to contingent fees for services provided to sustainability assurance clients are set out in Section 5410 and Section 905.

Referral Fees or Commissions

5330.5 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a sustainability assurance practitioner pays or receives a referral fee or receives a commission relating to a sustainability assurance client. Such referral fees or commissions include, for example:

- A fee paid to a third party for that party referring a sustainability assurance client to the practitioner.
- A fee received from a third party for the practitioner referring a continuing sustainability assurance client to that party.
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a sustainability assurance client.

5330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining an advance agreement from the sustainability assurance client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements paid to, or received from, another sustainability assurance practitioner or third party for recommending services or products might address a self-interest threat.

Purchase or Sale of a Firm

5330.6 A1 A sustainability assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

SECTION 5340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

- 5340.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 5340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services for sustainability assurance clients that does not constitute non-compliance with laws and regulations. This section also requires a sustainability assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

- 5340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between sustainability assurance practitioners and existing or prospective sustainability assurance clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
 - Hospitality.
 - Entertainment.
 - Political or charitable donations.
 - Appeals to friendship and loyalty.
 - Employment or other commercial opportunities.
 - Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

- R5340.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The sustainability assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the practitioner encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

- 5340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behavior

- R5340.7** A sustainability assurance practitioner shall not offer, or encourage others to offer, any inducement

that is made, or which the practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

R5340.8 A sustainability assurance practitioner shall not accept, or encourage others to accept, any inducement that the practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

5340.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a sustainability assurance practitioner in considering what constitutes unethical behavior on the part of the practitioner and, if necessary by analogy, other individuals.

5340.9 A2 A breach of the fundamental principle of integrity arises when a sustainability assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.

5340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the sustainability assurance client.
- The roles and positions of the individuals at the firm or the sustainability assurance client offering or being offered the inducement.
- Whether the sustainability assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the sustainability assurance client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behavior or reputation of the offeror.

Consideration of Further Actions

5340.10 A1 If the sustainability assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R5340.7 and R5340.8 are met.

5340.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the firm or those charged with governance of the sustainability assurance client regarding the offer.
- Amending or terminating the business relationship with the sustainability assurance client.

Inducements with No Intent to Improperly Influence Behavior

5340.11 A1 The requirements and application material set out in the conceptual framework apply when a sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

5340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

5340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence behavior include:

- Self-interest threats
 - A sustainability assurance practitioner is offered hospitality from the prospective acquirer of a sustainability assurance client while providing corporate finance services to the client.
- Familiarity threats
 - A sustainability assurance practitioner regularly takes an existing or prospective sustainability assurance client to sporting events.
- Intimidation threats
 - A sustainability assurance practitioner accepts hospitality from a sustainability assurance client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

5340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 5340.9 A3 for determining intent.

5340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the sustainability assurance client to another individual who the sustainability assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

5340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the sustainability assurance client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the sustainability assurance client.

- Having an appropriate reviewer, who is not otherwise involved in providing the professional service to the sustainability assurance client, review any work performed or decisions made by the sustainability assurance practitioner with respect to the client from which the practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R5340.12 A sustainability assurance practitioner shall remain alert to potential threats to the practitioner's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the practitioner to an existing or prospective sustainability assurance client.
- (b) To an immediate or close family member of the practitioner by an existing or prospective sustainability assurance client.

R5340.13 Where the sustainability assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the practitioner or of an existing or prospective sustainability assurance client, or considers a reasonable and informed third party would be likely to conclude such intent exists, the practitioner shall advise the immediate or close family member not to offer or accept the inducement.

5340.13 A1 The factors set out in paragraph 5340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the sustainability assurance practitioner or of the existing or prospective sustainability assurance client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The practitioner and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The practitioner and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the practitioner by a client for whom the practitioner is performing a sustainability assurance engagement might indicate such intent.

5340.13 A2 The application material in paragraph 5340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the sustainability assurance practitioner, or of the existing or prospective sustainability assurance client even if the immediate or close family member has followed the advice given pursuant to paragraph R5340.13.

Application of the Conceptual Framework

5340.14 A1 Where the sustainability assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R5340.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the practitioner pursuant to paragraph R5340.13; or
- (b) The practitioner does not have reason to believe an actual or perceived intent to improperly influence the behavior of the practitioner or of the existing or prospective sustainability assurance client exists.

5340.14 A2 The application material in paragraphs 5340.11 A1 to 5340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 5340.13 A1.

Other Considerations

5340.15 A1 If a sustainability assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a sustainability assurance client or individuals working for or under the direction of the sustainability assurance client, the requirements and application material in Section 5360 apply.

5340.15 A2 If a firm, network firm or a sustainability assurance team member is being offered gifts or hospitality from a sustainability assurance client, the requirement and application material set out in Section 5420 apply.

[Paragraph 5340.15 A3 is intentionally left blank]

SECTION 5350

CUSTODY OF CLIENT ASSETS

Introduction

- 5350.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behavior and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Before Taking Custody

- R5350.3** A sustainability assurance practitioner shall not assume custody of money or other assets belonging to a sustainability assurance client unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.
- R5350.4** As part of client and engagement acceptance procedures related to assuming custody of money or assets belonging to a sustainability assurance client, a sustainability assurance practitioner shall:
- (a) Make inquiries about the source of the assets; and
 - (b) Consider related legal and regulatory obligations.
- 5350.4 A1 Inquiries about the source of assets belonging to a sustainability assurance client might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 5360 would apply.

After Taking Custody

- R5350.5** A sustainability assurance practitioner entrusted with money or other assets belonging to a sustainability assurance client shall:
- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
 - (b) Keep the assets separately from personal or firm assets;
 - (c) Use the assets only for the purpose for which they are intended; and
 - (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

SECTION 5360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 5360.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 5360.3 A sustainability assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a sustainability assurance client. This section guides the practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements or sustainability information; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Sustainability Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

- 5360.4 It is in the public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. When responding to non-compliance or suspected non-compliance, the objectives of the practitioner are:
- (a) To comply with the principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the sustainability assurance client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

- 5360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A sustainability assurance client;
 - (b) Those charged with governance of a sustainability assurance client;

- (c) Management of a sustainability assurance client; or
- (d) Other individuals working for or under the direction of a sustainability assurance client.

5360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.
- Data protection.
- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Tax and pension liabilities and payments.

5360.5 A3 Non-compliance might result in fines, litigation or other consequences for the sustainability assurance client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R5360.6 In some jurisdictions, there are legal or regulatory provisions governing how sustainability assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the sustainability assurance client.

5360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

5360.7 A1 This section applies regardless of the nature of the sustainability assurance client, including whether or not it is a public interest entity.

5360.7 A2 A sustainability assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the sustainability assurance client, its stakeholders and the general public.

5360.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the sustainability assurance client; and
- (b) Non-compliance by parties other than those specified in paragraph 5360.5 A1. This includes, for example, when the identified or suspected non-compliance has been committed by an entity in the sustainability assurance client's value chain.

The sustainability assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of Management and Those Charged with Governance

5360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the sustainability assurance client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The sustainability assurance client;
- (b) An individual charged with governance of the sustainability assurance client;
- (c) A member of management of the sustainability assurance client; or
- (d) Other individuals working for or under the direction of the sustainability assurance client.

Responsibilities of Sustainability Assurance Practitioners

R5360.9 Where a sustainability assurance practitioner becomes aware of a matter to which this section applies, the steps that the practitioner takes to comply with this section shall be taken on a timely basis while remaining alert to the principle of confidentiality. In taking these steps, the practitioner shall have regard to the nature of the matter and the potential harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

Sustainability Assurance Engagements Within the Scope of the International Independence Standards in this Part

Obtaining an Understanding of the Matter

R5360.10 If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is within the scope of the International Independence Standards in this Part becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

5360.10 A1 The sustainability assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the sustainability assurance engagement or through information provided by other parties.

5360.10 A2 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgment. However, the practitioner is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the sustainability assurance engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.10 A3 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R5360.11 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

5360.11 A1 The purpose of the discussion is to:

- (a) Clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter; and
- (b) Consider any relevant parties that need to be informed about the matter by management or those charged with governance. Such parties might include the external auditor and/or any other sustainability assurance practitioner(s) performing a sustainability assurance engagement within the scope of the International Independence Standards in this Part.

5360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

5360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the sustainability assurance client.

5360.11 A4 The sustainability assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

R5360.12 If the sustainability assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the practitioner shall discuss the matter with those charged with governance.

Addressing the Matter

R5360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the sustainability assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

R5360.14 The sustainability assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

5360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the sustainability assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

R5360.15 The sustainability assurance practitioner shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under sustainability assurance standards, including those relating to:
 - Identifying and responding to non-compliance, including fraud.
 - Communicating with those charged with governance.
 - Considering the implications of the non-compliance or suspected non-compliance for the sustainability assurance report.

5360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

R5360.16 Where the sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the practitioner shall communicate the matter to the group engagement leader unless prohibited from doing so by law or regulation:

- (a) The practitioner performs sustainability assurance work related to a group component for purposes of the group's sustainability assurance engagement; or
- (b) The practitioner is engaged to perform a sustainability assurance engagement for the sustainability information of a legal entity or business unit that is part of a group for purposes other than the group's sustainability assurance engagement.

The communication to the group engagement leader shall be in addition to responding to the matter in accordance with the provisions of this section.

5360.16 A1 The purpose of the communication is to enable the group engagement leader to be informed about the matter and to determine, in the context of the group's sustainability assurance engagement, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R5360.16 applies regardless of whether the group engagement leader's firm or network is the same as or different from the sustainability assurance practitioner's firm or network.

R5360.17 Where the group engagement leader becomes aware of non-compliance or suspected non-compliance in the course of a group's sustainability assurance engagement, the group engagement leader shall consider whether the matter might be relevant to:

- (a) One or more group components subject to sustainability assurance work for purposes of the group's sustainability assurance engagement; or

- (b) One or more legal entities or business units that are part of the group and whose sustainability information is subject to assurance for purposes other than the group's sustainability assurance engagement.

This consideration shall be in addition to responding to the matter in the context of the group's sustainability assurance engagement in accordance with the provisions of this section.

R5360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the group components specified in paragraph R5360.17(a) and legal entities or business units specified in paragraph R5360.17(b), the group engagement leader shall take steps to have the matter communicated to those performing sustainability assurance work at the group components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement leader shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities or business units specified in paragraph R5360.17(b) are subject to sustainability assurance and, if so, to ascertain to the extent practicable the identity of the practitioners.

5360.18 A1 The purpose of the communication is to enable those responsible for sustainability assurance work at the group components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement leader's firm or network is the same as or different from the firms or networks of those performing sustainability assurance work at the group components, legal entities or business units.

Communicating the Matter to the Sustainability Assurance Client's External Auditor

R5360.18a Unless prohibited from doing so by law or regulation, the sustainability assurance practitioner shall communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, when the sustainability assurance client is also:

- (a) An audit client of the firm; or
(b) A component of an audit client of the firm.

The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.18b The sustainability assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, when the sustainability assurance client is:

- (a) Also an audit client, or a component of an audit client, of a network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner; or
(b) Not an audit client, or a component of an audit client, of the firm or a network firm.

Relevant Factors to Consider

5360.18b A1 Factors relevant to considering the communication in accordance with paragraph R5360.18b include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.

- Whether management or those charged with governance have already informed the sustainability assurance client's external auditor about the matter.

Purpose of Communication

5360.18b A2 In the circumstances addressed in paragraphs R5360.18a and R5360.18b, the purpose of the communication is to enable:

- (a) The engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code; and
- (b) The sustainability assurance practitioner and the engagement partner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section and Section 360, respectively.

Determining Whether Further Action Is Needed

R5360.19 The sustainability assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

5360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R5360.20 In light of the response of management and, where applicable, those charged with governance, the sustainability assurance practitioner shall determine if further action is needed in the public interest.

5360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the sustainability assurance client.
- Whether the sustainability assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.20 A2 Examples of circumstances that might cause the sustainability assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

R5360.21 The sustainability assurance practitioner shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the practitioner has acted appropriately in the public interest.

5360.21 A1 Further action that the sustainability assurance practitioner might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the sustainability assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the practitioner. In such circumstances, withdrawal might be the only available course of action.

R5360.22 Where the sustainability assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R5360.20 and 5360.21 A1, the practitioner shall, on request by the proposed practitioner pursuant to paragraph R5320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed practitioner. The predecessor practitioner shall do so, even in the circumstances addressed in paragraph R5320.8(b) where the sustainability assurance client fails or refuses to grant the predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, unless prohibited by law or regulation.

5360.22 A1 The facts and other information to be provided are those that, in the predecessor practitioner's opinion, the proposed practitioner needs to be aware of before deciding whether to accept the appointment. Section 5320 addresses communications from proposed practitioners.

R5360.23 If the proposed practitioner is unable to communicate with the predecessor practitioner, the proposed practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

5360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

5360.24 A1 As assessment of the matter might involve complex analysis and judgments, the practitioner might consider:

- Consulting internally.

- Obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

5360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

5360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the sustainability assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The sustainability assurance client is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The sustainability assurance client is regulated and the matter is of such significance as to threaten its license to operate.
- The sustainability assurance client is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the client's securities or pose a systemic risk to the financial markets.
- It is likely that the sustainability assurance client would sell products that are harmful to public health or safety.
- The sustainability assurance client is promoting a scheme to its clients to assist them in evading taxes.

5360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the sustainability assurance practitioner or other individuals.

R5360.26 If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

Imminent Breach

R5360.27 In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

Documentation

R5360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.20.

5360.28 A1 This documentation is in addition to complying with the documentation requirements in relation to non-compliance or suspected non-compliance under applicable sustainability assurance standards.

Sustainability Assurance Engagements Not Within the Scope of the International Independence Standards in this Part and Other Professional Services

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

R5360.29 If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional service for a sustainability assurance client becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

5360.29 A1 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgment. However, the practitioner is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the practitioner was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.29 A2 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R5360.30 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management. If the practitioner has access to those charged with governance, the practitioner shall also discuss the matter with them where appropriate.

- 5360.30 A1 The purpose of the discussion is to clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.
- 5360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
 - The individuals actually or potentially involved.
 - The likelihood of collusion.
 - The potential consequences of the matter.
 - Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Sustainability Assurance Client's External Auditor

- R5360.31** If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional service for a sustainability assurance client that is:
- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm,
- the practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.
- R5360.32** If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional service for a sustainability assurance client that is:
- (a) An audit client of a network firm; or
- (b) A component of an audit client of a network firm,
- the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.
- R5360.33** If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional service for a sustainability assurance client that is not:
- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,
- the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the sustainability assurance client's external auditor, if any.

Relevant Factors to Consider

- 5360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R5360.31 to

R5360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.

Purpose of Communication

5360.35 A1 In the circumstances addressed in paragraphs R5360.31 to R5360.33, the purpose of the communication is to enable the engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code.

Considering Whether Further Action Is Needed

R5360.36 The sustainability assurance practitioner shall also consider whether further action is needed in the public interest.

5360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.36 A2 Further action by the sustainability assurance practitioner might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.

R5360.37 If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

Imminent Breach

R5360.38 In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

Seeking Advice

5360.39 A1 The sustainability assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

5360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the judgments made and the decisions that were taken.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.36.

SECTION 5380

TAX PLANNING SERVICES

Introduction

- 5380.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5380.2 Providing tax planning services might create self-interest, self-review, advocacy, or intimidation threats to compliance with the fundamental principles.
- 5380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning services to a sustainability assurance client. This section also requires a sustainability assurance practitioner to comply with relevant tax laws and regulations when providing such services.

Requirements and Application Material

General

Public Interest Role of Sustainability Assurance Practitioners in Relation to Tax Planning Services

- 5380.4 A1 Sustainability assurance practitioners providing tax planning services to sustainability assurance clients play an important role by contributing their expertise to assist those clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, practitioners help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.
- 5380.4 A2 Clients are entitled to organize their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, sustainability assurance practitioners' role is to use their expertise to assist their sustainability assurance clients in achieving their tax planning goals and meeting their tax obligations. However, when practitioners provide such assistance, it might involve certain tax minimization arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.
- 5380.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

Description of Tax Planning Services

- 5380.5 A1 Tax planning services are advisory services designed to assist a sustainability assurance client, in planning or structuring the client's affairs in a tax-efficient manner.
- 5380.5 A2 Tax planning services cover a broad range of topics or areas. Examples of such services include:
- Advising an entity to structure its tax affairs to achieve investment goals.
 - Advising an entity on structuring its ownership of, and income from, separate businesses to minimize its overall taxes.
 - Advising an entity on structuring its international operations to minimize its overall taxes.
 - Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.

- Advising on the utilization of losses in a tax-efficient manner.
- Advising an entity on the structuring of its capital distribution strategy in a tax-efficient manner.
- Advising an entity on structuring its compensation strategy for senior executives to optimize the tax benefits.

5380.5 A3 Tax planning services do not include services that are generally referred to as tax compliance or tax preparation, which are services to assist the sustainability assurance client in fulfilling the client's filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax service comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

5380.5 A4 This section applies regardless of the nature of the sustainability assurance client, including whether it is a public interest entity.

Related Services

5380.6 A1 There might be circumstances where a sustainability assurance practitioner is engaged to provide a related service to a sustainability assurance client that is based on or linked to a tax planning arrangement developed by the client or a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

5380.6 A2 Examples of such related services include:

- Assisting the sustainability assurance client in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the sustainability assurance client in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the sustainability assurance client.
- Advising the sustainability assurance client on an acquisition where the valuation depends on the tax planning arrangement established by the target.

Compliance with Laws and Regulations

5380.7 A1 This section does not address tax evasion, which is illegal.

Anti-avoidance Laws and Regulations

R5380.8 Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a sustainability assurance practitioner shall obtain an understanding of those laws and regulations and advise the sustainability assurance client to comply with them when providing tax planning services.

Non-compliance with Tax Laws and Regulations

5380.8 A1 If, in the course of providing tax planning services, a sustainability assurance practitioner becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a sustainability assurance client, management, those charged with governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 5360 apply.

Responsibilities of Management and Those Charged with Governance

5380.9 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the sustainability assurance client's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the sustainability assurance client to fulfill its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the sustainability assurance practitioner to perform the tax planning service.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the sustainability assurance practitioner's recommendation or advice on a tax planning arrangement.
- Authorizing the submission of the sustainability assurance client's tax returns and ensuring that any matters raised by the relevant tax authorities are addressed in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the financial statements, sustainability disclosures or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the sustainability assurance client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

Responsibilities of All Sustainability Assurance Practitioners

R5380.10 As part of providing a tax planning service, a sustainability assurance practitioner shall obtain an understanding of the nature of the engagement, including:

- (a) Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance, and its business activities;
- (b) The purpose, facts and circumstances of the tax planning arrangement; and
- (c) The relevant tax laws and regulations.

5380.10 A1 The requirements and application material in Section 5320 apply with respect to client and engagement acceptance.

[Paragraph 5380.10 A2 is intentionally left blank]

5380.11 A1 A sustainability assurance practitioner is expected to apply professional competence and due care in accordance with Subsection 5113 when providing a tax planning service. The practitioner is also expected to have an inquiring mind and exercise professional judgment in accordance with Section 5120 when considering the specific facts and circumstances relating to the tax planning service.

Basis for Recommending or otherwise Advising on a Tax Planning Arrangement

R5380.12 A sustainability assurance practitioner shall recommend or otherwise advise on a tax planning arrangement to a sustainability assurance client only if the practitioner has determined that there is a credible basis in laws and regulations for the arrangement.

5380.12 A1 The determination of whether there is a credible basis involves the exercise of professional judgment by the sustainability assurance practitioner. This determination will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.

5380.12 A2 If the sustainability assurance practitioner determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R5380.12 does not preclude the practitioner from explaining to the sustainability assurance client the practitioner's rationale for the determination or advising on an alternative arrangement that has a credible basis.

5380.12 A3 Paragraph R5380.12 also does not preclude the sustainability assurance practitioner from being engaged by the sustainability assurance client, or otherwise assisting the client, to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of service is a related service as described in paragraphs 5380.6 A1 and A2. This includes, for example:

- Assisting the client to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution service.
- Agreeing with the client appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the client in administrative or court proceedings.

5380.12 A4 Examples of actions that a sustainability assurance practitioner might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
- Consulting with legal counsel or other experts within or outside the sustainability assurance practitioner's firm regarding what a reasonable interpretation of the relevant laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

R5380.13 If, during the course of the engagement, the sustainability assurance practitioner becomes aware of circumstances that might impact the previous determination of the credible basis, the practitioner shall re-assess the validity of that basis.

Consideration of the Overall Tax Planning Recommendation or Advice

R5380.14 In addition to determining that there is a credible basis for the tax planning arrangement, the sustainability assurance practitioner shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

5380.14 A1 The reputational and commercial consequences might relate to business implications to the sustainability assurance client or implications to the reputation of the client or a relevant profession or a group of practitioners to which the sustainability assurance practitioner might belong from a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

5380.14 A2 An awareness of the wider economic consequences might take into account the sustainability assurance practitioner's general understanding of the current economic environment and the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the sustainability assurance client operates.

R5380.15 If, having considered the matters set out in paragraph R5380.14, the sustainability assurance practitioner decides not to recommend or otherwise advise on a tax planning arrangement that the sustainability assurance client would like to pursue, the practitioner shall inform the client of this and explain the basis for the practitioner's conclusion.

Tax Planning Arrangements Involving Multiple Jurisdictions

5380.16 A1 There might be circumstances where a sustainability assurance practitioner becomes aware that a sustainability assurance client is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and regulations of each jurisdiction, the practitioner might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

5380.16 A2 Relevant factors the sustainability assurance practitioner might consider in determining whether to advise the sustainability assurance client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

Circumstances of Uncertainty

5380.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a sustainability assurance practitioner might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the practitioner to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

5380.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
 - Gaps in the tax laws and regulations.
 - Challenges to previous court rulings.
 - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
 - Innovative business models not addressed by the current tax laws and regulations.
 - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
 - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
 - Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

R5380.18 Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a sustainability assurance practitioner shall discuss the uncertainty with the sustainability assurance client.

5380.18 A1 The discussion serves a number of purposes, including:

- Explaining the sustainability assurance practitioner's assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from the sustainability assurance client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the sustainability assurance client, including consideration of disclosure to the relevant tax authorities.

Potential Threats Arising from Providing a Tax Planning Service

5380.19 A1 Providing a tax planning service to a sustainability assurance client might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a sustainability assurance practitioner has recently provided a valuation service to a client for tax purposes, the output of which is then relied upon or is a key input to a tax planning service for the client.

- A self-interest threat might be created when a sustainability assurance practitioner has a direct financial interest in a client and the accountant is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner actively promotes a particular tax position a client should adopt.
- A self-interest threat might be created when a sustainability assurance practitioner is in possession of confidential information obtained from the practitioner's involvement in formulating or drafting tax policy, laws or regulations for a government agency and the confidential information would be valuable to the practitioner in advising other clients on their tax planning arrangements.
- A self-interest threat might be created when a sustainability assurance practitioner accepts a fee that might be perceived to be excessive for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner advocates a client's position in a tax planning arrangement which the practitioner previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the practitioner's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner is threatened with dismissal from the engagement or the practitioner's firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

5380.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the sustainability assurance client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the sustainability assurance practitioner knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the sustainability assurance practitioner's expertise in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.

- The extent to which the sustainability assurance practitioner is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the sustainability assurance client or another party on the sustainability assurance practitioner.
- The degree of urgency in implementing the tax planning arrangement.
- Whether it is a tax planning arrangement used for multiple sustainability assurance clients with little modification for the client's specific circumstances.
- The known previous behavior or reputation of the sustainability assurance client, including its organizational culture.

5380.19 A3 Examples of actions that might eliminate such threats include:

- Referring the sustainability assurance client to an expert outside the sustainability assurance practitioner's firm who has the necessary expertise to advise the client on the tax planning arrangement.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising the sustainability assurance client not to pursue the tax planning arrangement.

5380.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the sustainability assurance client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with a legal counsel or other expert within or outside the sustainability assurance practitioner's firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or a professional accountant) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the sustainability assurance practitioner with respect to the tax planning arrangement.
- Having the sustainability assurance client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

5380.19 A5 Examples of steps a sustainability assurance practitioner might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within the sustainability assurance client.

- Making inquiries of others within or outside the firm who have dealt with the sustainability assurance client, having regard to the principle of confidentiality.
- Reviewing the sustainability assurance client's tax records, financial statements and other relevant corporate records.
- Making inquiries of registrars where the sustainability assurance client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

Communication of Basis of the Tax Planning Recommendation or Advice

R5380.20 A sustainability assurance practitioner shall explain the basis on which the practitioner recommended or otherwise advised on a tax planning arrangement to the sustainability assurance client.

Disagreement with the Sustainability Assurance Client

R5380.21 If the sustainability assurance practitioner disagrees that a tax planning arrangement that a sustainability assurance client would like to pursue has a credible basis, the practitioner shall:

- (a) Inform the client of the basis of the practitioner's assessment;
- (b) Communicate to the client the potential consequences of pursuing the arrangement; and
- (c) Advise the client not to pursue the arrangement.

R5380.22 If the sustainability assurance client decides to pursue the tax planning arrangement despite the sustainability assurance practitioner's advice to the contrary, the practitioner shall advise the client to:

- (a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;
- (b) Consider making full disclosure of the arrangement to the relevant tax authorities; and
- (c) Consider communicating the details of the arrangement and the difference of views to the external auditor, if any.

5380.22 A1 As part of communicating the matters set out in paragraphs R5380.21 and R5380.22, a sustainability assurance practitioner might consider it appropriate to raise the relevant matters with those charged with governance of the sustainability assurance client.

R5380.23 In light of the sustainability assurance client's response to the sustainability assurance practitioner's advice, the practitioner shall consider whether there is a need to withdraw from the engagement and the professional relationship.

Tax Planning Products or Arrangements Developed by a Third Party

R5380.24 If a sustainability assurance client engages a sustainability assurance practitioner to advise on a tax planning product or arrangement developed by a third party, the practitioner shall:

- (a) Inform the client of any professional or business relationship the sustainability assurance practitioner has with the third-party provider; and
- (b) Apply the provisions in this section with respect to the tax planning product or arrangement.

R5380.25 If a sustainability assurance practitioner recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the practitioner shall inform the client of any professional or business relationship the practitioner has with the third-party provider.

5380.25 A1 Where the sustainability assurance practitioner only recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the provisions of this section do not apply.

5380.25 A2 If a sustainability assurance practitioner receives a referral fee or commission from the third-party provider, the provisions in Section 5330 apply.

Documentation

5380.26 A1 When providing a tax planning service, a sustainability assurance practitioner is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The practitioner's analysis, the courses of action considered, the judgments made, and the conclusions reached in advising the sustainability assurance client on the tax planning arrangement.
- The results of discussions with the sustainability assurance client and other parties.
- The sustainability assurance client's response to the practitioner's advice.
- Any disagreement with the sustainability assurance client.

5380.26 A2 Preparing such documentation assists the sustainability assurance practitioner to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.
- Develop the practitioner's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgments at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the practitioner has complied with the provisions in this section.

SECTION 5390

USING THE WORK OF AN EXTERNAL EXPERT

[Placeholder – The provisions in Section 390 “Using the Work of an External Expert” are included in the Final Pronouncement addressing Using the Work of an External Expert]

(....)

INTERNATIONAL INDEPENDENCE STANDARDS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

SECTION 5400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

General

5400.1 It is in the public interest and required by the Code that sustainability assurance practitioners be independent when performing sustainability assurance engagements.

[Paragraph 5400.2 is intentionally left blank]

5400.3 In the International Independence Standards in this Part, the term “sustainability assurance practitioner” refers to individuals conducting sustainability assurance engagements or, as applicable, their firms.

5400.3a The International Independence Standards in this Part apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

Scope of the International Independence Standards in Part 5

5400.3b The International Independence Standards in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:

- (a) Is reported in accordance with a general purpose framework; and
- (b) Is
 - (i) Required to be provided in accordance with law or regulation; or
 - (ii) Publicly disclosed to support decision-making by investors or other users.

5400.3c Law or regulation might also require the application of the International Independence Standards in Part 5 to sustainability assurance engagements other than those described in paragraph 5400.3b.

5400.3d An assurance engagement might be either an attestation engagement or a direct engagement. The International Independence Standards in this Part cover only sustainability assurance engagements that are attestation engagements.

5400.3e Part 4B of the Code sets out International Independence Standards for other sustainability assurance engagements that are not within the scope of the International Independence Standards in this Part. These include, for example:

- A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported solely in accordance with:

- A framework designed to meet the information needs of specified users; or
- Entity-developed criteria.
- A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

Quality Management

5400.3f Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. Sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, ISSA 5000 requires compliance with ISQM 1 or professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as ISQM 1.

5400.4 Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of the International Independence Standards in this Part do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference.

5400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a sustainability assurance team member's, integrity, objectivity, or professional skepticism has been compromised.

In the International Independence Standards in this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

5400.6 When performing sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 5120 applies to independence as it does to the fundamental principles set out in Section 5110. Section 5405 sets out specific requirements and application material applicable in a group sustainability assurance engagement.

5400.7 The International Independence Standards in this Part describe:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Sustainability Assurance Team

- 5400.8 The International Independence Standards in this Part apply to all sustainability assurance team members, including engagement team members.
- 5400.9 An engagement team for a sustainability assurance engagement includes all leaders and staff in the firm who perform assurance procedures on the engagement, and any other individuals who perform such procedures who are from within or outside the firm's network.

[Paragraph 5400.10 is intentionally left blank]

- 5400.10a If the firm intends to use the assurance work of another sustainability assurance practitioner and the firm is able to be sufficiently and appropriately involved in the practitioner's work, that practitioner is a member of the engagement team. For example, an individual from a component practitioner who performs assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.
- 5400.11 Sustainability assurance engagements might be performed on a wide range of sustainability matters that require specialized skills and knowledge beyond those possessed by the engagement team. A sustainability assurance engagement might therefore involve experts within, or engaged by, the firm, a network firm, or a component practitioner who assist in the engagement. Depending on the role of the individuals, they might be engagement team or sustainability assurance team members. For example:
- Individuals with expertise in a specialized area of sustainability reporting or assurance who perform assurance procedures are engagement team members. These include, for example, individuals with expertise in the measurement of specific sustainability matters or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
 - Individuals within, or engaged by, the firm who have direct influence over the outcome of the sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are sustainability assurance team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor sustainability assurance team members. [Ref.: Section 5390]

- 5400.12 If the sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are sustainability assurance team members but not engagement team members.

Involvement of Another Practitioner in a Sustainability Assurance Engagement

- 5400.12a In performing a sustainability assurance engagement, a firm might intend to use the assurance work

of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in that work. For example:

- The sustainability assurance client might have chosen to engage the other practitioner in relation to certain sustainability information and that other practitioner might already have completed its engagement, or might be unable to cooperate with the firm because there are restrictions on access to information or people due to law, regulation or other conditions.
- The work might be performed at a value chain component.

5400.12b When the firm intends to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in the work, that other sustainability assurance practitioner is “another practitioner” for the purposes of this Part. The individuals from another practitioner are not members of the engagement team. Section 5406 of this Part sets out specific requirements and application material when a firm intends to use the assurance work of another practitioner.

Public Interest Entities

5400.13 Some of the requirements and application material set out in this Part are applicable only to the sustainability assurance engagements of public interest entities. An entity is a public interest entity in this Part if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.

5400.13a A firm performing the audit of an entity’s financial statements might decide to voluntarily treat the entity as a public interest entity. In such circumstances, this does not mean that another firm performing a sustainability assurance engagement for that entity is required to treat that entity as a public interest entity for the purposes of the sustainability assurance engagement.

5400.13b Laws and regulations might also determine an entity to be a public interest entity for the purposes of a sustainability assurance engagement.

[Paragraph 5400.14 is intentionally left blank]

5400.15 Stakeholders have heightened expectations regarding the independence of a firm performing a sustainability assurance engagement for a public interest entity. The purpose of the requirements and application material for public interest entities is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s sustainability information that can be used for their decision-making purposes.

[Paragraph 5400.16 is intentionally left blank]

Firms Performing Both Audit and Sustainability Assurance Engagements

5400.16a Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both a sustainability assurance engagement and an audit or review engagement for the same client, the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part apply to the firm, a network firm and the audit team members.

[Paragraph 5400.17 is intentionally left blank]

Requirements and Application Material

General

R5400.18 A firm performing a sustainability assurance engagement shall be independent.

R5400.19 A firm shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement.

Prohibition on Assuming Management Responsibilities

R5400.20 A firm or a network firm shall not assume a management responsibility for a sustainability assurance client.

5400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

5400.20 A2 When a firm or a network firm assumes a management responsibility for a sustainability assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

5400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction, for example, setting sustainability policies and goals.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - Developing criteria used by the client for reporting sustainability information.
 - The preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework, including identifying material sustainability matters to be reported.
 - Designing, implementing, monitoring or maintaining internal control.
 - Supply chain management.
 - Designing or implementing software to collect or produce sustainability data for the client.
 - Reporting on environmental credits or offsets.
 - Resource allocation for sustainability initiatives.
- Controlling or managing bank accounts or investments.

5400.20 A4 Subject to compliance with paragraph R5400.21, providing advice and recommendations to assist the management of a sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to a sustainability assurance client might create a self-review threat and is addressed in Section 5600.

R5400.21 When performing a professional activity for a sustainability assurance client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

5400.21 A1 When technology is used in performing a professional activity for a sustainability assurance client, the requirements in paragraphs R5400.20 and R5400.21 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

[Paragraphs R5400.22 to 5400.24 A1 are intentionally left blank]

R5400.25 Subject to paragraph R5400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 5400.13 in performing a sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R5400.26 As an exception to paragraph R5400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R5400.27 As defined, a sustainability assurance client that is a publicly traded entity includes all of its related entities. For all other entities, references to a sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 5400.28 to 5400.29 are intentionally left blank]

Period During which Independence is Required

R5400.30 Independence, as required by the International Independence Standards in this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The reporting period for the engagement.

5400.30 A1 The engagement period starts when the engagement team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

5400.30 A2 The reporting period for the engagement might be the same as the period covered by the financial statements. The reporting period for the engagement does not refer to the period covered by the sustainability information from the start of historical information to the end of any forward-looking information.

R5400.31 If an entity becomes a sustainability assurance client during or after the reporting period for the engagement, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the sustainability assurance client during or after the reporting period for the engagement but before accepting the sustainability assurance engagement; or
- (b) Previous services provided to the sustainability assurance client by the firm or a network firm.

5400.31 A1 Threats to independence are created if a non-assurance service was provided to a sustainability assurance client during, or after the reporting period for the engagement, but before the engagement team begins to perform the sustainability assurance engagement, and the service would not be permitted during the engagement period.

5400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

5400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the sustainability assurance work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

- 5400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the sustainability assurance engagement period or prior to the reporting period for the engagement is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period for which a sustainability assurance engagement has been undertaken by another firm.

Sustainability Assurance Clients that are Public Interest Entities

R5400.32 A firm shall not accept appointment to perform a sustainability assurance engagement for a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the sustainability information on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the sustainability assurance engagement period;
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

5400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment to perform a sustainability assurance engagement to that entity include:

- The results of the service had been subject to sustainability assurance procedures in the course of the sustainability assurance engagement of the prior period's sustainability information by a predecessor firm.
- The firm engages a practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a review of the first sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,

to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 5400.33 to 5400.39 are intentionally left blank]

Communication with those Charged with Governance

5400.40 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

5400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 5400.41 to 5400.49 are intentionally left blank]

Network Firms

5400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R5400.51 A network firm shall be independent of the sustainability assurance clients of the other firms within the network as required by this Part.

5400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R5400.52 When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

R5400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 5400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 5400.53 A3);
- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 5400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 5400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 5400.53 A6, 5400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 5400.53 A8, 5400.53 A9).

- 5400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R5400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.
- 5400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R5400.53(a)).
- 5400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R5400.53(b)).
- 5400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R5400.53(c)).
- 5400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R5400.53(d)).
- 5400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a leader of the firm signs a sustainability assurance report. (Ref: Para. R5400.53(e)).
- 5400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R5400.53(e)).
- 5400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
 - Leaders and other personnel.
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
 - Sustainability assurance methodology or sustainability assurance manuals.
 - Training courses and facilities. (Ref: Para. R5400.53(f)).
- 5400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common sustainability assurance methodology or sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.

- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R5400.53(f)).

R5400.54 If a firm or a network sells a part of its practice, and that part continues to use wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

5400.54 A1 The agreement for the sale of a part of a practice might provide that, for a limited period of time, that part can continue to use wholly or partly the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 5400.55 to 5400.59 are intentionally left blank]

General Documentation of Independence for Sustainability Assurance Engagements

R5400.60 A firm shall document conclusions regarding compliance with the International Independence Standards in this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

5400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with the International Independence Standards in this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 5400.61 to 5400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

5400.70 A1 An entity might become a related entity of a sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue a sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R5400.71 In the circumstances set out in paragraph 5400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the sustainability assurance engagement after the effective date of the merger or acquisition; and

- (b) Subject to paragraph R5400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R5400.72 As an exception to paragraph R5400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

5400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

5400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R5400.73 If, following the discussion set out in paragraph R5400.72(b), those charged with governance request the firm to continue the sustainability assurance engagement, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 5600 and its subsections, will not be a member of the engagement team for the sustainability assurance engagement or the individual responsible for the engagement quality review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

5400.73 A1 Examples of such transitional measures include:

- Having a sustainability assurance practitioner review the sustainability assurance or non-assurance work as appropriate.
- Having a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.74 The firm might have completed a significant amount of work on the sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining assurance procedures within a short period of time. In such circumstances, if those charged

with governance request the firm to complete the sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 5400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R5400.73(b) to (c); and
- (c) Ceases to perform the sustainability assurance engagement no later than the date that the sustainability assurance report is issued.

If Objectivity Remains Compromised

R5400.75 Even if all the requirements of paragraphs R5400.71 to R5400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 5400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to perform the sustainability assurance engagement.

Documentation

R5400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 5400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 5400.77 to 5400.79 are intentionally left blank.]

Breach of an Independence Provision for Sustainability Assurance Engagements

When a Firm Identifies a Breach

R5400.80 If a firm concludes that a breach of an independence requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement leader;
 - (ii) The individual with operational responsibility for compliance with independence requirements;

- (iii) Other relevant personnel in the firm and, where appropriate, the network; and
- (iv) Those subject to the independence requirements in Part 5 who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue a sustainability assurance report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the sustainability assurance engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue a sustainability assurance report.

5400.80 A1 A breach of an independence provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the sustainability assurance engagement because of the breach.

5400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue a sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current sustainability assurance engagement.
- Whether a sustainability assurance team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is a sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to a sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the records underlying, or data comprising, the sustainability information on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

5400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the sustainability assurance team.
- Using different individuals to conduct an additional review of the affected assurance work or to re-perform that work to the extent necessary.
- Recommending that the sustainability assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary.
- If the breach relates to a non-assurance service that affects the records underlying, or data

comprising, the sustainability information on which the firm will express an opinion, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R5400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue a sustainability assurance report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

5400.83 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

R5400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R5400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R5400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R5400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the sustainability assurance engagement in accordance with paragraph R5400.81.

Breaches Before the Previous Sustainability Assurance Report Was Issued

- R5400.86** If the breach occurred prior to the issuance of the previous sustainability assurance report, the firm shall comply with the independence provisions of this Part in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue a sustainability assurance report in the current period.
- R5400.87** The firm shall also:
- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued sustainability assurance reports, and the possibility of withdrawing such reports; and
 - (b) Discuss the matter with those charged with governance.

Documentation

- R5400.88** In complying with the requirements in paragraphs R5400.80 to R5400.87, the firm shall document:
- (a) The breach;
 - (b) The actions taken;
 - (c) The key decisions made;
 - (d) All the matters discussed with those charged with governance; and
 - (e) Any discussions with a professional or regulatory body or oversight authority.
- R5400.89** If the firm continues with the sustainability assurance engagement, it shall document:
- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
 - (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue a sustainability assurance report.

SECTION 5405

GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

5405.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group sustainability assurance engagement.

Requirements and Application Material

General

- 5405.2 A1 Depending on the sustainability reporting framework, the firm might express an opinion on group sustainability information that includes information about components required to be included in the group financial statements (group components). The applicable sustainability reporting framework might also require the sustainability information to be extended to include information from other entities (for example, value chain components). Such sustainability information, including information from the value chain, constitutes group sustainability information for the purposes of this Part.
- 5405.2 A1a The firm might perform assurance work, or use the assurance work of another sustainability assurance practitioner performed, at the sustainability assurance client or at a value chain component, for purposes of the group sustainability assurance engagement. That other sustainability assurance practitioner is a component practitioner where the group sustainability assurance firm is able to be sufficiently and appropriately involved in the assurance work of that other practitioner.
- 5405.2 A1b Subsection A below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a group sustainability assurance client or a group component.
- 5405.2 A1c Subsection B below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a value chain component for purposes of the group sustainability assurance engagement.
- 5405.2 A1d Where the group sustainability assurance firm intends to use the assurance work of another practitioner for purposes of the group sustainability assurance engagement and the group sustainability assurance firm is unable to be sufficiently and appropriately involved in the assurance work of that practitioner, Section 5406 applies.
- 5405.2 A2 A component practitioner that participates in a group sustainability assurance engagement might separately issue an assurance opinion on the sustainability information of the component. Depending on the circumstances, the component practitioner might need to comply with different independence requirements when performing assurance work for a group sustainability assurance engagement and separately issuing an assurance opinion on the sustainability information of the component for statutory, regulatory or other reasons.
- 5405.2 A3 This section sets out independence requirements applicable when the group sustainability assurance firm or a component practitioner performs assurance work at a component. These requirements apply when the group sustainability assurance firm has determined that, to obtain evidence for purposes of

the group sustainability assurance engagement, assurance procedures need to be performed on the data or information maintained by the component which underlies the component's sustainability information. Accordingly:

- If the group sustainability assurance firm or a component practitioner performs assurance procedures on the underlying data or information maintained by the component to identify and assess or to respond to risks of material misstatement of the component's sustainability information, the group sustainability assurance firm or the component practitioner is subject to the independence requirements in this section with respect to that component.
- If the group sustainability assurance firm performs planning procedures at the group level solely to determine whether an entity or a business unit is a value chain component at which assurance work will be performed for purposes of the group sustainability assurance engagement, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that entity or business unit.
- If the group sustainability assurance firm obtains evidence about a value chain component's sustainability information without performing procedures on the underlying data or information maintained by the component, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that component.

Communication Between a Group Sustainability Assurance Firm and a Component Practitioner

R5405.3 The group engagement leader shall take responsibility to make a component practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable given the nature and the circumstances of the group sustainability assurance engagement. When making the component practitioner aware of the relevant ethics, including independence, provisions, the group sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component practitioner to meet its responsibilities under this section.

5405.3 A1 Examples of matters the group sustainability assurance firm might communicate include:

- Whether the group sustainability assurance client is a public interest entity and the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement.
- The related entities and other group components within the group sustainability assurance client that are relevant to the independence considerations applicable to the component practitioner and the group sustainability assurance team members within, or engaged by, that practitioner.
- The period during which the component practitioner is required to be independent.
- Whether a sustainability assurance leader who performs work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement.

R5405.4 The group engagement leader shall take responsibility for requesting the component practitioner to confirm whether it understands and will comply with the relevant provisions of this Part that apply to the group sustainability assurance engagement. The group engagement leader shall also request the component practitioner to communicate:

- (a) Any independence matters that require significant judgment; and

- (b) In relation to those matters, the component practitioner's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

R5405a If a matter comes to the attention of the group engagement leader that indicates that a threat to independence exists, the group engagement leader shall evaluate the threat and take appropriate action.

A – Requirements and Application Material When Assurance Work is Performed at a Group Sustainability Assurance Client or a Group Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm and Its Network Firms

R5405.5 Members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm and its network firms shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

Other Members of the Group Sustainability Assurance Team

R5405.6 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of:

- (a) The group component;
- (b) The entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the group component,

in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

R5405.7 In relation to related entities or other group components within the group sustainability assurance client other than those covered in paragraph R5405.6, if a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, a member of the group sustainability assurance team within, or engaged by, that component practitioner shall notify the component practitioner about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group sustainability assurance engagement.

5405.7A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R5405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group sustainability assurance client if the group sustainability assurance client is material to that entity (see Section 5510).

- A loan or guarantee involving: (see Section 5511)
 - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
 - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 5520).
- An immediate family member who is: (see Section 5521)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.
- The individual serving as, or having recently served as: (see Section 5522 and Section 5523)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.

R5405.8 Upon receiving the notification as set out in paragraph R5405.7, the component practitioner shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

R5405.9 A group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Sustainability Assurance Firm

R5405.10 A network firm of the group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

All Group Sustainability Assurance Clients

R5405.11 A component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, shall:

- (a) Be independent of the group component in accordance with the requirements of this Part that are applicable to a firm with respect to all sustainability assurance clients;
- (b) Apply the relevant requirements in paragraphs R5510.4(a), R5510.7 and R5510.9 with respect to financial interests in the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Apply the relevant requirements in Section 5511 with respect to loans and guarantees involving the entity on whose group sustainability information the group sustainability assurance firm

expresses an opinion.

R5405.12 When a component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance involving the group sustainability assurance client, beyond those addressed in paragraph R5405.11(b) and (c), is relevant to the evaluation of the component practitioner's independence from the group component, the component practitioner shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R5405.13 When a component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance of a firm within the component practitioner's network with the group component or the group sustainability assurance client creates a threat to the component practitioner's independence, the component practitioner shall evaluate and address any such threat.

[Paragraph 5405.14 A1 is intentionally left blank]

Group Sustainability Assurance Clients that are Not Public Interest Entities

R5405.15 When the group sustainability assurance client is not a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component for purposes of the group sustainability assurance engagement shall be independent of the group component in accordance with the requirements set out in this Part that are applicable to sustainability assurance clients that are not public interest entities.

5405.15 A1 Where a component practitioner outside the group sustainability assurance firm's network also performs a sustainability assurance engagement for a group component that is a public interest entity for reasons other than the group sustainability assurance engagement, for example, a statutory sustainability assurance engagement, the independence requirements that are relevant to sustainability assurance clients that are public interest entities apply to that engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

Non-Assurance Services

R5405.16 Subject to paragraph R5405.17, when the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component shall comply with the provisions in Section 5600 that are applicable to public interest entities with respect to the provision of non-assurance services to the group component.

5405.16 A1 Where the group sustainability assurance client is a public interest entity and the group component at which assurance work is performed is not a public interest entity, the component practitioner outside the group sustainability assurance firm's network performing assurance work at that group component is prohibited from, for example:

- Providing to the group component, sustainability data and information services that might affect the sustainability information on which the component practitioner will perform assurance work (see Subsection 5601).
- Designing the information technology system, or an aspect of it, for the group component where such information technology system generates information for the group component's sustainability information, or the sustainability records underlying that information, on which the component practitioner will perform assurance work (see Subsection 5606).

- Acting in an advocacy role for the group component in resolving a dispute or litigation before a tribunal or court (see Subsection 5608).

5405.16 A2 The sustainability information on which a component practitioner outside the group sustainability assurance firm's network performs assurance procedures is relevant to the evaluation of the self-review threat that might be created by the component practitioner's provision of a non-assurance service, and therefore the application of Section 5600. For example, if the component practitioner's assurance procedures are limited to a specific item such as greenhouse gas emissions, the results of any non-assurance service that form part of or affect the sustainability records or the sustainability information related to the reporting on, or the internal controls over, greenhouse gas emissions are relevant to the evaluation of the self-review threat.

R5405.17 As an exception to paragraph R5405.16, a component practitioner outside the group sustainability assurance firm's network may provide a non-assurance service that is not prohibited under Section 5600 to a group component without communicating information about the proposed non-assurance service to those charged with governance of the group sustainability assurance client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R5600.22 to R5600.25.

Key Sustainability Assurance Leaders

R5405.18 The group engagement leader shall determine whether a sustainability assurance leader who performs assurance work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement. If so, the group engagement leader shall:

- (a) Communicate that determination to that individual; and
- (b) Indicate:
 - (i) In the case of all group sustainability assurance clients, that the individual is subject to paragraph R5411.4; and
 - (ii) In the case of group sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R5524.6, R5540.7(c) and R5540.23.

5405.18 A1 A key sustainability assurance leader makes key decisions or judgments on significant matters with respect to the group sustainability information on which the group sustainability assurance firm expresses an opinion in the group sustainability assurance engagement.

Changes in Group Components

R5405.19 When an entity that is not a related entity becomes a group component within the group sustainability assurance client, the group sustainability assurance firm shall apply the requirements in paragraphs R5400.71 to R5400.76 with respect to the change regarding the group component for purposes of the sustainability assurance engagement.

Changes in Component Practitioners that Perform Assurance Work at Group Components

All Group Sustainability Assurance Clients

5405.20 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a group component during or after the reporting period for the engagement, for example, due to a client merger or acquisition. A threat to

the component practitioner's independence might be created by:

- (a) Financial or business relationships of the component practitioner with the group component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or
- (b) Previous services provided to the group component by the component practitioner.

5405.20 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.20 A3 Paragraph 5400.31 A4 sets out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component prior to the reporting period for the engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

5405.21 A1 Paragraphs R5400.32 and 5400.32 A1 are applicable when a component practitioner agrees to perform assurance work for group sustainability assurance purposes in relation to a group sustainability assurance client that is a public interest entity if the component practitioner has previously provided a non-assurance service to the group component.

5405.21 A2 Paragraphs R5600.25 and 5600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component practitioner to a group component when the group sustainability assurance client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Practitioner

5405.22 A1 A breach of a provision of this section might occur despite a component practitioner having a system of quality management designed to address independence requirements. Paragraphs R5405.23 to R5405.29 are relevant to a group sustainability assurance firm's determination as to whether it would be able to use a component practitioner's work if a breach has occurred at the component practitioner.

5405.22 A2 In the case of a breach at a component practitioner within the group sustainability assurance firm's network, paragraphs R5400.80 to R5400.89 also apply to the group sustainability assurance firm in relation to the group sustainability assurance engagement, as applicable.

When a Component Practitioner Identifies a Breach

R5405.23 If a component practitioner concludes that a breach of this section has occurred, the component practitioner shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component practitioner's objectivity and ability to perform assurance work for purposes of the group sustainability assurance engagement;
- (c) Depending on the significance of the breach, determine whether it is possible to take action

that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and

- (d) Promptly communicate in writing the breach to the group engagement leader, including the component practitioner's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

5405.23 A1 Paragraphs 5400.80 A2 and A3 set out application material relevant to the component practitioner's evaluation of the significance and impact of the breach on the component practitioner's objectivity and ability to issue an opinion or conclusion on the assurance work performed at the group component for purposes of the group sustainability assurance engagement, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R5405.24 Upon receipt of the component practitioner's communication of the breach, the group engagement leader shall:

- (a) Review the component practitioner's assessment of the significance of the breach and its impact on the component practitioner's objectivity, and any action that can be or has been taken to address the consequences of the breach;
- (b) Evaluate the group sustainability assurance firm's ability to use the work of the component practitioner for purposes of the group sustainability assurance engagement; and
- (c) Determine the need for any further action.

R5405.25 In applying paragraph R5405.24, the group engagement leader shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component practitioner's objectivity is compromised and, therefore, the group sustainability assurance firm is unable to use the work of the component practitioner for purposes of the group sustainability assurance engagement.

5405.25 A1 If the group engagement leader determines that the consequences of the breach have been satisfactorily addressed by the component practitioner and do not compromise the component practitioner's objectivity, the group sustainability assurance firm may continue to use the work of the component practitioner for the group sustainability assurance engagement. In certain circumstances, the group engagement leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component practitioner's work. Examples of such action include the group sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component practitioner to perform appropriate remedial work on the affected areas.

5405.25 A2 If there has been a breach by a component practitioner and the breach has not been satisfactorily addressed, the group sustainability assurance firm cannot use the work of that component practitioner. In those circumstances, the group engagement leader might find other means to obtain the necessary assurance evidence on the group component's sustainability information. Examples of such means include the group sustainability assurance firm performing the necessary assurance work at the group component or requesting another component practitioner to perform such assurance work.

Discussion with Those Charged with Governance of the Group Sustainability Assurance Client

5405.26 A1 With respect to breaches by a component practitioner within the group sustainability assurance firm's network, paragraph R5400.84 applies.

R5405.27 With respect to breaches by a component practitioner outside the group sustainability assurance firm's network, the group sustainability assurance firm shall discuss with those charged with governance of the group sustainability assurance client:

- (a) The component practitioner's assessment of the significance and impact of the breach on the component practitioner's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and
- (b) Whether
 - (i) The action will satisfactorily address, or has addressed, the consequences of the breach; or
 - (ii) The group sustainability assurance firm will use other means to obtain the necessary assurance evidence on the group component's sustainability information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R5405.28 The group sustainability assurance firm shall communicate in writing to those charged with governance of the group sustainability assurance client all matters discussed in accordance with paragraph R5405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

R5405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component practitioner, the group sustainability assurance firm shall not use the work performed by the component practitioner for purposes of the group sustainability assurance engagement.

B – Requirements and Application Material When Assurance Work is Performed at a Value Chain Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm

R5405.30A If a group sustainability assurance firm performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30A A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.30A A2 If the group sustainability assurance firm performs assurance work at a value chain component, members of the group sustainability assurance team within, or engaged by, firms within the group sustainability assurance firm's network are not subject to the independence requirements of this Part with respect to that value chain component.

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Component Practitioner Within the Group Sustainability Assurance Firm's Network

R5405.30B If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the component practitioner shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30B A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.30B A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, members of the group sustainability assurance team, within, or engaged by, the group sustainability assurance firm or other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Other Members of the Group Sustainability Assurance Team

R5405.31 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a sustainability assurance team.

5405.31 A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component are

not required to comply with the provisions that are applicable to public interest entities.

- 5405.31 A2 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component, members of the group sustainability assurance team members within, or engaged by, the group sustainability assurance firm or its network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

- R5405.32** A group sustainability assurance firm shall be independent of a value chain component at which the group sustainability assurance firm performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.
- 5405.32 A1 When the group sustainability assurance client is a public interest entity, the group sustainability assurance firm performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.
- 5405.32 A2 If the group sustainability assurance firm performs assurance work at a value chain component, network firms of the group sustainability assurance firm are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners Within the Group Sustainability Assurance Firm's Network

- R5405.33** A component practitioner within the group sustainability assurance firm's network shall be independent of a value chain component at which the component practitioner performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.
- 5405.33 A1 When the group sustainability assurance client is a public interest entity, a component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.
- 5405.33 A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, the group sustainability assurance firm and other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

- R5405.34** A component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component for purposes of the group sustainability assurance engagement shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a firm.
- 5405.34 A1 When the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.
- 5405.34 A2 If a component practitioner outside a group sustainability assurance firm's network performs assurance work at a value chain component, the group sustainability assurance firm and its network

firms are not subject to the independence requirements of this Part with respect to that value chain component.

Changes in Value Chain Components

R5405.35 When an entity becomes a value chain component during the reporting period for the engagement and the group sustainability assurance firm performs assurance work at the value chain component for purposes of the group sustainability assurance engagement, the group sustainability assurance firm shall apply paragraph R5400.31 with respect to the change regarding the value chain component.

Changes in Component Practitioners that Perform Assurance Work at Value Chain Components

5405.36 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a value chain component during or after the reporting period for the engagement. A threat to the component practitioner's independence might be created by:

- (a) Financial or business relationships of the component practitioner with the value chain component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or
- (b) Previous services provided to the value chain component by the component practitioner.

5405.36 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.36 A3 Paragraph 5400.31 A4 sets out application material that is applicable to a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component prior to the reporting period for the engagement.

Breach of an Independence Provision at a Component Practitioner

R5405.37 If a component practitioner performing assurance work at a value chain component concludes that a breach of this section has occurred, the group sustainability assurance firm and the component practitioner shall apply, with respect to the value chain component, paragraphs 5405.22 A1 to R5405.29 of subsection A applicable to a group component.

SECTION 5406

ANOTHER PRACTITIONER WHOSE ASSURANCE WORK IS USED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT

Introduction

- 5406.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when a firm intends to use the assurance work of another sustainability assurance practitioner performed at the firm's sustainability assurance client or a value chain component, and the firm is unable to be sufficiently and appropriately involved in that assurance work. Such a practitioner is referred to in this section as "another practitioner." The individuals from another practitioner are not members of the engagement team.
- 5406.2 This section does not apply if the firm intends to use non-assurance work performed by another practitioner at the firm's sustainability assurance client or a value chain component. In such circumstances, the requirement in paragraph R5300.11 applies.

Requirements and Application Material

General

- 5406.3 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. Examples of such circumstance are where the client chooses to engage another practitioner in relation to certain sustainability information, or where another practitioner performs assurance work at a value chain component.
- 5406.3A2 As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

Using the Assurance Work of Another Practitioner Related to a Sustainability Assurance Client

Communication Between the Firm and Another Practitioner

- R5406.4** If the firm determines to use the assurance work of another practitioner relating to the sustainability information of a sustainability assurance client for purposes of the sustainability assurance engagement, the engagement leader shall take responsibility to make that practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable to the sustainability assurance client given the nature and the circumstances of the sustainability assurance engagement. When making another practitioner aware of the relevant provisions in this Part, the firm shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions.
- 5406.4 A1 Examples of matters the firm might communicate include:
- Whether the sustainability assurance client is a public interest entity and the relevant provisions applicable to the sustainability assurance engagement.

- The related entities within the sustainability assurance client that are relevant to the independence considerations applicable to another practitioner.
- The period during which independence is required.

Independence Considerations When the Firm Intends to Use the Assurance Work of Another Practitioner Performed at the Firm's Sustainability Assurance Client

R5406.5 If the firm intends to use the assurance work of another practitioner performed at the firm's sustainability assurance client, the firm shall request that practitioner to confirm that:

- (a) The practitioner meets the independence requirements in this Part applicable to a firm with respect to the entity at which the other practitioner performs assurance work; and
- (b) The individuals from that other practitioner who perform the assurance work meet the independence requirements in this Part applicable to a member of a sustainability assurance team with respect to that entity.

5406.5 A1 If the firm is not able to obtain another practitioner's confirmation of independence in accordance with paragraph R5406.5, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part.

Using the Assurance Work of Another Practitioner Related to a Value Chain Component

R5406.6 If the firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component, the firm shall be satisfied that the other practitioner meets the independence requirements in this Part applicable to a firm with respect to that value chain component.

5406.6 A1 Examples of ways to meet the requirement in paragraph R5406.6 include the firm:

- Reviewing a statement of independence issued by the other practitioner in relation to the assurance work performed at the value chain component.
- Requesting the other practitioner to confirm that the practitioner meets the independence requirements of this Part applicable to a firm with respect to the value chain component.

5406.6 A2 If the firm is not able to be satisfied that the other practitioner meets the independence requirements as set out in paragraph R5406.6, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part for purposes of the sustainability assurance engagement

5406.6 A3 If a firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component for the purposes of the sustainability assurance engagement, the firm is not subject to the independence requirements of this Part with respect to that value chain component.

SECTION 5410

FEES

Introduction

- 5410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5410.2 Section 5330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to sustainability assurance clients.

Requirements and Application Material

General

- 5410.3 A1 Fees for professional services are usually negotiated with and paid by a sustainability assurance client and might create threats to independence. This practice is generally recognized and accepted by intended users of sustainability information.
- 5410.3 A2 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for sustainability assurance clients that are public interest entities.
- 5410.3 A3 For the purposes of this section, sustainability assurance fees comprise fees or other types of remuneration for a sustainability assurance engagement.
- 5410.3 A4 If the firm also performs the audit engagement for the same client, the audit fees and fees for the sustainability assurance engagement are a matter for the firm and the client to agree. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply, in addition to the relevant provisions in Part 4A that apply to the separate audit engagement.

Fees Paid by a Sustainability Assurance Client

- 5410.4 A1 When fees are negotiated with and paid by a sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 5410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts a sustainability assurance engagement, or any other engagement for a sustainability assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the sustainability assurance engagement.
- 5410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for a sustainability assurance engagement, or any other engagement, are paid by the sustainability assurance client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the sustainability assurance engagement and those for services other than the sustainability assurance engagement and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, engagement leader or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than the sustainability assurance engagement are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the firm providing the sustainability assurance service and agreeing fees, and the apparent emphasis they and client management place on the quality of the sustainability assurance engagement and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's sustainability assurance work is subject to the review of an independent third party, such as an oversight body.

- 5410.4 A4 The conditions, policies and procedures described in paragraph 5120.15 A3 (particularly a system of quality management designed, implemented and operated by the firm in accordance with applicable quality management standards) might also impact the evaluation of whether the threats to independence are at an acceptable level.
- 5410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Sustainability Assurance Fees

- 5410.5 A1 Determining the fees to be charged to a sustainability assurance client, whether for the sustainability assurance engagement or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.
- 5410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the sustainability assurance fee paid by the sustainability assurance client include:
- The firm's commercial rationale for the sustainability assurance fee.
 - Whether undue pressure has been, or is being, applied by the client to reduce the sustainability assurance fee.

5410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the sustainability assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the work performed.

Impact of Other Services Provided to a Sustainability Assurance Client

R5410.6 Subject to paragraph R5410.7, a firm shall not allow the sustainability assurance fee to be influenced by the provision of services other than the sustainability assurance engagement to a sustainability assurance client by the firm or a network firm.

5410.6 A1 The sustainability assurance fee ordinarily reflects a combination of matters, such as those identified in paragraph 5410.23 A1. However, the provision of other services to a sustainability assurance client is not an appropriate consideration in determining the sustainability assurance fee.

R5410.7 As an exception to paragraph R5410.6, when determining the sustainability assurance fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than the sustainability assurance engagement to a sustainability assurance client.

Contingent Fees

5410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R5410.9 A firm shall not charge directly or indirectly a contingent fee for a sustainability assurance engagement.

R5410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to a sustainability assurance client, if:

- (a) The fee is charged by the firm expressing the opinion on the sustainability information and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the sustainability assurance engagement and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the assurance of material information in the sustainability information on which the firm will express an opinion.

5410.10 A1 Paragraphs R5410.9 and R5410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with a sustainability assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to a sustainability assurance client, it might still impact the level of the self-interest threat.

5410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee

depends.

- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the sustainability information on which the firm will express an opinion.

5410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Sustainability Assurance to Sustainability Assurance Fee

5410.11 A0 Where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform an audit engagement for the client, paragraphs 5410.11 A2 to A4 apply.

5410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing services other than the sustainability assurance engagement to the client, due to concerns about the potential loss of either the sustainability assurance engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-sustainability assurance relationship, which might create a threat to the sustainability assurance practitioner's independence.

5410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than the sustainability assurance engagement to the sustainability assurance fee.
- The length of time during which a large proportion of fees for services other than the sustainability assurance engagement to the sustainability assurance fee has existed.
- The nature, scope and purposes of the services other than the sustainability assurance engagement, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

5410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement or the service other than the sustainability assurance engagement review the relevant sustainability assurance work.
- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.

Total Fees – Overdue Fees

- 5410.12 A1 The level of the self-interest threat might be impacted if fees payable by a sustainability assurance client for the sustainability assurance engagement or services other than the sustainability assurance engagement are overdue during the period of the sustainability assurance engagement.
- 5410.12 A2 It is generally expected that the firm will obtain payment of such fees before the sustainability assurance report is issued.
- 5410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:
- The significance of the overdue fees to the firm.
 - The length of time the fees have been overdue.
 - The firm's assessment of the ability and willingness of the sustainability assurance client to pay the overdue fees.
- 5410.12 A4 Examples of actions that might be safeguards to address such a threat include:
- Obtaining partial payment of overdue fees.
 - Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the sustainability assurance work.
- R5410.13** When a significant part of the fees due from a sustainability assurance client remains unpaid for a long time, the firm shall determine:
- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 5511 are applicable; and
 - (b) Whether it is appropriate for the firm to be re-appointed or continue the sustainability assurance engagement.

Total Fees – Fee Dependency

All Sustainability Assurance Clients

- 5410.14 A1 When the total fees generated from a sustainability assurance client by the firm expressing the sustainability assurance opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from the sustainability assurance engagement and other services from that client impact the level of the self-interest threat and create an intimidation threat.
- 5410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 5410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
 - Whether the firm is expected to diversify such that any dependence on the sustainability assurance client is reduced.
- 5410.14 A4 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who is not a member of the firm review the sustainability assurance work.
 - Reducing the extent of services other than the sustainability assurance engagement provided

to the sustainability assurance client.

- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

5410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from a sustainability assurance client represent a large proportion of the revenue of one leader or one office of the firm.

5410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the sustainability assurance client to the leader or office.
- The extent to which the compensation of the leader, or the leaders in the office, is dependent upon the fees generated from the client.

5410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement review the sustainability assurance work.
- Ensuring that the compensation of the leader is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than the sustainability assurance engagement provided by the leader or office to the sustainability assurance client.
- Increasing the client base of the leader or the office to reduce dependence on the client.
- Increasing the extent of services provided by the leader or the office to other clients.

Sustainability Assurance Clients that are Not Public Interest Entities

R5410.15 When for each of five consecutive years total fees from a sustainability assurance client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the assurance opinion being issued on the fifth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, review the fifth year's sustainability assurance work; or
- (b) After the assurance opinion on the fifth year's sustainability information has been issued, and before the assurance opinion is issued on the sixth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, or a professional body review the fifth year's sustainability assurance work.

R5410.16 If the total fees described in paragraph R5410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R5410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R5410.17 When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph

R5410.15 (a), if:

- (a) The circumstances addressed by paragraph R5410.15 apply to only one of the firms expressing the assurance opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5410.18 When for each of two consecutive years the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the assurance opinion being issued on the second year's sustainability information, a review, consistent with the objective of an engagement quality review, performed by a sustainability assurance practitioner who is not a member of the firm expressing the opinion on the sustainability information ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

R5410.19 When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.18, if:

- (a) The circumstances addressed by paragraph R5410.18 apply to only one of the firms expressing the assurance opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

R5410.20 Subject to paragraph R5410.21, if the circumstances described in paragraph R5410.18 continue for five consecutive years, the firm shall cease to be the sustainability assurance practitioner after the assurance opinion for the fifth year is issued.

R5410.21 As an exception to paragraph R5410.20, the firm may continue to be the sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

- (a)
 - (i) Where there is a designated regulatory or professional body in the relevant jurisdiction, the firm consults with that body and that body concurs that having the firm continue to provide the sustainability assurance service would be in the public interest; or
 - (ii) Where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance of the sustainability assurance client that having the firm continue to provide the sustainability assurance service would be in the public interest; and
- (b) Before the assurance opinion on the sixth and any subsequent year's sustainability information is issued, the firm engages a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a pre-issuance review.

5410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the sustainability assurance engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Sustainability Assurance Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

5410.22 A1 Communication by the firm of fee-related information (for both the sustainability assurance engagement and services other than the sustainability assurance engagement) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of sustainability assurance work and impact on the sustainability assurance fee.

Fees for the Sustainability Assurance Engagement

R5410.23 Subject to paragraph R5410.24, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) Fees paid or payable to the firm or network firms for the sustainability assurance engagement; and
- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.23 A1 The objective of such communication is to provide the background and context to the fees for the sustainability assurance engagement to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the sustainability assurance client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the sustainability assurance engagement.
 - The cost of other resources utilized or expended in performing the sustainability assurance engagement.
 - The quality of record keeping and processes for sustainability information preparation.
- Adjustments to the fees quoted or charged during the period of the sustainability assurance engagement, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the sustainability assurance engagement that impacted the fees.

5410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R5410.24 As an exception to paragraph R5410.23, the firm may determine not to communicate the information set out in paragraph R5410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group sustainability information prepared by that other public interest entity; and

- (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fees for Other Services

R5410.25 Subject to paragraph R5410.27, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R5410.23(a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the sustainability information on which the firm will express an opinion; and
- (b) As set out in paragraph 5410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than the sustainability assurance engagement relative to the sustainability assurance fee:
- (i) Whether such threats are at an acceptable level; and
- (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R5410.25(a) to the aggregate of the fees charged by the firm and network firms for the sustainability assurance engagement.

R5410.26 The firm shall include in the communication required by paragraph R5410.25(a) the fees, other than those disclosed under paragraph R5410.23(a), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

5410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R5410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the sustainability assurance client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

- R5410.27** As an exception to paragraph R5410.25, the firm may determine not to communicate the information set out in paragraph R5410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:
- (a) The entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
 - (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fee Dependency

- R5410.28** Where the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:
- (a) That fact and whether this situation is likely to continue;
 - (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R5410.18); and
 - (c) Any proposal to continue the sustainability assurance engagement under paragraph R5410.21.

Public Disclosure of Fee-related Information

- 5410.29 A1 In view of the public interest in the assurance of sustainability information disclosed by public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the sustainability assurance client which might reasonably be thought to be relevant to the evaluation of the firm's independence.

- R5410.30** If laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than the sustainability assurance engagement paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

- 5410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for sustainability assurance and services other than the sustainability assurance engagement.
- The nature of services and their associated fees as disclosed under paragraph R5410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

- R5410.31** After the discussion with those charged with governance as set out in paragraph R5410.30, to the extent that the sustainability assurance client that is a public interest entity does not make the relevant disclosure, subject to paragraph R5410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the sustainability assurance engagement;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control where the sustainability information of those entities is consolidated in the sustainability information on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the sustainability assurance client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

5410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 5410.30 A1.

5410.31 A2 Factors the firm might consider when making the determination required by paragraph R5410.31(c) are set out in paragraph 5410.26 A1.

5410.31 A3 When disclosing fee-related information in compliance with paragraph R5410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the sustainability assurance report.

R5410.32 As an exception to paragraph R5410.31, the firm may determine not to publicly disclose the information set out in paragraph R5410.31 relating to:

- (a) A parent entity that also prepares group sustainability information provided that the firm or a network firm expresses an opinion on the group sustainability information; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) That entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on that group sustainability information.

[Paragraph R5410.33 is intentionally left blank]

SECTION 5411

COMPENSATION AND EVALUATION POLICIES

Introduction

- 5411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5411.3 A1 When a sustainability assurance team member for a particular sustainability assurance client is evaluated on or compensated for selling non-assurance services to that sustainability assurance client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
 - (b) The role of the individual on the sustainability assurance team; and
 - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 5411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
 - Removing that individual from the sustainability assurance team.
- 5411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.
- R5411.4** A firm shall not evaluate or compensate a key sustainability assurance leader based on that leader's success in selling non-assurance services to the leader's sustainability assurance client. This requirement does not preclude normal profit-sharing arrangements between leaders of a firm.

SECTION 5420

GIFTS AND HOSPITALITY

Introduction

- 5420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5420.2 Accepting gifts and hospitality from a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R5420.3** A firm, network firm or a sustainability assurance team member shall not accept gifts and hospitality from a sustainability assurance client, unless the value is trivial and inconsequential.
- 5420.3 A1 Where a firm, network firm or sustainability assurance team member is offering or accepting an inducement to or from a sustainability assurance client, the requirements and application material set out in Section 5340 apply and non-compliance with these requirements might create threats to independence.
- 5420.3 A2 The requirements set out in Section 5340 relating to offering or accepting inducements do not allow a firm, network firm or sustainability assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 5430

ACTUAL OR THREATENED LITIGATION

Introduction

- 5430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5430.2 When litigation with a sustainability assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

- 5430.3 A1 The relationship between client management and sustainability assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between a sustainability assurance client and the firm, a network firm or a sustainability assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 5430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior sustainability assurance engagement.
- 5430.3 A3 If the litigation involves a sustainability assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the sustainability assurance team.
- 5430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 5510

FINANCIAL INTERESTS

Introduction

- 5510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5510.2 Holding a financial interest in a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 5510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in a sustainability assurance client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Financial Interests in a Sustainability Assurance Client Held by the Firm, a Network Firm, Sustainability Assurance Team Members and Others

- R5510.4** Subject to paragraph R5510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by:
- (a) The firm or a network firm;
 - (b) A sustainability assurance team member, or any of that individual’s immediate family;
 - (c) Any other leader in the office in which an engagement leader practices in connection with the sustainability assurance engagement, or any of that other leader’s immediate family; or
 - (d) Any other leader or managerial employee who provides services other than sustainability assurance to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual’s immediate family.

5510.4 A1 The office in which the engagement leader practices in connection with a sustainability assurance engagement is not necessarily the office to which that engagement leader is assigned. When the engagement leader is located in a different office from that of the other sustainability assurance team members, professional judgment is needed to determine the office in which the engagement leader practices in connection with the engagement.

R5510.5 As an exception to paragraph R5510.4, an immediate family member identified in subparagraphs R5510.4(c) or (d) may hold a direct or material indirect financial interest in a sustainability assurance client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling a Sustainability Assurance Client

R5510.6 When an entity has a controlling interest in a sustainability assurance client and the client is material to the entity, neither the firm, nor a network firm, nor a sustainability assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests in a Sustainability Assurance Client Held as Trustee

R5510.7 Paragraph R5510.4 shall also apply to a financial interest in a sustainability assurance client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the sustainability assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the sustainability assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the sustainability assurance client: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Sustainability Assurance Client

R5510.8 (a) A firm, or a network firm, or a sustainability assurance team member, or any of that individual's immediate family shall not hold a financial interest in an entity when a sustainability assurance client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the sustainability assurance team member and that individual's immediate family member and the sustainability assurance client, as applicable; or
- (ii) The sustainability assurance client cannot exercise significant influence over the entity.

- (b) Before an individual who has a financial interest described in paragraph R5510.8(a) can become a sustainability assurance team member, the individual or that individual's immediate family member shall either:
- (i) Dispose of the interest; or
 - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests in a Sustainability Assurance Client Received Unintentionally

- R5510.9** If a firm, a network firm or a leader or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in a sustainability assurance client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:
- (a) If the interest is received by the firm or a network firm, or a sustainability assurance team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
 - (b)
 - (i) If the interest is received by an individual who is not a sustainability assurance team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
 - (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

- 5510.10 A1 A self-interest, familiarity, or intimidation threat might be created if a sustainability assurance team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the sustainability assurance client is also known to have a financial interest in that entity.
- 5510.10 A2 Factors that are relevant in evaluating the level of such threats include:
- The role of the individual on the sustainability assurance team.
 - Whether ownership of the entity is closely or widely held.
 - Whether the interest allows the investor to control or significantly influence the entity.
 - The materiality of the financial interest.
- 5510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the sustainability assurance team member with the financial interest from the sustainability assurance team.
- 5510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Close Family

- 5510.10 A5 A self-interest threat might be created if a sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the sustainability assurance client.
- 5510.10 A6 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest to the close family member.
- 5510.10 A7 Examples of actions that might eliminate such a self-interest threat include:
- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
 - Removing the individual from the sustainability assurance team.
- 5510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Other Individuals

- 5510.10 A9 A self-interest threat might be created if a sustainability assurance team member knows that a financial interest in the sustainability assurance client is held by individuals such as:
- Leaders and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R5510.4, or their immediate family members.
 - Individuals with a close personal relationship with a sustainability assurance team member.
- 5510.10 A10 Factors that are relevant in evaluating the level of such a threat include:
- The firm's organizational, operating and reporting structure.
 - The nature of the relationship between the individual and the sustainability assurance team member.
- 5510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the sustainability assurance team member with the personal relationship from the sustainability assurance team.
- 5510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the sustainability assurance team member from any significant decision-making concerning the sustainability assurance engagement.
 - Having an appropriate reviewer review the work of the sustainability assurance team member.

Retirement Benefit Plan of a Firm or Network Firm

- 5510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in a sustainability assurance client.

SECTION 5511

LOANS AND GUARANTEES

Introduction

- 5511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5511.2 A loan or a guarantee of a loan with a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with a Sustainability Assurance Client

- R5511.4** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to a sustainability assurance client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

Loans and Guarantees with a Sustainability Assurance Client that is a Bank or Similar Institution

- R5511.5** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from a sustainability assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 5511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 5511.5 A2 Even if a firm or network firm receives a loan from a sustainability assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the sustainability assurance client or firm receiving the loan.
- 5511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not a sustainability assurance team member, from a network firm that is not a beneficiary of the loan.

Deposits or Brokerage Accounts

- R5511.6** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with a sustainability assurance client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with a Sustainability Assurance Client that is Not a Bank or Similar Institution

R5511.7 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, a sustainability assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

SECTION 5520

BUSINESS RELATIONSHIPS

Introduction

- 5520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5520.2 A close business relationship with a sustainability assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
 - Arrangements under which the firm or a network firm sells, resells, distributes or markets the client’s products or services, or the client sells, resells, distributes or markets the firm’s or a network firm’s products or services.
 - Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.
- 5520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Sustainability Assurance Team Member or Immediate Family Business Relationships with a Sustainability Assurance Client

- R5520.4** A firm, a network firm or a sustainability assurance team member shall not have a close business relationship with a sustainability assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the sustainability assurance team member, as applicable.
- 5520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the sustainability assurance client or its management and the immediate family of a sustainability assurance team member.

Common Interests in Closely-Held Entities

R5520.5 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when a sustainability assurance client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

5520.6 A1 The purchase of goods and services, including the licensing of technology, from a sustainability assurance client by a firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

5520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the sustainability assurance team.

Providing, Selling, Reselling or Licensing Technology

5520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To a sustainability assurance client; or
- (b) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 5600 apply.

SECTION 5521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 5521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between a sustainability assurance team member and a director or officer or, depending on their role, certain employees of the sustainability assurance client.
- 5521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the sustainability assurance team.
 - The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of a Sustainability Assurance Team Member

- 5521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of a sustainability assurance team member is an employee in a position to exert significant influence over the client's sustainability information on which the firm will express an opinion.
- 5521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the sustainability assurance team member.
- 5521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R5521.5** An individual shall not participate as a sustainability assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the sustainability assurance client;
 - (b) Is an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information; or

- (c) Was in such position during any period covered by the engagement or the reporting period for the engagement.

Close Family of a Sustainability Assurance Team Member

- 5521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of a sustainability assurance team member is:
- (a) A director or officer of the sustainability assurance client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.
- 5521.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
 - The position held by the close family member.
 - The role of the sustainability assurance team member.
- 5521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of a Sustainability Assurance Team Member

- R5521.7** A sustainability assurance team member shall consult in accordance with firm policies and procedures if the sustainability assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the sustainability assurance client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.
- 5521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:
- The nature of the relationship between the individual and the sustainability assurance team member.
 - The position the individual holds with the client.
 - The role of the sustainability assurance team member.
- 5521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.

- 5521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the individual with whom the sustainability assurance team member has a close relationship.

Relationships of Leaders and Employees of the Firm

R5521.8 Leaders and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A leader or employee of the firm or network firm who is not a sustainability assurance team member; and
- (b) A director or officer of the sustainability assurance client or an employee of the sustainability assurance client in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

5521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the leader or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the leader or employee of the firm with the sustainability assurance team.
- The position of the leader or employee within the firm.
- The position the individual holds with the client.

5521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the leader's or employee's responsibilities to reduce any potential influence over the sustainability assurance engagement.
- Having an appropriate reviewer review the relevant sustainability assurance work performed.

SECTION 5522

RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5522.2 If a sustainability assurance team member has recently served as a director or officer, or employee of the sustainability assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Sustainability Assurance Report

- R5522.3** The sustainability assurance team shall not include an individual who, during the period covered by the sustainability assurance report:
- (a) Had served as a director or officer of the sustainability assurance client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Service Prior to Period Covered by the Sustainability Assurance Report

- 5522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the sustainability assurance report, a sustainability assurance team member:
- (a) Had served as a director or officer of the sustainability assurance client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current sustainability assurance engagement.

- 5522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the sustainability assurance team member.

- 5522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the sustainability assurance team member.

SECTION 5523

SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5523.2 Serving as a director or officer of a sustainability assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

- R5523.3** A leader or employee of the firm or a network firm shall not serve as a director or officer of a sustainability assurance client of the firm.

Service as Company Secretary

- R5523.4** A leader or employee of the firm or a network firm shall not serve as Company Secretary for a sustainability assurance client of the firm, unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
 - (b) Management makes all relevant decisions; and
 - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 5523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a leader or employee of the firm or a network firm serves as Company Secretary for a sustainability assurance client. (More information on providing non-assurance services to a sustainability assurance client is set out in Section 5600, *Provision of Non-assurance Services to a Sustainability Assurance Client*.)

SECTION 5524

EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5524.2 Employment relationships with a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Sustainability Assurance Clients

- 5524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been a sustainability assurance team member or leader of the firm or a network firm:
- A director or officer of the sustainability assurance client.
 - An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Former Leader or Sustainability Assurance Team Member Restrictions

- R5524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:
- (a) A former leader who has joined a sustainability assurance client of the firm; or
 - (b) A former sustainability assurance team member who has joined the sustainability assurance client, if either has joined the sustainability assurance client as:
 - (i) A director or officer; or
 - (ii) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
 - (b) Any amount owed to the individual is not material to the firm or the network firm; and
 - (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.
- 5524.4 A1 Even if the requirements of paragraph R5524.4 are met, a familiarity or intimidation threat might still be created.
- 5524.4 A2 A familiarity or intimidation threat might also be created if a former leader of the firm or network firm has joined an entity in one of the positions described in paragraph 5524.3 A1 and the entity subsequently becomes a sustainability assurance client of the firm.

5524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the sustainability assurance team.
- The length of time since the individual was a sustainability assurance team member or leader of the firm or network firm.
- The former position of the individual within the sustainability assurance team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

5524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the plan for the sustainability assurance engagement.
- Assigning to the sustainability assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former sustainability assurance team member.

Sustainability Assurance Team Members Entering Employment with a Client

R5524.5 A firm or network firm shall have policies and procedures that require sustainability assurance team members to notify the firm or network firm when entering employment negotiations with a sustainability assurance client.

5524.5 A1 A self-interest threat is created when a sustainability assurance team member participates in the sustainability assurance engagement while knowing that the sustainability assurance team member will, or might, join the client at some time in the future.

5524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the sustainability assurance team.

5524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

Sustainability Assurance Clients that are Public Interest Entities

Key Sustainability Assurance Leaders

R5524.6 Subject to paragraph R5524.8, if an individual who was a key sustainability assurance leader with respect to a sustainability assurance client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised unless, subsequent to the individual ceasing to be a key sustainability assurance leader:

- (i) The sustainability assurance client has issued assured sustainability information covering a period of not less than twelve months; and
- (ii) The individual was not a sustainability assurance team member with respect to the assurance of that sustainability information.

Chief Executive or Equivalent of the Firm

R5524.7 Subject to paragraph R5524.8, if an individual who was the Chief Executive or equivalent of the firm joins a sustainability assurance client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm.

Business Combinations

R5524.8 As an exception to paragraphs R5524.6 and R5524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former key sustainability assurance leader or Chief Executive from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;
- (c) The former key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former key sustainability assurance leader's or Chief Executive's position held with the sustainability assurance client with those charged with governance.

SECTION 5525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

- 5525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5525.2 The loan of personnel to a sustainability assurance client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to a sustainability assurance client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
 - Not including the loaned personnel as a sustainability assurance team member might address a familiarity or advocacy threat.
 - Not giving the loaned personnel sustainability assurance responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 5525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to a sustainability assurance client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R5525.4** A firm or network firm shall not loan personnel to a sustainability assurance client unless the firm or network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
 - (b) Such personnel will not assume management responsibilities and the sustainability assurance client will be responsible for directing and supervising the activities of the personnel;
 - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
 - (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 5540

LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5540.2 When an individual is involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

[Paragraph 5540.3 A1 is intentionally left blank]

All Sustainability Assurance Clients

- 5540.4 A1 Although an understanding of a sustainability assurance client and its environment is fundamental to assurance quality, a familiarity threat might be created as a result of an individual's long association as a sustainability assurance team member or audit team member with:
- (a) The sustainability assurance client and its operations;
 - (b) The sustainability assurance client's senior management; or
 - (c) The sustainability information on which the firm will express an opinion or the financial or non-financial information which forms the basis of the sustainability information.
- 5540.4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 5540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
 - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member for the sustainability assurance engagement or the audit engagement, and the nature of the roles performed.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the sustainability assurance engagement, for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the sustainability assurance client:

- The nature or complexity of the client's sustainability reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

5540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

5540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time would be rotating the individual off the sustainability assurance team.

5540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the sustainability assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not a sustainability assurance team member review the work of the individual.
- Performing regular independent internal, or external, quality reviews of the engagement.

R5540.5 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.23 also apply.

R5540.6 Where an individual is a member of both the sustainability assurance team and the audit team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the sustainability assurance team and the audit team, the firm shall, in addition to complying with paragraph R5540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.23 also apply.

Sustainability Assurance Clients that are Public Interest Entities

R5540.7 Subject to paragraphs R5540.9 to R5540.11, in respect of a sustainability assurance engagement of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement leader;
- (b) The individual appointed as responsible for performing the engagement quality review;
- (c) Any other key sustainability assurance leader role; or
- (d) A key audit partner.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R5540.13 to R5540.21.

R5540.8 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R5540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R5540.13 to R5540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

5540.8 A1 For example:

- An individual who served as engagement leader for four years followed by three years off can only act thereafter as a key sustainability assurance leader on the same sustainability assurance engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R5540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client’s financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R5540.18.

R5540.9 As an exception to paragraph R5540.7, key sustainability assurance leaders whose continuity is especially important to assurance quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key sustainability assurance leader as long as the threat to independence can be eliminated or reduced to an acceptable level.

- 5540.9 A1 For example, a key sustainability assurance leader may remain in that role on the sustainability assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement leader. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.
- R5540.10** If a sustainability assurance client becomes a public interest entity, a firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.
- R5540.10a** If a firm has previously performed sustainability assurance engagements for a sustainability assurance client that is a public interest entity and these engagements were not within the scope of the International Independence Standards in this Part, the firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the firm begins to undertake sustainability assurance engagements within the scope of the International Independence Standards in this Part in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the firm first undertakes a sustainability assurance engagement within the scope of the International Independence Standards in this Part, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years before the firm first undertakes a sustainability assurance engagement within the scope of the International Independence Standards in this Part, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.
- R5540.11** When a firm has only a few people with the necessary knowledge and experience to serve as a key sustainability assurance leader on the sustainability assurance engagement of a public interest entity, rotation of key sustainability assurance leaders might not be possible. As an exception to paragraph R5540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from leader rotation in such circumstances, an individual may remain a key sustainability assurance leader for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key sustainability assurance leader may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R5540.12 In evaluating the threats created by an individual's long association with a sustainability assurance engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the sustainability assurance engagement or the audit engagement for the same client prior to the individual becoming a key sustainability assurance leader.

5540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key sustainability assurance leader to continue in that role even though the length of time served as a key sustainability assurance leader is less than seven years.

Cooling-off Period

R5540.13 If the individual acted as the engagement leader for seven cumulative years, the cooling-off period shall be five consecutive years.

R5540.14 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R5540.15 If the individual has acted as a key sustainability assurance leader other than in the capacities set out in paragraphs R5540.13 and R5540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.

5540.16 A1 The leader rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement leader can assume the role of engagement quality reviewer (see paragraph 5325.8 A4).

Service in a combination of key sustainability assurance leader or key audit partner roles

R5540.17 If the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the engagement leader or engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

R5540.18 Subject to paragraph R5540.19(a), if the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the key sustainability assurance leader or key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R5540.19 If an individual has acted in a combination of engagement leader, engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R5540.18, be five consecutive years where the individual has been the engagement leader or engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

R5540.20 If the individual acted in any combination of key sustainability assurance leader and key audit partner roles other than those addressed in paragraphs R5540.17 to R5540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R5540.21 In determining the number of years that an individual has been a key sustainability assurance leader

or a key audit partner as set out in paragraph R5540.7, the length of the relationship shall, where relevant, include time while the individual was a key sustainability assurance leader on the sustainability assurance engagement or a key audit partner on the audit engagement for the same client at a prior firm.

[Paragraph R5540.22 is intentionally left blank]

Restrictions on Activities During the Cooling-off Period

R5540.23 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement or the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the sustainability assurance engagement or the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the sustainability assurance engagement or the audit engagement);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the sustainability assurance client, or overseeing the relationship of the firm or a network firm with the sustainability assurance client; or
- (d) Undertake any other role or activity not referred to above with respect to the sustainability assurance client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the sustainability assurance engagement or the audit engagement.

5540.23 A1 The provisions of paragraph R5540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Chief Executive or equivalent.

SECTION 5600

PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5600.2 Firms and network firms might provide a range of non-assurance services to their sustainability assurance clients, consistent with their expertise. Providing non-assurance services to sustainability assurance clients might create threats to compliance with the fundamental principles and threats to independence.
- 5600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to sustainability assurance clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to sustainability assurance clients and indicate the types of threats that might be created as a result.
- 5600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to a sustainability assurance client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 5600.5 New business practices, the developing sustainability landscape, the evolution of financial markets and sustainability reporting, and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to a sustainability assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.
- 5600.5a The requirements and application material in this section apply where a firm or a network firm provides non-assurance services to a sustainability assurance client and:
- (a) The results of the services will affect, or there is a risk that they will affect, the sustainability information on which the firm will express an assurance opinion, the records underlying that information, or the internal controls over sustainability reporting; or
 - (b) The services might create an advocacy, self-interest, familiarity or intimidation threat.
- 5600.6 Circumstances involving non-assurance services that might affect the sustainability information on which the firm will express an assurance opinion or the records underlying that information, include where a firm or network firm:
- (a) Uses technology to provide a non-assurance service to a sustainability assurance client; or
 - (b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:
 - (i) To a sustainability assurance client; or
 - (ii) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm.

5600.6a Where the firm is also the entity's auditor, the requirements and application material in Section 600 apply with respect to identifying, evaluating and addressing threats to the firm's independence, in relation to the audit engagement, that might be created by the provision of non-assurance services to the audit client. A non-assurance service related to sustainability information that does not affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion does not create a self-review or advocacy threat to independence for the audit. However, such a service might create threats to independence in relation to performing a sustainability assurance engagement for the same client where the provision of that service affects the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

5600.7 A1 Paragraphs R5100.6 to 5100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

5600.8 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R5400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R5600.9 Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

All Sustainability Assurance Clients

5600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to a sustainability assurance client is set out in paragraph 5120.6 A3.

5600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to a sustainability assurance client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.

- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R5400.20 to R5400.21).
- Whether the outcome of the service will affect the matters reflected in the sustainability information on which the firm will express an opinion or the records underlying that information, and, if so:
 - The extent to which the outcome of the service will have a material effect on the sustainability information.
 - The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Sustainability information on which the firm will express an opinion or the records underlying that information.
 - Internal controls over sustainability reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the sustainability assurance engagement.
- The fee relating to the provision of the non-assurance service.

5600.10 A3 Subsections 5601 to 5610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services and evaluating the level of such threats.

Materiality in relation to sustainability information

5600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to a sustainability assurance client. Subsections 5601 to 5610 refer to materiality in relation to a sustainability assurance client's sustainability information on which the firm will express an opinion. The concept of materiality in relation to sustainability assurance engagement is addressed in the relevant reporting and assurance frameworks. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the sustainability information needs of users. The applicable reporting and assurance frameworks might include principles or guidance to assist the sustainability assurance client in identifying information that might be material to users.

5600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to a sustainability assurance client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the sustainability information on which the firm will express an opinion.

Providing advice and recommendations

5600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R5600.15. Where the sustainability assurance client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the sustainability assurance client is a public interest entity, paragraphs R5600.17 and R5600.18 apply.

Multiple non-assurance services provided to the same sustainability assurance client

R5600.13 When a firm or a network firm provides multiple non-assurance services to a sustainability assurance client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

5600.13 A1 In addition to paragraph 5600.10 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to a sustainability assurance client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the sustainability assurance client.

5600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

Self-review threats

5600.14 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there might be a risk of the firm carrying out assurance procedures on its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the sustainability assurance team will rely when forming a judgment as part of a sustainability assurance engagement.

R5600.15 Before providing a non-assurance service to a sustainability assurance client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting; and
- (b) In the course of performing assurance work on the sustainability information on which the firm will express an opinion, the sustainability assurance team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

Sustainability Assurance Clients that are Public Interest Entities

5600.16 A1 When the sustainability assurance client is a public interest entity, stakeholders have heightened

expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to a sustainability assurance client that is a public interest entity.

5600.16 A2 Where the provision of a non-assurance service to a sustainability assurance client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

R5600.17 A firm or a network firm shall not provide a non-assurance service to a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat in relation to the assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 5600.14 A1 and R5600.15).

Providing advice and recommendations

R5600.18 As an exception to paragraph R5600.17, a firm or a network firm may provide advice and recommendations to a sustainability assurance client that is a public interest entity in relation to information or matters arising in the course of a sustainability assurance engagement provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R5400.20 and R5400.21); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

5600.18 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of a sustainability assurance engagement include:

- Advising on sustainability reporting standards or policies and sustainability information disclosure requirements.
- Advising on the appropriateness of controls related to sustainability information and the methods used in determining or establishing the sustainability information to be reported.
- Proposing an adjustment to sustainability information arising from the sustainability assurance engagement findings.
- Discussing findings on internal controls over sustainability reporting and processes and recommending improvements.
- Advising on compliance with group sustainability reporting policies.

Addressing Threats

All Sustainability Assurance Clients

5600.19 A1 Paragraphs R5120.10 to 5120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

5600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to a sustainability assurance client vary depending on the facts and circumstances of the sustainability assurance engagement and the nature of the service. Such threats might be addressed by applying

safeguards or by adjusting the scope of the proposed service.

5600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

5600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to a sustainability assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the sustainability assurance engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Sustainability Assurance Clients

5600.20 A1 Paragraphs 5400.40 A1 and 5400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Sustainability Assurance Clients that are Public Interest Entities

5600.21 A1 Paragraphs R5600.22 to R5600.24 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that assures the sustainability information of that public interest entity.

5600.21 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R5600.22 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.

- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

R5600.22 Before a firm that undertakes assurance work on the sustainability information of a public interest entity or a network firm accepts an engagement to provide a non-assurance service to:

- (A) That public interest entity;
- (B) Any entity that controls, directly or indirectly, that public interest entity; or
- (C) Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
 - (i) Is not prohibited; and
 - (ii) Will not create a threat to the firm's independence as sustainability assurance practitioner of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

5600.22 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

R5600.23 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R5600.22 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence in providing the sustainability assurance service to the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an

acceptable level; and

(b) The provision of that service.

R5600.24 As an exception to paragraphs R5600.22 and R5600.23, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

(a) The firm provides such information as it is able without breaching its legal or professional obligations;

(b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

(c) Those charged with governance do not disagree with the firm's conclusion in (b).

R5600.25 The firm or the network firm, having taken into account any matters raised by those charged with governance of the sustainability assurance client that is a public interest entity or by the entity referred to in paragraph R5600.22 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the sustainability assurance engagement if:

(a) The firm or the network firm is not permitted to provide any information to those charged with governance of the sustainability assurance client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or

(b) Those charged with governance of a sustainability assurance client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Sustainability Assurance Client that Later Becomes a Public Interest Entity

R5600.26 A non-assurance service provided, either currently or previously, by a firm or a network firm to a sustainability assurance client compromises the firm's independence when the client becomes a public interest entity unless:

(a) The previous non-assurance service complies with the provisions of this section that relate to sustainability assurance clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for sustainability assurance clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and

(c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

5600.26 A1 Examples of actions that the firm might recommend to the sustainability assurance client include engaging another firm to:

- Review or re-perform the affected sustainability assurance work to the extent necessary.

- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R5600.27 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R5400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose sustainability information the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
 - (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
 - (c) An entity which is under common control with the client,
- provided that all of the following conditions are met:
- (i) The firm or a network firm does not express an opinion on the sustainability information of the related entity;
 - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose sustainability information the firm will express an opinion;
 - (iii) The services do not create a self-review threat; and
 - (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

5600.28 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R5400.60 and 5400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the sustainability information on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the sustainability assurance client, including whether the results of the service will be subject to sustainability assurance procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R5600.22, the steps taken to comply with paragraphs R5600.22 to R5600.24.

SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES

Introduction

5601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing sustainability data and information services for the preparation or maintenance of sustainability data, records or information to a sustainability assurance client.

Requirements and Application Material

General

5601.2 A1 Management is responsible for the preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework. These responsibilities include:

- Determining sustainability reporting policies and the reporting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction, event or other matter included in the sustainability information.
- Originating or changing sustainability data entries or records.
- Determining or approving sustainability information classifications.

Paragraph R5400.20 prohibits a firm or a network firm from assuming a management responsibility.

Description of Service

5601.3 A1 Sustainability data and information services comprise a broad range of services including:

- Preparing sustainability data records or sustainability information that is reported.
- Recording data, events or other matters included in the sustainability information.
- Resolving sustainability information inaccuracies.
- Converting existing sustainability information from one sustainability reporting framework to another.
- Accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion.

Potential Threats Arising from the Provision of Sustainability Data and Information Services

All Sustainability Assurance Clients

5601.4 A1 Providing sustainability data and information services to a sustainability assurance client creates a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion, or the sustainability data or information records underlying that information.

Sustainability Assurance Clients that are Not Public Interest Entities

R5601.5 A firm or a network firm shall not provide to a sustainability assurance client that is not a public interest

entity sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

5601.5 A1 Sustainability data and information services that are routine or mechanical:

- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
- (b) Require little or no professional judgment.

5601.5 A2 Sustainability data and information services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgment of the firm or network firm.

5601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing calculations or reports based on client or third party-originated data for approval by the client.
- Recording recurring data which are easily determinable from source documents, where the client has determined or approved the appropriate classification.
- Posting data coded by the client or received from third parties to the sustainability information records.
- Preparing sustainability information to be reported based on information in the client-approved records and preparing related notes based on client-approved records.
- Compiling and presenting factual sustainability data from client or third-party identified sources for comparative purposes.

The firm or a network firm may provide such services to sustainability assurance clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R5400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R5601.5(b).

5601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing sustainability data and information services of a routine or mechanical nature to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5601.6 A firm or a network firm shall not provide sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity.

[Paragraph R5601.7 is intentionally left blank]

SUBSECTION 5602 – ADMINISTRATIVE SERVICES

Introduction

5602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

5602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

5602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising a sustainability assurance client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Sustainability Assurance Clients

5602.3 A1 Providing administrative services to a sustainability assurance client does not usually create a threat when such services are clerical in nature and require little to no professional judgment.

SUBSECTION 5603 – VALUATIONS AND ADVISORY SERVICES ON FORWARD-LOOKING INFORMATION

Introduction

5603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing valuations or advisory services on forward-looking information to a sustainability assurance client.

Requirements and Application Material

Description of Service

5603.2 A1 Valuations and advisory services on forward-looking information, including forecasting, include the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity. For such services, the values might be non-monetary, for example, forecasting estimates of materials reserves or the amounts of hazardous substances produced by a manufacturing process.

5603.2 A2 If a firm or a network firm is requested to perform a valuation or an advisory service on forward-looking information to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes and the results of the service have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through entries related to tax, the requirements and application material set out in paragraphs 5604.17 A1 to 5604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuations and Advisory Services on Forward-looking Information

All Sustainability Assurance Clients

5603.3 A1 Providing a valuation or an advisory service on forward-looking information to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client, and evaluating the level of such threats include:

- The use and purpose of the results of the service or its inclusion in a report.
- Whether the results of the service will be made public.
- The extent to which the service methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the service methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for the service involving standard or established methodologies.
- Whether the service will have a material effect on the sustainability information.

- The extent of the disclosures related to the item covered by the service in the sustainability information.
- The volatility of the values involved as a result of dependence on future events.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5603.5 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

R5603.4 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity if:

- (a) The service involves a significant degree of subjectivity; and
- (b) The service will have a material effect on the sustainability information on which the firm will express an opinion.

5603.4 A1 Certain valuations and advisory services on forward-looking information do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation or an advisory service on forward-looking information performed by two or more parties are not likely to be materially different.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5603.5 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity if the provision of the service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

SUBSECTION 5604 – TAX SERVICES

Introduction

5604.1 In addition to the specific requirements and application material in this subsection, the requirements

and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a tax service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries or sustainability information.
- Tax advisory services.
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

5604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.

5604.2 A3 While tax services are generally relevant to financial information and accounting entries, such services can also be relevant to sustainability and, where they are, might affect the sustainability information on which the firm will express an opinion or the records underlying that information.

Potential Threats Arising from the Provision of Tax Services

5604.3 A1 Providing tax services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to a sustainability assurance client, and evaluating the level of such threats include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

All Sustainability Assurance Clients

R5604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to a sustainability assurance client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

5604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R5604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

5604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the sustainability assurance client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Sustainability Assurance Clients

5604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations That Affect Sustainability Information

Description of Service

5604.7 A1 Tax calculation services involve the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the sustainability assurance client. In some cases, those services might also affect the sustainability information of the client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Sustainability Assurance Clients

5604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client for the purpose of preparing accounting entries that support such balances creates a self-review threat where the results of those calculations affect the sustainability information on which the firm expresses an opinion.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.9 A1 In addition to the factors in paragraph 5604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for a sustainability assurance client is

whether the calculation might have a material effect on the sustainability information on which the firm will express an opinion.

5604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the sustainability assurance client is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client that is a public interest entity if the results of the services will affect the sustainability information on which the firm will express an opinion. (Ref: Para. R5600.15 and R5600.17).

C. Tax Advisory and Tax Planning Services

Description of Service

5604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the sustainability assurance client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Sustainability Assurance Clients

5604.12 A1 Providing tax advisory and tax planning services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

- (a) Are supported by a tax authority or other precedent;
- (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
- (c) Have a basis in tax law that the firm is confident is likely to prevail.

5604.12 A3 In addition to paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to sustainability assurance clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the sustainability information on which the firm will express an opinion.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the sustainability information on which the firm will express an opinion.
- The extent to which the outcome of the tax advice might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.15 applies.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R5604.13 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client when:

- (a) The effectiveness of the tax advice depends on a particular treatment or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related treatment or presentation under the relevant sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.15 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.12 A2).

Advocacy Threats

5604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

5604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.

- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services Involving Valuations

All Sustainability Assurance Clients

- 5604.17 A1 Providing a valuation for tax purposes to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.
- 5604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:
- (a) Have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
 - (b) Affect the sustainability information on which the firm will express an opinion, or the records underlying that information, in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 5603 relating to valuation services apply.
- 5604.17 A3 Performing a valuation for tax purposes for a sustainability assurance client will not create a self-review threat if:
- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
 - (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5604.18 A1 A firm or a network firm might perform a valuation for tax purposes for a sustainability assurance client that is not a public interest entity where the result of the valuation only affects the sustainability information on which the firm will express an opinion, or the records underlying that information, through adjustments related to tax. This would not usually create threats if the effect on the sustainability information is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.
- 5604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the sustainability information on which the firm expresses an opinion, in addition to paragraph 5604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to a sustainability assurance client that is not a public interest entity, and evaluating the level of such threats:
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
 - The degree of subjectivity inherent in the valuation.
 - The reliability and extent of the underlying data.

5604.18 A3 Examples of actions that might be safeguards to address such threats for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.19 A firm or a network firm shall not perform a valuation for tax purposes for a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.17 A3).

Advocacy Threats

5604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

5604.20 A1 A non-assurance service to provide assistance to a sustainability assurance client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Sustainability Assurance Clients

5604.21 A1 Providing assistance in the resolution of a tax dispute to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5604.22 A1 In addition to those identified in paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting a sustainability assurance client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the sustainability information on which the firm will express an opinion.

- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.24 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting a sustainability assurance client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the sustainability assurance client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the sustainability information on which the firm will express an opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the services involve acting as an advocate for the sustainability assurance client before a tribunal or court.

5604.27 A1 Paragraphs R5604.25 and R5604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

5604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 5605 – INTERNAL AUDIT SERVICES

Introduction

5605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
 - Reviewing the means used to identify, measure, classify and report that financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

5605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. They might involve matters that are operational in nature that will be subject to consideration in relation to the assurance of sustainability information.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R5605.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:

- (i) Be responsible at all times for internal audit activities; and
- (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

5605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

5605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Sustainability Assurance Clients

5605.4 A1 Providing internal audit services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services impact the assurance of the sustainability information on which the firm will express an opinion.

5605.4 A2 When a firm uses the work of an internal audit function in a sustainability assurance engagement, the applicable assurance standards ordinarily require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to a sustainability assurance client, the results of those services might be used in conducting the external assurance of sustainability information. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the sustainability assurance engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

5605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to a sustainability assurance client, and evaluating the level of such a threat include:

- The materiality of the related sustainability information.
- The risk of misstatement of the assertions related to that sustainability information.
- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5605.6 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5605.6 A firm or a network firm shall not provide internal audit services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5605.6 A1 Examples of the services that are prohibited under paragraph R5605.6 include internal audit services that relate to:

- The internal controls over sustainability reporting.
- Sustainability information systems that generate information for the client's sustainability information on which the firm will express an opinion or the records underlying that information.
- Amounts or disclosures that relate to the sustainability information on which the firm will express an opinion.

SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

5606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.

- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

5606.2 A2 The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over sustainability reporting; or
- (c) Generate information that affects the sustainability information records or sustainability information reported, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the sustainability assurance client's records underlying the sustainability information or the internal control over sustainability reporting.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R5606.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to a sustainability assurance client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;
- (c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and
- (d) The client is responsible for operating the IT system and for the data it generates and uses.

5606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the sustainability assurance client. Such services include:
 - Acting as the only access to a financial or non-financial information system of the sustainability assurance client.
 - Taking custody of or storing the sustainability assurance client's data or records such that the sustainability assurance client's data or records are otherwise incomplete.
 - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the sustainability assurance client's data or records.
- Operates, maintains, or monitors the sustainability assurance client's IT systems, network or website.

5606.3 A2 The collection, receipt, transmission and retention of data provided by a sustainability assurance client in the course of a sustainability assurance engagement or to enable the provision of a permissible

service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

Sustainability Assurance Clients

5606.4 A1 Providing IT systems services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the assurance of the sustainability information on which the firm will express an opinion.

5606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to a sustainability assurance client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's sustainability information on which the firm will express an opinion, the records underlying that information, or internal controls over sustainability reporting.
- The degree of reliance that will be placed on the particular IT systems as part of the sustainability assurance engagement.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5606.6 applies.

5606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect a sustainability assurance client's sustainability information records or system of internal control over sustainability reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting a sustainability assurance client's IT systems, including network and software applications.
- Implementing sustainability information management systems or sustainability information reporting software, whether or not it was developed by the firm or a network firm.

Sustainability Assurance Clients that are Not Public Interest Entities

5606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5606.6 A firm or a network firm shall not provide IT systems services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R5600.15 and R5600.17).

SUBSECTION 5607 – LITIGATION SUPPORT SERVICES

Introduction

5607. 1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Sustainability Assurance Clients

5607.3 A1 Providing litigation support services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to a sustainability assurance client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5607.6 applies.

5607.4 A2 If a firm or a network firm provides a litigation support service to a sustainability assurance client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the sustainability information on which the firm will express an opinion, the requirements and application material set out in Subsection 5603 related to valuation services apply.

Sustainability Assurance Clients that are Not Public Interest Entities

5607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to a sustainability assurance client that is not a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5607.6 A firm or a network firm shall not provide litigation support services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

- 5607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the sustainability information on which the firm will express an opinion.

Advocacy Threats

- 5607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to a sustainability assurance client that is a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Acting as a Witness

Sustainability Assurance Clients

- 5607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.
- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
 - (b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.
- 5607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves a sustainability assurance client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.
- 5607.7 A3 The advocacy threat created when acting as an expert witness on behalf of a sustainability assurance client is at an acceptable level if a firm or a network firm is:
- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
 - (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
 - (i) The firm's sustainability assurance clients constitute less than 20% of the members of the class or group (in number and in value);
 - (ii) No sustainability assurance client is designated to lead the class or group; and
 - (iii) No sustainability assurance client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is not a public interest entity is using a professional to perform the service who is not, and has not been, a sustainability assurance team member.

Sustainability Assurance Clients that are Public Interest Entities

- R5607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for a sustainability assurance client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 5607.7 A3 apply.

SUBSECTION 5608 – LEGAL SERVICES

Introduction

5608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a legal service to a sustainability assurance client.

Requirements and Application Material

Description of Service

- 5608.2 A1 Legal services are defined as any services for which the individual providing the services must either:
- (a) Have the required legal training to practice law; or
 - (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.
- 5608.2 A2 This subsection deals specifically with:
- Providing legal advice.
 - Acting as general counsel.
 - Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Sustainability Assurance Clients

5608.3 A1 Providing legal services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

- 5608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to sustainability assurance clients, such as:
- Contract support.
 - Supporting a sustainability assurance client in executing a transaction.
 - Mergers and acquisitions.
 - Supporting and assisting a sustainability assurance client's internal legal department.
 - Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Sustainability Assurance Clients

5608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to a sustainability assurance client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's sustainability information reported.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5608.7 applies.

5608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit that will be disclosed in the sustainability information on which the firm will express an opinion.
- Interpreting provisions in contracts that might affect information disclosed in the sustainability information on which the firm will express an opinion.

5608.5 A3 Negotiating on behalf of a sustainability assurance client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

Sustainability Assurance Clients that are Not Public Interest Entities

5608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5608.7 A firm or a network firm shall not provide legal advice to a sustainability assurance client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5608.8 A1 The considerations in paragraphs 5608.5 A1 and 5608.5 A3 to 5608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to a sustainability assurance client that is a public interest entity.

B. Acting as General Counsel

All Sustainability Assurance Clients

R5608.9 An engagement leader or employee of the firm or the network firm shall not serve as General Counsel of a sustainability assurance client.

5608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5608.10 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts or the information involved are material to the sustainability information on which the firm will express an opinion.

5608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5608.11 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 5609 – RECRUITING SERVICES

Introduction

5609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R5609.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring

the candidate for the position to a competent employee, preferably within senior management;
and

- (b) The client makes all management decisions with respect to the hiring process, including:
- Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Sustainability Assurance Clients

- 5609.4 A1 Providing recruiting services to a sustainability assurance client might create a self-interest, familiarity or intimidation threat.
- 5609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:
- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
 - Interviewing candidates and advising on a candidate's competence for sustainability reporting, administrative or control positions.
- 5609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to a sustainability assurance client, and evaluating the level of such threats include:
- The nature of the requested assistance.
 - The role of the individual to be recruited.
 - Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.
- 5609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not sustainability assurance team members to perform the service.

Recruiting Services that are Prohibited

- R5609.5** When providing recruiting services to a sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.
- R5609.6** A firm or a network firm shall not provide a recruiting service to a sustainability assurance client if the service relates to:
- (a) Searching for or seeking out candidates;
 - (b) Undertaking reference checks of prospective candidates;
 - (c) Recommending the person to be appointed; or
 - (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate, with respect to the following positions:

- (i) A director or officer of the entity; or
- (ii) A member of senior management in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion or the records underlying that information.

SUBSECTION 5610 – CORPORATE FINANCE SERVICES

Introduction

5610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5610.2 A1 Examples of corporate finance services include:

- Assisting a sustainability assurance client in developing corporate strategies.
- Identifying possible targets for the sustainability assurance client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Sustainability Assurance Clients

5610.3 A1 Providing corporate finance services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the sustainability information on which the firm will express an opinion.
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the sustainability information on which the firm will express an opinion.
 - The outcome of the corporate finance service might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5610.8 applies.

Corporate Finance Services that are Prohibited

- R5610.5** A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the sustainability assurance client or providing advice on investment in such shares, debt or other financial instruments.
- R5610.6** A firm or a network firm shall not provide advice in relation to corporate finance services to a sustainability assurance client where:
- (a) The effectiveness of such advice depends on a particular method of measurement or presentation in the sustainability information on which the firm will express an opinion; and
 - (b) The sustainability assurance team has doubt as to the appropriateness of the related method of measurement or presentation under the relevant financial or sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client that is not a public interest entity include:
- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
 - Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

- R5610.8** A firm or a network firm shall not provide corporate finance services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

- 5610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

CHAPTER 2 – REVISED GLOSSARY (MARK-UP FROM 2024 VERSION OF THE CODE)

Acceptable level	A level at which a professional accountant <u>or sustainability assurance practitioner</u> using the reasonable and informed third party test would likely conclude that the accountant <u>or the practitioner</u> complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice <u>or sustainability assurance practitioners</u> with a view to procuring professional business.
<u>Another Practitioner</u>	<u>A firm, other than the sustainability assurance practitioner's firm, that performs work that the sustainability assurance practitioner intends to use for the purposes of the sustainability assurance engagement, and the sustainability assurance practitioner is unable to be sufficiently and appropriately involved in that work.</u> <u>An individual from another practitioner who performs the work is neither a member of the engagement team nor a practitioner's expert.</u>
Appropriate reviewer	<i>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant <u>or a sustainability assurance practitioner</u>.</i> <i>This term is described in paragraphs 300.8 A4 <u>and 5300.8 A4</u>.</i>
Assurance client	The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party). <u>In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "sustainability assurance client."</u>
Assurance engagement	An engagement in which a professional accountant in public practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. (ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and the Assurance Framework provides a general description of assurance engagements to which <i>International Standards on Auditing (ISAs)</i> , <i>International Standards on Review Engagements (ISREs)</i> , ~~and~~ <i>International Standards on Assurance Engagements (ISAEs)</i> <u>and International Standards on Sustainability Assurance (ISSAs)</u> apply.)

In Part 4B, the term "assurance engagement" addresses assurance engagements other than audit engagements, ~~or~~ review engagements, or sustainability assurance engagements addressed in Part 5.

Assurance team

- (a) All members of the engagement team for the assurance engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance team."

Attestation engagement

An assurance engagement in which a party other than the professional accountant in public practice or the sustainability assurance practitioner, as applicable, measures or evaluates the underlying subject matter against the criteria.

A party other than the accountant or the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant or the practitioner in the assurance report. In an attestation engagement, the accountant's or the practitioner's conclusion addresses whether the subject matter information is free from material misstatement.

The accountant's or the practitioner's conclusion may be phrased in terms of:

- (i) The underlying subject matter and the applicable criteria;
- (ii) The subject matter information and the applicable criteria; or
- (iii) A statement made by the appropriate party.

Audit

In Part 4A, the term "audit" applies equally to "review."

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity, in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the

audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.27.)

In Part 4A, the term "audit client" applies equally to "review client."

In the case of a group audit, see the definition of group audit client.

Audit engagement A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with *International Standards on Auditing*. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

In Part 4A, the term "audit engagement" applies equally to "review engagement."

Audit report *In Part 4A, the term "audit report" applies equally to "review report."*

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term "audit team" applies equally to "review team." In the case of a group audit, see the definition of group audit team.

Close family A parent, child or sibling who is not an immediate family member.

Component For a group audit, An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in the group audit.

(Audit and Review Engagements)

Component (Sustainability Assurance Engagements Addressed in Part 5) For a group sustainability assurance engagement, an entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the group sustainability assurance firm for purposes of planning and performing the group sustainability assurance engagement. A component is either a group component or a value chain component.

Group component – in the context of a sustainability assurance engagement in Part 5, see separate definition.

Value chain component – in the context of a sustainability assurance engagement in Part 5, see separate definition.

Component audit client A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

- (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component auditor firm A firm performing audit work related to a component for purposes of a group audit.

Component practitioner A firm that performs assurance work related to a component for purposes of the group sustainability assurance engagement, and the group sustainability assurance firm is able to be sufficiently and appropriately involved in that work. The individuals from a component practitioner who perform the assurance work are members of the engagement team.

Conceptual framework *This term is described in Sections 120 and 5120.*

Confidential information Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.

Contingent fee A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

Cooling-off period *This term is described in paragraphs R540.75 and R5540.7 for the purposes of paragraphs R540.131 to R540.2119 and R5540.13 to R5540.21.*

Criteria In an assurance engagement, including a sustainability assurance

engagement, the benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.

Direct engagement An assurance engagement in which the professional accountant in public practice measures or evaluates the underlying subject matter against the applicable criteria and the accountant presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the accountant's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

Direct financial interest A financial interest:

- (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

Director or officer Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.

Eligible audit engagement *This term is described in paragraph 800.2 for the purposes of Section 800.*

Eligible assurance engagement *This term is described in paragraph 990.2 for the purposes of Section 990.*

Engagement leader An individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalent where relevant.

In the case of audit and review engagements, see the definition of "engagement partner."

Engagement partner The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "engagement leader."

Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

<u>Engagement period</u> <u>(Sustainability Assurance Engagements Addressed in Part 5)</u>	<u>The engagement period starts when the sustainability assurance team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.</u>

Engagement period (Assurance Engagements Other than Audit Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

Engagement quality review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.

Engagement quality reviewer	A <u>leader or</u> partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Engagement team	All <u>leaders or</u> partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external

experts and internal auditors who provide direct assistance on the engagement.

In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.

ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA 620 defines an auditor's expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 deals with the auditor's responsibilities relating to the work of such experts.

ISA 610 (Revised 2013) deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.

In Part 5, the term "engagement team" refers to individuals performing assurance procedures on the sustainability assurance engagement. This excludes individuals whose work the sustainability assurance practitioner is not able to be sufficiently and appropriately involved in (e.g., individuals from "another practitioner"). This term is further described in paragraph 5400.10a in Part 5.

Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.

<u>Existing practitioner</u>	<u>An individual or an entity currently holding an appointment to perform a sustainability assurance engagement or carrying out other professional services for a sustainability assurance client.</u>

<u>Expert</u>	[Placeholder – This new definition is included in the Final Pronouncement addressing Using the Work of an External Expert]

<u>Expertise</u>	[Placeholder – This new definition is included in the Final Pronouncement addressing Using the Work of an External Expert]

External Expert	[Placeholder – Changes to this definition are included in the Final Pronouncement addressing Using the Work of an External Expert]

Financial	An interest in an equity or other security, debenture, loan or other debt

interest instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial statements A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

The term does not refer to specific elements, accounts or items of a financial statement.

Financial statements on which the firm will express an opinion In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- (a) A sole practitioner, partnership or corporation of professional accountants or sustainability assurance practitioners;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.

Paragraph 5400.4 explains how the word "firm" is used to address the responsibility of individual sustainability assurance practitioners and firms for compliance with Part 5.

Fundamental principles This term is described in paragraphs 110.1 A1 and 5110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:

Integrity	R111.1 <u>and R5111.1</u>
Objectivity	R112.1 <u>and R5112.1</u>
Professional competence and due care	R113.1 <u>and R5113.1</u>
Confidentiality	R114.1 to R114.3 <u>and R5114.1 to R5114.3</u>

Professional behavior

R115.1 and R5115.1

General purpose framework

A reporting framework designed to meet the common information needs of a wide range of users. The framework may be a fair presentation framework or a compliance framework.

The term “fair presentation framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework and:

(a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the reported information, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the reported information. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above.

In Part 5, general purpose framework refers to general purpose sustainability reporting frameworks.

Group

A reporting entity for which group financial statements or group sustainability information are-is prepared.

Group audit

The audit of group financial statements.

Group audit client

The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a publicly traded entity, group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

See also paragraph R400.27.

Group auditor firm

The firm that expresses the opinion on the group financial statements.

- Group audit team
- (a) All members of the engagement team for the group audit, including individuals within, or engaged by, component auditor firms who perform audit procedures related to components for purposes of the group audit;
 - (b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;
 - (c) Any other individuals within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and
 - (d) Any other individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.

Group component (for a sustainability assurance engagement)

A group component is a component required to be included in the reporting entity's group financial statements.

If the group component is:

- (a) A legal entity, it is the entity and any related entities within the reporting boundary over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Group engagement leader

The engagement leader who is responsible for the group sustainability assurance engagement.

Group engagement

The engagement partner who is responsible for the group audit.

partner

Group financial statements Financial statements that include the financial information of more than one entity or business unit through a consolidation process.

Group sustainability assurance client The entity on whose group sustainability information the group sustainability assurance firm conducts a sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other group components at which assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other group components at which assurance work is performed.
See also paragraph R5400.27.

Group sustainability assurance engagement An assurance engagement on group sustainability information.

Group sustainability assurance firm The firm that expresses the opinion on the group sustainability information.

Group sustainability assurance team (a) All members of the engagement team for the group sustainability assurance engagement, including individuals within, or engaged by, component practitioners who perform assurance procedures related to components for purposes of the group sustainability assurance engagement;
(b) All others within, or engaged by, the group sustainability assurance firm who can directly influence the outcome of the group sustainability assurance engagement, including:
(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent;
(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group sustainability assurance engagement; and
(iii) Those who perform an engagement quality review, or a review

consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;

(c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and

(d) Any other individuals within a component practitioner outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.

Group sustainability information

Sustainability information that includes the sustainability information of more than one entity or business unit.

Historical financial information

Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family

A spouse (or equivalent) or dependent.

Independence

Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit~~ing~~ assurance~~ing~~ or sustainability assurance team member's, integrity, objectivity or professional skepticism has been compromised.

As set out in paragraphs 400.5, ~~and~~ 900.4 ~~and~~ 5400.5, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A, ~~and~~ 4B ~~and~~ 5, as applicable.

Indirect financial interest

A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Inducement

An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.

Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), ~~or~~—between professional accountants and existing or prospective clients (for professional accountants in public practice), or between sustainability assurance practitioners and existing or prospective sustainability assurance clients, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- *Gifts.*
- *Hospitality.*
- *Entertainment.*
- *Political or charitable donations.*
- *Appeals to friendship and loyalty.*
- *Employment or other commercial opportunities.*
- *Preferential treatment, rights or privileges.*

Key audit partner

The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.

Key sustainability assurance leader

The engagement leader, the individual responsible for the engagement quality review, and other leaders, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, "other leaders" might include, for example, engagement leaders for certain group components in a group sustainability assurance engagement such as significant subsidiaries or divisions.

A sustainability assurance leader performing assurance work at a value chain component is not, as a result of that role, a key sustainability assurance leader for purposes of the group sustainability assurance engagement.

Leader

Any individual with authority to bind a firm with respect to the performance of a professional service.

This term is used in the context of sustainability assurance engagements in Part 5.

May

This term is used in the Code to denote permission to take a particular action in

certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

Might *This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.*

Network A larger structure:

- (a) That is aimed at co-operation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm A firm or entity that belongs to a network.
For further information, see paragraphs 400.50 A1 to 400.54 A1 [in Part 4A](#) and paragraphs 5400.50 A1 to 5400.54 A1 [in Part 5](#).

Non-compliance with laws and regulations (Professional Accountants in Business) *Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

- (a) *The professional accountant's employing organization;*
- (b) *Those charged with governance of the employing organization;*
- (c) *Management of the employing organization; or*
- (d) *Other individuals working for or under the direction of the employing organization.*

This term is described in paragraph 260.5 A1.

Non-compliance with laws and regulations (Professional Accountants in Public Practice) *Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

- (a) *A client;*
- (b) *Those charged with governance of a client;*
- (c) *Management of a client; or*
- (d) *Other individuals working for or under the direction of a client.*

This term is described in paragraph 360.5 A1.

Non-compliance with laws and regulations *Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

- (Sustainability Assurance Practitioners)
- (a) A sustainability assurance client;*
 - (b) Those charged with governance of a sustainability assurance client;*
 - (c) Management of a sustainability assurance client; or*
 - (d) Other individuals working for or under the direction of a sustainability assurance client.*

This term is described in paragraph 5360.5 A1.

Office A distinct sub-group, whether organized on geographical or practice lines.

Predecessor accountant A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

Predecessor practitioner *An individual or an entity who most recently held an appointment to perform a sustainability assurance engagement or carried out other professional services for a sustainability assurance client, where there is no existing practitioner.*

Professional accountant An individual who is a member of an IFAC member body.
In Part 1, the term "professional accountant" refers to individual professional accountants in business and to professional accountants in public practice and their firms.
In Part 2, the term "professional accountant" refers to professional accountants in business.
In Parts 3, 4A and 4B, the term "professional accountant" refers to professional accountants in public practice and their firms.

Professional accountant in business A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

Professional accountant in public practice A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.

The term "professional accountant in public practice" is also used to refer to

a firm of professional accountants in public practice.

Professional activity An activity requiring ~~professional accountancy or related~~ skills undertaken by a professional accountant or a sustainability assurance practitioner, including accounting, auditing, sustainability reporting or assurance, tax, ~~management~~ consulting, and financial management.

Professional judgment *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.*

This term is described in paragraph 120.5 A4 and 5120.5 A4.

Professional services Professional activities performed for clients.

Proposed accountant A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

Proposed practitioner A sustainability assurance practitioner who is considering accepting an appointment to perform a sustainability assurance engagement or carry out other professional services for a prospective sustainability assurance client (or in some cases, an existing sustainability assurance client).

Public interest entity For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.23 A1 and 400.23 A2.

Publicly traded entity An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

Reasonable and informed third party *The reasonable and informed third party test is a consideration by the professional accountant or the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party.*

Reasonable and informed third party test *Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant or the sustainability assurance practitioner knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant or a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's or sustainability assurance practitioner's conclusions in an impartial manner.*

These terms are described in paragraphs 120.5 A9 and 5120.5 A9.

Related entity An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity

Reporting boundary Activities, operations, relationships or resources to be included in the entity's sustainability information.

Responsible party In an assurance engagement, the party responsible for the underlying subject matter.

Review client An entity in respect of which a firm conducts a review engagement.

Review engagement An assurance engagement, conducted in accordance with *International Standards on Review Engagements* or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial

reporting framework.

Review team	(a) All members of the engagement team for the review engagement; and (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and (c) Any other individuals within a network firm who can directly influence the outcome of the review engagement.

Safeguards	<i>Safeguards are actions, individually or in combination, that the professional accountant <u>or the sustainability assurance practitioner</u> takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i> <i>This term is described in paragraphs 120.10 A2 <u>and 5120.10 A2</u>.</i>

Senior professional accountant in business	<i>Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.</i> <i>This term is described in paragraph 260.11 A1.</i>

Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

Subject matter information	The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.

Substantial harm	<i>This term is described in paragraphs 260.5 A3, ~~and~~ 360.5 A3 <u>and</u> 5360.5 A3.</i>
<u>Sustainability assurance client</u>	<u>An entity in respect of which a firm conducts a sustainability assurance engagement. When the client is a publicly traded entity, sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph R5400.27.)</u>
<u>Sustainability assurance engagement</u>	<u>An engagement in which a sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information.</u> <u>A sustainability assurance engagement can be either a:</u> • <u>Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the underlying subject matter against applicable criteria; or</u> • <u>Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the sustainability information to a degree that is clearly more than inconsequential.</u>
<u>Sustainability assurance practitioner</u>	<u>The individual(s) conducting a sustainability assurance engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm).</u>
<u>Sustainability</u>	<u>(a) All members of the engagement team for the sustainability assurance</u>

assurance
team

engagement;

- (b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:
- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement leader in connection with the performance of the sustainability assurance engagement, including those at all successively senior levels above the engagement leader through to the individual who is the firm's Chief Executive;
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.

Sustainability
information

Information about sustainability matters.

Sustainability matters are environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.

Sustainability information includes information that may be:

- Expressed in financial or non-financial terms.
- Historical or forward-looking.
- Prepared for internal purposes or for mandatory or voluntary disclosure.
- Obtained from an entity or its value chain.
- Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.
- Described in an entity's governance structure, policies, plans, goals, commitments or representations.
- About the effects (including risks and opportunities) of environmental, social, governance or other sustainability-related matters on an entity's business model, activities, services or products.
- About the effects of an entity's business model, activities, services or products on the environment, society or economy.

Those charged
with

The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations

governance related to the accountability of the entity. This includes overseeing the financial reporting process or the sustainability reporting process, as applicable. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats *This term is described in paragraphs 120.6 A3 and 5120.6 A3 and includes the following categories:*

<i>Self-interest</i>	120.6 A3(a) <u>and 5120.6 A3(a)</u>
<i>Self-review</i>	120.6 A3(b) <u>and 5120.6 A3(b)</u>
<i>Advocacy</i>	120.6 A3(c) <u>and 5120.6 A3(c)</u>
<i>Familiarity</i>	120.6 A3(d) <u>and 5120.6 A3(d)</u>
<i>Intimidation</i>	120.6 A3(e) <u>and 5120.6 A3(e)</u>

Time-on period *This term is described in paragraphs R540.75 in Part 4A and R5540.7 in Part 5*

Underlying subject matter The phenomenon that is measured or evaluated by applying criteria.

Value Chain The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.
The value chain might include, for example, certain sustainability assurance client's customers and suppliers for sustainability reporting purposes.

Value chain component (for a sustainability assurance engagement) A value chain component is a component within the reporting entity's value chain that is not included in the group financial statements.
If the value chain component is:
(a) A legal entity, it is the entity; or
(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

CHAPTER 3 – CONSEQUENTIAL AND CONFORMING AMENDMENTS TO INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (MARK-UP FROM 2024 VERSION OF THE CODE)

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

(....)

Breaches of the Code

R100.8 Paragraphs R400.80 to R400.89, 405.22 A1 to R405.29, ~~and~~ R900.50 to R900.55, R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of International Independence Standards. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

(....)

SECTION 120

THE CONCEPTUAL FRAMEWORK

(....)

Requirements and Application Material

General

R120.3 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- (a) Part 2 – *Professional Accountants in Business*;
- (b) Part 3 – *Professional Accountants in Public Practice*; ~~and~~
- (c) *International Independence Standards*, as follows:

- (i) Part 4A – *Independence for Audit and Review Engagements*; and
- (ii) Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, and Review Engagements and Sustainability Assurance Engagements Addressed in Part 5; and-*

(d) Part 5 – International Ethics Standards for Sustainability Assurance (including International Independence Standards).

R120.4

When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

(....)

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 260.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements or sustainability information; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

260.5 A1 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The professional accountant’s employing organization;
- (b) Those charged with governance of the employing organization;
- (c) Management of the employing organization; or
- (d) Other individuals working for or under the direction of the employing organization.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R260.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

(....)

Responsibilities of Senior Professional Accountants in Business

(....)

Addressing the Matter

(....)

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor and/or sustainability assurance practitioner performing a sustainability assurance engagement that is within the scope of the International Independence Standards in Part 5, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit or the sustainability assurance practitioner to perform the sustainability assurance engagement that is within the scope of the International Independence Standards in Part 5.

Determining Whether Further Action Is Needed

R260.16 The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.

(....)

PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Introduction

- 300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.
- 300.2 The requirements and application material that apply to professional accountants in public practice are set out in:
- Part 3 – *Professional Accountants in Public Practice*, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
 - *International Independence Standards* as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5*, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit engagements, or review engagements, or sustainability assurance engagements that are within the scope of the *International Independence Standards* in Part 5.
 - Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards)*, Sections 5100 to 5600, which applies to professional accountants in public practice when performing sustainability assurance engagements.
- 300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

(....)

The Client and its Operating Environment

- 300.7 A3 The professional accountant’s evaluation of the level of a threat might be impacted by whether the client is:
- (a) An audit client or a sustainability assurance client for whom the accountant performs a sustainability assurance engagement within the scope of the *International Independence Standards* in Part 5, and whether ~~the audit that~~ client is a public interest entity;
 - (b) An assurance client that is not an audit client or for whom the accountant does not perform a sustainability assurance engagement within the scope of the *International Independence Standards* in Part 5; or

- (c) A client to whom non-assurance services are provided~~client~~.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

(....)

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

- 360.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 360.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements or sustainability information; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
 - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
 - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

- 360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A client;
 - (b) Those charged with governance of a client;
 - (c) Management of a client; or

(d) Other individuals working for or under the direction of a client.

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R360.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

(....)

Audits of Financial Statements

(....)

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.

Communicating the Matter to the Client's Sustainability Assurance Practitioner

R360.18a Unless prohibited from doing so by law or regulation, the professional accountant shall communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the International Independence Standards in Part 5, when the client is also:

- (a) A sustainability assurance client of the firm; or
- (b) A group component of a sustainability assurance client of the firm.

The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement leader responsible for the sustainability assurance engagement.

R360.18b The professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the International Independence Standards in Part 5, when the client is:

- (a) Also a sustainability assurance client, or a group component of a sustainability assurance client, of a network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement leader responsible for the sustainability assurance engagement; or
- (b) Not a sustainability assurance client, or a group component of a sustainability assurance client, of the firm or a network firm.

Relevant Factors to Consider

360.18b A1 Factors relevant to considering the communication in accordance with paragraph R360.18b include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether management or those charged with governance have already informed the client's sustainability assurance practitioner(s) about the matter.

Purpose of Communication

360.18b A2 In the circumstances addressed in paragraphs R360.18a and R360.18b, the purpose of the communication is to enable:

- (a) The engagement leader to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of Part 5; and
- (b) The engagement partner and the sustainability assurance practitioner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section and Section 5360, respectively.

Determining Whether Further Action Is Needed

R360.19 The professional accountant shall assess the appropriateness of the response of management and,

where applicable, those charged with governance.

(....)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

(....)

Assurance Engagements other than Audit and Review Engagements

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in:

- Part 4B – Independence for Assurance Engagements Other than Audit Engagements, and Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5.
- Part 5 – International Ethics Standards for Sustainability Assurance (including International Independence Standards)

(....)

Network Firms

(....)

R400.54 If a firm or a network sells a component part of its practice, and the component that part continues to use all or part of wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a part component of a practice might provide that, for a limited period of time, that part the sold component can continue to use wholly all or partly of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

(...)

SECTION 410

FEES

(....)

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

410.11 A2a Where a firm or a network firm provides a sustainability assurance engagement addressed in the International Independence Standards in Part 5, the fee for that sustainability assurance engagement does not impact the level of the self-interest threat or intimidation threat created by the proportion of fees for services other than audit to the audit fee.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

(...)

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

540.2 When an individual is involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

540.3 A1 References in this Section to key sustainability assurance leader, sustainability assurance team and sustainability assurance engagement are in the context of sustainability assurance engagements within the scope of the International Independence Standards in Part 5.

All Audit Clients

540.43 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member or sustainability assurance team member with:

- (a) The audit client and its operations;
- (b) The audit client's senior management; or
- (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

540.3.4A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.

540.43 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

- (a) In relation to the individual:
 - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member for the audit engagement or sustainability assurance engagement, and the nature of the roles performed.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
 - The closeness of the individual's personal relationship with senior management or those charged with governance.
 - The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.
- (b) In relation to the audit client:
 - The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
 - Whether there have been any recent changes in senior management or those charged with governance.
 - Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.43 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.43 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement or a combination of audit and sustainability assurance engagements for the same client, over a long period of time would be rotating the individual off the audit team.

540.~~43~~ A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.54 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.~~75~~ to R540.2~~34~~ also apply.

R540.6 Where an individual is a member of both the audit team and the sustainability assurance team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the audit team and the sustainability assurance team, the firm shall, in addition to complying with paragraph R540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.23 also apply.

Audit Clients that are Public Interest Entities

R540.75 Subject to paragraphs R540.~~97~~ to R540.1~~19~~, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality review; ~~or~~
- (c) Any other key audit partner role; ~~or~~
- (d) A key sustainability assurance leader.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.1~~34~~ to R540.2~~19~~.

R540.86 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.75(a) to (de) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.134 to R540.153 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.86 A1 For example,

- An individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.175.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client's financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R540.18.

R540.97 As an exception to paragraph R540.75, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.97 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.108 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner or a key sustainability assurance leader before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that-the capacity of a key audit partner before rotating off the audit engagement is seven years less the number of years already served. As an exception to paragraph R540.75, if the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that-the capacity of a key audit partner with the concurrence of those charged with governance for a maximum of two additional years before rotating off the audit engagement.

R540.119 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.75, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R540.120 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement or the sustainability assurance engagement for the same client prior to the individual becoming a key audit partner.

540.120 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

R540.131 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.142 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.153 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.131 and R540.142 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.164 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner or key sustainability assurance leader roles

R540.175 If the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the engagement partner or engagement leader for four or more cumulative years, the cooling-off period shall be five consecutive years.

R540.186 Subject to paragraph R540.197(a), if the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the key audit partner or key sustainability assurance leader responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R540.197 If an individual has acted in a combination of engagement partner, engagement leader and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

(a) As an exception to paragraph R540.186, be five consecutive years where the individual has been the engagement partner or engagement leader for three or more years; or

(b) Be three consecutive years in the case of any other combination.

R540.2018 If the individual acted in any combination of key audit partner or key sustainability assurance leader roles other than those addressed in paragraphs R540.175 to R540.197, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.2119 In determining the number of years that an individual has been a key audit partner or a key sustainability assurance leader as set out in paragraph R540.75, the length of the relationship shall,

where relevant, include time while the individual was a key audit partner on ~~that the audit~~ engagement or a key sustainability assurance leader on the sustainability assurance engagement for the same client at a prior firm.

[Paragraph R540.220 Intentionally left blank]

Restrictions on Activities During the Cooling-off Period

R540.231 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement or the sustainability assurance engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement or sustainability assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit engagement or sustainability assurance engagement);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement or sustainability assurance engagement.

540.231 A1 The provisions of paragraph R540.231 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, AND REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, AND REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS IN PART 5

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements, ~~and~~ review engagements, and sustainability assurance engagements within the scope of the International Independence Standards in Part 5. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, ~~for example, environmental, social and governance disclosures, including greenhouse gas statements other than assurance on sustainability information within the scope of the International Independence Standards in Part 5~~.
- An audit of specific elements, accounts or items of a financial statement.
- A sustainability assurance engagement that is not within the scope of the International Independence Standards in Part 5, for example:
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a framework designed to meet the information needs of specified users.
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with entity-developed criteria.
 - A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

(...)

Audit and Review Engagements

900.10 Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm,

a network firm and the audit or review team members.

Sustainability Assurance Engagements Addressed in Part 5

900.11 Part 5 sets out independence standards for certain sustainability assurance engagements. If a firm performs both a sustainability assurance engagement within the scope of the International Independence Standards in Part 5 and another assurance engagement within the scope of this Part for the same client, the requirements in Part 5 continue to apply to the firm, a network firm and the sustainability assurance team members.

CHAPTER 4 – SUSTAINABILITY REPORTING-RELATED REVISIONS TO PARTS 1 TO 3 OF INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (MARK-UP FROM 2024 VERSION OF THE CODE)

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

Introduction

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.
- 100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial, non-financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:
- (a) Adherence to ethical principles and professional standards;
 - (b) Use of business acumen;
 - (c) Application of expertise on technical and other matters; and
 - (d) Exercise of professional judgment.
- The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.
- 100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics (including independence) standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.
- 100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice.

(....)

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

Introduction

- 200.1 This Part of the Code sets out requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.
- 200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and ~~non-financial~~ other information, including sustainability, information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 200.3 A professional accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.

(....)

Identifying Threats

- 200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:
- (a) Self-interest Threats
- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
 - A professional accountant participating in incentive compensation arrangements offered by the employing organization.
 - A professional accountant having access to corporate assets for personal use.
 - A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

(b) Self-review Threats

- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- A professional accountant determining the appropriate methodology to calculate emission reductions after performing the feasibility study supporting a capital project to reduce emissions.

(c) Advocacy Threats

- A professional accountant having the opportunity to manipulate information in a prospectus, including in relation to a sustainability or sustainability-linked bond, in order to obtain favorable financing.

(d) Familiarity Threats

- A professional accountant being responsible for the financial or non-financial, including sustainability, reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial or non-financial reporting of the organization.
- A professional accountant having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
 - The application of an accounting principle or a sustainability reporting principle.
 - The determination of measurement methods, metrics, targets, estimation criteria or assumptions for sustainability information.
 - The way in which financial or non-financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle or a sustainability reporting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

(Ref: Para. 230.2).

- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgment of the accountant or employing organization.

Evaluating Threats

- 200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.
- 200.7 A2 The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.
- 200.7 A3 The professional accountant's evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
 - Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
 - Policies and procedures to implement and monitor the quality of employee performance.
 - Systems of corporate oversight or other oversight structures and strong internal controls over financial and non-financial, including sustainability, information and their interconnection.
 - Recruitment procedures emphasizing the importance of employing high caliber competent personnel.
 - Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
 - Ethics and code of conduct policies.
- 200.7 A4 The professional accountant's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organization and its operating environment. For example:
- Level of corporate oversight and internal controls over the technology.
 - Assessments of the quality and functionality of technology that are undertaken by a third-party.
 - Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

(....)

Communicating with Those Charged with Governance

- R200.9** When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

- 200.9 A1 In determining with whom to communicate, a professional accountant might consider:
- (a) The nature and importance of the circumstances; and
 - (b) The matter to be communicated.
- 200.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.
- R200.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.
- 200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

SECTION 210

CONFLICTS OF INTEREST

(....)

Requirements and Application Material

General

R210.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.
- Preparing financial or non-financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

Conflict Identification

R210.5 A professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

(....)

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

- 220.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

- 220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's activities and state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Sustainability information, including information on the organization's business model, services, products, or other relevant activities, provided to the sustainability assurance practitioner.
- Risk and impact analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

- 220.3 A3 For the purposes of this section, preparing or presenting information includes collecting, recording, measuring, maintaining and approving information.

R220.4 When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead others nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature and impacts of business transactions or activities; and
 - (iii) Collect, Classify, and record or measure information in a timely and proper manner;
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;
- (e) Avoid undue influence of, or undue reliance on, individuals, organizations or technology; and
- (f) Be aware of the risk of bias.

220.4 A1 An example of preparing or presenting the information in a manner that is intended to mislead others is deliberately giving a false impression in sustainability information about how well an organization or an investment is aligned with or achieving its sustainability goals, through practices such as:

- Omitting relevant information to misrepresent the nature and impacts of business activities.
- Including false information.
- Inappropriately applying or reporting metrics.
- Placing excessive emphasis on certain information while understating other information.

220.4 A24 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

220.4 A3 An example of failing to exercise professional judgment to represent the facts accurately and completely in all material respects is placing undue weight on information that corroborates an organization's achievement of its targets or insufficient weight on other information which contradicts such achievement.

220.4 A4 An example of placing undue reliance on an organization is using the data provided by a large supplier within the entity's value chain to prepare or present the entity's sustainability information, without considering the source, relevance and sufficiency of that supplier's data.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.

- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Selecting or changing measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework in order to misrepresent information.
- Selecting, omitting or obscuring opportunities, risks or impacts as part of a materiality assessment in order to misrepresent sustainability information.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the timing of disclosures of sustainability information to achieve a more favorable presentation or outcome in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial, sustainability or operating risk in order to mislead.
- Preparing forward-looking information by relying on assumptions that are unrealistic or inconsistent with management's decisions or objectives in order to mislead.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:

- (a) The purpose for which the information is to be used;
- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, or sustainability information, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

220.6 A2 The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others

[Placeholder – The new and revised provisions under the heading “Using the Work of Others” are included in the Final Pronouncement addressing Using the Work of an External Expert]

(....)

Using the Output of Technology

R220.8 A professional accountant who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.

- The expected use of, or extent of reliance on, the output of the technology.
- Whether the accountant has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
 - A relevant professional body.
 - The internal or external auditor or sustainability assurance practitioner of the employing organization.
 - Legal counsel.
- Determining whether any requirements exist to communicate to:
 - Third parties, including users of the information.
 - Regulatory and oversight authorities.

R220.10 If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

Documentation

220.11 A1 The professional accountant is encouraged to document:

- The facts.
- The accounting or reporting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The accountant's analysis, assumptions, courses of action considered, and judgments and decisions made in preparing or presenting the information.
- How the accountant attempted to address the matter(s).

Other Considerations

220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial or non-financial, including sustainability, reporting and decision making, the requirements and application material set out in Section 240 apply.

220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.12 A4 When a professional accountant is considering using the work of others or the output of technology, a consideration is whether the accountant is in a position within the employing organization to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING

(....)

Requirements and Application Material

General

R240.3 A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

240.3 A1 Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial or non-financial, including sustainability, reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.
- Is eligible for a ~~profit-related~~ bonus or incentive based on financial or non-financial performance goals and the value of that bonus or incentive might be directly affected by decisions made by the accountant.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain financial or non-financial performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
 - All relevant interests.
 - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

- 240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

- 270.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 270.2 Pressure exerted on, or by, a professional accountant might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- R270.3** A professional accountant shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
 - (b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:
- Within the employing organization, for example, from a colleague or superior.
 - An external individual or organization such as a vendor, customer or lender.
 - Internal or external targets and expectations.
- 270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.
 - Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial or non-financial results to meet investor, analyst, ~~or~~ lender or other stakeholder expectations.
 - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
 - Pressure to misrepresent, through labeling or otherwise, how certain programs, projects or products are aligned to or achieving sustainability goals.
 - Pressure from colleagues to misstate income, expenditure, ~~or~~ rates of return or sustainability information to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
 - Pressure from superiors to inappropriately reduce the extent of work performed.
 - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
 - Pressure from superiors to prepare sustainability information with insufficient data or deficiencies in the quality and accuracy of data available.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
 - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate financial or non-financial performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial or Non-Financial Reporting and Decision Making*.

- Pressure related to inducements:
 - Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
 - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
 - Pressure to structure a transaction to evade tax.
 - Pressure to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees:
 - Pressure exerted by a professional accountant on another professional accountant to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 330, *Fees and Other Types of Remuneration*

- 270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:
- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
 - The application of laws, regulations, and professional standards to the circumstances.
 - The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
 - Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.
- 270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the professional accountant to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:
- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
 - Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.
 - Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
 - Higher levels of management.
 - Internal or external auditors or the sustainability assurance practitioner.
 - Those charged with governance.
 - Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
 - Consulting with:
 - A colleague, superior, human resources personnel, or another professional accountant;
 - Relevant professional or regulatory bodies or industry associations; or
 - Legal counsel.
- 270.3 A5 An example of an action that might eliminate threats created by pressure is the professional accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

Documentation

- 270.4 A1 The professional accountant is encouraged to document:
- The facts.
 - The communications and parties with whom these matters were discussed.
 - The courses of action considered.
 - How the matter was addressed.

PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

(....)

Requirements and Application Material

General

R300.4 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial or non-financial, including sustainability, information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

300.5 A2 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, accountants are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountant or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.

- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.
- A professional accountant having incentives linked to the outcome of a professional service to prepare sustainability information.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having contributed to the preparation of the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.
- A professional accountant promoting a particular sustainability-related initiative, product or service on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.

- An audit team member having a long association with the audit client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment or sustainability-related analysis.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
 - The data available might not be sufficient for the effective use of the technology.
 - The technology might not be appropriate for the purpose for which it is to be used.
 - The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- (Ref: Para. 230.2).
- Self-review Threats
 - The technology was designed or developed using the knowledge, expertise or judgment of the accountant or firm.

Evaluating Threats

(....)

The Client and its Operating Environment

(....)

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.

- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

300.7 A4a When preparing or presenting sustainability information, the professional accountant's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information the accountant is preparing or presenting comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

The Firm and its Operating Environment

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

(....)

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, a professional accountant might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

- 300.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.
- R300.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.
- 300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

SECTION 310

CONFLICTS OF INTEREST

(....)

Requirements and Application Material

General

R310.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.
- Preparing or presenting sustainability information for a client while also being in a leadership position at a sustainability advocacy group that publicly challenges the client's sustainability targets or practices.

Conflict Identification

General

(....)

SECTION 320

PROFESSIONAL APPOINTMENTS

(....)

Requirements and Application Material

Client and Engagement Acceptance

General

- 320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The quantitative and qualitative characteristics of the client's value chain, where applicable;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matter.
 - Experience with relevant regulatory or reporting requirements.
 - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
 - The level of fees and the extent to which they have regard to the resources required, taking into account the professional accountant's commercial and market priorities.

320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

(....)

Client and Engagement Continuance

R320.9 For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management, ~~or~~ balance sheet valuations or sustainability materiality assessments.

Using the Work of an Expert

[Placeholder – The new and revised provisions under the heading “Using the Work of an Expert” are included in the Final Pronouncement addressing Using the Work of an External Expert]

(....)

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

(....)

Contingent Fees

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant.
- Obtaining an advance written agreement with the client on the basis of remuneration.

(....)

EFFECTIVE DATE

- Except for the provisions in Sections 5405 and 5406 applicable to assurance work performed at value chain components, the provisions in Chapters 1 to 3 will be effective for sustainability assurance engagements on sustainability information for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026.
- The revisions in Chapter 4 will be effective as of December 15, 2026.

The provisions in Sections 5405 and 5406 applicable when assurance work is performed at a value chain component will be effective for sustainability assurance engagements on sustainability information for periods beginning on or after July 1, 2028, or as at a specific date on or after July 1, 2028. For sustainability assurance engagements on sustainability information for periods beginning, or as at a specific date, prior to July 1, 2028 that involve assurance work performed at a value chain component:

- (a) A group sustainability assurance firm or component practitioner that performs assurance work at a value chain component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work;
- (b) If the group sustainability assurance firm intends to use the assurance work of another practitioner, the group sustainability assurance firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of independence in accordance with Part 4B or other professional requirements relating to independence; and
- (c) The group sustainability assurance firm shall publicly disclose that independence provisions applicable to assurance work performed at value chain components under the IESSA have not been applied, pursuant to a deferred effective date for such provisions as specified in the IESSA.

Early adoption of the provisions in Chapters 1 to 4 is permitted and encouraged.

Transitional Provisions

If a firm has not served as the auditor of the financial statements, the requirement in paragraph R5540.10a also applies where the firm will perform a sustainability assurance engagement on sustainability information for a period beginning prior to December 15, 2026.

For non-assurance services engagements a firm or network firm has entered into with a sustainability assurance client before December 15, 2026, which would be prohibited under Section 5600 and its subsections but for which work has already commenced, the firm or network firm may continue such engagements in accordance with the original engagement terms for no more than one reporting cycle.

A firm might apply the provisions in Chapters 1 to 3 before their effective date. In such a case, if the firm intends to use the assurance work of another practitioner performed for a standalone or group sustainability assurance engagement and the other practitioner has complied with the independence provisions of Part 4B in relation to that work, the firm may treat a confirmation or statement of such compliance from the other practitioner as satisfying the requirements of Section 5406 of Part 5.

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Final Pronouncement

International Standard on Sustainability Assurance
5000

ISSA 5000
General Requirements for
Sustainability Assurance
Engagements

and

Conforming and Consequential
Amendments to Other IAASB
Standard Arising from
ISSA 5000

NOVEMBER 2024



IAASB™

International Auditing and Assurance Standards Board
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**PIOB Certification of
International Standard on Sustainability Assurance 5000,
“General Requirements for Sustainability Assurance
Engagements” (ISSA 5000) And “Conforming and
Consequential Amendments to Other IAASB Standards Arising
from ISSA 5000”**

The Public Interest Oversight Board (PIOB) has overseen the standard-setting process throughout the full development cycle of the International Auditing and Assurance Standards Board’s (IAASB) *ISSA 5000, General Requirements for Sustainability Assurance Engagements* and related conforming and consequential amendments to other IAASB standards (the ‘Standard’).

The recommendations and the public interest issues, raised by the PIOB and provided to the IAASB throughout the standard-setting process, are available on the [PIOB website](#).

The IAASB has provided a written statement that the Standard has been developed in accordance with agreed due process and is responsive to the public interest, informed by the concepts and principles of the Public Interest Framework (PIF), which is being implemented in the standard-setting process, and which is available in the PIOB website¹.

The PIOB considers that the Standard has been developed in a manner consistent with agreed due process. The PIOB also considers that the Standard is responsive to the public interest, informed by the concepts and principles of the PIF.

November 2024

¹[Public Interest Framework](#)

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About the IAASB

This document was developed and approved by the International Auditing and Assurance Standards Board.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

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(Effective for assurance engagements on sustainability information reported for periods beginning on or after December 15, 2026 or as at a specific date on or after December 15, 2026.)

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Introduction

1. This International Standard on Sustainability Assurance (ISSA) deals with assurance engagements on sustainability information.
2. For purposes of this ISSA, sustainability information is information about sustainability matters. An entity's disclosures about such matters may relate to several different topics (e.g., climate, labor practices, biodiversity) and aspects of topics (e.g., risks and opportunities, metrics and key performance indicators). Law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways, and may also provide requirements or guidance for the entity in determining the sustainability information to be reported. (Ref: Para. A1, A21–A22, A43, Appendix 1)
3. Sustainability information is reported in accordance with the criteria. This ISSA requires the practitioner to evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances. In the absence of indications to the contrary, framework criteria that are embodied in law or regulation or are established by authorized or recognized organizations that follow a transparent due process are presumed to be suitable. (Ref: Para. A2, A197)
4. The criteria may specify a process by which the entity identifies sustainability matters to be reported, including the application of materiality in identifying such matters and the reporting boundary. In this ISSA, "the entity's process to identify sustainability information to be reported" refers to the process applied by the entity to determine the sustainability matters to be reported in the sustainability information and the reporting boundary. (Ref: Para. A3)
5. The scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity or only part of that information. For example, some jurisdictions may require the entirety of the sustainability information to be reported in accordance with an established framework to be subject to assurance. However, in certain jurisdictions, law or regulation may require that only climate-related disclosures in an entity's sustainability information be subject to assurance. The reporting requirements of this ISSA require the practitioner to identify or describe the information that is subject to the assurance engagement. (Ref: Para. A4)
6. This ISSA is premised on the basis that: (Ref: Para. A5)
 - (a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to sustainability assurance engagements, or professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A6–A7)
 - (b) The practitioner who is performing the engagement is a member of a firm that is subject to ISQM 1,¹ or professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality management, that are at least as demanding as ISQM 1. (Ref: Para. A8–A11)

¹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

7. Quality management within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance engagements. When a practitioner performs a sustainability assurance engagement in accordance with this and other ISSAs, it is important to recognize that this ISSA includes requirements that reflect the premises described in paragraph 6. (Ref: Para. A5–A11)

Scope of this ISSA

8. This ISSA applies to all assurance engagements on sustainability information. It applies to all types of sustainability information, regardless of how that information is presented. (Ref: Para. A12–A14)
9. This ISSA deals with both reasonable and limited assurance engagements. Unless otherwise stated, each requirement of this ISSA applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. (Ref: Para. A15)
10. The *International Framework for Assurance Engagements* notes that an assurance engagement may be either an attestation engagement or a direct engagement. This ISSA deals only with attestation engagements. Therefore, references in this ISSA to "assurance engagement" or "engagement" mean an attestation engagement.

Relationship with ISAE 3000 (Revised)²

11. This ISSA is an overarching standard that includes requirements and application material for all elements of a sustainability assurance engagement. Accordingly, the practitioner is not required to apply ISAE 3000 (Revised) when performing the engagement.

Relationship with the Audited Financial Statements

12. This ISSA does not address sustainability information that is required to be included in the entity's financial statements in accordance with the applicable financial reporting framework. The auditor of the entity's financial statements is required to apply the International Standards on Auditing to such information.
13. Sustainability information may be presented together with the entity's audited financial statements, for example, as a part of the entity's annual report or in a separate document or documents accompanying the annual report. In these circumstances, the audited financial statements are considered other information for purposes of this ISSA.

Scalability

14. This ISSA is intended for assurance engagements on sustainability information of all entities, regardless of size or complexity. However, the requirements of this ISSA are intended to be applied in the context of the nature and circumstances of the engagement.

² International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

Effective Date

15. This ISSA is effective for assurance engagements on sustainability information reported:

- (a) For periods beginning on or after December 15, 2026; or
- (b) As at a specific date on or after December 15, 2026.

Earlier application of this ISSA is permitted.

Objectives

16. In conducting a sustainability assurance engagement, the objectives of the practitioner are:

- (a) To obtain reasonable assurance or limited assurance, as applicable, about whether the sustainability information is free from material misstatement;
- (b) To express a conclusion on the sustainability information through a written report that conveys a reasonable assurance or a limited assurance conclusion, as applicable, and describes the basis for the conclusion; and
- (c) To communicate further as required by this ISSA and any other relevant ISSA.

17. In all cases when reasonable assurance or limited assurance, as applicable, cannot be obtained and a qualified conclusion in the practitioner's assurance report is insufficient in the circumstances for purposes of reporting to the intended users, this ISSA requires the practitioner to disclaim a conclusion or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions

18. For purposes of the ISSAs, the following terms have the meanings attributed below:

Analytical procedures	Evaluations of sustainability information through analysis of plausible relationships among both quantitative and qualitative data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
Another practitioner	A firm, other than the practitioner's firm, that performs work that the practitioner intends to use for purposes of the sustainability assurance engagement and the practitioner is unable to be sufficiently and appropriately involved in that work. For purposes of the ISSAs: (a) The work of another practitioner that the practitioner may intend to use for purposes of the sustainability assurance engagement is performed in the context of a separate engagement. (b) Individuals from another practitioner who perform the work are not members of the engagement team as they are not performing procedures on the sustainability assurance engagement. Such individuals are also not practitioner's experts.

	(c) References to using the work of another practitioner include, when applicable, work performed by individuals from that other firm.
Applicable criteria	The criteria used for the particular sustainability assurance engagement.
Appropriate party(ies)	Management or those charged with governance, as appropriate, or the engaging party, if different.
Assertions	Representations by the entity, explicit or otherwise, that are embodied in the sustainability information, as used by the practitioner to consider the different types of potential misstatements that may occur. (Ref: Para. A16R)
Assurance engagement	An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information. Each assurance engagement is either a: (a) Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the sustainability matters against the applicable criteria; or (b) Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.
Assurance skills and techniques	Planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from the expertise in sustainability matters or their evaluation or measurement.

Attestation engagement	An assurance engagement in which a party other than the practitioner measures or evaluates the sustainability matters against the applicable criteria.
Comparative information	The sustainability information presented for one or more prior periods.
Component	An entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the practitioner for purposes of planning and performing the sustainability assurance engagement. (Ref: Para. A17)
Component practitioner	A firm that performs assurance work related to a component for purposes of the sustainability assurance engagement, and the practitioner is able to be sufficiently and appropriately involved in that work. References to a component practitioner include, when applicable, individuals from that firm. The individuals from a component practitioner who perform the work are members of the engagement team. (Ref: Para. A18–A19)
Criteria	The benchmarks used to measure or evaluate the sustainability matters. Criteria comprise either framework criteria, entity-developed criteria or both. Framework criteria are either fair presentation criteria or compliance criteria. (Ref: Para. A20, A195) The term “fair presentation criteria” is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework and: (Ref: Para. A528–A529) (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the sustainability information, it may be necessary for management to provide information beyond that specifically required by the framework; or (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the sustainability information. Such departures are expected to be necessary only in extremely rare circumstances. The term “compliance criteria” is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgments in (a) or (b) above.
Disclosure(s)	Sustainability information about an aspect of a topic. (Ref: Para. A21–A22)
Engagement circumstances	The broad context defining the particular assurance engagement, which includes: the terms of the engagement; the scope of the engagement and whether it is a reasonable assurance engagement or a limited

	assurance engagement; the characteristics of the sustainability matters; the applicable criteria; the information needs of the intended users; relevant characteristics of the entity and its reporting boundary; the characteristics of the entity's management and those charged with governance; and other matters that may have a significant effect on the engagement.
Engagement leader	The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalents where relevant. (Ref: Para. A23–A24)
Engagement risk	The risk that the practitioner expresses an inappropriate conclusion when the sustainability information is materially misstated. (Ref: Para. A25–A27R)
Engaging party	Management, those charged with governance, or another party, that engages the practitioner to perform the assurance engagement.
Engagement quality review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the assurance report.
Engagement quality reviewer	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner's external expert and internal auditors who provide direct assistance on the engagement. (Ref: Para. A28–A29)
Entity	The legal entity, economic entity, or the identifiable portion of a legal or economic entity, or combination of legal or other entities or portions of those entities, to which the sustainability information relates. (Ref: Para. A30)
Evidence	Information, after applying assurance procedures, that the practitioner uses to draw conclusions that form the basis for the practitioner's assurance conclusion and report. Sufficiency of evidence is the measure of the quantity of evidence. Appropriateness of evidence is the measure of the quality of evidence.

Firm	A sole practitioner, partnership or corporation or other entity of individual practitioners. "Firm" should be read as referring to its public sector equivalents where relevant. (Ref: Para. A31)
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A32–A33)
Further procedures	Procedures, including tests of controls and substantive procedures, performed in response to assessed risks of material misstatement.
Group	A reporting entity for which group sustainability information is prepared. (Ref: Para. A34)
Group sustainability assurance engagement	An assurance engagement on group sustainability information.
Group sustainability information	Sustainability information that includes the sustainability information of more than one entity or business unit in accordance with the criteria. (Ref: Para. A35)
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods, or about economic conditions or circumstances at points in time in the past.
Intended users	The individual(s) or organization(s), or group(s) thereof, that the practitioner expects will use the sustainability assurance report. In some cases, there may be intended users other than those to whom the sustainability assurance report is addressed. (Ref: Para. A36–A38)
Internal audit function	A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.
Management	The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner–manager.
Management's expert	An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the entity to assist the entity in preparing the sustainability information.
Misstatement	A difference between the disclosure(s) and the appropriate measurement or evaluation of the sustainability matters in accordance

	with the applicable criteria. Misstatements can arise from error or fraud, may be qualitative or quantitative, and include omitted information or information that obscures the presentation of the disclosures. (Ref: Para. A417, A473, A479)
Misstatement of the other information	A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).
Network	A larger structure: (a) That is aimed at cooperation, and (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to the firm's network.
Non-compliance with laws and regulations	Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.
Other information	Information not subject to the assurance engagement included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon.
Partner	Any individual with authority to bind the firm with respect to the performance of a professional services engagement. (Ref: Para. A39)
Performance materiality	The amount or amounts set by the practitioner at less than the amount or amounts determined to be material for a quantitative disclosure to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that disclosure is material.
Personnel	Partners and staff in the firm.
Practitioner	The individual(s) conducting the engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm). Where this ISSA expressly intends that a requirement or responsibility be fulfilled by the engagement leader, the term "engagement leader" rather than "practitioner" is used.

Practitioner's expert	An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.
Professional judgment	The application of relevant training, knowledge, and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
Professional skepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
Professional standards	International Standards on Sustainability Assurance (ISSAs) and relevant ethical requirements.
Relevant ethical requirements	Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. Relevant ethical requirements comprise the provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive, or professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para. A62–A63)
Reporting boundary	Activities, operations, relationships or resources to be included in the entity's sustainability information. For purposes of the ISSAs, the reporting boundary is determined in accordance with the applicable criteria. (Ref: Para. A40–A41)
Risk of material misstatement	The risk that the sustainability information is materially misstated prior to the engagement.
Risk assessment procedures	The procedures designed and performed to: (a) In a limited assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level; and (b) In a reasonable assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error, of the disclosures at the assertion level.

Staff	Professionals, other than partners, including any experts the firm employs.
Substantive procedures	Procedures designed to detect material misstatements. Substantive procedures comprise tests of details and analytical procedures. (Ref: Para. A42)
Sustainability competence	Competence in the sustainability matters that are the subject of the sustainability assurance engagement and in their measurement or evaluation.
Sustainability information	Sustainability information – Information about sustainability matters. (Ref: Para. A43) For purposes of the ISSAs: (a) Sustainability information results from measuring or evaluating sustainability matters against the criteria. (b) Sustainability information that is the subject of the assurance engagement is the equivalent of “subject matter information” in other IAASB assurance standards. (c) References to “sustainability information to be reported” are intended to relate to the entirety of the sustainability information to be reported by the entity, and are used primarily in the context of the practitioner’s preliminary knowledge of the engagement circumstances. (d) If the assurance engagement does not cover the entirety of the sustainability information reported by the entity, the term “sustainability information” is to be read as the information that is subject to assurance. (Ref: Para. A44)
Sustainability matters	Environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information. For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards. (Ref: Para. A45–A46)
System of internal control	The system designed, implemented and maintained by those charged with governance, management and other entity personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to sustainable business activities and the reliability of sustainability reporting, effectiveness and efficiency of operations, and

	compliance with applicable laws and regulations related to sustainability matters. The term “controls” refers to policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance, relating to any aspects of one or more of the components of the system of internal control.
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the sustainability reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner–manager.
Uncorrected misstatements	Misstatements that the practitioner has accumulated during the assurance engagement and that have not been corrected.

Requirements

Conduct of an Assurance Engagement in Accordance with the ISSAs

Complying with Standards that Are Relevant to the Engagement

19. The practitioner shall comply with this ISSA and any other ISSAs relevant to the engagement. (Ref: Para. A47)
20. The practitioner shall not represent compliance with this or any other ISSAs unless the practitioner has complied with the requirements of this ISSA and any other ISSAs relevant to the engagement. (Ref: Para. A47–A48)

Text of an ISSA

21. The practitioner shall have an understanding of the entire text of an ISSA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A49–A54)

Complying with Relevant Requirements

22. The practitioner shall comply with each requirement of this ISSA and any other relevant ISSAs unless, in the circumstances of the assurance engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have the letter “L” (limited assurance) or “R” (reasonable assurance), respectively, after the paragraph number. When a requirement applies to both limited and reasonable engagements, but in a differential manner, such requirements have been presented in a columnar format with the “L” (limited assurance) and “R” (reasonable assurance) designations. (Ref: Para. A55)
23. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISSA. In such circumstances, the practitioner shall perform alternative procedures

to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the assurance engagement, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A56)

Documentation of a Departure from a Relevant Requirement

24. If, in exceptional circumstances, the practitioner judges it necessary to depart from a relevant requirement in this ISSA or any other ISSAs, the practitioner shall document how the alternative procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: Para. A57)

Failure to Achieve an Objective

25. If an objective in this ISSA or any other ISSAs relevant to the engagement cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner's conclusion or withdraw from the assurance engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in this or any other relevant ISSA represents a significant matter requiring documentation in accordance with paragraph 69.

Acceptance and Continuance of the Assurance Engagement

26. The practitioner shall accept or continue the engagement only when:
- (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; (Ref: Para. A58–A64)
 - (b) The practitioner has determined that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time, to perform the engagement; and
 - (c) The basis upon which the engagement is to be performed has been agreed, by:
 - (i) Establishing that the preconditions for an assurance engagement are present (see also paragraph 76); and
 - (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities (see also paragraph 85).
27. If the engaging party imposes a limitation on the scope of the practitioner's work in the terms of a proposed engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the sustainability information, the practitioner shall not accept such an engagement as an assurance engagement, unless required by law or regulation to do so.
28. The engagement leader shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed and that conclusions reached in this regard are appropriate in accepting the engagement in accordance with paragraph 26. (Ref: Para. A65–A67)
29. If the engagement leader obtains information that may have caused the firm to decline the engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement leader shall communicate that information promptly to the firm, so that the firm and the engagement leader can take the necessary action.

Firm-level Quality Management

30. The engagement leader shall be a member of a firm that applies: (Ref: Para. A68–A72)
- (a) ISQM 1; or
 - (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as ISQM 1. (Ref: Para: A73–A74)

Engagement-level Quality Management

Overall Responsibility for Managing and Achieving Quality

31. The engagement leader shall take overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement such that the engagement leader has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A75–A79)
32. If the engagement leader assigns the design or performance of procedures, tasks or actions related to a requirement of this ISSA to other members of the engagement team to assist the engagement leader in complying with the requirements of this ISSA, the engagement leader shall continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. A80)

Characteristics of the Engagement Leader

33. The engagement leader shall have: (Ref: Para. A81–A83)
- (a) Competence and capabilities in assurance skills and techniques developed through extensive training and practical application;
 - (b) An understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement; and
 - (c) Sustainability competence sufficient to accept responsibility for the conclusions reached on the engagement.

Relevant Ethical Requirements, Including Those Related to Independence

34. The practitioner shall comply with relevant ethical requirements, including those related to independence, that comprise: (Ref: Para. A58–A61, A64)
- (a) The provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive; or
 - (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para: A62–A63)
35. The engagement leader shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A84–A85)

- (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
 - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
 - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.
36. If matters come to the engagement leader's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement leader shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A85–A86)
37. Throughout the engagement, the engagement leader shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement leader's attention through the firm's system of quality management or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement leader, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A86)

Assurance Skills and Techniques, Professional Skepticism and Professional Judgment

38. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.
39. The practitioner shall plan and perform the engagement with professional skepticism, recognizing that circumstances may exist that cause the sustainability information to be materially misstated. (Ref: Para. A87–A92)
40. The practitioner shall exercise professional judgment in planning and performing the engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A93–A95)

Engagement Resources

41. The engagement leader shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A96–A97)
42. The engagement leader shall determine that members of the engagement team, and any practitioner's external experts and internal auditors who provide direct assistance, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement. (Ref: Para. A98–A102)
43. If the practitioner intends to obtain evidence from using the work of a firm other than the practitioner's firm, the engagement leader shall determine whether the engagement leader will be able to be sufficiently and appropriately involved in such work. When the engagement leader: (Ref: Para. A103–A106)
- (a) Is able to be sufficiently and appropriately involved in that work, that firm is a component practitioner and the individuals performing the work are part of the engagement team. In such circumstances, the practitioner shall apply paragraphs 46–49 with respect to that work;

- (b) Is unable to be sufficiently and appropriately involved in that work, that firm is another practitioner, and the practitioner shall apply paragraphs 50–55 with respect to that work.
- 44. If, as a result of complying with the requirements in paragraphs 41–43, the engagement leader determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, the engagement leader shall take appropriate action, including communicating with appropriate individuals in the firm about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A107–A109)
- 45. The engagement leader shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the engagement. (Ref: Para. A110)

Direction, Supervision and Review

- 46. The engagement leader shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A111–A116)
- 47. The engagement leader shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A117–A118)
 - (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and
 - (b) Responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm.
- 48. The engagement leader shall review engagement documentation at appropriate points in time during the engagement, including documentation relating to: (Ref: Para. A119–A121, A173)
 - (a) Significant matters;
 - (b) Significant judgments, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and
 - (c) Other matters that, in the engagement leader's professional judgment, are relevant to the engagement leader's responsibilities.
- 49. The engagement leader shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A122)

Using the Work of Others

Using the Work of Another Practitioner

- 50. If the practitioner intends to obtain evidence from using the work of another practitioner, the practitioner shall: (Ref: Para. A123–A124)
 - (a) Comply with relevant ethical requirements that apply to using the work of another practitioner; (Ref: Para. A125–A126)
 - (b) Evaluate whether that practitioner has the necessary competence and capabilities for the practitioner's purposes; (Ref: Para. A127)
 - (c) Evaluate whether the nature, scope and objectives of that practitioner's work are appropriate for the practitioner's purposes; and (Ref: Para. A128)

- (d) Determine whether the evidence obtained from that practitioner's work is adequate for the practitioner's purposes. (Ref: Para. A124)
51. In making the evaluation in accordance with paragraph 50(c) and determination in accordance with paragraph 50(d), if the practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities and their assurance practitioners across a value chain (referred to in this ISSA as a one-to-many report), the practitioner shall determine whether that assurance report provides sufficient appropriate evidence for the practitioner's purposes by evaluating: (Ref: Para. A129–A131, A291)
 - (a) Whether the description of the procedures performed and the results thereof are appropriate for the practitioner's purposes; and
 - (b) The adequacy of the standard(s) under which the assurance report was issued.
 52. If the practitioner intends to obtain evidence about the operating effectiveness of controls in accordance with paragraphs 119R or 120L, as applicable, the practitioner shall determine whether any complementary user entity controls identified in a one-to-many or other assurance report of another practitioner are relevant to the user entity. (Ref: Para: A130)
 53. In making the determination in accordance with paragraph 50(d), the practitioner shall, to the extent necessary in the circumstances, communicate with another practitioner about the findings from another practitioner's work. (Ref: Para. A132–A133)
 54. The practitioner shall determine whether, and the extent to which, it is necessary to review additional documentation of the work performed by another practitioner. (Ref: Para. A134)
 55. If the practitioner determines that the evidence obtained from the work of another practitioner is not adequate for the practitioner's purposes, including when the practitioner is unable to obtain information to make that determination or when the practitioner is not satisfied that communications with another practitioner are adequate for the practitioner's purposes, the practitioner shall:
 - (a) Determine whether the practitioner is able to obtain sufficient appropriate evidence through performing alternative procedures; and
 - (b) If sufficient appropriate evidence cannot be obtained through performing alternative procedures, consider the implications for the engagement, including whether a scope limitation exists. (Ref: Para. A135)

Using the Work of a Practitioner's Expert

56. If the practitioner plans to use the work of a practitioner's expert, the practitioner shall: (Ref: Para. A136–A140)
 - (a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner's purposes; (Ref: Para. A141–A145)
 - (b) When evaluating the objectivity of a practitioner's external expert, inquire regarding interests and relationships that may create a threat to that expert's objectivity; (Ref: Para. A145–A147)
 - (c) Obtain a sufficient understanding of the field of expertise of the expert to determine the nature, scope and objectives of that expert's work for the practitioner's purposes; and (Ref: Para. A148–A149)

- (d) Agree with the expert, in writing when appropriate, on:
 - (i) The nature, scope and objectives of that expert's work; and (Ref: Para. A149–A150)
 - (ii) The respective roles and responsibilities of the practitioner and that expert, including the nature, timing and extent of communication between the practitioner and expert. (Ref: Para. A138–A139)
- 57. The practitioner shall evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes, including: (Ref: Para. A137; A151)
 - (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence obtained by the practitioner;
 - (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
 - (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.
- 58. If the practitioner determines that the work of the practitioner's expert is not adequate for the practitioner's purposes, the practitioner shall:
 - (a) Agree with that expert on the nature and extent of further work to be performed; or
 - (b) Perform additional procedures appropriate to the circumstances.

Using the Work of the Internal Audit Function

- 59. If the practitioner plans to use the work of the internal audit function, the practitioner shall: (Ref: Para. A152–A154)
 - (a) Evaluate the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
 - (b) Evaluate the level of competence of the internal audit function, including in sustainability matters and applicable criteria;
 - (c) Evaluate whether the internal audit function applies a systematic and disciplined approach, including a system of quality control;
 - (d) Determine whether, and to what extent, to use specific work of the internal audit function; and
 - (e) Determine whether that work is adequate for the practitioner's purposes.

Communications Among Those Involved in the Engagement

- 60. The engagement leader shall take responsibility for determining that communications take place at appropriate times throughout the engagement among the engagement team and, as applicable, practitioner's external experts and the internal audit function. (Ref: Para. A155–A159)

Consultation

- 61. The engagement leader shall take responsibility for the engagement team undertaking consultation on:
 - (a) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and

- (b) Other matters that, in the engagement leader's professional judgment, require consultation.

Engagement Quality Review

- 62. For those engagements for which an engagement quality review is required in accordance with ISQM 1 or the firm's policies or procedures, the engagement leader shall discuss significant matters and significant judgments arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer.

Monitoring and Remediation

- 63. The engagement leader shall: (Ref: Para. A160–A161)
 - (a) Consider information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, information from the monitoring and remediation process of the network and across the network firms; and
 - (b) Determine whether the information may affect the engagement and, if so, take appropriate action.

Fraud and Non-Compliance with Laws and Regulations

- 64. The practitioner shall maintain professional skepticism throughout the engagement, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the practitioner's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A162)
- 65. The practitioner shall remain alert to the possibility that procedures performed during the engagement may bring instances of non-compliance or suspected non-compliance with laws and regulations to the practitioner's attention.
- 66. In the absence of identified or suspected non-compliance, the practitioner is not required to perform procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 65 and 111–112.
- 67. If the practitioner identifies fraud or suspected fraud, or instances of non-compliance or suspected non-compliance with laws and regulations, the practitioner shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A163–A165, A434)
 - (a) Require the practitioner to report to an appropriate authority outside the entity; or
 - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Communication with Management and Those Charged with Governance

- 68. The practitioner shall communicate with management or those charged with governance, on a timely basis during the engagement, significant matters that, in the practitioner's professional judgment, merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A166–A170)

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation

69. The practitioner shall prepare, on a timely basis, engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable a practitioner experienced in sustainability assurance, having no previous connection with the assurance engagement, to understand: (Ref: Para. A171–A173)
- (a) The nature, timing and extent of the procedures performed to comply with this ISSA, other relevant ISSAs and applicable legal and regulatory requirements;
 - (b) The results of the procedures performed, and the evidence obtained; and
 - (c) Significant matters arising during the assurance engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A174–A176)
70. In documenting the nature, timing and extent of procedures performed, the practitioner shall record: (Ref: Para. A177–A178)
- (a) The identifying characteristics of the specific items or matters tested;
 - (b) Who performed the assurance engagement work and the date such work was completed; and
 - (c) Who reviewed the assurance engagement work performed and the date and extent of such review.
71. The engagement documentation shall also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed, and when and with whom the discussions took place. (Ref: Para. A179)

Assembly of the Final Engagement File

72. The practitioner shall assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A180–A182)
73. In circumstances other than those envisaged in paragraph 212, when the practitioner finds it necessary to modify existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the practitioner shall, regardless of the nature of the modifications or additions, document:
- (a) The specific reasons for making them; and
 - (b) When and by whom they were made and reviewed.

Documentation Related to Quality Management

74. The practitioner shall include in the engagement documentation: (Ref: Para. A183)
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved;

- (b) Conclusions about compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;
- (c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements, including with respect to the preconditions for an assurance engagement; and
- (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Preconditions for an Assurance Engagement

Establishing Whether the Preconditions Are Present

75. The practitioner shall obtain a preliminary knowledge of the engagement circumstances, including: (Ref: Para. A184)
 - (a) The sustainability information to be reported; and
 - (b) Whether the scope of the proposed assurance engagement encompasses all or part of the sustainability information in (a). (Ref: Para. A185)
76. In order to establish whether the preconditions for an assurance engagement are present, based on the preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), the practitioner shall: (Ref: Para. A184, A186–A187)
 - (a) Consider whether the entity has a process to identify sustainability information to be reported; (Ref: Para. A187)
 - (b) Evaluate whether the roles and responsibilities of management, those charged with governance and the engaging party, if different, are suitable in the circumstances. In doing so, the practitioner shall also evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information; and (Ref: Para. A186(a), A188–A191)
 - (c) Evaluate whether the engagement exhibits all of the characteristics in paragraphs 77–80.

Appropriate Sustainability Matters

77. The practitioner shall evaluate whether the sustainability matters within the scope of the engagement are appropriate. In doing so, the practitioner shall consider whether those sustainability matters are identifiable and capable of consistent measurement or evaluation against the applicable criteria, such that the resulting sustainability information can be subjected to procedures for obtaining sufficient appropriate evidence. (Ref: Para. A192–A193)

Suitability and Availability of Criteria

78. The practitioner shall evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. In doing so, the practitioner shall:
 - (a) Evaluate whether there are criteria for all of the sustainability information subject to the assurance engagement; (Ref: Para. A194)
 - (b) Identify the sources of the criteria, including whether they are framework criteria, entity–developed criteria or a combination of both; (Ref: Para. A195–A198, A331)

- (c) Evaluate whether the criteria exhibit the following characteristics: (Ref: Para. A199–A201, A332–A335)
 - (i) Relevance; (Ref: Para. A336–A337)
 - (ii) Completeness; (Ref: Para. A338)
 - (iii) Reliability; (Ref: Para. A339)
 - (iv) Neutrality; and (Ref: Para. A340–A341)
 - (v) Understandability; and (Ref: Para. A342)
- (d) Evaluate whether and how the criteria will be made available to the intended users. (Ref: Para. A202)

Evidence to Support the Practitioner's Conclusion and Form of Conclusion

79. The practitioner shall determine whether

- (a) The practitioner expects to be able to obtain the evidence needed to support the practitioner's conclusion; and (Ref: Para. A203–A206L)
- (b) The practitioner's conclusion, in the form appropriate for the engagement, is to be contained in a written report.

Rational Purpose

80. The practitioner shall determine whether the engagement exhibits a rational purpose. In doing so, the practitioner shall determine whether: (Ref: Para. A207–A208)
- (a) In the case of a limited assurance engagement, the practitioner expects to be able to obtain a meaningful level of assurance; (Ref: Para. A209L–A211L)
 - (b) The engagement as a whole will be useful and not misleading to intended users; and
 - (c) The scope of the assurance engagement is appropriate, including when the scope of the assurance engagement excludes part of the sustainability information to be reported. (Ref: Para. A212–A217)

Deciding Whether to Accept or Continue the Assurance Engagement

81. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement, unless required by law or regulation to do so. However, an engagement accepted under such circumstances does not comply with this ISSA. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with this ISSA or any other ISSAs.

Preconditions Not Present After Acceptance

82. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner shall discuss the matter with the appropriate party(ies), and shall determine: (Ref: Para. A218)
- (a) Whether the matter can be resolved to the practitioner's satisfaction;

- (b) Whether it is appropriate to continue with the engagement; and
 - (c) Whether and, if so, how to communicate the matter in the assurance report.
83. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the sustainability matters are not appropriate for an assurance engagement, the practitioner shall consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner shall express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances. (Ref: Para. A218)

Assurance Report Prescribed by Law or Regulation

84. If law or regulation prescribes the layout or wording of the assurance report that is different from the requirements of the ISSAs, the practitioner shall evaluate:
- (a) Whether intended users may misunderstand the practitioner's conclusion; and
 - (b) If so, whether additional explanation in the assurance report can mitigate the possible misunderstanding.

If the practitioner concludes that additional explanation in the assurance report cannot mitigate the possible misunderstanding, the practitioner shall not accept the assurance engagement, unless required by law or regulation to do so. An assurance engagement conducted in accordance with such law or regulation does not comply with this ISSA. Accordingly, the practitioner shall not include any reference in the assurance report to the assurance engagement having been conducted in accordance with this ISSA.

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement

85. The practitioner shall agree the terms of the assurance engagement with the engaging party. The agreed terms shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation, and shall include: (Ref: Para. A219–A222)
- (a) Matters related to the objective and scope of the assurance engagement, including:
 - (i) The objective of the assurance engagement;
 - (ii) The sustainability information within the scope of the assurance engagement, and the sustainability information that is not within the scope of the assurance engagement;
 - (iii) The reporting boundary within the scope of the assurance engagement;
 - (iv) Whether the engagement is a limited assurance engagement, reasonable assurance engagement, or a combined limited and reasonable assurance engagement and the sustainability information that is subject to each level of assurance;
 - (v) The applicable criteria; and
 - (vi) That the assurance engagement will be conducted in accordance with ISSA 5000 *General Requirements for Sustainability Assurance Engagements*.
 - (b) The responsibilities of the practitioner; (Ref: Para. A221)

- (c) The responsibilities of management or those charged with governance, as appropriate for:
 - (i) The preparation of the sustainability information in accordance with the applicable criteria, including, where relevant, its fair presentation;
 - (ii) When applicable, identifying, selecting or developing suitable criteria;
 - (iii) Referring to or describing in the sustainability information, the applicable criteria it has used and, when it is not readily apparent from the engagement circumstances, who developed them;
 - (iv) Designing, implementing and maintaining a system of internal control that it determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error; and
 - (v) Providing the practitioner with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the sustainability information;
 - b. Additional information that the practitioner may request for the purpose of the assurance engagement; and
 - c. Unrestricted access to persons within the entity, from whom the practitioner determines it necessary to obtain evidence;
 - (d) Reference to the expected form and content of the report or reports to be issued by the practitioner and a statement that there may be modifications to the report in certain circumstances; and
 - (e) An acknowledgement that management agrees to provide written representations at the conclusion of the assurance engagement.
86. For recurring assurance engagements, the practitioner shall evaluate whether the circumstances require the terms of the assurance engagement to be revised or there is a need to remind the appropriate party(ies) of the existing terms.

Changing the Terms of the Assurance Engagement

87. The practitioner shall not agree to a change in the terms of the assurance engagement, including from a reasonable assurance engagement to a limited assurance engagement (i.e., to a lower level of assurance), when there is no reasonable justification for doing so. If the practitioner is unable to agree to a request to change in the terms of the assurance engagement and is not permitted by the appropriate party(ies) to continue the assurance engagement under the original terms, the practitioner shall: (Ref: Para. A223–A224)
- (a) Withdraw from the assurance engagement, when possible under applicable law or regulation; and
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
88. If the terms of the assurance engagement are changed:
- (a) The practitioner and the appropriate party(ies) shall agree on and record the new terms of the

assurance engagement in an engagement letter or other suitable form of written agreement;
and

- (b) The practitioner shall not disregard evidence that was obtained prior to the change.

Evidence

Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence

89. For the purpose of obtaining sufficient appropriate evidence, the practitioner shall design and perform procedures: (Ref: Para. A225–A226)
 - (a) In a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory; and (Ref: Para. A227–A228)
 - (b) The nature, timing and extent of which are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures. (Ref: Para. A229–A244)

Information Intended to be Used as Evidence

90. When designing and performing procedures, the practitioner shall evaluate the relevance and reliability of information intended to be used as evidence, including information obtained from sources external to the entity. (Ref: Para. A245–A263)
91. When using information produced by the entity, the practitioner shall evaluate whether the information is sufficiently reliable for the practitioner's purposes, including, as necessary in the circumstances: (Ref: Para. A264–A265)
 - (a) Obtaining evidence about the accuracy and completeness of the information; and
 - (b) Evaluating whether the information is sufficiently precise and detailed for the practitioner's purposes.

Work Performed by a Management's Expert

92. If information intended to be used as evidence has been prepared by a management's expert, as part of the practitioner's evaluation in accordance with paragraph 90, the practitioner shall, to the extent necessary, having regard to the significance of that expert's work for the practitioner's purposes: (Ref: Para. A266)
 - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A267–A268)
 - (b) Obtain an understanding of the work performed by that expert; (Ref: Para. A269)
 - (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the sustainability information; and (Ref: Para. A270–A271)
 - (d) Evaluate the appropriateness of the work of that expert as evidence. (Ref: Para. A272)

Doubts About the Relevance and Reliability of Information Intended to be Used as Evidence

93. If conditions identified during the assurance engagement cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, the practitioner shall investigate further and determine the effect on the rest of the evidence obtained. (Ref: Para. A273–A275)

94. If the practitioner has doubts about the relevance or reliability of information intended to be used as evidence, the practitioner shall: (Ref: Para. A276)
- (a) Determine whether modifications or additions to procedures are necessary to resolve the doubts; and
 - (b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the engagement, including whether such doubts indicate a risk that disclosures may be materially misstated due to fraud.

Planning

Planning Activities

95. The practitioner shall develop an overall strategy and engagement plan, including determining the nature, timing and extent of planned procedures. In doing so, the engagement leader shall consider information obtained in the acceptance and continuance process and, if applicable, whether knowledge obtained on other engagements performed by the engagement leader for the entity is relevant. (Ref: Para. A277–A287)
96. For a group sustainability assurance engagement, in developing the overall strategy and engagement plan in accordance with paragraph 95, the practitioner shall determine: (Ref: Para. A284–A291)
- (a) The sustainability information on which assurance work will be performed and the source of that information; (Ref: Para. A288)
 - (b) The resources needed to perform the engagement, including component practitioner(s); and (Ref: Para. A108, A289–A290)
 - (c) Whether to obtain evidence from the work performed by another practitioner(s). (Ref: Para. A291)
97. The engagement leader and other key members of the engagement team shall be involved in planning the assurance engagement, including participating in the discussion among the engagement team members required by paragraph 105.

Materiality

98. For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall: (Ref: Para. A292–A299)
- (a) Consider materiality for qualitative disclosures; and (Ref: Para. A300)
 - (b) Determine materiality for quantitative disclosures. (Ref: Para. A301–A305)
99. If the applicable criteria require the entity to apply both financial materiality and impact materiality in preparing the sustainability information, the practitioner shall take into account both perspectives when considering or determining materiality in accordance with paragraph 98. (Ref: Para. A306, A337)
100. For quantitative disclosures, the practitioner shall determine performance materiality. (Ref: Para. A307–A311)

Revision of Materiality as the Engagement Progresses

101. The practitioner shall revise materiality for a disclosure(s) in the event of becoming aware of information during the assurance engagement that would have caused the practitioner to have considered or determined a different materiality initially. (Ref: Para. A312)

Documentation

102. The practitioner shall include in the engagement documentation:
- (a) The factors relevant to the practitioner's consideration of materiality for qualitative disclosures in accordance with paragraph 98(a);
 - (b) The basis for the determination of materiality for quantitative disclosures, in accordance with paragraph 98(b); and
 - (c) The basis for the practitioner's determination of performance materiality in accordance with paragraph 100.

Risk Assessment Procedures*Designing and Performing Risk Assessment Procedures*

Limited Assurance	Reasonable Assurance
103L. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A313–A318, A416L) (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the disclosure level; and (b) Design and perform further procedures.	103R. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A313–A318, A415R) (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures; and (b) Design and perform further procedures.

104. When designing and performing risk assessment procedures in accordance with paragraphs 103L and 103R, the practitioner shall consider information from the practitioner's procedures regarding acceptance and continuance of the client relationship or the sustainability assurance engagement. (Ref: Para. A319)
105. The engagement leader and other key members of the engagement team, and any key practitioner's external experts, shall discuss the susceptibility of the disclosures to material misstatement, whether due to fraud or error, and the application of the applicable criteria to the entity's facts and circumstances. The engagement leader shall determine which matters are to be communicated to members of the engagement team and to any practitioner's external experts not involved in the discussion. (Ref: Para. A320–A321)

Understanding the Sustainability Matters and the Sustainability Information

106. The practitioner shall obtain an understanding of the sustainability matters and the sustainability information, including the characteristics of events or conditions that could give rise to material misstatement of the disclosures. (Ref: Para. A322–A325)

Determining the Suitability of the Applicable Criteria

107. The practitioner shall determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 78. (Ref: Para. A199–A201, A326–A342)

Understanding the Entity's Reporting Policies

108. The practitioner shall obtain an understanding of the entity's reporting policies and the reason for any changes thereto. (Ref: Para. A2, A197, A343)
109. The practitioner shall evaluate whether the entity's reporting policies are appropriate and consistent with: (Ref: Para. A2, A343–A344)
- (a) The applicable criteria; and
 - (b) Criteria used in the relevant industry.

Understanding the Entity and Its Environment

110. The practitioner shall obtain an understanding of the entity and its environment, including:
- (a) The nature of the entity's operations, legal and organizational structure, ownership and governance, and business model; (Ref: Para. A345–A346)
 - (b) The reporting boundary and activities within the reporting boundary; and (Ref: Para. A347)
 - (c) Goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity's performance or determine management compensation. (Ref: Para. A348)

Understanding the Legal and Regulatory Framework

111. The practitioner shall obtain an understanding of: (Ref: Para. A349–A351)
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, in the context of the entity's sustainability information; and
 - (b) How the entity is complying with that framework.

Inquiries and Discussion with Appropriate Parties

112. The practitioner shall make inquiries of appropriate parties and, when appropriate, others within the entity regarding whether: (Ref: Para. A352–A353)
- (a) They have knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations affecting the sustainability information; and
 - (b) The entity has an internal audit function and, if so, make further inquiries to obtain an understanding of the activities and main findings, if any, of the internal audit function with respect to the sustainability information.

Understanding the Components of the Entity's System of Internal Control

Limited Assurance	Reasonable Assurance
113L. The practitioner shall obtain an understanding, through inquiry, of the	113R. The practitioner shall obtain an understanding, through inquiry and other

Limited Assurance	Reasonable Assurance
components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information, in accordance with paragraphs 114L, 115L, 116L, 117 and 120L. (Ref: Para. A354–A359)	procedures, of the components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information, in accordance with paragraphs 114R, 115R, 116R, 117, and 119R. (Ref: Para. A354–A356, A358–A359)

The Control Environment

Limited Assurance	Reasonable Assurance
114L. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A360, A362–A363)	114R. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation of the sustainability information, including evaluating whether: (Ref: Para. A360–A363) (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; (b) The control environment provides an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; and (c) Control deficiencies identified in the control environment undermine the other components of the system of internal control.

The Entity's Risk Assessment Process

Limited Assurance	Reasonable Assurance
115L. The practitioner shall obtain an understanding of the results of the entity's risk assessment process relevant to the sustainability matters and the preparation	115R. The practitioner shall obtain an understanding of the entity's risk assessment process relevant to the sustainability matters and the preparation

of the sustainability information. (Ref: Para. A364, A366, A368)	of the sustainability information, including: (Ref: Para. A364–A368) (a) Understanding the entity's process for: (i) Identifying risks relevant to sustainability information reporting objectives; (ii) Assessing the significance of those risks, including the likelihood of their occurrence; and (iii) Addressing those risks; (b) Understanding the results of the entity's risk assessment process; and (c) Based on the understanding in (a) and (b), evaluating whether the entity's risk assessment process is appropriate to the entity's circumstances.

The Entity's Process for Monitoring the System of Internal Control

Limited Assurance	Reasonable Assurance
116L. The practitioner shall obtain an understanding of the results of the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A369–A370)	116R. The practitioner shall: (a) Obtain an understanding of: (Ref: Para. A369–A370) (i) The entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information; and (ii) The results thereof; and (b) Based on this understanding, evaluate whether the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information is appropriate to the entity's circumstances. (Ref:

Limited Assurance	Reasonable Assurance
	Para. A371R–A376R)

The Information System and Communication

117. The practitioner shall obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information, including: (Ref: Para. A377–A381)
- (a) The entity's process to identify sustainability information to be reported. (Ref: Para. A382–A384)
 - (b) How information from external sources, such as service organizations or other organizations in the entity's value chain, is recorded, processed, corrected as necessary, and incorporated into the sustainability information. (Ref: Para. A385)
 - (c) For estimates and forward-looking information, how the entity identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable criteria.
118. Based on the practitioner's understanding of the information system and communication in accordance with paragraph 117, the practitioner shall evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria. (Ref: Para. A386)

Control Activities

- 119R. The practitioner shall obtain an understanding of control activities by identifying: (Ref: Para. A387–A392)
- (a) Controls for which the practitioner plans to obtain evidence by testing their operating effectiveness, which shall include:
 - (i) Controls that address risks for which substantive procedures alone do not provide sufficient appropriate evidence; or
 - (ii) If applicable, any complementary user entity controls identified in an assurance report of another practitioner that are determined to be relevant to the user entity in accordance with paragraph 52;
 - (b) Based on the controls identified in (a), the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT;
 - (c) The entity's general IT controls that address risks arising from the use of IT identified in (b); and
 - (d) Other controls that the practitioner considers are appropriate to identify and assess the risks of material misstatement at the assertion level for disclosures and design further procedures responsive to those assessed risks.

Design and Implementation of Controls

Limited Assurance	Reasonable Assurance
120L. If the practitioner plans to obtain evidence by testing the operating effectiveness of controls, the practitioner shall obtain an understanding of: (Ref: Para. A387–A392, A399L) (a) The controls the practitioner plans to test, including if applicable, any complementary user entity controls identified in the assurance report of another practitioner that are determined to be relevant to the user entity in accordance with paragraph 52; and (b) The entity's general IT controls that address risks arising from the use of IT related to the controls identified in (a). by: (Ref: Para. A393–A398) (a) Evaluating whether the control is designed effectively to address the risk of material misstatement for the disclosure, or effectively designed to support the operation of other controls; and (b) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.	120R. The practitioner shall obtain an understanding of each control identified in accordance with paragraph 119R(a), (c), and (d) by: (Ref: Para. A393–A398) (a) Evaluating whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (b) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

Identifying Control Deficiencies

121. Based on the practitioner's understanding of the components of the entity's system of internal control, the practitioner shall consider whether one or more control deficiencies have been identified. (Ref: Para. A400–A403)

Identifying and Assessing the Risks of Material Misstatement

Limited Assurance	Reasonable Assurance
122L. The practitioner shall identify and assess the risks of material misstatement at the disclosure level as a basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A404–A414, A416L, A417) (a) Are responsive to the assessed risks of material misstatement; and (b) Allow the practitioner to obtain limited assurance about whether the sustainability information is prepared, in all material respects, in accordance with the applicable criteria.	122R. The practitioner shall identify and assess the risks of material misstatement at the assertion level for the disclosures as a basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A404–A405, A407–A408, A410–A415R, A417–A418R) (a) Are responsive to the assessed risks of material misstatement; and (b) Allow the practitioner to obtain reasonable assurance about whether the sustainability information is prepared, in all material respects, in accordance with the applicable criteria.

123R. Due to the unpredictable way in which management is able to override controls, the practitioner shall treat risks of management override of controls as risks of material misstatement due to fraud and thus risks of material misstatement at the upper end of the spectrum of risk. (Ref: Para. A418R)

Evaluating the Evidence Obtained from the Risk Assessment Procedures

124. The practitioner shall determine whether the evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the practitioner shall perform additional risk assessment procedures until evidence has been obtained to provide such a basis. (Ref: Para. A419)

Documentation

125. The practitioner shall include in the engagement documentation:

- (a) The engagement team discussion in accordance with paragraph 105, and the significant decisions reached;
- (b) Key elements of the practitioner's understanding, inquiries and discussion in accordance with paragraphs 106–119R;
- (c) The evaluation of the design of identified controls, and determination of whether such controls have been implemented, in accordance with paragraph 120L, if applicable, and paragraph 120R; and
- (d) The identified and assessed risks of material misstatement, in accordance with paragraphs 122L and 122R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures

Limited Assurance	Reasonable Assurance
126L. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level. (Ref: Para. A284–A287, A420–A424)	126R. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures. (Ref: Para. A284–A287, A420–A424)

127. In designing and performing further procedures, the practitioner shall: (Ref: Para. A424–A427)
- (a) Consider the reasons for the assessment given to the risks of material misstatement;
 - (b) Consider whether the practitioner intends to obtain evidence about the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and
 - (c) Obtain more persuasive evidence the higher the practitioner's assessment of risk.

Overall Responses

Limited Assurance	Reasonable Assurance
128L. The practitioner shall design and implement overall responses to address the risks of material misstatement if the practitioner identifies: (Ref: Para. A428–A429) (a) Control deficiencies in the control environment that undermine the other components of the system of internal control; (b) Fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or (c) Risks of material misstatement pervasively throughout the sustainability information.	128R. The practitioner shall design and implement overall responses to address the risks of material misstatement if: (Ref: Para. A428–A429) (a) The practitioner's evaluation of the control environment indicates that: (i) Management, with the oversight of those charged with governance, has not created and maintained a culture of honesty and ethical behavior; (ii) The control environment does not provide an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; or (iii) Control deficiencies identified in the control environment

Limited Assurance	Reasonable Assurance
	undermine the other components of the system of internal control; (b) The practitioner identifies fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or (c) The practitioner identifies risks of material misstatement pervasively throughout the sustainability information.

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations

129. The practitioner shall respond appropriately to fraud or suspected fraud, or non-compliance or suspected non-compliance with laws and regulations, identified during the engagement by obtaining: (Ref: Para. A430–A431)
- (a) An understanding of the nature of the act and the circumstances in which it occurred; and
 - (b) Further information to evaluate the possible effect on the sustainability information.
130. If the practitioner suspects there may be instances of fraud or non-compliance with laws and regulations, the practitioner shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. A432)
131. The practitioner shall evaluate the implications of identified or suspected fraud or non-compliance with laws and regulations for the assurance engagement, including the practitioner's risk assessment procedures and the reliability of written representations, and take appropriate action. (Ref: Para. A433–A435)

Tests of Controls

132. If the practitioner intends to obtain evidence about the operating effectiveness of controls identified in accordance with paragraphs 119R or 120L, the practitioner shall design and perform tests of controls by: (Ref: Para. A436–A437)
- (a) Performing inquiry and other procedures to obtain evidence about the operating effectiveness of the controls, including:
 - (i) How the controls were applied at relevant times during the period to which the sustainability information relates;
 - (ii) The consistency with which they were applied; and
 - (iii) By whom or by what means they were applied.
 - (b) Determining whether the controls to be tested depend upon other controls and, if so, whether it is necessary to obtain evidence supporting the effective operation of those indirect controls.

133. The practitioner shall test controls for the appropriate period for which the practitioner intends to obtain evidence about the operating effectiveness of those controls, subject to paragraph 134.
134. If the practitioner obtains evidence about the operating effectiveness of controls during an interim period and intends to extend the conclusions of those tests of controls for the remaining period, the practitioner shall obtain evidence about the operating effectiveness of those controls for the period subsequent to the interim period.
135. If the practitioner plans to use evidence from a previous sustainability assurance engagement about the operating effectiveness of controls, the practitioner shall establish the continuing relevance of the evidence by obtaining evidence about whether significant changes in those controls have occurred subsequent to the previous engagement. The practitioner shall obtain this evidence by performing inquiry, combined with observation or inspection, to confirm the understanding of those specific controls, and (Ref: Para. A438–A439)
- (a) If there have not been changes that affect the continuing relevance of the evidence from the previous engagement, the practitioner shall test the controls at least once in every third engagement, and shall test some controls in each engagement.
 - (b) If there have been changes that affect the continuing relevance of the evidence from the previous engagement, the practitioner shall test the controls in the current engagement.
136. If the practitioner plans to obtain evidence about the operating effectiveness of controls over a risk of material misstatement for which the assessment of risk is close to the upper end of the spectrum of risk, the practitioner shall test those controls in the current period.
137. When evaluating the operating effectiveness of controls, the practitioner shall evaluate whether misstatements detected through performing other procedures indicate that controls are not operating effectively. The absence of misstatements detected by other procedures, however, does not provide evidence that controls being tested are effective.
138. If deviations from controls that the practitioner tests are detected, the practitioner shall make specific inquiries to understand these matters and their potential consequences and shall determine whether:
- (a) The tests of controls that have been performed provide sufficient appropriate evidence about the operating effectiveness of those controls;
 - (b) Additional tests of controls are necessary; or
 - (c) The potential risks of material misstatement need to be addressed by performing substantive procedures.

Substantive Procedures

- 139R. The further procedures required by paragraph 126R shall include substantive procedures that are responsive to each risk for which the assessment of that risk is close to the upper end of the spectrum of risk. (Ref: Para. A407)
- 140R. Irrespective of the assessed risks of material misstatement, the practitioner shall consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgment, are material. (Ref: Para. A440R–A441R)
- 141R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para. A442–A443)

142. If substantive procedures are performed at an interim date and the practitioner intends to extend the conclusions of those substantive procedures for the remaining period, the practitioner shall perform: (Ref: Para. A444–A445)
- (a) Substantive procedures, combined with tests of controls for the period subsequent to the interim period; or
 - (b) If the practitioner determines that it is sufficient, substantive procedures only that provide a reasonable basis for extending the conclusions to the period subsequent to the interim period.

Analytical Procedures

Limited Assurance	Reasonable Assurance
143L. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A446–A447) (a) Determine the suitability of particular analytical procedures, considering the reasons for the assessment of the risks of material misstatement at the disclosure level; and (b) Develop an expectation about recorded quantities or ratios. (Ref: Para. A448L)	143R. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A446–A447) (a) Determine the suitability of particular analytical procedures for given assertions, considering the reasons for the assessment of risks of material misstatement and evidence from other procedures, if any, for these assertions; and (b) Develop an expectation about recorded quantities or ratios that is sufficiently precise to identify possible material misstatements.
144L. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from the expected result, the practitioner shall make inquiries of management about such differences. The practitioner shall consider the responses to these inquiries to determine whether additional procedures are necessary in the circumstances.	144R. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall investigate such differences by: (a) Inquiring of management and obtaining additional evidence relevant to management's responses; and (b) Performing other procedures as necessary in the circumstances.

Sampling

145. If the practitioner uses sampling as a means for selecting items for testing, the practitioner shall: (Ref: Para. A449)

- (a) Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn;
- (b) Determine a sample size sufficient to reduce sampling risk to an appropriately low level; and
- (c) Select the sample, perform procedures on the items selected, and evaluate the results.

Estimates and Forward-Looking Information

Limited Assurance	Reasonable Assurance
146L. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information the practitioner shall: (Ref: Para. A450–A452, A454–A455L) (a) Evaluate whether: (i) Management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; (ii) The methods for developing estimates or forward-looking information are appropriate and have been applied consistently; and (iii) Changes, if any, in reported estimates or forward-looking information, or changes from the prior period in the method used for developing estimates or forward-looking information, are appropriate in the circumstances; and (Ref: Para. A459) (b) Consider whether other procedures are necessary in the circumstances.	146R. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information, the practitioner shall: (Ref: Para. A450–A452, A454) (a) Evaluate whether management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; and (Ref: Para. A453R) (b) Undertake one or more of the following: (i) Test how management developed the estimate or forward-looking information and the related disclosure(s), and the information on which the estimate or forward-looking information is based. In doing so, the practitioner shall evaluate whether: a. The method has been appropriately selected and applied, and any changes from prior periods are appropriate; (Ref: Para. A456R, A459) b. The assumptions used, including any changes from prior periods, are appropriate; and (Ref: Para. A457R, A459)

Limited Assurance	Reasonable Assurance
	c. The data, including any changes from prior periods, are appropriate; (Ref: Para. A458R, A459) (ii) Develop a point estimate or a range to evaluate management's estimate. For this purpose, the practitioner shall: (Ref: Para. A460R–A462R) a. Evaluate whether the methods, assumptions or data used are appropriate in the context of the criteria; and b. When the practitioner develops a range: i. Determine that the range includes only amounts that are supported by sufficient evidence and have been evaluated by the practitioner to be reasonable; and ii. Design and perform further procedures to obtain sufficient appropriate evidence regarding the assessed risk of material misstatement relating to the disclosures in the sustainability

Limited Assurance	Reasonable Assurance
	information that describe the uncertainty; or (iii) Obtain evidence from events occurring up to the date of the practitioner's report.

Revising the Risk Assessment in a Reasonable Assurance Engagement

147R. If the practitioner becomes aware of a matter or obtains new information that is inconsistent with the evidence on which the practitioner originally based the identification and assessment of the risks of material misstatement at the assertion level for the disclosures, the practitioner shall:

- (a) Revise, if necessary, the assessment of the risks of material misstatement; and
- (b) Perform additional procedures to obtain further evidence to enable the practitioner to express a reasonable assurance conclusion. (Ref: Para. A463R)

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement

148L. If the practitioner becomes aware of a matter that causes the practitioner to believe the sustainability information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para A464L–A467L)

- (a) Conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated; or
- (b) Determine that the matter(s) causes the sustainability information to be materially misstated.

The Entity's Process for Assembling the Sustainability Information

Limited Assurance	Reasonable Assurance
149L. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A468) (a) Agreeing or reconciling the sustainability information with the underlying records; and (b) Obtaining, through inquiry of management, an understanding of material adjustments made during the course of preparing the sustainability information and considering whether additional	149R. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A468) (a) Agreeing or reconciling the sustainability information with the underlying records; and (b) Obtaining evidence about material adjustments made during the course of preparing the sustainability information.

Limited Assurance	Reasonable Assurance
procedures are necessary in the circumstances.	
	150R. In responding to the risk of management override of controls in accordance with paragraph 123R, the practitioner shall design and perform the following procedures: (a) Test the appropriateness of adjustments made by management in the process for assembling the sustainability information; (b) Make inquiries of individuals involved in the sustainability reporting process about their knowledge of inappropriate or unusual activity relating to adjustments to sustainability information; and (c) Determine whether other procedures are needed in addition to those in paragraphs (a)–(b) above, in order to respond to the risks of management override of controls. (Ref: Para. A469R)
151L. For group sustainability information, the practitioner shall design and perform further procedures to respond to the assessed risks of material misstatement arising from the aggregation process. Such procedures shall include: (a) Obtaining, through inquiry of management, an understanding of how management has aggregated the information; (b) Determining that all entities have been included in the sustainability information as required by the applicable criteria; and (c) Considering whether management's judgments made in the aggregation process give rise to indicators of	151R. For group sustainability information, the practitioner shall design and perform further procedures to respond to the assessed risks of material misstatement arising from the aggregation process. Such procedures shall include: (a) Obtaining an understanding of how management has aggregated the information; (b) Determining that all entities have been included in the sustainability information as required by the applicable criteria; and (c) Evaluating whether management's judgments made in the aggregation

Limited Assurance	Reasonable Assurance
possible management bias.	process give rise to indicators of possible management bias.

Documentation

152. The practitioner shall include in the engagement documentation:

- (a) The overall responses in accordance with paragraphs 128L and 128R and the reasons for such responses;
- (b) The results of the further procedures, including the conclusions where these are not otherwise clear;
- (c) Identified or suspected fraud or non-compliance with laws and regulations and the procedures performed, the significant professional judgments made, and the conclusions reached thereon; and
- (d) When applicable, conclusions reached about whether it is appropriate to use evidence about the operating effectiveness of controls obtained in previous engagements.

Accumulation and Consideration of Identified Misstatements

Accumulation of Identified Misstatements

153. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A470–A476)

154. The practitioner shall: (Ref: Para. A477–A480)

- (a) Consider whether identified misstatements, either individually or in aggregate, may be due to fraud; and
- (b) Respond appropriately if there are indicators that there may be material misstatements due to fraud.

Consideration of Identified Misstatements as the Engagement Progresses

155. The practitioner shall determine whether the approach to the engagement needs to be revised if: (Ref: Para. A481)

- (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the engagement, could be material; or
- (b) The misstatements accumulated during the engagement may, in the aggregate, result in the sustainability information being materially misstated.

Communicating and Correcting Misstatements

156. The practitioner shall communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements. (Ref: Para. A482)

157. If, at the practitioner's request, management has examined the sustainability information and

corrected misstatements that were detected, the practitioner shall perform additional procedures with respect to the work performed by management to determine whether material misstatements remain.

158. If management refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of management's reasons for not doing so and shall consider that understanding when forming the practitioner's conclusion. (Ref: Para. A483)

Evaluating the Effect of Uncorrected Misstatements

159. Prior to evaluating the effect of uncorrected misstatements, the practitioner shall consider whether the results of procedures performed and evidence obtained indicate that materiality needs to be revised.
160. The practitioner shall determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence. (Ref: Para. A484–A498)

Documentation

161. The practitioner shall include in the engagement documentation:
- (a) All misstatements accumulated during the engagement, other than those that are clearly trivial, and whether they have been corrected (paragraphs 153 and 156); and
 - (b) The practitioner's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 160).

Evaluating the Description of Applicable Criteria

162. The practitioner shall evaluate whether the sustainability information adequately references or describes the applicable criteria and the sources of those criteria. (Ref: Para. A499–A501)

Subsequent Events

163. The practitioner shall: (Ref: Para. A502–A504L)
- (a) Perform procedures to identify events occurring up to the date of the assurance report that may have an effect on the sustainability information and the assurance report; and
 - (b) Evaluate the sufficiency and appropriateness of evidence obtained about whether such events are appropriately reflected in that sustainability information in accordance with the applicable criteria.
164. The practitioner shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. (Ref: Para. A505)

Written Representations from Management and Those Charged with Governance

165. The practitioner shall request from management and, where appropriate, those charged with governance a written representation: (Ref: Para. A506–A507)
- (a) That they have fulfilled their responsibility for the preparation of the sustainability information, including comparative information where appropriate, in accordance with the applicable criteria, as set out in the terms of the engagement;

- (b) That they have provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the sustainability information;
 - (c) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the sustainability information. A summary of such items shall be included in, or attached to, the written representation;
 - (d) Whether they believe that significant assumptions used in making estimates and preparing forward-looking information are appropriate;
 - (e) That they have communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial of which they are aware;
 - (f) Whether they have disclosed to the practitioner their knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations where the fraud or non-compliance could have a material effect on the sustainability information; and
 - (g) That they adjusted the sustainability information for or disclosed all events occurring subsequent to the date of the sustainability information and for which the applicable criteria require adjustment or disclosure.
166. If, in addition to the required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the sustainability information, the practitioner shall request them.
167. When written representations relate to matters that are material to the sustainability information, the practitioner shall:
- (a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
 - (b) Consider whether those making the representations can be expected to be well-informed on those matters.
168. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.
169. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall:
- (a) Discuss the matter with management and, where appropriate, those charged with governance;
 - (b) Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
 - (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.
170. The practitioner shall disclaim a conclusion on the sustainability information or withdraw from the engagement, when withdrawal is possible under applicable law or regulation, if:

- (a) The practitioner concludes that there is sufficient doubt about the integrity of the person(s) providing the written representations required by paragraphs 165(a) and (b) that written representations in these regards are not reliable; or
- (b) The entity does not provide the written representations required by paragraphs 165(a) and (b).

Other Information

Obtaining the Other Information

171. The practitioner shall: (Ref: Para. A508–A511)

- (a) Identify the other information by determining, through discussion with management, the document or documents expected to be issued that will contain the sustainability information and the assurance report thereon, and the entity's planned manner and timing of the issuance of such document(s); and
- (b) Make arrangements with management to obtain in a timely manner prior to the date of the assurance report, the final version of such document(s).

Reading and Considering the Other Information

172. The practitioner shall read the other information obtained prior to the date of the assurance report and, in doing so shall: (Ref: Para. A512–A513)

- (a) Consider whether there is a material inconsistency between the other information and the sustainability information;
- (b) Consider whether there is a material inconsistency between the other information and the practitioner's knowledge obtained during the assurance engagement, in the context of evidence obtained and conclusions reached in the engagement; and
- (c) Remain alert for indications that the other information, not related to the sustainability information or to the practitioner's knowledge obtained during the engagement, appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

173. If the practitioner identifies that a material inconsistency appears to exist or becomes aware that the other information appears to be materially misstated, the practitioner shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

- (a) A material misstatement of the other information exists;
- (b) A material misstatement of the sustainability information exists; or
- (c) The practitioner's understanding of the entity and its environment needs to be updated.

174. If the other information includes the entity's financial statements subject to audit and the practitioner identifies that a material inconsistency appears to exist between those financial statements and the sustainability information, or becomes aware that the financial statements appear to be materially misstated, the practitioner shall also communicate the matter to the auditor of the entity's financial statements, unless prohibited by law or regulation, or professional requirements.

Responding When the Practitioner Concludes That a Material Misstatement of the Other Information Exists

175. If the practitioner concludes that a material misstatement of the other information exists, the practitioner shall request management to correct the other information. If management: (Ref: Para. A514–A515)
- (a) Agrees to make the correction, the practitioner shall determine that the correction is made; or
 - (b) Refuses to make the correction, the practitioner shall communicate the matter to those charged with governance and request that the correction be made.
176. If the practitioner concludes that a material misstatement exists in the other information and it is not corrected after communicating with those charged with governance, the practitioner shall take appropriate action, including: (Ref: Para. A514–A515)
- (a) Considering the implications for the assurance report and communicating with those charged with governance about how the practitioner plans to address the material misstatement in the assurance report; or (Ref: Para. A516)
 - (b) If withdrawal is possible under applicable law or regulation, withdrawing from the engagement. (Ref: Para. A517)

Responding When a Material Misstatement of the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated

177. If, as a result of performing the procedures in paragraph 172, the practitioner concludes that a material misstatement of the sustainability information exists, or the practitioner's understanding of the entity and its environment needs to be updated, the practitioner shall respond appropriately. (Ref: Para. A518)

Forming the Assurance Conclusion

Evaluating the Evidence Obtained

178. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained, including evidence from the work performed by a practitioner's external expert, another practitioner or internal audit function, and, if necessary in the circumstances, attempt to obtain further evidence. In making this evaluation, the practitioner shall: (Ref: Para. A519–A522)
- (a) Evaluate whether the evidence obtained meets the intended purpose of the procedures; and
 - (b) Consider all evidence obtained, including evidence that is consistent or inconsistent with other evidence, and regardless of whether it appears to corroborate or to contradict the disclosures.
179. The practitioner shall evaluate whether judgments and decisions made by management in the estimates made and assumptions used in preparing the sustainability information, including with respect to forward-looking information, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the practitioner shall evaluate the implications for the assurance engagement. Where there is intention to mislead, management bias is fraudulent in nature.
180. If the practitioner obtains evidence that is inconsistent with other evidence, the practitioner shall: (Ref: Para. A523–A526)

- (a) Determine what modifications or additions to procedures are necessary to understand and address the inconsistency; and
- (b) Consider the effect, if any, on other aspects of the assurance engagement.

Concluding

181. The practitioner shall form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error. In forming that conclusion, the practitioner shall consider the practitioner's evaluation in paragraphs 178 and 179 regarding the sufficiency and appropriateness of evidence obtained and the determination in paragraph 160 of whether uncorrected misstatements are material, individually or in the aggregate. (Ref: Para. A527)
182. When the principles of fair presentation are embodied in the applicable criteria, the evaluation required by paragraph 181 shall also include consideration of: (Ref: Para. A528–A529)
- (a) The overall presentation, structure, and content of the sustainability information; and
 - (b) When appropriate in the context of the criteria, the wording of the practitioner's conclusion, or other engagement circumstances, whether the sustainability information represents the sustainability matters in a manner that achieves fair presentation.
183. If sustainability information prepared in accordance with a fair presentation framework does not achieve fair presentation, the practitioner shall discuss the matter with management and, depending on the requirements of the applicable framework and how the matter is resolved, shall determine whether it is necessary to modify the conclusion in the assurance report in accordance with paragraph 203.
184. If the sustainability information is prepared in accordance with compliance criteria, the practitioner is not required to evaluate whether the sustainability information achieves fair presentation. However, if the practitioner concludes that such sustainability information is misleading, the practitioner shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the practitioner's report.

Scope Limitation

185. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the practitioner shall either: (Ref: Para. A530–A531)
- (a) Express a qualified conclusion;
 - (b) Disclaim a conclusion; or
 - (c) Withdraw from the engagement, if withdrawal is possible under applicable law or regulation, as appropriate.

Taking Overall Responsibility for Managing and Achieving Quality

186. Prior to dating the assurance report, the engagement leader shall:
- (a) Take responsibility for determining whether relevant ethical requirements, including independence, have been fulfilled.
 - (b) Determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the assurance report to be issued.

- (c) Review the sustainability information and the assurance report, to determine that the report to be issued will be appropriate in the circumstances.
- (d) Determine that:
 - (i) The engagement leader's involvement has been sufficient and appropriate throughout the engagement such that the engagement leader has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and (Ref: Para. A532–A534)
 - (ii) The nature and circumstances of the engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ISSA.
- (e) If the engagement is subject to an engagement quality review, determine that the engagement quality review has been completed.

Documentation

187. The practitioner shall include in the engagement documentation:

- (a) The basis for the engagement leader's determination in accordance with paragraph 186(b) that sufficient appropriate evidence has been obtained, including:
 - (i) The determination in accordance with paragraph 50(d) that the work of another practitioner is adequate for the practitioner's purposes;
 - (ii) The evaluation in accordance with paragraph 57 that the work of a practitioner's external expert is adequate for the practitioner's purposes;
 - (iii) The determination in accordance with paragraph 59(e) that the work of the internal audit function is adequate for the practitioner's purposes; and
 - (iv) If the practitioner identified information that was inconsistent with their final conclusion regarding a significant matter and how the practitioner addressed the inconsistency (see paragraph 180); and (Ref: Para. A535)
- (b) The basis for the engagement leader's determination in accordance with paragraph 186(d)(i) that the engagement leader's involvement has been sufficient and appropriate throughout the engagement. (Ref: Para. A536)

Preparing the Assurance Report

188. The assurance report shall be in writing and shall contain a clear expression of the practitioner's reasonable assurance opinion or limited assurance conclusion about the sustainability information. (Ref: Para. A537–A538)

189. The practitioner's conclusion shall be clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any:

- (a) Emphasis of Matter paragraphs;
- (b) Other Matter paragraphs;
- (c) Findings related to particular aspects of the engagement;
- (d) Recommendations; or

- (e) Additional information included in the assurance report.

The wording used shall make it clear that an Emphasis of Matter paragraph, Other Matter paragraph, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A537–A538)

Assurance Report Content

190. The assurance report shall include at a minimum the following basic elements: (Ref: Para. A539, A567–A569)

- (a) A title that clearly indicates the report is an independent practitioner's limited, reasonable or combined limited and reasonable assurance report. (Ref: Para. A540)
- (b) An addressee. (Ref: Para. A541)
- (c) The practitioner's conclusion in the first section of the assurance report, which: (Ref: Para. A542–A552)
 - (i) Includes a heading reflecting the type of conclusion provided, either:
 - a. For unmodified conclusions, "Reasonable Assurance Opinion," "Limited Assurance Conclusion," or appropriate headings for an assurance report for a combined reasonable assurance and limited assurance engagement; or
 - b. For modified conclusions, the heading in a. above shall be prefixed with "Qualified," "Adverse," or "Disclaimer of" as appropriate, and, for an assurance report for a combined reasonable and limited assurance engagement, clear identification of which opinion(s) or conclusion(s) is modified;
 - (ii) Identifies the entity whose sustainability information has been subject to the assurance engagement;
 - (iii) Identifies or describes the level of assurance, either reasonable or limited or different levels of assurance for different parts of the sustainability information, obtained by the practitioner; (Ref: Para. A542)
 - (iv) Identifies or describes the sustainability information subject to the assurance engagement, including, if appropriate, the sustainability matters and how that information is reported; (Ref: Para. A543–A544)
 - (v) Specifies the date of, or period or periods covered by the sustainability information;
 - (vi) Expresses a conclusion, which: (Ref: Para. A545L–A547)
 - a. For reasonable assurance, shall be expressed in a positive form, that the sustainability information is prepared or fairly presented, in all material respects, in accordance with the applicable criteria; or
 - b. For limited assurance, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the sustainability information is not prepared or not fairly presented, in all material respects, in accordance with the applicable criteria;

- (vii) Identifies the applicable criteria, whether framework criteria, entity-developed criteria or both, and, for entity-developed criteria, where it is located; (Ref: A548–A551)
- (viii) The conclusion in paragraph 190(c)(vi) shall be phrased in terms of: (Ref: Para. A545L–A547)
 - a. The sustainability information and the applicable criteria; or
 - b. A statement made by the appropriate party(ies); and
- (ix) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner’s conclusion is to be read. (Ref: Para. A552)
- (d) The basis for conclusion directly following the Conclusion section, with the heading “Basis for Opinion” for a reasonable assurance report, “Basis for Conclusion” for a limited assurance report, or appropriate heading(s) for an assurance report for a combined reasonable and limited assurance engagement that:
 - (i) States that the engagement was conducted in accordance with ISSA 5000 *General Requirements for Sustainability Assurance Engagements*; (Ref: Para. A553)
 - (ii) For a limited assurance engagement, states that:
 - a. The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
 - b. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;
 - (iii) Refers to the section of the assurance report that describes the practitioner’s responsibilities in accordance with this ISSA (see paragraph 190(h));
 - (iv) States that the practitioner complies with the independence and other ethical requirements of:
 - a. The IESBA Code related to sustainability assurance engagements; or
 - b. Other professional requirements or requirements in law or regulation, and shall:
 - i. Identify those requirements; and
 - ii. Disclose the name of the appropriate authority that has determined such requirements to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements;
 - (v) If the relevant ethical requirements require the practitioner to publicly disclose when the practitioner applied independence requirements specific to sustainability assurance engagements of certain entities, the statement in accordance with part (iv) above shall indicate that the practitioner is independent of the entity in accordance with the independence requirements applicable to the sustainability assurance engagements of those entities; (Ref: Para. A554)
 - (vi) States that the firm of which the practitioner is a member applies:
 - a. ISQM 1; or
 - b. Other professional requirements, or requirements in law or regulation, and shall:

- i. Identify those requirements; and
 - ii. Disclose the name of the appropriate authority that has determined such requirements to be at least as demanding as ISQM 1;
- (vii) States whether the practitioner believes that the evidence the practitioner has obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion; and
- (viii) If the practitioner expresses a modified conclusion, provides a description of the matter(s) giving rise to the modification.
- (e) Where applicable, a section with a heading "Other Information," containing the matters in accordance with paragraph 202.
- (f) A section with the heading "Responsibilities for the Sustainability Information" that:
 - (i) States that management or those charged with governance, as appropriate, is responsible for: (Ref: Para. A555–A556)
 - a. The preparation and, if applicable, fair presentation of the sustainability information in accordance with the applicable criteria; and (Ref: Para. A557)
 - b. Designing, implementing and maintaining such internal controls that management determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error; and
 - (ii) If those responsible for oversight of the process to prepare the sustainability information are different from those who fulfill the responsibilities described in (f)(i), identifies those responsible for oversight. (Ref: Para. A556)
- (g) If applicable, a section with the heading "Inherent Limitations in Preparing the Sustainability Information" that describes any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria, including inherent limitations relating to forward-looking information included in the sustainability information. (Ref: Para. A494, A558–A560 and A579)
- (h) A section with the heading "Practitioner's Responsibilities" that states that: (Ref: Para. A555)
 - (i) The objective of the practitioner is to plan and perform the assurance engagement to obtain limited or reasonable assurance, as applicable, about whether the sustainability information is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes a conclusion (for limited assurance) or opinion (for reasonable assurance);
 - (ii) Misstatements can arise from fraud or error, and:
 - a. Are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of intended users taken on the basis of the sustainability information; or
 - b. If materiality is defined or described differently in the applicable criteria, include such definition or description;
 - (iii) The practitioner exercises professional judgment and maintains professional skepticism throughout the engagement;

- (iv) The practitioner performs risk assessment procedures, including obtaining:
 - a. For limited assurance: an understanding of internal controls relevant to the engagement to identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level, but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control. If the limited assurance report includes a conclusion on the effectiveness of internal control, the practitioner shall omit the phrase that the practitioner's consideration of internal control is not for the purpose of providing a conclusion on the effectiveness of the entity's internal control; or
 - b. For reasonable assurance: an understanding of internal controls relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. If the reasonable assurance report includes an opinion on the effectiveness of internal control, the practitioner shall omit the phrase that the practitioner's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- (v) The practitioner designs and performs procedures:
 - a. For limited assurance: responsive to the assessed risks of material misstatement at the disclosure level; or
 - b. For reasonable assurance: responsive to the assessed risks of material misstatement at the assertion level for the disclosures;
- (vi) The risk of not detecting a material misstatement due to fraud is higher than for one due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- (i) For limited assurance, a section, with the heading "Summary of Work Performed," that contains an informative summary of the work performed as a basis for the practitioner's conclusion. This section shall describe the nature, timing and extent of procedures performed sufficiently to enable users to understand the limited assurance the practitioner has obtained. (Ref: Para. A561–A565L)
- (j) The practitioner's signature.
- (k) The location in the jurisdiction where the engagement leader practices.
- (l) The date of the assurance report. The assurance report shall be dated no earlier than the date on which: (Ref: Para. A566)
 - (i) The practitioner has obtained the evidence on which the practitioner's conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the sustainability information; and
 - (ii) When an engagement quality review is required in accordance with ISQM 1 or the firm's policies or procedures, the engagement quality review is complete.

Name of the Engagement Leader in the Assurance Report

191. When the assurance report on sustainability information is for a listed entity, the name of the engagement leader shall be included, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the practitioner intends not to include the name of the engagement leader in the assurance report, the practitioner shall discuss this intention with those charged with governance to inform them of the practitioner's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A570–A572)

Reference to a Practitioner's Expert in the Assurance Report

192. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report shall not identify the expert, unless required by law or regulation, or otherwise imply that the practitioner's responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para. A99, A573–A575)

Other Reporting Responsibilities

193. If the practitioner addresses other reporting responsibilities in the assurance report on the sustainability information that are in addition to the practitioner's responsibilities under this ISSA, these other reporting responsibilities shall be addressed in a separate section in the assurance report with a heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section. If these other reporting responsibilities address the same report elements as those presented under the reporting responsibilities required by this ISSA, the other reporting responsibilities may be presented in the same section as the related report elements required by this ISSA. (Ref: Para. A576–A577)
194. If other reporting responsibilities are presented in the same section as the related report elements required by this ISSA, the practitioner's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by this ISSA. (Ref: Para. A578)
195. If the assurance report contains a separate section that addresses other reporting responsibilities, the requirements of paragraph 190 shall be included under a section with a heading "[Limited, Reasonable, or Limited and Reasonable] Assurance Report on the Sustainability Information." The "Report on Other Legal and Regulatory Requirements" shall follow the "[Limited, Reasonable, or Limited and Reasonable] Assurance Report on the Sustainability Information." (Ref: Para. A578)
196. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report shall refer to this ISSA only if the assurance report includes, at a minimum, each of the elements identified in paragraphs 190 and 191.

Engagements Conducted in Accordance with Both ISSA 5000 and Other Assurance Standards

197. A practitioner may be required to conduct an assurance engagement in accordance with the assurance standards of a specific jurisdiction (the "other assurance standards"), and has additionally complied with this ISSA in the conduct of the engagement. If this is the case, the assurance report may refer to this ISSA in addition to the other assurance standards, but the practitioner shall do so only if:
- (a) There is no conflict between the requirements in the other assurance standards and those in this ISSA that would lead the practitioner:

- (i) to reach a different conclusion, or
 - (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by this ISSA; and
- (b) The assurance report includes, at a minimum, each of the elements set out in paragraphs 190 and 191 when the practitioner uses the layout or wording specified by the other assurance standards. The assurance report shall identify such other assurance standards, including the jurisdiction of origin of the other assurance standards.

Unmodified Conclusion

Limited Assurance	Reasonable Assurance
198L. The practitioner shall express an unmodified limited assurance conclusion when the practitioner concludes, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that: (a) In the case of compliance criteria, the sustainability information is not prepared, in all material respects, in accordance with the applicable criteria; or (b) In the case of fair presentation criteria, the sustainability information is not fairly presented, in all material respects, in accordance with the applicable criteria.	198R. The practitioner shall express an unmodified reasonable assurance opinion when the practitioner concludes that: (a) In the case of compliance criteria, the sustainability information is prepared, in all material respects, in accordance with the applicable criteria; or (b) In the case of fair presentation criteria, the sustainability information is fairly presented, in all material respects, in accordance with the applicable criteria.

Emphasis of Matter Paragraph and Other Matter Paragraph

199. If the practitioner considers it necessary to: (Ref: Para. A579–A582)

- (a) Draw intended users' attention to a matter presented or disclosed in the sustainability information that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of that information (an Emphasis of Matter paragraph); or
- (b) Communicate a matter other than those that are presented or disclosed in the sustainability information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph); and

this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter.

200. If the applicable criteria are designed for a specific purpose, the practitioner shall include an Emphasis of Matter paragraph that alerts readers to this fact, and that, as a result, the sustainability information may not be suitable for another purpose. (Ref: Para. A583–A584)

Other Information

201. If the practitioner has obtained the other information by the date of the assurance report, the assurance report shall include a separate section in accordance with paragraph 190(e), except when the practitioner disclaims a conclusion, in which case an “Other Information” section is not included. (Ref: Para. A585)
202. When the assurance report is required to include an Other Information section in accordance with paragraph 201, this section shall include:
- (a) A statement that management or those charged with governance, as appropriate, is responsible for the other information;
 - (b) An identification of other information obtained by the practitioner prior to the date of the assurance report;
 - (c) A statement that the practitioner’s conclusion does not cover the other information and, accordingly, that the practitioner does not provide a conclusion thereon; (Ref: Para. A586)
 - (d) A description of the practitioner’s responsibilities relating to reading, considering, and reporting on other information as required by this ISSA; and
 - (e) Either:
 - (i) A statement that the practitioner has nothing to report with respect to the other information; or
 - (ii) If the practitioner has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

Modified Conclusion

203. The practitioner shall express a modified conclusion in the following circumstances:
- (a) When, in the practitioner’s professional judgment, a scope limitation exists, and the effect of the matter could be material. In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion. (Ref: Para. A587, A593L–A595)
 - (b) When, in the practitioner’s professional judgment, the sustainability information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion. (Ref: Para. A588–A590, A593L–A595)
204. The practitioner shall express a qualified conclusion when, in the practitioner’s professional judgment, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion shall be expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates. (Ref: Para. A591–A594R)
205. If the practitioner expresses a modified conclusion because of a scope limitation, but is also aware of a matter(s) that causes the sustainability information to be materially misstated, the practitioner

shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the sustainability information to be materially misstated.

206. If a statement made by management, or those charged with governance, as appropriate, in the sustainability information has identified and properly described that the sustainability information is materially misstated, the practitioner shall either:
- (a) Express a qualified conclusion or adverse conclusion phrased in terms of the sustainability information and the applicable criteria; or
 - (b) If specifically required by the terms of the engagement to phrase the conclusion in terms of a statement made by the appropriate party(ies), express an unqualified conclusion, but include an Emphasis of Matter paragraph in the assurance report referring to the statement made by the appropriate party(ies), that identifies and properly describes that the sustainability information is materially misstated.

Comparative Information

207. The practitioner shall determine whether the applicable criteria (or law or regulation) require comparative information to be included in the sustainability information and, if so, whether that comparative information is appropriately presented. (Ref: Para. A596)
208. In determining whether the comparative information is appropriately presented, the practitioner shall evaluate whether: (Ref: Para. A597–A598)
- (a) The comparative information is consistent with the disclosures presented in the prior period and, if not, any inconsistencies are addressed in accordance with the applicable criteria; and
 - (b) The criteria for measurement or evaluation of the sustainability information reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.
209. If the comparative information is not referred to in the practitioner's assurance conclusion and was not subject to an assurance engagement in the prior period, the practitioner shall state that fact in an Other Matter paragraph. Such a statement does not, however, relieve the practitioner of the requirements in paragraphs 207–208. (Ref: Para. A599–A600)
210. If the comparative information is not referred to in the practitioner's conclusion and was subject to an assurance engagement in the prior period, the practitioner shall state in an Other Matter paragraph: (Ref: Para. A599–A600)
- (a) If the assurance engagement for the prior period had a different level of assurance or a different engagement scope than the current period, that fact and what those differences were; or
 - (b) If the assurance engagement for the prior period was conducted by a predecessor practitioner:
 - (i) That fact;
 - (ii) The type of conclusion provided by the predecessor practitioner;
 - (iii) If the conclusion was modified, the reasons for any modification; and
 - (iv) The date of that report.

211. Irrespective of whether the practitioner's conclusion refers to the comparative information, if the practitioner becomes aware that there may be a material misstatement of the comparative information presented, the practitioner shall: (Ref: Para. A601)
- (a) Discuss the matter with management and perform procedures appropriate in the circumstances;
 - (b) Consider the effect on the assurance report; and
 - (c) If the comparative information presented contains a material misstatement, and the comparative information has not been restated:
 - (i) When the practitioner's conclusion refers to the comparative information, the practitioner shall express a qualified conclusion or an adverse conclusion in the assurance report; or
 - (ii) When the practitioner's conclusion does not refer to the comparative information, the practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting the comparative information.

Documentation

Matters Arising After the Date of the Assurance Report

212. If, in exceptional circumstances, the practitioner performs new or additional procedures or draws new conclusions after the date of the assurance report, the practitioner shall document: (Ref: Para. A602)
- (a) The circumstances encountered;
 - (b) The new or additional procedures performed, evidence obtained, and conclusions reached, and their effect on the assurance report; and
 - (c) When and by whom the resulting changes to engagement documentation were made and reviewed.

* * *

Application and Other Explanatory Material

Introduction

Sustainability Information (Ref: Para. 2–5)

- A1. Sustainability information is often intended to give insight into sustainability-related risks and opportunities for users to understand and evaluate the impacts of sustainability matters on the entity or the entity's actual or potential impacts, positive or negative, on the environment, society or economy.
- A2. The framework criteria determine the principles and concepts regarding the measurement or evaluation of sustainability matters. Although the framework may not specify how to measure or evaluate all sustainability matters, it ordinarily embodies sufficient broad principles that can serve as a basis for the entity to select and apply reporting policies that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the framework.
- A3. The entity's process to identify sustainability information to be reported, including the identification and selection of the sustainability matters and the reporting boundary, may be required by the sustainability reporting framework or entity-developed criteria. Such a process may be referred to as the entity's "materiality assessment," or "materiality process," among other terms, as the process involves the application of materiality in identifying which information relevant to the information needs of intended users is material for the purposes of reporting. Appendix 2 illustrates how the entity's process to identify sustainability information to be reported is considered by the practitioner throughout the engagement.
- A4. As described in paragraph 80, in connection with the acceptance and continuance of the assurance engagement, the practitioner is required to obtain a preliminary knowledge about the sustainability information to be reported, and whether the scope of the engagement encompasses all or part of that sustainability information.

Premises in this ISSA (Ref: Para. 6–7)

- A5. Law, regulation or professional requirements in a jurisdiction may specify relevant ethical requirements or requirements relating to quality management to be applied in the conduct of assurance engagements, and may provide guidance about what constitutes "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.

Ethical Requirements (Ref: Para. 6(a), 7)

- A6. As explained in paragraph A58, the IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of an assurance practitioner and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Paragraph A59 describes the conceptual framework in the IESBA Code that an assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles. Paragraphs A60–A61 describe matters that may give rise to potential threats to compliance and that may affect or influence the practitioner's independence.
- A7. Paragraph A62 explains that professional requirements, or requirements in law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements when they address

the matters referred to in paragraphs A58–A61 and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.

Quality Management (Ref: Para. 6(b), 7)

- A8. As explained in paragraph A68, this ISSA has been written in the context of a range of measures taken to support the quality of assurance engagements. Such measures include a system of quality management implemented across the firm.
- A9. Paragraph A69 explains the responsibilities of the firm to design, implement and operate a system of quality management for assurance engagements, and paragraph A70 describes the components addressed by such a system that is designed in accordance with the requirements of ISQM 1.
- A10. As explained in paragraph A73, professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as ISQM 1 when they address all the matters referred to in paragraphs A69–A71 and impose obligations on the firm that achieve the aims of the objectives and requirements of ISQM 1.
- A11. In accordance with ISQM 1, the objective of the firm is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:
 - (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Scope of this ISSA

Types and Presentation of Sustainability Information (Ref: Para. 8)

- A12. The sustainability information presented by an entity may be limited to certain matters, such as selected metrics, targets or key performance indicators. Alternatively, the sustainability information may cover many different aspects of topics as required by the sustainability reporting framework or by law or regulation, or that the entity chooses to present voluntarily.
- A13. Sustainability information may be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, as part of the management report or management commentary), in an integrated report, or through some other reporting mechanism. Depending on the applicable criteria, the sustainability information may be for a single entity, or may include information for entities that are part of a group or other entities in the reporting entity's value chain.
- A14. In some circumstances, the sustainability reporting framework may permit sustainability information to be incorporated by reference from other sources, such as the audited financial statements or another section of a management report (i.e., a section other than that containing the sustainability information required to be reported). The information incorporated by reference may have been subject to an audit or an assurance engagement. If such information is within the scope of the sustainability assurance engagement, the practitioner responsible for the sustainability assurance engagement may intend to obtain evidence from the work performed by the financial statement auditor or another assurance practitioner. In these circumstances, the requirements in this ISSA

addressing using the work of another practitioner apply, including the requirement to communicate, to the extent necessary in the circumstances, about the findings from another practitioner's work.

Reasonable and Limited Assurance Engagements (Ref: Para. 9)

- A15. When the disclosures relate to a number of aspects of topics, separate conclusions may be provided on each aspect. Each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in the ISSAs to the conclusion in the assurance report include each conclusion when separate conclusions are provided.

Definitions (Ref: Para. 18)

Assertions

- A16R. Assertions are used by practitioners to consider the different types of potential misstatements that may occur when identifying and assessing, and responding to, the risks of material misstatement in a reasonable assurance engagement. Examples of assertions are provided in paragraph A415R.

Component

- A17. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements (see also paragraph A35). For purposes of the ISSAs, components that include entities or business units required to be included in the reporting entity's group financial statements (e.g., subsidiaries of a parent entity) are referred to as group components. The framework criteria may also require the sustainability information to be extended to include information from other entities that are part of the reporting entity's upstream or downstream value chain. For purposes of the ISSAs, components that include such entities are referred to as value chain components.

Component Practitioner

- A18. A component practitioner may comprise individuals from a network firm, a firm that is not a network firm, or another office within the practitioner's firm.
- A19. In limited circumstances, the practitioner may be able to be sufficiently and appropriately involved in the work of another firm at a value chain component. For example, the reporting entity may have a direct business relationship with a supplier that allows management to arrange for the practitioner to obtain access to information at that entity or access to the firm that has performed work on that information. In those circumstances, if the practitioner intends to use such work and is able to be sufficiently and appropriately involved in the work, the other firm is a component practitioner for purposes of the ISSAs.

Criteria

- A20. The criteria, particularly framework criteria, may include guidance about the sustainability matters (including the topics and aspects of topics) to be reported. The criteria also may establish how those sustainability matters are to be measured or evaluated, and how they are to be presented or disclosed.

Disclosure(s)

- A21. The term "disclosure(s)" is used in this ISSA in the context of sustainability assurance engagements and refers to sustainability information about an aspect of a topic. Accordingly, it is not intended to

have the same meaning as “financial statement disclosures” as defined or described in financial reporting frameworks.

A22. Appendix 1 explains the relationship between sustainability matters, sustainability information and the related disclosures. Disclosure(s) may include quantitative or qualitative information and can vary in form and length. Management’s disclosures provide a starting point in considering whether and how certain disclosures may be combined by the practitioner for the purpose of planning and performing the engagement (see also paragraphs A285–A287).

Engagement Leader

A23. The individual appointed as the engagement leader may be a partner or another senior staff member in the firm (e.g., a director or principal). Whether the individual is permitted to be an engagement leader in accordance with this ISSA depends on how the firm assigns responsibilities, and whether law, regulation or professional requirements include requirements that specify who may be permitted to accept responsibility for the engagement.

A24. The term engagement leader in this ISSA is the equivalent of “engagement partner” in ISQM 1.

Engagement Risk

A25. Engagement risk does not refer to, or include, the practitioner’s business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular sustainability matters.

A26. In general, engagement risk can be represented by the following components:

- (a) Risks that the practitioner does not directly influence, which consist of:
 - (i) The susceptibility of the sustainability information to a material misstatement before consideration of any related controls applied by the entity (inherent risk); and
 - (ii) The risk that a material misstatement that occurs in the sustainability information will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control (control risk); and
- (b) The risk that the practitioner does directly influence, which is the risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk).

A27R. Reducing engagement risk to zero is very rarely attainable or cost-beneficial. Therefore, reasonable assurance is less than absolute assurance due to factors such as the following:

- The use of selective testing.
- The inherent limitations of internal control.
- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the sustainability matters (e.g., forward-looking information).

Engagement Team

A28. The engagement team includes personnel, which includes any internal experts, and, if applicable,

component practitioners. Another practitioner is not part of the engagement team.

- A29. Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.

Entity

- A30. An example of an identifiable portion of a legal or economic entity is a single factory or other form of facility, such as a landfill site.

Firm

- A31. The legal nature of the organization performing the assurance engagement may take many forms and may not be described as a firm.

Fraud

- A32. Although some form of management bias is inherent in subjective decisions relating to sustainability information, when there is intention to mislead, management bias is fraudulent in nature.
- A33. Paragraphs A323, A473 and A479 provide examples of matters related to material misstatements due to fraud or management bias in sustainability information, examples of where or how misstatements in sustainability information may arise and examples of misstatements due to fraud in sustainability information, respectively.

Group

- A34. A single legal entity organized with branches or divisions is also a group for purposes of this ISSA if the sustainability information for those branches and divisions is included in the single legal entity's sustainability information through an aggregation process.

Group Sustainability Information

- A35. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements. For example, if consolidated financial statements are required to be prepared in accordance with the applicable financial reporting framework, then the sustainability information would include information for the same entities or business units included in the consolidated financial statements. The criteria may also require the sustainability information to be extended to include information from other entities that are part of the upstream or downstream value chain. Such sustainability information, including information from the value chain, is referred to as "group sustainability information" in the ISSAs.

Intended Users

- A36. Examples of intended users include shareholders, investors, lenders and other creditors who may use sustainability information to make resource allocation decisions. Other intended users who may be interested in the sustainability information reported by the organization include consumers, taxpayers, employees, competitors, prudential authorities, central banks and bodies in charge of

financial stability oversight, those granting public contracts, partners, suppliers, community, Indigenous Peoples, government, regulators, and interest groups.

- A37. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly when a large number of people have access to it. In such cases, particularly when possible users are likely to have a broad range of interests in the sustainability matters, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and management or those charged with governance, or by law or regulation.
- A38. In some cases, specific users (for example, lenders) may request the appropriate party(ies) to arrange for an assurance engagement to be performed on sustainability information that has been prepared using criteria that are designed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 200 requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report (see paragraph A584).

Partner

- A39. As noted in paragraph A31, the entity performing the assurance engagement may not be described as a firm. Therefore, the individual with authority to bind the organization with respect to the performance of the engagement may not carry the title of partner.

Reporting Boundary

- A40. In some cases, framework criteria may specify the reporting boundary. In other circumstances, the reporting boundary may be determined by the entity, in which case the reporting boundary will be part of the entity-developed criteria. The reporting boundary may vary for different topics or aspects of topics (e.g., some key performance indicators may have different boundaries from other key performance indicators because of the nature of the sustainability matters).
- A41. Although the entity's sustainability information and financial statements may relate to the same reporting entity, the reporting boundary for sustainability information may differ from the boundary for purposes of preparing financial statements. For example, the reporting boundary for sustainability information may include activities, operations, relationships, or resources up and down the entity's value chain. An entity's supply chain is part of the value chain.

Substantive Procedures

- A42. Analytical procedures performed to respond to an assessed risk of material misstatement are substantive in nature and therefore this ISSA requires the practitioner to develop an expectation as the basis for evaluating the results of those procedures (see paragraphs 143L and 143R). Analytical procedures may also be used as risk assessment procedures to help identify inconsistencies, unusual events or conditions, and amounts, ratios, and trends that indicate matters that may have implications for the engagement. Unusual or unexpected relationships that are identified may assist the practitioner in identifying risks of material misstatement, including risks of material misstatement due to fraud.

Sustainability Information

A43. As explained in paragraph 2, sustainability information is information about sustainability matters and may cover a number of topics and aspects of those topics. Paragraph 2 also explains that law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways. Examples of topics and aspects of topics include the following:

Topics	
<i>Environmental</i>	• Climate, including emissions • Energy, such as type of energy and consumption • Water and effluents, such as water consumption and water discharge • Biodiversity, such as impacts on biodiversity or habitats protected and restored
<i>Social</i>	• Labor practices, such as diversity and equal opportunity, training and education, and occupational health and safety • Human rights and community relations, such as local community engagement, impact assessments and development programs • Customer health and safety
<i>Governance</i>	• Monitoring, managing and overseeing sustainability matters and their related impacts
Aspects of Topics	
• Impact analysis, including magnitude of impact • Strategy and business model • Risks and opportunities • Innovation to address risks and opportunities • Financial effects arising from risks and opportunities • Risk management or mitigation • Governance • Metrics and key performance indicators • Targets • Internal control over monitoring and managing risk • Scenario analysis	

A44. As explained in paragraph 5, the scope of the assurance engagement may not extend to the entirety of the sustainability information reported. Therefore, for purposes of the ISSAs, the term “sustainability information” is to be read as the information that is subject to assurance. Sustainability information not subject to the assurance engagement that is included in a document or documents

containing the sustainability information subject to the assurance engagement and the assurance report thereon is other information.

Sustainability Matters

- A45. Law or regulation or sustainability reporting frameworks may define or describe sustainability matters in different ways. Depending on the criteria, sustainability matters may address:
- The impacts on the entity's strategy, business model or performance;
 - The impacts of the entity's activities, products and services on the environment, society or economy; or
 - The entity's sustainability policies, plans, goals or targets.
- A46. In addition to impacts, the criteria may also refer to risks and opportunities (e.g., how sustainability-related risks and opportunities could reasonably be expected to affect the entity's prospects) or dependencies (e.g., resources and relationships throughout the entity's value chain that may affect the entity's strategy or business model).

Conduct of an Assurance Engagement in Accordance with the ISSAs

Complying with Standards that Are Relevant to the Engagement (Ref: Para. 19–20)

- A47. In some cases, another ISSA is also relevant to the engagement. Another ISSA is relevant to the engagement when that ISSA is in effect, the subject matter of the ISSA is relevant to the engagement, and the circumstances addressed by the ISSA exist.
- A48. The ISAs³ and ISREs⁴ have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process for practitioners undertaking a sustainability assurance engagement in accordance with this ISSA.

Text of an ISSA (Ref: Para. 21)

- A49. ISSAs contain the objectives of the practitioner in following the ISSA, and requirements designed to enable the practitioner to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISSA, and definitions.
- A50. The objectives in an ISSA provide the context in which the requirements of the ISSA are set, and are intended to assist in:
- (a) Understanding what is to be accomplished; and
 - (b) Deciding whether more needs to be done to achieve the objectives.

The proper application of the requirements of an ISSA by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the circumstances of assurance engagements vary widely, and all such circumstances cannot be anticipated in the ISSA, the practitioner is responsible for determining the procedures necessary to fulfill the requirements of relevant ISSAs, and to achieve the objectives stated therein. In the

³ ISA, *International Standards on Auditing*

⁴ ISRE, *International Standards on Related Services*

circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures in addition to those required by relevant ISSAs to meet the objectives specified in those ISSAs.

A51. The requirements of ISSAs are expressed as “shall.”

A52. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover.
- Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISSA. Where appropriate, additional considerations specific to public sector entities or smaller or less complex entities are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISSAs. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISSA.

A53. Definitions are provided in an ISSA to assist in the consistent application and interpretation of the ISSA and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.

A54. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISSA or within the title and introduction of the appendix itself.

Complying with Relevant Requirements (Ref: Para. 22–23)

A55. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.

A56. The requirements of this ISSA and any other relevant ISSAs are designed to enable the practitioner to achieve the objectives specified in the ISSA, and thereby the overall objectives of the practitioner. Accordingly, other than in exceptional circumstances, the practitioner is required to comply with each requirement that is relevant in the circumstances of the assurance engagement.

Documentation of a Departure from a Relevant Requirement (Ref: Para. 24)

A57. The engagement documentation requirements apply only to requirements that are relevant in the circumstances. A requirement is not relevant only in the cases when the requirement is conditional and the condition does not exist (for example, the requirement to modify the practitioner’s conclusion when there is an inability to obtain sufficient appropriate evidence, and there is no such inability).

Acceptance and Continuance of the Assurance Engagement

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 26(a), 34–37)

A58. The IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of an assurance practitioner and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the required approach for

a professional accountant to comply with the fundamental principles and, when applicable, the International Independence Standards. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.

A59. The IESBA Code provides a conceptual framework which an assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles, including:

- (a) Identifying threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:
 - (i) Self-interest;
 - (ii) Self-review;
 - (iii) Advocacy;
 - (iv) Familiarity; and
 - (v) Intimidation;
- (b) Evaluating whether the threats identified are at an acceptable level; and
- (c) If the identified threats to compliance with the fundamental principles are not at an acceptable level, addressing them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

A60. The IESBA Code sets out requirements and application material on various topics that may give rise to potential threats to compliance, including:

- Conflicts of interest.
- Professional appointments.
- Second opinions.
- Fees and other types of remuneration.
- Inducements, including gifts and hospitality.
- Custody of client assets.
- Responding to non-compliance with laws and regulations.

A61. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. The International Independence Standards in the IESBA Code address various matters that may affect or influence the practitioner's independence, including:

- Fees.
- Gifts and hospitality.
- Actual or threatened litigation.
- Financial interests.

- Loans and guarantees.
- Business relationships.
- Family and personal relationships.
- Recent service with an assurance client.
- Serving as a director or officer of an assurance client.
- Employment with an assurance client.
- Long association of personnel with an assurance client.
- Provision of non-assurance services to an assurance client.

A62. Professional requirements, or requirements in law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements when they address all the matters referred to in paragraphs A58–A61 and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.

A63. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority.

Considerations Specific to Public Sector Entities (Ref: Para. 26(a), 34)

A64. Statutory measures may provide safeguards for the independence of public sector practitioners. However, public sector practitioners or firms carrying out public sector assurance engagements may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 34. This may include, where the public sector mandate does not permit withdrawal from the engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the practitioner to withdraw.

Engagement Leader Responsibilities for Acceptance and Continuance (Ref: Para. 28)

A65. Under ISQM 1, for acceptance and continuance decisions, the firm is required to make judgments about the firm's ability to perform the engagement in accordance with professional requirements and applicable legal and regulatory requirements. The engagement leader may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and engagements are appropriate. If the engagement leader has concerns regarding the appropriateness of the conclusions reached, the engagement leader may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A66. If the engagement leader is directly involved throughout the firm's acceptance and continuance process, the engagement leader will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement leader's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A67. When the firm is obligated by law or regulation to accept or continue an assurance engagement, the engagement leader may take into account information obtained by the firm about the nature and circumstances of the engagement.

Firm-level Quality Management (Ref: Para. 30)

A68. This ISSA has been written in the context of a range of measures taken to support the quality of sustainability assurance engagements. Such measures include:

- Competency requirements, such as education and experience, and ongoing continuing professional development as well as life-long learning requirements.
- A system of quality management implemented across the firm, i.e., ISQM 1, or professional requirements, or requirements in law or regulation, that are at least as demanding.
- When applicable, in accordance with ISQM 1, performance of engagement quality reviews in accordance with ISQM 2.⁵
- A comprehensive set of ethical requirements, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

A69. ISQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements. It sets out the responsibilities of the firm for establishing quality objectives, identifying and assessing risks to the achievement of the quality objectives, and designing and implementing responses to address such risks, including certain specified responses. The specified responses in ISQM 1 include the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

A70. A system of quality management addresses the following eight components:

- (a) The firm's risk assessment process;
- (b) Governance and leadership;
- (c) Relevant ethical requirements;
- (d) Acceptance and continuance of client relationships and specific engagements;
- (e) Engagement performance;
- (f) Resources;
- (g) Information and communication; and
- (h) The monitoring and remediation process.

Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.

A71. A firm's system of quality management includes establishing a monitoring and remediation process designed to:

- Provide the firm with relevant, reliable and timely information about the design, implementation, and operation of the system of quality management.
- Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.

⁵ ISQM 2, *Engagement Quality Reviews*

A72. Ordinarily, the engagement team may depend on the firm's system of quality management unless:

- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
- Information provided by the firm or other parties about the effectiveness of such policies or procedures suggests otherwise.

For example, the engagement team may depend on the firm's system of quality management in relation to:

- Competence and capabilities of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements.
- Adherence to regulatory and legal requirements through the firm's monitoring and remediation process.

A73. Professional requirements, or requirements in law or regulation, that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as ISQM 1 when they address all the matters referred to in paragraphs A69–A71 and impose obligations on the firm that achieve the aims of the objectives and requirements of ISQM 1.

A74. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority.

Engagement-level Quality Management

Overall Responsibility for Managing and Achieving Quality (Ref: Para. 31–32)

A75. Taking overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement may be demonstrated by the engagement leader in various ways, including:

- Involvement in the acceptance and continuance process to be able to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed.
- The engagement being planned and performed (including appropriate direction and supervision of engagement team members) in accordance with professional standards or requirements and applicable legal and regulatory requirements.
- Reviews being performed in accordance with the firm's policies or procedures and reviewing the engagement documentation on or before the date of the assurance report.
- Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with this ISSA and relevant legal and regulatory requirements.
- Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.

- A76. The engagement leader remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISSA. The term “the engagement leader shall take responsibility for...” is used for those requirements that the engagement leader is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For requirements in this ISSA that state “the engagement leader shall...”, this ISSA expressly intends that the requirement or responsibility be fulfilled by the engagement leader. In such circumstances, the engagement leader may obtain information from the firm or other members of the engagement team in fulfilling the requirement.
- A77. ISQM 1 requires the firm to establish quality objectives that address the firm’s governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement leader’s responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.
- A78. The actions of the engagement leader, and appropriate messages to the other members of the engagement team, emphasize the fact that quality is essential in performing an assurance engagement, and the importance to the quality of the assurance engagement of:
- Performing work that complies with professional standards and relevant legal and regulatory requirements.
 - Complying with the firm’s policies or procedures as applicable.
 - Issuing a report for the engagement that is appropriate in the circumstances.
 - The engagement team’s ability to raise concerns without fear of reprisals.
- A79. Being sufficiently and appropriately involved throughout the engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement leader in different ways, including:
- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
 - Direction and supervision of the assignees.
 - Review of the assignees’ work to evaluate the conclusions reached, in addition to the requirements in paragraphs 46–49.

Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 32)

- A80. Within the context of the firm’s system of quality management, engagement team members from the firm are responsible for implementing the firm’s policies or procedures that are applicable to the engagement. As engagement team members from another firm are neither partners nor staff of the engagement leader’s firm, they may not be subject to the firm’s system of quality management or the firm’s policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement leader’s firm. For example, policies or procedures regarding direction, supervision and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement leader’s firm. Accordingly, if the engagement team includes individuals from another firm, different actions may need to be taken by the firm or the engagement leader to implement the firm’s policies or procedures in respect of the

work of those individuals. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in other ways, such as written confirmation.

Characteristics of the Engagement Leader (Ref: Para. 33)

A81. ISQM 1 requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement leader, who have appropriate competence and capabilities to consistently perform quality engagements.

A82. Sufficient sustainability competence provides the engagement leader with the ability to:

- Ask appropriate questions of a practitioner's expert and evaluate whether the answers are judged to be reasonable in the engagement circumstances;
- Evaluate a practitioner's expert's work and, to the extent necessary, integrate it with the work of the engagement team as a whole; and
- Take responsibility for the conclusions reached on the engagement.

A83. What constitutes sufficient sustainability competence depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement leader has sufficient sustainability competence in order to accept responsibility for the conclusions reached on the engagement is a matter of professional judgment, and may involve consideration of factors such as:

- The judgment involved in evaluating whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances.
- The judgment involved in determining whether the sustainability information in the scope of the assurance engagement is appropriate.
- The nature and complexity of the sustainability matters.
- The extent to which the sustainability matters are capable of precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment.
- The engagement leader's and engagement team's competence and previous experience in relation to sustainability matters.

Relevant Ethical Requirements, Including Those Related to Independence

Engagement Leader Responsibilities for Relevant Ethical Requirements (Ref: Para. 35–37)

A84. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the assurance engagement; and
- Keeping the engagement leader informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

A85. In accordance with ISQM 1, the firm's responses to address the quality risks in relation to relevant

ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

A86. Appropriate actions the firm may take to address threats to compliance with relevant ethical requirements may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the assurance engagement, when withdrawal is possible under applicable law or regulation.

Assurance Skills and Techniques, Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: Para. 39)

A87. Professional skepticism is an attitude that includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.
- Information that calls into question the reliability of responses to inquiries or information intended to be used as evidence.
- Circumstances that suggest the need for procedures in addition to those required by relevant ISSAs.
- Conditions that may indicate likely misstatement.
- Conditions that may indicate possible fraud.

A88. Professional skepticism is necessary for the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of responses to inquiries and information intended to be used as evidence. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances. Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneralizing when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature, timing and extent of the procedures, and evaluating the results thereof.

A89. Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 90 to consider the reliability of information intended to be used as evidence.

A90. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those

who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

A91. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, when needed.
- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review that work.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable criteria.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of evidence and seek evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing evidence.
- Circumstances when there is no one generally accepted way in which to measure or evaluate the sustainability matters and report the sustainability information, which may result in practitioners being less willing to question management's approach.
- Complexity of the engagement. The larger, more complex and more diverse the entity (e.g., the greater its geographical spread, and the more dependent it is on a long and diverse supply chain), the more challenging it may be to understand and evaluate:
 - Whether the sustainability matters are appropriate in the engagement circumstances; and
 - How much prominence should be given to each disclosure in the context of the sustainability information as a whole.

A92. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the engagement that necessitate requesting additional or different resources for the engagement.
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious biases may be greater (e.g., areas involving greater judgment).
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team in more complex areas of the engagement or when dealing with members of management who are difficult or challenging to interact with.
- Involving members of the engagement team with specialized skills and knowledge or a

practitioner's expert to assist the engagement team with complex or subjective areas of the engagement.

- Involving appropriate resources to perform procedures to obtain evidence about sustainability information related to group components and value chain components.
- Modifying the nature, timing and extent of direction, supervision or review, for example, by more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom evidence may be sought.

Professional Judgment (Ref: Para. 40)

A93. Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and the ISSAs, and the informed decisions required throughout the engagement, cannot be made without the application of relevant training, knowledge, and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- The presence of the preconditions for an assurance engagement.
- Materiality and engagement risk.
- The nature, timing and extent of procedures used to meet the requirements of this ISSA and any other relevant ISSAs and to obtain evidence, including where, and to what extent, it is necessary to perform procedures at entities across the entity's value chain.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ISSA and any other relevant ISSAs. In particular, in the case of a limited assurance engagement, professional judgment is required in evaluating whether a meaningful level of assurance has been obtained.
- The appropriate conclusions to draw based on the evidence obtained.
- The actions to take in exercising professional skepticism.
- Whether the engagement leader's involvement throughout the engagement has been sufficient and appropriate such that the engagement leader has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

A94. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

A95. The exercise of professional judgment is based on the facts and circumstances that are known by the practitioner. It needs to be exercised throughout the engagement and be appropriately documented. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report. Professional judgment is not to be

used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

Engagement Resources (Ref: Para. 41)

- A96. Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, when applicable, a practitioner's external expert. Technological resources include technological tools that may allow the practitioner to manage the engagement more effectively and efficiently. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programs, templates, checklists or forms.
- A97. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, the engagement leader ordinarily may depend on the firm's related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement leader may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 42)

- A98. When determining that the engagement team has the appropriate sustainability competence and competence and capabilities in assurance skills and techniques, the engagement leader may take into consideration such matters as the team's:
- Understanding of, and practical experience with, sustainability assurance engagements of a similar nature and complexity through appropriate training and participation.
 - Understanding of professional requirements and applicable legal and regulatory requirements applicable to the engagement.
 - Expertise in the sustainability matters relevant to the engagement.
 - Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement.
 - Knowledge of relevant industries in which the entity operates.
 - Knowledge of laws, regulations or business practices relevant to the entity's operations in a particular jurisdiction.
 - Ability to exercise professional skepticism and professional judgment.
 - Understanding of the firm's policies or procedures.
- A99. Sustainability assurance engagements may relate to a wide range of sustainability matters that require specialized skills and knowledge beyond those possessed by the engagement leader and other members of the engagement team and for which the work of a practitioner's expert is used. A practitioner's expert may be either a practitioner's internal expert (who is a member of the engagement team), or a practitioner's external expert. A practitioner's internal expert may be a

partner or staff (i.e., personnel), including temporary staff, of the practitioner's firm or a network firm. A practitioner's expert may be needed to assist the practitioner in one or more areas.

Examples:

- Obtaining an understanding of the entity and its environment, including its internal control.
- Performing risk assessment procedures.
- Responding to risks, including determining and implementing overall responses to assessed risks of material misstatement of the sustainability information.
- Evaluating the sufficiency and appropriateness of evidence obtained in forming a conclusion on the sustainability information.

A100. Considerations when deciding whether to use a practitioner's expert may include:

- Whether management has used a management's expert in preparing the sustainability information (see paragraph A101).
- The nature and significance of the sustainability information, including its complexity.
- The assessed risks of material misstatement.
- The expected nature of procedures to respond to identified risks, including the practitioner's knowledge of and experience with the work of experts in relation to such matters, and the availability of alternative sources of evidence.

A101. When management has used a management's expert in preparing the sustainability information, the practitioner's decision on whether to use a practitioner's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls within the entity over the management's expert's work.

A102. The more complex the engagement, including its geographical spread and the extent to which information is derived from the entity's value chain, the more necessary it may be to consider how the work of a practitioner's expert or another practitioner is to be integrated across the engagement.

Sufficient and Appropriate Involvement in the Work of a Firm Other than the Practitioner's Firm (Ref: Para. 43)

A103. Paragraph 31 requires the engagement leader to be sufficiently and appropriately involved throughout the engagement. Paragraphs A75 and A79 provide examples of ways in which the engagement leader may demonstrate sufficient and appropriate involvement in the engagement.

When the practitioner intends to obtain evidence from using work that has been performed, or will be performed, by a firm other than the practitioner's firm, these examples may assist the engagement leader in determining whether it is possible for the engagement leader to be sufficiently and appropriately involved in that work.

A104. When work is performed in relation to sustainability information of a group component, there is a presumption that the practitioner would ordinarily be sufficiently and appropriately involved in that work.

A105. In certain circumstances, the practitioner may become aware that a separate engagement on sustainability information for a group component has been performed by a firm (including another office of the practitioner's firm or a network firm). For example, that firm may have performed a separate assurance engagement on greenhouse gas emissions of a subsidiary that are included in the group sustainability information. Although the practitioner is unable to be involved because the separate engagement has already been completed, the practitioner may still intend to obtain evidence from using the work of that other firm for the group sustainability assurance engagement. In these circumstances, the requirements in paragraphs 50–55 would apply, including determining whether the evidence obtained from that other practitioner's work is adequate for the practitioner's purposes. If a similar separate engagement is expected to be performed in subsequent years relating to that group component, the practitioner would be able to consider it in developing the overall strategy and engagement plan for the group engagement, including the involvement of that other firm as a component practitioner (see paragraph 96).

A106. An inability to be sufficiently and appropriately involved in the work of a firm other than the practitioner's firm may arise because the work has already been performed, the practitioner's access to the work of that firm is restricted by law or regulation, or the work relates to a value chain component and neither the entity's management nor the practitioner have any rights of access to that other firm's work. Similarly, if the extent of the engagement leader's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached in relation to the work of a firm other than the practitioner's firm are appropriate, the engagement leader is ordinarily not able to conclude that they can be sufficiently and appropriately involved. The engagement leader may also take account of firm policies or procedures in making the determination in accordance with paragraph 43.

Insufficient or Inappropriate Resources Assigned or Made Available (Ref: Para. 44)

A107. The engagement leader's determination that the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, and the appropriate actions to take, are matters of professional judgment. For example, if an assurance software program provided by the firm has not incorporated new or revised procedures related to sustainability disclosures required by new or revised framework criteria, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement.

A108. For a group sustainability assurance engagement, the engagement leader's determination about whether the resources assigned or made available are sufficient and appropriate may include considering whether there is a need to involve component practitioners with knowledge and experience of the laws, regulations, language or culture in certain jurisdictions.

A109. If the resources assigned or made available are insufficient or inappropriate in the circumstances of

the engagement and additional or alternative resources have not been made available, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph 47).
- Discussing an extension to the entity's reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement leader does not obtain the necessary resources for the engagement.
- Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.

Using the Resources Assigned or Made Available (Ref: Para. 45)

A110. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm-approved technological tools to perform procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output. The engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's assurance methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific assurance methodology or related guides and performance aids.

Direction, Supervision and Review

Engagement Leader's Responsibility for Direction, Supervision and Review (Ref: Para. 46)

A111. ISQM 1 requires that direction, supervision and review is planned and performed on the basis that the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.

A112. Direction and supervision of the engagement team and the review of their work are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement leader in managing the quality of the engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will ordinarily include a combination of addressing the firm's policies or procedures and engagement specific responses.

A113. When an engagement is not carried out entirely by the engagement leader, or when the nature and circumstances of the engagement are more complex (e.g., when there are members of the engagement team spread across multiple jurisdictions), it may be necessary for the engagement leader to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement leader's overall responsibility for managing and achieving quality on the engagement and to be sufficiently and appropriately involved, the engagement leader is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 47. In such circumstances, personnel or members of the engagement team may provide information to the engagement leader to enable the engagement leader to make the determination required by paragraph 47.

Direction

A114. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
- Maintaining a questioning mind and being aware of unconscious or conscious biases in exercising professional skepticism when gathering and evaluating evidence.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned procedures or failing to perform planned procedures.
- Fulfilling relevant ethical requirements.
- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned assurance procedures.
- The responsibilities of respective engagement team members to perform procedures, and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

Supervision

A115. Supervision may include matters such as:

- Tracking the progress of the engagement, which includes monitoring:
 - The progress against the engagement plan;
 - Whether the objective of work performed has been achieved; and
 - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A116. Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, professional requirements and applicable legal and regulatory requirements.
- Significant matters have been raised for further consideration.
- Appropriate consultations have taken place and the resulting conclusions have been

documented and implemented.

- There is a need to revise the nature, timing and extent of work performed.
- The work performed supports the conclusions reached and is appropriately documented.
- The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion.
- The objectives of the procedures have been achieved.

Determining the Nature, Timing and Extent of Direction, Supervision and Review (Ref: Para. 47)

A117. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement leader in fulfilling the requirements of this ISSA, and in concluding that the engagement leader has been sufficiently and appropriately involved throughout the engagement in accordance with paragraph 186(d)(i).

A118. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the subject matter.
- The complexity of the engagement.
- The assessed risks of material misstatement.
- The competence and capabilities of the individual engagement team members performing the work.
- The manner in which the reviews of the work performed are expected to take place (remote or in-person).
- The structure of the engagement team and the location of engagement team members.
- Whether engagement team members are from the practitioner's firm, a network firm, or a firm that is not a network firm.

Review of Engagement Documentation (Ref: Para. 48)

A119. Timely review of engagement documentation by the engagement leader at appropriate stages throughout the engagement enables significant matters to be resolved to the engagement leader's satisfaction on or before the date of the practitioner's report. The engagement leader need not review all engagement documentation.

A120. The engagement leader exercises professional judgment in identifying significant judgments made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments may include matters related to planning and performing the engagement, as well as the conclusions reached by the engagement team.

Examples of significant judgments:

- Whether the scope of the sustainability information to be reported and the scope of the assurance engagement are appropriate in the circumstances.
- Matters related to planning the engagement, such as the consideration or determination of materiality.

- The composition of the engagement team, including personnel with expertise in one or more sustainability matters addressed in the engagement.
- The decision to involve a practitioner's expert, including the decision to involve an external expert.
- The engagement team's risk assessment procedures, including situations when the identification and assessment of the risks of material misstatement requires significant judgment by the engagement team.
- For a group sustainability assurance engagement:
 - The proposed approach to the engagement for addressing where, and by whom, evidence needs to be obtained.
 - Decisions about the involvement of component practitioners and using the work of another practitioner, including, for example, in areas of higher assessed risk of material misstatement of the sustainability information.
- Results of the procedures performed on areas of the engagement involving significant management judgment.
- The evaluation of the work performed by a practitioner's external expert or another practitioner, and conclusions drawn therefrom.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The evaluation of matters that may affect the assurance report, including modification of the practitioner's conclusion.

A121. The engagement leader exercises professional judgment in determining other matters to review, for example based on:

- The nature and circumstances of the engagement.
- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

Review of Formal Written Communications (Ref: Para. 49)

A122. The engagement leader uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the engagement leader to review communications between the engagement team and management in the ordinary course of the engagement.

Using the Work of Others

Using the Work of Another Practitioner (Ref: Para. 50–55)

A123. Using the work of another practitioner may include using work that has already been completed, or that is yet to be performed but will be completed prior to completion of the practitioner's engagement. Such work may specifically relate to sustainability matters or may be other assurance or non-assurance work that, in the practitioner's judgment, is relevant to the sustainability assurance

engagement. The practitioner exercises professional judgment in determining whether the work of another practitioner is relevant to, and is appropriate for purposes of the practitioner's engagement, and the extent to which such work can be used in the circumstances. The extent of the practitioner's procedures to evaluate the work of another practitioner in accordance with paragraph 50 is influenced by:

- The overall significance of the work to the practitioner's engagement. For example, the greater the significance to the overall sustainability information of the disclosures for which the practitioner intends to obtain evidence from using the work of another practitioner, the more extensive the practitioner's procedures are likely to be, including communication with another practitioner and determining whether it is necessary to review additional documentation of the work of that practitioner in accordance with paragraph 54;
- The ability of the practitioner to obtain access to another practitioner and their work. For example, when the work of another practitioner relates to information from a value chain component, neither the reporting entity's management nor the practitioner may have rights of access to that other firm or its work. Paragraph A135 explains circumstances in which a limitation on scope may arise in relation to using the work of another practitioner; and
- Whether a one-to-many report of another practitioner is available (see paragraph 51).

A124. The guidance in paragraphs A136–A151 for using the work of a practitioner's expert may also be helpful when obtaining evidence from using the work of another practitioner, in particular, the considerations described in paragraphs A137 and A151.

Complying with relevant ethical requirements that apply to using the work of another practitioner (Ref: Para. 50(a))

A125. Relevant ethical requirements may include provisions addressing the fulfillment of the practitioner's ethical responsibilities related to using the work of another practitioner. These responsibilities may vary depending on whether the work performed by another practitioner is assurance or non-assurance work.

A126. Whether an engagement performed by another practitioner is an assurance engagement depends on the circumstances. Considerations that may be relevant in distinguishing an assurance engagement from a non-assurance engagement include:

- The nature of the engagement. For example, agreed-upon procedures engagements performed in accordance with International Standard on Related Services 4400⁶ and consulting (or advisory) engagements are not assurance engagements.
- The nature of the procedures performed on the engagement. For example, a validation or verification engagement may be an assurance engagement if it is performed in accordance with recognized standards that enable the practitioner to design and perform procedures aimed at gathering sufficient appropriate evidence to support an assurance conclusion.
- The wording of the report of another practitioner. For example, the report for an assurance engagement includes the practitioner's opinion, conclusion or other form of assurance statement based on the procedures performed and evidence obtained. Reports that only provide the practitioner's findings would not be considered assurance engagements.

⁶ International Standard on Related Services (ISRS) 4400, *Agreed-Upon Procedures Engagements*

Evaluating the competence and capabilities of another practitioner (Ref: Para. 50(b))

A127. Determining whether another practitioner has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of another practitioner's work. The sources described in paragraph A141 related to the work of a practitioner's expert may also be relevant when evaluating the competence and capabilities of another practitioner. Other factors that may be relevant include the consistency or similarity of laws and regulations, language and culture. When another practitioner is another firm within the same network as the practitioner's firm and is subject to common network requirements or uses common network services, the practitioner may be able to depend on such network requirements, for example, those addressing professional training or recruitment, or that require the use of common systems, policies, methodologies and related implementation tools.

Evaluating the nature, scope and objectives of another practitioner's work (Ref: Para. 50(c))

A128. Evaluating whether the nature, scope and objectives of another practitioner's work are appropriate for the practitioner's purposes may include obtaining an understanding of:

- The nature of the engagement performed by another practitioner, including whether it is a limited or reasonable assurance engagement, and whether that engagement exhibits a rational purpose;
- The applicable criteria relevant to that assurance engagement;
- The scope of the engagement;
- Whether the work performed was undertaken in accordance with recognized standards;
- Whether the work performed includes tests of controls, substantive procedures or both; and
- Whether the work performed has been supported by firm-level policies or procedures designed to address quality management.

Obtaining and evaluating a one-to-many report (Ref: Para. 51–52)

A129. The practitioner's evaluation of the work of another practitioner may include obtaining and evaluating a one-to-many report as described in paragraph 51. Such a report may identify assurance procedures and the results of those procedures, including exceptions, and other related information that could affect the practitioner's conclusions. Exceptions noted by another practitioner, or a modified conclusion, in such a report does not automatically mean that the report will not be useful for the assurance engagement on the reporting entity's sustainability information. Rather, the exceptions, or the matter giving rise to a modified conclusion, in the one-to-many report are considered in the context of the significance to users of the reported information. In considering the exceptions or matters giving rise to a modified conclusion, the practitioner may seek to discuss such matters with that other practitioner, if possible in the circumstances. Such communication is dependent upon the reporting entity contacting the value chain entity, and obtaining that entity's approval for the communication to take place.

A130. Depending on the nature of the information that is the subject of the one-to-many report, or other relevant assurance report of another practitioner, that report may identify complementary user entity controls that, if relevant to the user entity, may need to be designed and implemented by the user entity to have an appropriate basis for using the information obtained in preparing the sustainability information.

A131. The practitioner may determine that the one-to-many report does not provide sufficient appropriate evidence (e.g., the description of the procedures performed and results thereof may not provide sufficient evidence for the practitioner's purposes). In such circumstances, the practitioner may consider whether it is practicable to supplement the understanding of another practitioner's procedures and conclusions by communicating with that practitioner. If not practicable in the circumstances, the practitioner may need to perform other procedures to obtain sufficient appropriate evidence about the information from that value chain entity.

Communications with another practitioner (Ref: Para. 53)

A132. Relevant matters that the engagement team may request another practitioner to communicate include:

- Whether the other practitioner has complied with ethical requirements that are relevant to the engagement, including independence for an assurance engagement.
- Information about instances of non-compliance with laws and regulations that could give rise to a material misstatement of the sustainability information.
- A list of uncorrected misstatements identified by another practitioner during the engagement that are not clearly trivial.
- Indicators of possible bias in the preparation of relevant information.
- Description of any deficiencies in internal control identified by the other practitioner during the engagement.
- Other significant matters that another practitioner has communicated or expects to communicate to the entity, including fraud or suspected fraud.
- Any other matters that may be relevant to the sustainability information, or that another practitioner wishes to draw to the attention of the engagement team, including exceptions noted in any written representations that another practitioner requested from the component entity.
- The other practitioner's overall findings, conclusion or opinion.

A133. If the practitioner determines that another practitioner's communications are not adequate for the practitioner's purposes, the practitioner may consider whether, for example:

- Further information can be obtained from another practitioner (e.g., through further discussions or meetings);
- Review of additional documentation of another practitioner may provide the practitioner with further information; or
- There are any concerns about another practitioner's competence or capabilities.

Reviewing additional documentation of work performed by another practitioner (Ref: Para. 54)

A134. Determining whether to review additional documentation of another practitioner may include consideration of:

- The nature, timing and extent of the work performed by another practitioner;
- The competence and capabilities of another practitioner; and

- The significant judgments made by, and the findings or conclusions of, another practitioner about matters that are material to the sustainability information.

Evidence obtained from work of another practitioner inadequate for practitioner's purposes (Ref: Para. 55)

A135. A scope limitation exists when the practitioner is unable to:

- Obtain evidence from the work of another practitioner that is adequate for the practitioner's purposes; and
- Obtain, through alternative means, sufficient appropriate evidence over the disclosures for which the practitioner intended to use the work of another practitioner as evidence.

In such circumstances, the practitioner considers the implications for the engagement and the assurance report in accordance with paragraph 185.

Using the Work of a Practitioner's Expert (Ref: Para. 56–57)

A136. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this ISSA, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

A137. The nature, timing and extent of procedures to fulfill the requirement in paragraphs 56–57 will vary depending on the circumstances. Relevant considerations may include:

- The significance of the practitioner's expert's work in the context of the engagement (see also paragraph A140).
- The nature of the disclosure(s) to which that expert's work relates.
- The assessed risks of material misstatement of the sustainability information to which that expert's work relates.
- The practitioner's knowledge of and experience with previous work performed by that expert.

A138. Agreement on the respective roles and responsibilities of the practitioner and the practitioner's expert may also include agreement about access to, and retention of, each other's engagement documentation. A practitioner's internal expert is a member of the engagement team and therefore that expert's working papers form part of the engagement documentation.

A139. Effective two-way communication facilitates the proper integration of the nature, timing and extent of the practitioner's expert's procedures with other work on the assurance engagement, and appropriate modification of the practitioner's expert's objectives during the course of the engagement. Identification of specific partners or staff who will liaise with the practitioner's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

A140. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 56 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's expert is to be used in the early stages of the engagement, for example, during initial planning and risk assessment procedures.

Evaluating the competence, capabilities and objectivity of a practitioner's expert (Ref: Para. 56(a))

A141. The competence, capabilities and objectivity of a practitioner's expert are factors that significantly affect whether the work of the practitioner's expert will be adequate for the practitioner's purposes. Information regarding the competence, capabilities and objectivity of a practitioner's expert may come from a variety of sources.

Examples:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Understanding whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body.
- Published papers or books written by that expert.
- The practitioner's firm's system of quality management (see paragraphs A68–A74).

A142. A practitioner's internal expert that is a partner or staff of a network firm is subject to the firm's policies or procedures for network requirements and network services established as part of the firm's system of quality management. In some instances, the practitioner's internal expert of a network firm may be subject to common quality management policies or procedures as the practitioner's firm, given that they are part of the same network.

A143. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the engagement. The practitioner may be able to depend on the firm's related policies or procedures regarding the evaluation of the adequacy of an internal expert's work. For example, the firm's training programs may provide internal experts with an appropriate understanding of the interrelationship of their expertise with the assurance process. Reliance on such training may affect the nature, timing and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's internal expert's work.

A144. ISQM 1 requires the firm to have policies or procedures to address quality risks arising from the use of resources from a service provider, which includes the use of an external expert. A practitioner's external expert is not a member of the engagement team and may not be subject to the firm's policies or procedures under its system of quality management.

Evaluating the competence, capabilities and objectivity of a practitioner's external expert (Ref: Para. 56(a)–(b))

A145. Relevant ethical requirements applicable to the practitioner when using the work of a practitioner's external expert may include provisions addressing the fulfillment of the practitioner's ethical responsibilities related to evaluating whether an external expert has the necessary competence,

capabilities and objectivity for the practitioner's purposes. Such provisions may prohibit the practitioner from using the work of a practitioner's external expert if the practitioner:

- (a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;
- (b) Has determined that the external expert does not have the necessary competence or capabilities; or
- (c) Has determined that it is not possible to eliminate circumstances that create threats to the expert's objectivity, or apply safeguards to reduce such threats to an acceptable level.

A146. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's external expert and the significance of the expert's work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's external expert is an individual who has played a significant role in preparing the sustainability information.

A147. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire also of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the expert include:
 - Financial interests.
 - Business and personal relationships.
 - Provision of other services by that expert.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the entity or engaging party of which that expert is aware.

Understanding the field of expertise of a practitioner's expert (Ref: Para. 56(c))

A148. Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

- (a) Agree with the practitioner's expert on the nature, scope (including, when applicable, the materiality for quantitative disclosures to be applied or other considerations of materiality for qualitative disclosures) and objectives of that expert's work for the practitioner's purposes;
- (b) Understand what assumptions, data and methods, including models as applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement; and
- (c) Evaluate the adequacy of that expert's work for the practitioner's purposes.

Agreement with the practitioner's expert (Ref: Para. 56(c)–(d))

A149. The nature, scope and objectives of the practitioner's expert's work may vary considerably with the

circumstances, as may the respective roles and responsibilities of the practitioner and the practitioner's expert, and the nature, timing and extent of communication between the practitioner and the practitioner's expert. It is therefore required that these matters are agreed between the practitioner and the practitioner's expert regardless of whether the expert is a practitioner's external expert or a practitioner's internal expert.

A150. The matters noted in paragraph A137 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- The practitioner's expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the practitioner and the practitioner's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the practitioner's expert's work relates is highly complex.
- The practitioner has not previously used work performed by that expert.
- The greater the extent of the practitioner's expert's work, and its significance in the context of the engagement.

Evaluating the adequacy of the practitioner's expert's work (Ref: Para. 57)

A151. Procedures to evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes may include:

- Inquiries of the practitioner's expert.
- Reviewing the practitioner's expert's working papers and reports.
- Corroborative procedures, such as:
 - Observing the practitioner's expert's work;
 - Examining published data, such as statistical reports from reputable, authoritative sources;
 - Confirming relevant matters with third parties;
 - Performing detailed analytical procedures; and
 - Reperforming calculations.
- Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the practitioner's expert are not consistent with other evidence obtained by the practitioner.
- Discussing the practitioner's expert's report with management.

Using the Work of the Internal Audit Function (Ref: Para. 59)

A152. In determining whether the work of the internal audit function can be used for purposes of the engagement, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the practitioner's

approach to the engagement.

A153. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances.

A154. Factors that may affect the practitioner's evaluation of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, policies and procedures that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

Communications Among Those Involved in the Engagement (Ref: Para. 60)

A155. Clear and timely communication about responsibilities, along with clear direction about the nature, timing and extent of the work to be performed, and the matters expected to be communicated to the practitioner, helps establish the basis for effective two-way communication. Effective two-way communication also helps to set expectations for work performed at various locations (e.g., by component practitioners) and facilitates the practitioner's direction, supervision and review of that work. Such communication also provides an opportunity for the engagement leader to reinforce the need to exercise professional skepticism in performing the work.

A156. Other factors that may also contribute to effective two-way communication include:

- Clarity of any instructions issued (e.g., to a component practitioner).
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.
- A mutual understanding between the practitioner and component practitioner about which individuals have responsibility for managing communications regarding particular matters.
- The process for reporting back to the practitioner on the results of the work performed or significant issues encountered in performing the work.

A157. The communications depend on the facts and circumstances of the engagement, including, for example, the nature and extent of involvement of component practitioners and the degree to which the practitioner and component practitioners are subject to common systems of quality management, or the involvement of a practitioner's external expert.

A158. The form of the communications may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter has been or is expected to be communicated to the entity's management or those charged with governance.

A159. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by others. For example, communications regarding planning matters may often be made early in the engagement and, for an initial sustainability assurance engagement, may be made as part of agreeing the terms of the engagement.

Monitoring and Remediation (Ref: Para. 63)

A160. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement leader may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement leader may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement leader may determine that:

- A practitioner's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the engagement where deficiencies have been identified.

If an identified deficiency does not affect the quality of the engagement (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

A161. A deficiency in the firm's system of quality management does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

Fraud and Non-Compliance with Laws and Regulations

Fraud (Ref: Para. 64)

A162. Maintaining professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the practitioner's professional skepticism is particularly important when considering material misstatement due to fraud, which may include omission of information or deliberate bias. Paragraph A323 provides examples of material misstatements due to fraud in sustainability information. Paragraphs 128L, 128R and 129–131 address the practitioner's required responses to fraud or suspected fraud.

Non-Compliance with Laws and Regulations (Ref: Para. 67)

A163. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting

the entity. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

A164. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement, but which may not affect the sustainability information. Under this ISSA, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the sustainability information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A165. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.

Communication with Management and Those Charged with Governance (Ref: Para. 68)

A166. In addition to those matters specifically required to be communicated in accordance with this ISSA, significant matters that the practitioner may consider merit the attention of management or those charged with governance, as appropriate, may include:

- Identified deficiencies in internal control.
- Management bias in the preparation of the sustainability information.
- Material misstatements of the sustainability information or other information that management has refused to correct.
- Reporting policies that are not appropriate or that are inconsistent with the applicable criteria or criteria used in the relevant industry.
- Circumstances that affect the form and content of the assurance report, if any.
- Matters relating to estimates, forward-looking information, and inherent uncertainties, and related disclosures.
- Significant matters discussed or subject to correspondence with management (see also paragraph A167).
- Significant difficulties encountered during the engagement (see also paragraph A168).

A167. Significant matters discussed, or subject to correspondence with management, may include such matters as:

- Significant events or transactions that occurred during the year.
- Concerns about management's use of work of an expert or information obtained from external sources.
- Significant matters on which there was disagreement with management.

A168. Significant difficulties encountered during the engagement may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the practitioner to perform procedures.
- An unreasonably brief time within which to complete the engagement.
- Extensive unexpected effort required to obtain sufficient appropriate evidence.
- The unavailability of expected information.
- Restrictions imposed on the practitioner by management.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the practitioner's assurance conclusion.

A169. In addition to communicating with management or those charged with governance, the practitioner may be permitted or required to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors. Such communication may be appropriate throughout the engagement or at particular stages, such as when the practitioner identifies matters that are required to be reported to the regulator or when finalizing the assurance report.

Considerations Specific to Public Sector Entities

A170. A public sector practitioner may be obliged to report on identified or suspected non-compliance with laws and regulations to the legislature or other governing body or to report them in the practitioner's report.

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation (Ref: Para. 69–71)

A171. A practitioner experienced in sustainability assurance refers to an individual (whether internal or external to the firm) who has practical experience in sustainability assurance, and a reasonable understanding of:

- (a) Assurance processes;
- (b) ISSAs and applicable legal and regulatory requirements;
- (c) The business environment in which the entity operates; and
- (d) Assurance and sustainability reporting matters relevant to the entity's industry.

A172. Preparing sufficient and appropriate engagement documentation on a timely basis helps to enhance the quality of the assurance engagement and facilitates the effective review and evaluation of the evidence obtained and conclusions reached before the practitioner's report is finalized. Engagement documentation prepared after the assurance engagement work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

A173. The form, content and extent of engagement documentation depend on factors such as:

- The size and complexity of the entity.
- The scope of the assurance engagement and nature of the procedures to be performed. For example, the extent of engagement documentation would ordinarily be less:
 - For a limited assurance engagement compared to a reasonable assurance engagement.

- When the scope of the assurance engagement includes only certain parts, rather than all, of the sustainability information.
- The assessed risks of material misstatement.
- The significance of the evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not self-evident from the engagement documentation of the work performed or evidence obtained.
- The assurance methodology and tools used.

A174. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- Matters that give rise to risks of material misstatement that are assessed higher on the spectrum of risk.
- Results of procedures indicating that the sustainability information could be materially misstated or, in a reasonable assurance engagement, a need to revise the practitioner's previous assessment of the risks of material misstatement and the practitioner's responses to those risks.
- Circumstances that cause the practitioner significant difficulty in applying necessary procedures.
- Findings that could result in a modification to the assurance conclusion or the inclusion of an Emphasis of Matter paragraph in the assurance report.

A175. An important factor in determining the form, content and extent of engagement documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Engagement documentation of the professional judgments made, when significant, serves to explain the practitioner's conclusions and to reinforce the quality of the judgment.

A176. Circumstances in which it is appropriate to prepare engagement documentation relating to the use of professional judgment, include matters and judgments that are significant to:

- The rationale for the practitioner's conclusion when a requirement provides that the practitioner "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the practitioner's conclusion on the reasonableness of judgments (for example, the reasonableness of significant estimates).
- The basis for the practitioner's conclusions about the authenticity of a document when further investigation is undertaken in response to conditions identified during the assurance engagement that caused the practitioner to believe that the document may not be authentic.

A177. It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the practitioner to document separately (e.g., through a checklist) compliance with matters for which compliance is demonstrated by documents included within the assurance engagement file.

A178. The requirement to document who reviewed the work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what work was reviewed, who reviewed such work, and when it was reviewed.

A179. Documentation of discussions of significant matters with management, those charged with governance, and others is not limited to records prepared by the practitioner, but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the practitioner. Others with whom the practitioner may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.

Assembly of the Final Engagement File (Ref: Para. 72)

A180. ISQM 1 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

A181. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the engagement documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

A182. ISQM 1 requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.

Documentation Related to Quality Management (Ref: Para. 74)

A183. When dealing with circumstances that may pose risks to achieving quality on the engagement, the exercise of professional skepticism, and the engagement documentation of the practitioner's consideration thereof, may be important. For example, if the engagement leader obtains information that may have caused the firm to decline the engagement (see paragraph 29), the engagement documentation may include explanations of how the engagement team dealt with the circumstance.

Preconditions for an Assurance Engagement

Establishing Whether the Preconditions Are Present

Obtaining a Preliminary Knowledge of the Engagement Circumstances (Ref: Para. 75–76)

A184. In order to establish whether the preconditions are present, the practitioner applies the preliminary knowledge obtained of the engagement circumstances (see the definition in paragraph 18) and holds discussions with the appropriate party(ies) in accordance with paragraph 76. The practitioner uses

professional judgment to determine the nature and extent of the preliminary knowledge. The preliminary knowledge that the practitioner obtains ordinarily differs in nature, and is less in extent, than the understanding obtained when performing the engagement.

Obtaining a Preliminary Knowledge of the Scope of the Proposed Assurance Engagement (Ref: Para. 75(b))

A185. The scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity (e.g., the entity's sustainability report), or only part of it (e.g., it may be limited to specific disclosures such as assurance on key performance indicators for product recycling rates). Also, the scope of the proposed assurance engagement may encompass the reporting boundary covered by the sustainability information to be reported, or only certain jurisdictions, entities, operations or facilities within the reporting boundary. The reporting boundary within the scope of the assurance engagement may be established by law, regulation or professional requirements, or it may be determined by the appropriate party(ies).

Considerations Specific to Public Sector Entities (Ref: Para. 76)

A186. In the absence of indications to the contrary, in a public sector environment some of the preconditions for an assurance engagement may be presumed to be present, for example:

- (a) The roles and responsibilities of public sector entity management, or those charged with governance, when appropriate, may be presumed to be suitable in the circumstances, because they are generally set out in legislation;
- (b) A rational purpose is generally exhibited because the engagement is set out in legislation; and
- (c) The practitioner's conclusion, in a form appropriate for the engagement, is generally required by legislation to be contained in a written report.

Considering Whether the Entity Has a Process to Identify Sustainability Information to Be Reported (Ref: Para. 76(a), Appendix 2)

A187. An assurance engagement is conducted in accordance with this ISSA on the basis that management and, where appropriate, those charged with governance, have acknowledged and understand that they have responsibility for:

- The preparation of the sustainability information in accordance with the applicable criteria; and
- For designing, implementing and maintaining a system of internal control that management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of the sustainability information in accordance with the applicable criteria (see paragraph 85).

The entity's information system and communication relevant to the preparation of the sustainability information ordinarily includes the entity's process to identify sustainability information to be reported. In the absence of such a process it may be difficult to establish whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information.

Suitability of the Roles and Responsibilities (Ref: Para. 76(b))

A188. The three parties for an assurance engagement are:

- (a) The engaging party;

- (b) The practitioner; and
- (c) The intended users.

A189. If the engagement does not have at least three parties, it is unable to satisfy all of the elements of an assurance engagement under the *International Framework for Assurance Engagements*. The practitioner's responses may include:

- Asking the engaging party to change the terms of engagement to reflect a three-party relationship;
- Conducting the engagement as a consulting engagement;
- Performing an agreed-upon procedures engagement; or
- Declining the engagement.

Reasonable Basis for the Sustainability Information (Ref: Para. 76(b))

A190. In evaluating whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information, the practitioner may consider whether the entity has a process, including controls, to enable the preparation of the sustainability information that is free from material misstatement. What constitutes a reasonable basis will depend on the nature of the sustainability matters addressed by the sustainability information and other engagement circumstances.

A191. If the practitioner becomes aware that there are deficiencies in the entity's process to prepare the sustainability information that is not within the proposed scope of the assurance engagement and is therefore other information, this may indicate that management or those charged with governance, as appropriate, does not have a reasonable basis for reporting such information. In these circumstances, the implications of the requirements in this standard for other information (see paragraphs 173–176) will have an impact on the practitioner's acceptance of the proposed engagement.

Appropriate Sustainability Matters (Ref: Para. 77)

A192. Whether the sustainability matters within the scope of the engagement are appropriate is not affected by the level of assurance, that is, if a sustainability matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. Therefore, inappropriate sustainability matters for a reasonable assurance engagement cannot be overcome by changing the engagement to a limited assurance engagement.

A193. In evaluating whether the sustainability matters are appropriate, and whether the sustainability information can be subject to procedures for obtaining sufficient appropriate evidence, the practitioner may consider matters such as the characteristics of the sustainability matters (i.e., the degree to which they are qualitative versus quantitative, factual versus judgmental, historical versus forward-looking, and relate to a point in time or cover a period) and the reporting boundary.

Suitability and Availability of Criteria (Ref: Para. 78, 107)

Suitable criteria for only some of the sustainability matters (Ref: Para. 78(a))

A194. If suitable criteria are unavailable for some of the sustainability information subject to the assurance engagement, but the practitioner can identify one or more disclosures for which the criteria are suitable, then an assurance engagement may be performed with respect to those disclosures.

Sources of the criteria (Ref: Para. 78(b))

A195. Criteria may be:

- (a) Framework criteria, that is:
 - (i) Embodied in law or regulation;
 - (ii) Established for use by certain types of entities by an organization(s) that is authorized or recognized to promulgate standards for reporting sustainability information that follow a transparent due process involving deliberation and consideration of the views of a wide range of stakeholders;
 - (iii) Developed collectively by a group that does not follow a transparent due process;
 - (iv) Published in scholarly journals or books; or
 - (v) Developed for sale on a proprietary basis;
- (b) Entity-developed criteria; or
- (c) A combination of framework criteria and entity-developed criteria.

A196. When criteria are selected from multiple frameworks or entity-developed criteria are to be used, the practitioner's evaluation of the suitability of the criteria may be more extensive and the practitioner may need to consider subjectivity or opportunity for management bias in selecting or developing the criteria.

A197. Framework criteria that are embodied in law or regulation or are established by an authorized or recognized organization that follows a transparent due process may be presumed to be suitable in the absence of indications to the contrary. The entity may select and apply reporting policies to apply the framework criteria as described in paragraph A2.

A198. There may be circumstances when the framework criteria are not suitable on their own and may need to be supplemented by additional framework or entity-developed criteria in order to:

- Be sufficiently prescriptive about the scope of the sustainability matters to be addressed in the sustainability information.
- Address the entity's industry or jurisdictions in which the entity operates, or other factors pertinent to the sustainability information to be reported.
- Avoid vague descriptions of expectations or judgments.

Characteristics of suitable criteria (Ref: Para. 78(c), 107)

A199. Suitable criteria are required for reasonably consistent measurement or evaluation of the sustainability matters within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context

of the engagement circumstances. Even for the same sustainability matters there may be different criteria that will yield a different outcome. Suitable criteria exhibit the following characteristics:

- (a) **Relevance:** Relevant criteria result in sustainability information that assists decision-making by the intended users;
- (b) **Completeness:** Criteria are complete when sustainability information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of intended users made on the basis of that sustainability information. Complete criteria include, where relevant, benchmarks for presentation and disclosure;
- (c) **Reliability:** Reliable criteria allow reasonably consistent measurement or evaluation of the sustainability matters, when used in similar circumstances by different practitioners;
- (d) **Neutrality:** Neutral criteria result in sustainability information that is free from bias as appropriate in the engagement circumstances; and
- (e) **Understandability:** Understandable criteria result in sustainability information that can be understood by the intended users.

A200. The relative importance of each characteristic of the criteria to a particular engagement is a matter of professional judgment.

A201. If the criteria are unsuitable, this cannot be overcome by changing the level of assurance. That is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa.

Availability of the criteria to users (Ref: Para. 78(d))

A202. Criteria being available allows the intended users to understand how sustainability matters have been measured or evaluated. The intended users are unlikely to be able to base decisions on the sustainability information without access to both the framework criteria and any entity-developed criteria supplementing the framework criteria. In determining whether the criteria are available to the intended users, the practitioner may consider whether they will be available in writing, with sufficient detail, sufficiently clear, and including identification of the version of the criteria applied. Criteria may be made available:

- (a) Publicly, for example, in published framework criteria or a general-purpose framework that is readily available, such as on a website.
- (b) Through inclusion in the sustainability information, in particular for entity-developed criteria.
- (c) By general understanding, for example, the criterion for measuring time in hours and minutes.

Ability to Obtain Evidence Needed (Ref: Para. 79(a))

A203. In determining whether the evidence needed to support the practitioner's conclusion can be expected to be obtained, the practitioner may consider:

- (a) The characteristics of the sustainability matters and the potential sources of evidence; and
- (b) Whether evidence is not available due to the engagement circumstances, even though the evidence could reasonably be expected to exist.

A204. Examples of the nature and availability of evidence that may impact the practitioner's ability to obtain evidence, include:

- The timing of the practitioner's appointment, the entity's document retention policy, inadequate information systems, or a restriction imposed by the appropriate party(ies).
- The nature of the relationship between the appropriate party(ies) affecting the practitioner's ability to access records, documentation, and other information the practitioner may require as evidence to complete the engagement.
- Evidence located at organizations not controlled by the entity, such as entities within the value chain but outside of the reporting entity's control. In such cases, the practitioner may determine whether the entity has contractual arrangements with those organizations to provide access to persons or information, or to provide independent assurance reports on relevant internal controls or the measurement or evaluation of relevant sustainability matters, or whether the entity has plans to put such arrangements in place.

A205. In some circumstances, the practitioner may conclude that, due to the condition and reliability of an entity's records, it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information. This may occur, for example, when the entity has little experience with the preparation of sustainability information. In such circumstances, it may be more appropriate for the sustainability information to be subject to an agreed-upon procedures engagement or a consulting engagement in preparation for an assurance engagement in a later period. However, such engagements can give rise to potential threats to the practitioner's independence in performing an assurance engagement at a later date.

A206L. The evidence that the practitioner obtains in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, the need for availability and accessibility to evidence is the same regardless of the level of assurance, as the practitioner may be required, in accordance with paragraph 148L, to design and perform additional procedures to obtain further evidence in a limited assurance engagement if the practitioner becomes aware of a matter that causes the practitioner to believe the sustainability information may be materially misstated (see paragraph A232).

Rational Purpose (Ref: Para. 80)

A207. If the assurance engagement is required by law or regulation, the practitioner may presume, in the absence of indications to the contrary, that the engagement has a rational purpose.

A208. Other matters the practitioner may consider in evaluating whether the engagement has a rational purpose, include whether:

- When the engagement is a combined reasonable and limited assurance engagement, there is sufficient justification for the different levels of assurance.
- Management and those charged with governance, if different from the engaging party, have consented to the reporting of the sustainability information.
- When the criteria were selected or developed by the entity, how the intended users were identified in selecting the criteria.
- The degree of judgment and scope for bias in applying the criteria.
- There are any significant limitations on the scope of the practitioner's work.
- The engaging party intends to associate the practitioner's name with the sustainability matters or the sustainability information in an inappropriate manner.

Meaningful level of assurance in a limited assurance engagement (Ref: Para. 80(a))

A209L. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification. Whether the level of assurance is meaningful is a matter of professional judgment for the practitioner to determine in the circumstances of the engagement. In a limited assurance engagement, the procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, but are, nonetheless, planned to obtain a level of assurance that is meaningful. To be meaningful the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.

A210L. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgment within that range that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the sustainability matters of the engagement.

A211L. Some of the factors that may be relevant in determining what constitutes meaningful assurance in a specific engagement include:

- The characteristics of the sustainability matters and the applicable criteria.
- Instructions or other indications from the appropriate party(ies) about the nature of the assurance. For example, the terms of the engagement may stipulate particular procedures that the appropriate party(ies) considers necessary or particular aspects the appropriate party(ies) would like the practitioner to focus on within the sustainability information that is within the scope of the assurance engagement. However, the practitioner may consider that other procedures are required to obtain sufficient appropriate evidence to obtain meaningful assurance.
- Generally accepted practice with respect to assurance engagements for sustainability information.
- The information needs of intended users as a group. Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the sustainability information is materially misstated, the greater the assurance that would be needed in order to be meaningful to them. For example, in some cases, the consequence to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the practitioner to obtain assurance that is meaningful in the circumstances.
- The expectation by intended users that the practitioner will form the limited assurance conclusion on the sustainability information within a short timeframe and at a low cost.

Appropriateness of the scope of the assurance engagement (Ref: Para. 80(c))

A212. The practitioner's determination of the appropriateness of the scope of the assurance engagement ordinarily involves the consideration of the results of the practitioner's evaluation or determination, as applicable, of the characteristics in paragraph 78(c).

A213. If the scope of the assurance engagement includes only part of the sustainability information being reported by the entity (e.g., in reporting labor practices, the entity only requires assurance over

occupational health and safety disclosures), the practitioner may consider whether the reasons for the scope of the engagement are appropriate.

A214. The entity may not have a reasonable basis for all of the disclosures in the sustainability information, such as when the entity's processes to prepare some or all of the sustainability information are at an early stage of development. In such cases, if permitted by the applicable criteria, it may be possible to include only those areas of the sustainability information where the processes are more developed within the scope of the assurance engagement, because the preconditions have been met for those areas.

A215. In jurisdictions in which law or regulation does not require assurance on sustainability information, and in particular for sustainability information that is reported voluntarily, there may be legitimate reasons for not including all of the sustainability information being reported by the entity within the scope of an assurance engagement. In determining whether the sustainability information within the scope of the engagement is appropriate, the practitioner may consider:

- (a) Whether the sustainability information within the scope of the assurance engagement is likely to meet the information needs of intended users; and
- (b) How the sustainability information will be presented and whether intended users may misinterpret what has, and has not, been subject to the assurance engagement.

A216. Examples of circumstances when the sustainability information subject to the assurance engagement may not be appropriate include:

- Inadequate justification for not including sustainability information to be reported within the scope of the engagement.
- The assurance engagement excludes sustainability information that can be readily measured or evaluated and the exclusion of this sustainability information from the assurance engagement may be misleading to intended users.
- The assurance engagement excludes sustainability information that may be significant to intended users' decisions.
- The assurance engagement includes sustainability information that may be perceived by intended users as positive, and excludes sustainability information that is negative (e.g., areas where the entity has not met targets or has not taken action to achieve goals).
- The reporting boundary excludes significant entities, operations or facilities, which may be misleading to intended users.

A217. The practitioner's evaluation of the suitability of the criteria may include consideration of criteria for the preparation of any other part(s) of the sustainability information not within the scope of the assurance engagement. This may enable the practitioner to consider matters such as:

- Whether there may be omissions of relevant parts of the sustainability information from the sustainability information within the scope of the assurance engagement, and whether such omissions call into question the rational purpose of the engagement; and
- Whether and how the sustainability information is used in the preparer's own decision-making processes, for example:

- If information relating to an entity's decisions is important to its stakeholders, then it may be reasonable to expect that the entity would be using that information in its own decision-making.
- If the entity is using the information in its decision-making, then it may be reasonable to expect that a user may be interested in that information.
- If the information is not used for the entity's own decision-making, that may raise a question as to why the information is being reported, and whether there may be bias in selecting only sustainability information that are easily subject to an assurance engagement or that present the entity in a positive way.

Preconditions Not Present After Acceptance (Ref: Para. 82–83)

A218. If the practitioner discovers after accepting the engagement that one or more of the preconditions in paragraph 76 are not present, but continues the engagement, the assurance report may address the matter. For example:

- When, in the practitioner's professional judgment the intended users are likely to be misled, since either the applicable criteria are unsuitable, or the sustainability matters are inappropriate, a qualified conclusion or adverse conclusion may be appropriate, depending on how material and pervasive the matter is.
- A qualified conclusion or a disclaimer of conclusion may be appropriate in other circumstances depending on, in the practitioner's professional judgment, the materiality and pervasiveness of the matter.

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement (Ref: Para. 85)

A219. It is in the interests of both the engaging party and the practitioner for the practitioner to communicate in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the written agreement or contract will vary depending on the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party(ies) acknowledges and understands its responsibilities under such law or regulation.

A220. When agreeing the terms of engagement, unless restricted by law or regulation, the practitioner may request agreement from management or those charged with governance to provide information or access to persons, such as:

- Access to other practitioners providing audit or assurance reports on part or parts of the other information (e.g., the auditor of the financial statements of the entity if the other information includes the financial statements).
- Authority to obtain information relevant to the assurance engagement on the sustainability information from the other practitioners.
- Authority to share information requested by the financial statement auditor relevant to the audit or review of the financial statements.
- Authority to communicate findings with other practitioners, as appropriate.

A221. In describing the practitioner's responsibilities in the terms of engagement, the practitioner may consider the responsibilities required to be included in the assurance report in accordance with paragraph 190(h).

A222. Law or regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access an appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to a minister, the legislature or the public if an appropriate party(ies) attempts to limit the scope of the engagement.

Changing the Terms of the Assurance Engagement (Ref: Para. 87)

A223. Examples of when the appropriate party(ies) may request a change to the terms of the assurance engagement and there may not be reasonable justification for doing so include:

- (a) The change is to limited assurance from reasonable assurance because of an inability to obtain sufficient appropriate evidence; or
- (b) The change is to remove sustainability information from the scope of the assurance engagement to avoid a modification of the assurance conclusion.

A224. A change in circumstances that affects the intended users' needs, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement.

Evidence

Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence (Ref: Para. 89)

A225. Evidence is necessary to support the practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources, such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect the relevance of the information to the current engagement), a firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements, or the work of another practitioner. Evidence comprises information that supports or corroborates disclosures, and any information that contradicts disclosures.

A226. The practitioner obtains evidence by designing and performing procedures, including risk assessment procedures and further procedures, to comply with this ISSA. The nature of a procedure refers to its purpose and its type. Types of procedures include inquiries, inspection, observation, confirmation, recalculation, reperformance and analytical procedures.

Designing and Performing Procedures in a Manner that Is Not Biased (Ref: Para. 89(a))

A227. Unconscious or conscious biases may affect the engagement team's professional judgments in designing and performing procedures, which may impede the exercise of professional skepticism. An awareness of such biases when designing and performing procedures may help to mitigate impediments to the practitioner's exercise of professional skepticism in critically assessing evidence and determining whether sufficient appropriate evidence has been obtained. Such awareness may also enable the practitioner to design and perform procedures that seek to avoid:

- Placing more weight on evidence that corroborates disclosures than evidence that contradicts or casts doubt on such disclosures (confirmation bias).
- Using an initial piece of information or evidence as an anchor against which subsequent information or evidence is assessed (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing weight or undue reliance on output from automated systems or information in digital format, or assuming it is relevant and reliable, without performing appropriate procedures (automation bias).
- Placing undue reliance on information prepared by an expert or another practitioner, or assuming the information is relevant and reliable, without performing appropriate procedures (authority bias).

A228. Obtaining evidence in an unbiased manner may involve obtaining information from multiple sources (see also paragraphs A255–A257).

Procedures that Are Appropriate in the Circumstances (Ref: Para. 89(b))

A229. Procedures are appropriate in the circumstances when the nature, timing and extent of such procedures are designed, performed and executed in a manner that achieves the intended purpose of the procedures. The purpose of performing a procedure may be related to risk assessment procedures, further procedures or another procedure to comply with this ISSA. For example, the purpose may be to obtain evidence about whether an event has occurred or whether the disclosures are complete.

A230. In designing and performing procedures that are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures, the practitioner's considerations may include whether information intended to be used as evidence:

- Is expected to be available in digital, written or oral form, related to a point in time or for a period, and is to be obtained from internal or external sources.
- Is needed across multiple disclosures and how that affects the nature, timing and extent of evidence needed. For example, the nature and availability of appropriate evidence may vary based on whether the disclosures relate to an entity's processes, governance, controls or key performance indicators, and the characteristics of the disclosures, such as whether they are quantitative, qualitative, historical or forward-looking (see also paragraphs A240–A244).
- Relates to disclosures that include information from the entity's value chain, and how that may affect the ability to obtain sufficient appropriate evidence.
- Will need to be obtained across multiple locations or jurisdictions (e.g., for a group sustainability assurance engagement).
- Relates to disclosures that are factual, judgmental or subject to estimation uncertainty.

A231. In designing and performing procedures, the appropriateness of an approach or technique in selecting items for testing depends on several factors, such as:

- The nature of the sustainability matters or population to be tested.
- The intended purpose of the procedure.

- How the procedure is designed.
- Whether the practitioner is performing the procedure manually or using automated tools and techniques.
- The matters described in paragraph A230 relating to information intended to be used as evidence.
- The persuasiveness of evidence that is needed in the circumstances.

Sufficiency and Appropriateness of Evidence (Ref: Para. 89(b))

A232. The practitioner is required to obtain sufficient appropriate evidence to provide a basis for the assurance conclusion. The sufficiency and appropriateness of evidence are interrelated and together affect the persuasiveness of evidence. In both limited and reasonable assurance engagements, the collective persuasiveness of the evidence obtained establishes the level of assurance obtained. The practitioner aims to obtain evidence that is collectively persuasive to respond to risk considerations. Ordinarily, evidence will be persuasive rather than conclusive. As explained in paragraph A206L, the evidence that the practitioner obtains in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, if the practitioner becomes aware in a limited assurance engagement of a matter(s) that causes the practitioner to believe that the sustainability information may be materially misstated, the practitioner is required to design and perform additional procedures to obtain further evidence.

A233. Sufficiency is the measure of the quantity of evidence. Sufficiency is also affected by the quality of evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality.

A234R. For reasonable assurance engagements, the quantity of evidence needed is affected by the nature and number of disclosures and the assessment of the risks of material misstatement at the assertion level for those disclosures (the higher the assessed risks, the more evidence is likely to be required).

A235L. For limited assurance engagements, the quantity of evidence needed is affected by the nature and number of disclosures and the assessment of the risks of material misstatement at the disclosure level. As explained in paragraph A209L, the procedures in a limited assurance engagement vary in nature and timing and are lesser in extent than for a reasonable assurance engagement but are, nonetheless, planned to obtain a level of assurance that is meaningful. The sufficiency of evidence is evaluated in that context.

A236. The appropriateness of evidence refers to its quality. The quality of evidence depends on the relevance and reliability of the information intended to be used as evidence as well as the effectiveness of the design of the assurance procedures and the practitioner's application of those procedures. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive evidence. If the evidence is more persuasive, the practitioner may determine that the evidence is sufficient in providing support for the practitioner's conclusions. Alternatively, when evidence is less persuasive, the practitioner may determine that additional evidence is needed. However, increasing the quantity of evidence by performing the same type of procedures may not provide more persuasive evidence in all circumstances.

A237. The practitioner uses professional judgment and exercises professional skepticism in evaluating the sufficiency and appropriateness of evidence to support the assurance conclusion.

A238. Factors that affect the evidence that may be available in the circumstances, in terms of quantity or

quality, and therefore impact its sufficiency or appropriateness, include the following:

- The characteristics of the sustainability matters or disclosures. For example, less objective evidence might be expected when the disclosures are forward-looking rather than historical.
- Whether the source of the information used to prepare the disclosures is accessible. For example, if the criteria require the sustainability information to include information from value chain entities outside of the entity's control, there may be limitations on access to such information or to the work of another practitioner that may have provided an assurance report on such information. Such limitations may also affect the practitioner's evaluation of the relevance and reliability of this information intended to be used as evidence (see also paragraphs A236 and A252).
- Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of factors such as those described in paragraph A204.

A239. The procedures designed and performed by the practitioner may also affect the persuasiveness of the evidence obtained. For example, in a reasonable assurance engagement, evaluating the design and implementation of controls relating to processes in the entity's information system that support the preparation of the sustainability information, or external confirmation procedures to obtain evidence about information used by management in preparing the sustainability information, may provide more persuasive evidence than inquiry of management. In a reasonable assurance engagement, inquiry alone ordinarily does not provide sufficient appropriate evidence.

Qualitative Information (Ref: Para. 89(b))

A240. Some qualitative disclosures may be factual and directly observable or otherwise able to be subject to further procedures to gather evidence. However, some qualitative disclosures may be inherently judgmental, not directly observable and may be susceptible to management bias. The practitioner may need to exercise significant professional judgment in evaluating what constitutes sufficient appropriate evidence in these circumstances.

A241. The entity's information system, including internal controls, may be different for quantitative and qualitative information. This may have implications for the practitioner's planned procedures, the ability to obtain the evidence needed about qualitative sustainability information, and the assurance conclusion. For example, when designing and performing procedures for qualitative sustainability information, the practitioner may consider:

- Whether, in the case of a reasonable assurance engagement, substantive procedures alone will provide sufficient appropriate evidence. If not, the practitioner may need to perform tests of controls over the integrity of data, or other controls within the entity's information system that support the preparation of the qualitative information.
- The source of the information intended to be used as evidence, how such information has been captured and processed by the entity's information system, and how this may affect the reliability of the information. For example, information may be captured directly into the entity's information system on a real-time basis without supporting documentation or may be obtained through informal communication.

Forward-looking Information (Ref: Para. 89(b))

A242. Forward-looking information, by its nature, is predictive and may be expressed in both quantitative and qualitative terms. Information about future conditions or outcomes relate to events and actions

that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. For example, this information may include forecasts or projections, and may relate to the entity's intentions or strategy, future risks and opportunities. While forward-looking information may result from applying criteria to the sustainability matters, the sustainability matters (a future event, occurrence or action) may be subject to greater uncertainty, and ordinarily able to be evaluated with less precision than historical matters. Uncertainty and the need for judgment are also likely to increase the further into the future the period to which the disclosures relate. Unlike historical information, it is not possible for the practitioner to determine whether the results or outcomes forecasted or projected have been or will be achieved or realized. The practitioner may obtain evidence about whether the forward-looking information has been prepared in accordance with the applicable criteria on the basis of the assumptions used by the entity, and:

- (a) In the case of forecasts, whether the assumptions used provide a reasonable basis for preparing the sustainability information; or
- (b) In the case of projections that use hypothetical assumptions, whether such assumptions are consistent with the purpose of the information.

A243. Evidence may be available to support the assumptions on which the forward-looking sustainability information is based, but such evidence itself may also be forward-looking and, therefore, speculative in nature. Accordingly, the practitioner may need to exercise significant professional judgment in determining whether the evidence is sufficient and appropriate. In some circumstances, the evidence available may support a range of possible outcomes with the disclosure falling within that range. The practitioner's evaluation of whether the disclosures are reasonable based on the evidence obtained is further addressed in paragraph 179.

A244. The nature and availability of evidence for forward-looking information, and what constitutes sufficient appropriate evidence, will likely vary by topics, aspects of topics and disclosures, and the practitioner's consideration of potential material misstatements. For example:

- When disclosures relate to future strategy, a target, or other intentions of an entity, the practitioner may focus evidence-gathering activities on whether management or those charged with governance have an intention to follow that strategy, the target or intention exists, or there is a reasonable basis for the intended strategy or target (e.g., the practitioner may obtain evidence to support that the entity has the ability to carry out its intent, or is implementing controls over source data and the assumptions on which the strategy is based).
- When disclosures relate to future risks and opportunities, the practitioner may focus evidence-gathering activities on information available from the entity's risk register or records of discussions of those charged with governance if the entity's controls over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. In a reasonable assurance engagement, the practitioner may need to consider obtaining evidence about the effectiveness of the entity's controls.

Information Intended to Be Used as Evidence

Evaluating the Relevance and Reliability of Information Intended to Be Used as Evidence (Ref: Para. 90)

A245. In planning and performing a sustainability assurance engagement, the practitioner may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in evidence to support the conclusions that form the basis for the practitioner's assurance conclusion and report. However, such information can become evidence only after procedures are

applied to it, including procedures to evaluate its relevance and reliability. For purposes of this ISSA, this information is referred to as “information intended to be used as evidence.”

A246. Factors that may influence the nature, timing and extent of procedures to evaluate the relevance and reliability of information intended to be used as evidence, include:

- (a) The source of the information (see paragraphs A255–A257); and
- (b) The attributes of relevance and reliability of the information that are considered applicable in the circumstances (see paragraphs A258–A263).

A247. In some circumstances, the procedures to evaluate relevance and reliability may be straightforward (e.g., comparing information used by management to information published by a national government body). In other circumstances, procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity’s information system).

A248. Evidence from performing other procedures in accordance with this ISSA also may assist the practitioner in evaluating the relevance and reliability of information intended to be used as evidence. For example, evidence obtained from:

- The practitioner’s understanding of the entity and its environment, the applicable criteria and the entity’s system of internal control.
- Tests of controls over the preparation and maintenance of the information.
- Procedures performed when using the work of a practitioner’s expert.

Form, availability, accessibility and understandability of information

A249. The form, availability, accessibility and understandability of the information intended to be used as evidence may affect:

- (a) The design and performance of the procedures in which the information will be used; and
- (b) The practitioner’s evaluation of the relevance and reliability of the information.

For example, information may only be available in digital form on a continuous basis. In such circumstances, the practitioner may use automated tools and techniques that are designed to operate on a real-time basis to evaluate the relevance and reliability of the information.

A250. The practitioner may receive information intended to be used as evidence in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The practitioner may have an expectation of the form in which information intended to be used as evidence will be received. Remaining alert for information intended to be used as evidence that is received in a form different from the expected form may assist the practitioner in mitigating unconscious biases that may impede the practitioner’s exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the practitioner’s evaluation of the reliability of that information.

A251. Information intended to be used as evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information (e.g., due to hospital patient confidentiality), or due to war, civil unrest or outbreaks of disease. In some cases, the practitioner may be able to overcome restrictions on access to information. In particular, the practitioner may request management or those charged with

governance of the entity to assist in requesting information from a source when contractual obligations exist between an information source and the entity. For example, this may be possible when the reporting entity has a direct business relationship with a value chain entity, such as a large supplier or customer. The practitioner may also consider whether it is possible to visit a location to inspect information that is available but cannot be transferred outside of a jurisdiction.

A252. As explained in paragraph A238, there may be limitations on management's ability to obtain information from value chain entities outside of the entity's control. In these circumstances, the applicable criteria may provide certain relief provisions for management (e.g., the ability to develop estimates using sector-average data after making reasonable efforts to obtain the information). Regardless of any limitations on management's ability to obtain information from such value chain entities, the practitioner is required to obtain sufficient appropriate evidence about the value chain information reported by management. Paragraph A290 describes procedures that may be considered by the practitioner in these circumstances, including testing management's process for obtaining such information.

A253. The practitioner may be unable to obtain sufficient appropriate evidence if the practitioner determines that it is not practicable to obtain information intended to be used as evidence or does not have a sufficient basis to evaluate the relevance and reliability of information (e.g., from an external source). In some circumstances, the practitioner may be able to obtain sufficient appropriate evidence through alternative procedures. An inability to obtain sufficient appropriate evidence requires the practitioner to express a qualified conclusion or disclaim a conclusion on the sustainability information, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, in accordance with paragraph 185.

A254. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as evidence, for example, emissions data from downstream or upstream entities, water quality or biodiversity measurements. Accordingly, the practitioner may consider using a practitioner's expert to assist in understanding or interpreting the information intended to be used as evidence if the engagement team does not have the appropriate competence and capabilities to do so.

Sources of information

A255. Information intended to be used as evidence may come from internal sources or external sources and may affect the availability, accessibility and understandability of the information intended to be used as evidence. For example, information may come from:

- The entity's records, management or other sources internal to the entity.
- Other entities within the entity's control.
- Entities in the value chain. For value chain information, the framework criteria may recognize that management's ability to access information directly from value chain entities outside of the entity's control may be limited, and therefore may include provisions that take into account the impact of such limitations on the responsibilities of management. For example, the framework criteria may permit management to use reasonable and supportable information (e.g., publicly available sector-average data) when management is unable to obtain information from the value chain entity after making reasonable efforts to do so. See also paragraphs A289–A290 regarding the impact on the practitioner's work.
- A management's expert.

- A practitioner's expert.
- Independent sources external to the entity, other than a management's or practitioner's expert, that provide information, such as the entity's legal counsel, customers, suppliers, governmental agencies, bank, or general data providers (e.g., entities providing macro-economic, industry or social data).
- A service organization.
- Another practitioner, which may include a practitioner engaged by an entity to provide a one-to-many report (see paragraph A291).

A256. The practitioner is not required to perform an exhaustive search to identify all possible sources of information to be used as evidence. The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control may assist the practitioner in identifying appropriate sources of information.

A257. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining information intended to be used as evidence from different sources or of a different nature may indicate that an individual item of information intended to be used as evidence is not reliable. For example, corroborative information obtained from a source independent of the entity may increase the assurance the practitioner obtains from a representation from management. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional procedures are necessary to resolve the inconsistency.

Attributes of relevance and reliability of information

A258. The quality of evidence depends on the relevance and reliability of the information upon which it is based. Whether, and the degree to which, certain attributes of relevant and reliable information are considered applicable in the circumstances is a matter of professional judgment.

Relevance

A259. The principal attribute of the relevance of information intended to be used as evidence deals with the logical connection with, or bearing upon, the purpose of the procedure, including, in a reasonable assurance engagement, the assertion being tested. The degree to which the information relates to meeting the purpose of the procedure may also be a consideration.

Reliability

A260. The reliability of information intended to be used as evidence deals with the degree to which the practitioner may depend on such information. Common attributes that may be applicable when considering the degree to which information intended to be used as evidence is reliable may include whether the information is:

- (a) Accurate (free from error).
- (b) Complete (reflecting all applicable events, conditions and circumstances).
- (c) Authentic (genuine, authorized and not inappropriately altered).
- (d) Free from bias (whether intentional or unintentional).
- (e) Credible (generated by a competent, capable and trustworthy source).

Factors that affect the practitioner's professional judgment regarding the attributes of relevance and reliability

A261. Factors that may affect the practitioner's professional judgment about the relevance and reliability of information intended to be used as evidence, including which attributes of reliability may be applicable in the circumstances, include:

- The disclosures and, for reasonable assurance engagements, the assertions, for which the information will be used as evidence. Information may be relevant to multiple disclosures. Some information may be relevant for certain assertions but not others.
- The period of time to which the information relates.
- The controls over the preparation and maintenance of the information.
- The practitioner's assessment of the risks of material misstatement at the disclosure level (in a limited assurance engagement) or at the assertion level for the disclosures (in a reasonable assurance engagement).
- The intended purpose of the procedure in which the information will be used.
- The level of detail of the information needed given the intended purpose of the procedure. For example, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not, in a reasonable assurance engagement, be appropriate for use by the practitioner in performing further procedures.
- The level of precision within the applicable criteria regarding what is to be reported and how it is to be measured or evaluated. For example, when the applicable criteria require more granular quantitative disclosures, the practitioner may consider the attributes of accuracy and completeness to be important.
- The source of the information. For example, accuracy and completeness ordinarily will be applicable attributes for information generated internally from the entity's information system (such as when performing further procedures). For information obtained from a source external to the entity, the practitioner may be more focused on other attributes of reliability, including the credibility of the source providing the information.
- The ability of the reporting entity to influence information obtained from external sources with whom they have relationships.
- Evidence of general market acceptance by users of the relevance and reliability of information from an external source, including tolerance for less precise information, for example, when that information is inherently subjective.

A262. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, when deemed to be applicable in the circumstances, may also be affected by whether the integrity of the information has been maintained through all stages of processing through the entity's information systems. For example, an entity's information system may include general information technology controls to safeguard and maintain the integrity of the sustainability information.

A263. The source of the information intended to be used as evidence may affect the nature and extent of the practitioner's evaluation of the relevance and reliability of the information. It may also affect how the practitioner responds to matters such as doubts about the reliability of the information, or inconsistencies in evidence. For example, if the information comes from a highly reputable external

source, such as an authorized jurisdictional environmental agency, the practitioner's work effort in considering the reliability of the information may not be extensive.

Information Produced by the Entity (Ref: Para. 91)

A264. In order for the practitioner to obtain reliable evidence, information produced by the entity that is used for performing procedures needs to be sufficiently complete and accurate. Obtaining evidence about the accuracy and completeness of such information may be performed concurrently with the actual procedure applied to the information when obtaining such evidence is an integral part of the procedure itself. In other situations, the practitioner may have obtained evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the practitioner may determine that additional procedures are needed.

A265. In some cases, the practitioner may intend to use information produced by the entity for other purposes. For example, the practitioner may intend to use the entity's production numbers for the purpose of analytical procedures for water or energy consumption, or to use the entity's information produced for monitoring activities, such as reports of the internal audit function. In such cases, the appropriateness of the evidence obtained is affected by whether the information is sufficiently precise or detailed for the practitioner's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Work Performed by a Management's Expert (Ref: Para. 92)

A266. When evaluating the relevance and reliability of information intended to be used as evidence prepared by a management's expert:

- (a) The competence and capabilities of that expert may inform the practitioner's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as evidence is reliable; and
- (b) The objectivity of that expert may inform the practitioner's consideration of the attribute of bias. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Bias in the information intended to be used as evidence also affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

Competence and Capabilities of the Management's Expert (Ref: Para. 92(a))

A267. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.
- The management's expert's competence with respect to relevant sustainability matters, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable criteria.

A268. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 92(b))

A269. Matters relevant to the practitioner's understanding of the work performed by the management's expert may include:

- The relevant field of expertise.
- The nature, scope and objectives of the management's expert's work.
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information.
- How the information has been prepared by the management's expert, including:
 - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate in the context of the applicable criteria and the sustainability matters;
 - The underlying information used by the management's expert; and
 - The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Sustainability Information (Ref: Para. 92(c))

A270. Obtaining an understanding about how the information prepared by a management's expert has been used by management in the preparation of the sustainability information may include understanding:

- (a) How management has considered the appropriateness of the information prepared by the management's expert; and
- (b) The modifications made by management to the information prepared by the management's expert.

A271. This understanding may assist the practitioner in:

- (a) Evaluating the relevance and reliability of the information intended to be used as evidence; and
- (b) Understanding whether the expert's findings or conclusions have been appropriately reflected in the sustainability information. For example, in some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause

the information to be inaccurate, incomplete or lack credibility.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 92(d))

A272. Considerations when evaluating the appropriateness of the management's expert's work as evidence may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other evidence, and whether they have been appropriately reflected in the sustainability information;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- If that expert's work involves significant use of source data, the relevance and reliability of that source data.

Doubts About the Relevance and Reliability of Information Intended to Be Used as Evidence (Ref: Para. 93–94)

A273. Unless the practitioner has reason to believe the contrary, the practitioner may accept records and documents as genuine. When the practitioner identifies conditions that cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, possible procedures to investigate further may include:

- (a) Confirming directly with the third party.
- (b) Using the work of an expert to evaluate the document's authenticity.

A274. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as evidence include:

- An inability to evaluate the relevance and reliability of the information, including, for example, whether the information is authentic.
- Misstatements identified during the assurance engagement.
- Deficiencies in internal control identified by the practitioner.
- When procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as evidence is inconsistent with other information or evidence.

A275. The relevance of information intended to be used as evidence may be affected by the period of time to which the information relates. For example, the relevance of such information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the practitioner identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as evidence.

A276. In cases of doubt about the reliability of information or indications of possible fraud, this ISSA requires the practitioner to investigate further and determine what modifications or additions to procedures are necessary to resolve the matter. Doubts about the reliability of information from management may indicate a risk of fraud.

Planning

Overall Strategy and Engagement Plan (Ref: Para. 95)

Planning Activities

A277. Adequate planning helps to:

- Devote appropriate attention to important areas of the engagement;
- Identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner;
- Properly assign work to engagement team members, and facilitate the direction and supervision of engagement team members and the review of their work; and
- When applicable, coordinate work done by other practitioners and experts.

A278. Planning involves the engagement leader, other key members of the engagement team, and any key practitioner's external experts developing:

- (a) An overall strategy for the scope, timing and direction of the assurance engagement; and
- (b) An engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them.

A279. The nature and extent of planning activities will vary with the engagement circumstances. Examples of matters that may be considered include:

- The characteristics of the entity and its activities.
- Whether the engagement is a limited assurance engagement, reasonable assurance engagement or a combined limited and reasonable assurance engagement.
- The nature of the sustainability matters.
- Whether there are sustainability matters that may also relate to matters disclosed in the entity's financial statements and, if so, whether communication with the auditor of the financial statements, if not prohibited by law or regulation, may be useful for planning the assurance engagement (e.g., to inform each other about common sustainability matters that may be susceptible to risks of misstatement, or to discuss other matters that may be identified during the course of the respective engagements). If such matters are identified, communication between the practitioner and the auditor of the financial statements may take place at appropriate times throughout the assurance engagement. In some cases, authorization from management may be needed to share the entity's information with the auditor of the financial statements.
- The expected timing and the nature of the communications required with management or those charged with governance.
- The reporting boundary.
- The practitioner's understanding of the entity and its environment, including the risks that the disclosures may be materially misstated due to error or fraud.
- The intended users and their information needs.
- The nature, timing and extent of resources necessary to perform the engagement, such as expertise required, including the nature and extent of the involvement of experts.

- If the entity has an internal audit function, the impact on the engagement.

A280. Information obtained in the acceptance and continuance process may assist the engagement leader in planning and performing the engagement. Such information may include:

- Information about the size, complexity and nature of the entity, including the industry in which it operates and the applicable criteria.
- The entity's timetable for reporting.
- If the assurance engagement relates to a group, the nature and extent of the control relationships between the entity and other entities within the group.
- Relevant knowledge gained on other engagements performed by the engagement team for the entity.
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous assurance engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A281. The practitioner may decide to discuss elements of planning with the entity when obtaining a preliminary knowledge of the engagement circumstances, determining the scope of the engagement or to facilitate the conduct and management of the engagement (e.g., to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the approach to the engagement remains the practitioner's responsibility. When discussing the approach to the engagement, care is needed in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.

A282. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or evidence obtained, the practitioner may revise the approach to the engagement, and thereby the resulting planned nature, timing and extent of procedures.

Scalability

A283. In less complex engagements, the entire engagement may be conducted by the engagement leader (who may be a sole practitioner) or a very small engagement team. With a smaller team, coordination of, and communication between, team members is easier. Establishing the approach to the engagement in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, including the sustainability matters and applicable criteria, the scope of the assurance engagement, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous engagement, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with appropriate parties, may be appropriate as the engagement strategy for the current engagement.

Nature, Timing and Extent of Planned Procedures

A284. The practitioner uses professional judgment in identifying the appropriate approach to planning and performing assurance procedures to obtain sufficient appropriate evidence. Understanding how the

entity disaggregates or aggregates the sustainability information for purposes of reporting may assist the practitioner in planning the engagement. Matters that may be relevant in this regard include:

- The information needs of intended users (e.g., intended users may place more significance on information about certain sustainability topics, or aspects of topics, than others).
- Whether the applicable criteria address how the sustainability information should be presented, and how the entity has applied such criteria. Applicable criteria do not always specify in detail the required level of aggregation or disaggregation. They may, however, include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances. For example, the applicable criteria may require the entity to report operational sites situated in areas of high biodiversity value by geographical location only. In other circumstances, the applicable criteria may require that information be disaggregated further to operational size and relative vicinity.
- The entity's reporting policies regarding preparation of the sustainability information, including its policies for classification and presentation of the sustainability information.
- Whether the disclosures pertain to one or more entities within the reporting boundary, and whether such entities are within or outside the reporting entity's control.
- The extent to which the sustainability information:
 - Is processed using common information systems and controls; and
 - Has a common unit of measure.
- How sustainability information is communicated internally to management or those charged with governance.
- Whether the disclosures relate to similar or interconnected topics, aspects of the topics, or characteristics (see also paragraphs A286–A287).
- How the entity's industry peers present the sustainability information.

A285. The practitioner may decide that the way management has aggregated or disaggregated the sustainability information for purposes of presentation is the most appropriate approach for the engagement. However, the practitioner may decide that there are other logical ways of grouping the sustainability information for purposes of planning and performing the engagement.

A286. In addition to the factors in paragraph A284, preliminary expectations about the risks of material misstatement may also be relevant to the practitioner's decision about grouping the sustainability information. For example, if misstatements were identified in the information for certain topics or aspects of topics in previous assurance engagements, the practitioner may decide that the information for those topics or aspects of topics needs to be considered separately.

A287. The practitioner's decision about grouping the entity's disclosures for purposes of planning and performing the engagement, and the manner in which it is done, involves professional judgment. Given the diverse nature of sustainability information, some topics and aspects of topics are more capable of being grouped than others. In addition, care is needed when grouping disclosures so that risks of material misstatement are identified and responded to appropriately.

Examples of possible ways for the practitioner to group the disclosures:

- By topics: All disclosures on climate; all disclosures on labor practices.

- By aspects of topics: All disclosures regarding risks and opportunities (regardless of the topic); all disclosures regarding targets.
- By topic and aspect of topic: All disclosures regarding targets for climate; all disclosures regarding scenario analysis for climate.
- By characteristics: All disclosures that are qualitative; all disclosures that are forward-looking; all disclosures that are historical.
- By characteristics by aspect of topic: All disclosures regarding targets that are judgmental; all disclosures regarding targets that are historical.

Overall Engagement Strategy and Engagement Plan for Group Sustainability Assurance Engagements

Sustainability Information on Which Assurance Work Will Be Performed (Ref: Para. 96(a))

A288. For a group sustainability assurance engagement, the determination of the information on which assurance work will be performed is a matter of professional judgment depending on the source of the information (i.e., the entities or business units to which the information relates). Matters that may influence the practitioner's determination include, for example:

- The nature and extent of disaggregation of the sustainability information. The matters described in paragraph A284 may be helpful in this regard.
- Whether there are specific locations at which procedures may need to be performed to obtain sufficient appropriate evidence for sustainability information that is important to intended users (e.g., if information about occupational health and safety is of particular importance to users and such information is confined to one or two entities or business units).
- The nature and extent of misstatements or control deficiencies identified at entities in prior sustainability assurance engagements.

Resources Needed to Perform the Engagement (Ref: Para. 96(b))

A289. Matters that may influence the practitioner's determination of the resources needed to perform a group sustainability assurance engagement, including component practitioner(s), include, for example:

- Whether sufficient appropriate evidence is expected to be available from records held by group management, taking into account:
 - The practitioner's understanding of the entity and its environment.
 - The entity's system of internal control, including the information system, and its degree of centralization. For example, the need to involve a component practitioner may be greater when the system of internal control is decentralized.
- Whether the practitioner is aware of work that has been performed, or will be performed, on sustainability information that has been aggregated from other entities within the entity's control.
- The geographic dispersion of the entities or business units from which information is aggregated.
- Management's process for obtaining information from the value chain. In some circumstances,

the criteria may permit management to estimate the information to be reported by using sector-average data and other proxies if management is unable to obtain the information after making reasonable efforts to do so.

- Access arrangements, or any restrictions on access to information. For example, using the work of a component practitioner may be necessary if the practitioner's access to information from an entity in a particular jurisdiction is restricted.
- The knowledge and experience of the engagement team. For example, a component practitioner may have greater experience and a more in-depth knowledge than the practitioner about local laws or regulations, business practices, language and culture.
- Previous experience of using the work of component practitioner(s).

A290. In determining the nature and extent of evidence to be obtained in relation to sustainability information from group components or value chain components, the following procedures may be considered by the practitioner:

- Inspecting records and documents held by the group: The reliability of this evidence is determined by the nature and extent of the records and supporting documentation retained by the entity. In some cases, the group may not maintain independent detailed records or documentation of specific sustainability matters relating to group components, and in most cases will not do so with respect to value chain components.
- Inspecting records and documents at the component: The practitioner's access to the records of a component may be established as part of the contractual or other arrangements between the group and the component. This is more likely to be the case for group components.
- Testing management's process for obtaining information from value chain components: Due to the limitations that may exist in obtaining information from the value chain, the practitioner's procedures may in some cases be limited to evaluating whether management has complied with the requirements of the criteria, and testing the reasonableness of such information. The practitioner may also seek to obtain evidence from the work of another practitioner if work has been performed on that information. Regardless of any limitations that may exist in obtaining information from the value chain, the practitioner is required to obtain sufficient appropriate evidence. See also paragraphs A252–A253.
- Obtaining confirmations of sustainability information from the component:
 - If the group maintains independent records of sustainability information, confirmation from the component corroborating information in the group entity's records may constitute reliable evidence.
 - If the group does not maintain independent records, information obtained in confirmations from the component is merely a statement of what is reflected in the records maintained by the component. Therefore, such confirmations do not, taken alone, constitute sufficient appropriate evidence. In these circumstances, the practitioner may consider whether an alternative source of independent evidence can be identified.
- Performing analytical procedures on the records maintained by the group or on the information received from the component: the effectiveness of analytical procedures is likely to vary by disclosure or assertion and will be affected by the extent and detail of information available.

Whether to Obtain Evidence from the Work Performed by Another Practitioner(s) (Ref: Para. 96(c))

A291. If the practitioner plans to use a one-to-many report of another practitioner as evidence, paragraph 51 requires the practitioner to evaluate whether the description of the procedures performed and the results thereof are appropriate for the practitioner's purposes. However, the use of such a report does not alter the practitioner's responsibility to obtain sufficient appropriate evidence to provide a reasonable basis to support the practitioner's assurance conclusion on the sustainability information of the group.

Materiality (Ref: Para. 98–100)

A292. The practitioner's consideration or determination of materiality, as applicable, is relevant when performing risk assessment procedures, determining the nature, timing and extent of further procedures, and evaluating whether the sustainability information is free from material misstatement.

A293. Considering materiality for qualitative disclosures involves the practitioner actively reflecting upon factors that may lead to potential material misstatements (see paragraph A300).

A294. In considering or determining materiality, the practitioner considers disclosures that may be important to intended users. The practitioner's risk assessment procedures are designed and performed to identify and assess risks of material misstatement at the disclosure level (for limited assurance) or at the assertion level for the disclosures (for reasonable assurance). Therefore, judgments about materiality and the nature and likelihood of potential misstatements are relevant to the practitioner's approach, including the way in which the sustainability information is grouped for planning and performing the engagement, as explained in paragraphs A284-A287.

A295. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance. That is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

A296. The framework criteria may include a discussion of the concept of materiality that provides a frame of reference for consideration or determination of materiality by the practitioner. In the absence of materiality being addressed in the framework criteria, the following principles may be applied:

- (a) Judgments about matters that are material to intended users of the sustainability information are based on a consideration of the common information needs of intended users as a group.
- (b) Misstatements, including omissions, are considered material if they, individually or in the aggregate, could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information.

A297. Materiality is a matter of professional judgment and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

- (a) Have a reasonable knowledge of the sustainability matters, and a willingness to study the sustainability information with reasonable diligence;
- (b) Understand that the sustainability information is prepared and assured to appropriate levels of materiality and have an understanding of any materiality concepts included in the applicable criteria;
- (c) Understand any inherent uncertainties involved in measuring or evaluating the sustainability

matters; and

- (d) Make reasonable decisions on the basis of the sustainability information.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

Example:

The entity operates globally in various industries, including health care and consumer goods. The entity engaged an external consulting firm to gather data on stakeholders' perspectives regarding the entity's sustainability strategy. The entity took an approach to first identify the most relevant stakeholder groups, which included "customers, suppliers, non-profit organizations, corporate/private sector, academics, consultants, government, media, finance, trade associations, and think tanks." The entity then obtained direct feedback on how its sustainability strategy affected people, wider communities and the environment. After gathering this data, the entity analyzed it to determine what issues were important to those surveyed and reported on those areas.

A298. Materiality relates to the sustainability information within the scope of the assurance engagement. Therefore, when the engagement covers some, but not all, of the sustainability information, materiality is considered in relation to only the sustainability information that is within the scope of the assurance engagement.

A299. Not all disclosures involve the same materiality considerations. Ordinarily, materiality is considered or determined for different disclosures. For different disclosures, the same intended users may have different information needs, a different tolerance for misstatement, or the disclosures may be expressed using different units of measure. Considering qualitative factors may help the practitioner to identify disclosures that may be more significant to the intended users. For example, intended users may place more importance on information about food or drug safety than they do on information about the recycling of non-hazardous waste because the consequences of poor safety standards in food or drug production are likely to be more serious to human health than those for not recycling non-hazardous waste. They may, therefore, have a lower tolerance for misstatement of information about food or drug safety than about recycling of non-hazardous waste.

Qualitative Factors (Ref: Para. 98(a))

A300. Examples of factors that may be relevant to the practitioner's consideration of materiality for qualitative disclosures include:

- The number of persons or entities affected by, and the severity of the effect of, the sustainability matter. For example, a hazardous waste spill may impact a small number of people, but the effect of that spill could lead to serious adverse consequences to the environment.
- The interaction between, and relative importance of, multiple topics and aspects of the topics.
- The form of the presentation of the sustainability information when the applicable criteria allow for variations in the presentation.
- The nature of a potential misstatement and when it would be considered material, for example, the nature of observed deviations from a control when the sustainability information is a statement that a process exists, or the control is effective.

- Whether a potential misstatement could affect compliance with law or regulation, including whether there is an incentive or pressure on management to achieve an expected target or outcome. For example, a practitioner may consider a potential misstatement to be material if it affected a threshold at which a carbon tax would be payable by the entity.
- Whether a potential misstatement would be significant based on the practitioner's understanding of known previous communications to the intended users on matters relevant to their information needs, for example, in relation to the expected outcome of goals or targets, the degree to which a potential misstatement would impact the entity achieving the goal or target.
- When the sustainability matter relates to a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- If the applicable criteria include the concept of due diligence regarding impacts, the nature and extent of those impacts. For example, a practitioner may consider whether the entity's disclosures omitted or distorted the actions taken to prevent or mitigate negative impacts or ignored additional negative impacts, or the entity's actions to prevent or mitigate negative impacts were not effective.
- For narrative disclosures, whether the level of detail of the description or the overall tone of the words used to describe the matter, may give a misleading picture to users of the sustainability information.
- How the presentation of the information influences users' perception of the information. For example, when management presents the disclosures in the form of graphs, diagrams or images, materiality considerations may include whether using different scales for the x- and y-axes of a graph may be potentially misleading.

Considerations for Materiality for Quantitative Disclosures (Ref: Para. 98(b))

A301. Quantitative factors relate to the magnitude of misstatements relative to the disclosures, if any, that are:

- (a) Expressed numerically; or
- (b) Otherwise related to numerical values (e.g., the number of observed deviations from a control may be a relevant quantitative factor when the sustainability information is a statement that the control is effective).

A302. Qualitative factors may also be relevant when determining materiality for quantitative disclosures. Example of qualitative factors are provided in paragraph A300.

A303. For disclosures that are quantitative (e.g., a key performance indicator expressed in numerical terms), materiality may be determined by applying a percentage to the reported metric, or to a chosen benchmark related to the disclosure.

Examples of thresholds may include x% of investment in community projects (in hours or monetary terms), y% of energy consumed (in kWh), or z% of land rehabilitated (in hectares).

A304. Factors that may affect the identification of an appropriate benchmark and percentage include:

- (a) The elements of the disclosure. For example, if there is an element that is likely to be the focus

of intended users, it may be the appropriate benchmark.

- (b) The relative volatility of the benchmark. For example, if the benchmark varies significantly from period to period, it may be appropriate to set materiality relative to the lower end of the fluctuation range even if the current period is higher.
- (c) The requirements of the applicable criteria. If the applicable criteria specify a percentage threshold for materiality, this may provide a frame of reference to the practitioner in determining materiality for the disclosure.

A305. The applicable criteria may require disclosures of historical cost financial information. For example, topics reported may include community investment, training expenditures, or taxes by jurisdiction. These may also be reported in the entity's financial statements. The practitioner, or another practitioner, may be engaged to audit those financial statements (see also paragraph A14). The materiality used for these aspects of the disclosures need not be the same as the materiality used in the audit of the entity's financial statements.

When the Entity Is Required to Apply Both Financial Materiality and Impact Materiality (Ref: Para. 99)

A306. If double materiality, as described in paragraph A337 is required to be applied by the reporting framework or entity-developed criteria, paragraph 99 requires the practitioner to take into account both financial materiality and impact materiality perspectives when considering or determining materiality for purposes of planning and performing procedures and determining whether identified misstatements are material, so that:

- (a) For quantitative disclosures, ordinarily the lower level of materiality for financial or impact materiality would be used; and
- (b) For qualitative disclosures, when applying the factors in paragraph A300 and other misstatement considerations in paragraphs A491–A493, ordinarily the greater level of detail needed in the materiality for financial or impact materiality would be used.

Performance Materiality (Ref: Para. 100)

A307. Performance materiality may be used during different stages of the assurance engagement. For example, performance materiality may be useful to help identify and assess risks of material misstatement at the disclosures level (in a limited assurance engagement), or to help identify and assess risks of material misstatement at the assertion level for disclosures (in a reasonable assurance engagement) and to determine the nature, timing and extent of further procedures.

A308. For quantitative disclosures, planning the engagement solely to detect individually material misstatements overlooks aggregation risk, which is the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Aggregation risk arises because the sustainability information may be disaggregated, and the practitioner may be designing and performing assurance procedures separately on that disaggregated information. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to:

- (a) Determine performance materiality for quantitative disclosures to reduce aggregation risk to an appropriately low level; and
- (b) Consider what types of errors or omissions would potentially constitute a material misstatement when aggregated with other misstatements.

A309. The determination of performance materiality is not a simple mechanical calculation and involves the

exercise of professional judgment. It is affected by the practitioner's understanding of the entity that is updated during the performance of the risk assessment procedures. Factors the practitioner may take into account in setting performance materiality include the following:

- The extent of disaggregation of the disclosures. For example, in a group engagement, as the extent of disaggregation across components increases, a lower performance materiality ordinarily would be appropriate to address aggregation risk. The relative significance of the component to the reporting entity may affect the extent of disaggregation (e.g., if a single component represents a large portion of the reporting entity, there likely may be less disaggregation across components).
- Expectations about the nature, frequency and magnitude of misstatements of the disaggregated disclosures, including those identified in previous engagements.

A310. In some cases, risk assessment or further procedures may be performed by the practitioner on a quantitative disclosure as a single population (i.e., not disaggregated). In such cases, performance materiality used for purposes of performing these procedures is the same as materiality.

A311. Performance materiality does not address misstatements that would be material solely due to qualitative factors that affect their significance. However, designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in addressing aggregation risk.

Revision of Materiality as the Engagement Progresses (Ref: Para. 101)

A312. Materiality may be revised as a result of a change in circumstances during the assurance engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that the percentage of significant product categories for which customer health and safety impacts are assessed for improvement is likely to be substantially different from that expected during planning. If during the engagement the practitioner concludes that a different materiality is appropriate, it may also be necessary to revise performance materiality or the nature, timing and extent of further procedures.

Risk Assessment Procedures

Designing and Performing Risk Assessment Procedures (Ref: Para. 103L–105)

A313. Risk assessment procedures are part of an iterative and dynamic process. Initial expectations may be developed about risks of material misstatement, which may be further refined as the practitioner progresses through the engagement, or if new information is obtained. Risk assessment procedures by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.

A314. The nature and extent of risk assessment procedures will vary based on whether it is a limited or reasonable assurance engagement, the nature and circumstances of the entity (e.g., the formality of the entity's policies or procedures, and processes and systems), the nature and complexity of the sustainability matters and the characteristics of the events or conditions that could give rise to material misstatements. The practitioner uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISSA as appropriate to the level of assurance to be obtained. The depth of understanding that is required by the practitioner is less than that possessed by management in managing the entity and is less for a

limited assurance engagement than for a reasonable assurance engagement.

A315. The type of risk assessment procedures performed by the practitioner may include the following:

- (a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who, in the practitioner's judgment, may have information that is likely to assist in identifying and assessing risks of material misstatement, whether due to fraud or error;
- (b) Analytical procedures; and
- (c) Observation and inspection.

A316. Information obtained by the practitioner through inquiries may provide important evidence (e.g., to support the required understanding of the entity and its environment and the components of the entity's system of internal control); however, for a reasonable assurance engagement, inquiry alone ordinarily is not sufficient to identify and assess risks of material misstatement at the assertion level.

A317. Designing and performing risk assessment procedures may involve obtaining evidence from multiple sources including:

- (a) Interactions with management, those charged with governance, and other key entity personnel, which may include personnel within the entity who work in functions relevant to the sustainability information (such as Human Resources) or internal auditors.
- (b) Certain external parties such as regulators, whether obtained directly or indirectly.
- (c) Publicly available information about the entity and its industry, for example, entity-issued press releases, materials for analysts or investor group meetings, analysts' reports, or information about sustainability matters.

A318. The practitioner may perform further procedures concurrently with risk assessment procedures when it is efficient to do so.

Example:

- Evidence obtained that supports the identification and assessment of risks of material misstatement may also support the evaluation of the operating effectiveness of controls.

Considering Information from Engagement Acceptance and Continuance Procedures (Ref: Para. 104)

A319. Paragraph 75 requires the practitioner to obtain a preliminary knowledge of the engagement circumstances to provide an appropriate basis for establishing whether the preconditions for the engagement are present. This preliminary knowledge ordinarily is not sufficient to fulfill the requirements in paragraphs 103L and 103R, but may provide important evidence to support the required understanding. The practitioner may supplement the understanding of the applicable criteria obtained in accepting the engagement when performing risk assessment procedures with information from, for example:

- When applicable, other engagements performed by the engagement leader for the entity, such as the audit of financial statements or verification of specific matters (e.g., verification of water consumption for a significant operation within the entity).
- Previous experience with the entity, if such information remains relevant and reliable as evidence for the current engagement.

Engagement Team Discussion (Ref: Para. 105)

A320. Discussions between the engagement leader and other key members of the engagement team, and any key practitioner's external experts may:

- Provide an opportunity for more experienced engagement team members, including the engagement leader, to share their insights based on their knowledge of the entity. Sharing information contributes to an enhanced understanding by all engagement team members.
- Allow the engagement team members to exchange information about how and where the sustainability information might be susceptible to material misstatement due to fraud or error.
- Assist the engagement team in planning and performing the engagement.

A321. When the engagement is carried out by a single individual, such as a sole practitioner, consideration of the matters referred to in paragraph 105 nonetheless may assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the Sustainability Matters and the Sustainability Information (Ref: Para. 106)

A322. The characteristics of events or conditions that could give rise to a material misstatement of the disclosures may include complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud, thus resulting in susceptibility of the disclosures to material misstatement, whether due to fraud or error.

A323. Material misstatements due to fraud or management bias in sustainability information may relate to matters such as the following:

- Misstating sustainability information (including omitting information) to avoid penalties or fines, potentially aggressive or overly optimistic internal or external goals, intentionally inaccurate or misleading product or corporate public statements or claims.
- Omitting sustainability matters when identifying the matters to be included in the sustainability information, that may be unfavorable or for which the information is difficult to obtain, even though those matters are material to intended users.
- Misstating sustainability information to enable the entity to be favorably considered in relation to future endeavors, or to be a factor in funding, supplier or customer arrangements or negotiations.
- Misstating sustainability information to reduce carbon tax liabilities or overstate carbon credits created.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way in order to influence the outcome of the performance reward or compensation.
- Pressures linked to obtaining certain credentials or recognitions (e.g., a 'green' seal or rating), or to meet certain contractual conditions.
- Immature systems of internal control over sustainability reporting.

A324. The characteristics of events or conditions that could give rise to risks of material misstatement may be different for different disclosures. For example:

- The risks of material misstatement related to information about the entity's waste generated in the entity's own activities may be different from the risks of material misstatement related to information about the waste generated upstream or downstream in the entity's value chain.
- The risks of material misstatement in historical quantitative information may be different from the risks of material misstatement in forward-looking qualitative information.

A325. The sustainability matters may be complex to measure or evaluate or be subject to uncertainties. For example, potential climate-related risks, the likelihood of their occurrence, and their expected short, medium, and long-term impacts on an entity and its supply chain may be both complex to measure and evaluate and subject to a high degree of uncertainty. As a result of the inherent uncertainties, the risk of material misstatement of disclosures may be higher, or it may be difficult to identify and assess the risks of material misstatement of the sustainability information.

Determining the Suitability of the Applicable Criteria (Ref: Para. 107)

A326. Determining the suitability of the applicable criteria during the engagement builds on the preliminary knowledge obtained and discussion with appropriate party(ies) in evaluating their suitability prior to acceptance or continuance of the engagement, and includes determining whether the criteria exhibit the characteristics of suitable criteria in paragraph 78 (see also paragraph A199). The practitioner's risk assessment procedures are different in nature and extent from the procedures that may be sufficient for acceptance or continuance of the engagement.

A327. If the applicable criteria comprise framework criteria that are presumed to be suitable, as described in paragraph A197, it may be sufficient for the practitioner to determine that the entity has applied such criteria in preparing the sustainability information. In other circumstances, the practitioner may consider whether the evaluation of the criteria at the acceptance and continuance stage remains appropriate for the purposes of the practitioner's risk assessment procedures. If the practitioner's evaluation of the criteria is no longer appropriate, a more detailed determination of the suitability of the criteria is required in accordance with paragraph 107. This may be the case, for example, if entity-developed criteria are available only after the engagement is accepted, or if the entity applies criteria in preparing the sustainability information that differ from what the practitioner anticipated prior to acceptance or continuance of the engagement. This may be due to a range of factors, for example:

- The criteria initially identified are no longer suitable for the entity's circumstances.
- Changes in comparable industry practice.
- New or revised criteria being available.
- The entity applies more precise criteria.
- The entity identifies insufficient specificity in the framework criteria, necessitating entity-developed criteria to be developed.

A328. Determining the suitability of the applicable criteria and evaluating the appropriateness of their application assists the practitioner in identifying the susceptibility of the disclosures to misstatement. For example, the practitioner may:

- Identify elements of the applicable criteria that may be more susceptible to incorrect interpretation and application by the entity in preparing the sustainability information.

- Identify where the entity has the ability to exercise judgment in applying the applicable criteria, and therefore may give rise to risks of material misstatement due to inappropriate judgments in the circumstances of the entity.
- Identify aspects of the applicable criteria that may be more susceptible to manipulation, for example, when the entity is permitted to prepare the information on a comply or explain basis, provided the entity has a reasonable basis for doing so.
- Determine that the entity's process for identifying or developing and applying the applicable criteria is lacking, which may give rise to risks of material misstatement relating to the suitability or appropriate application of the applicable criteria in the entity's circumstances.

A329. Framework criteria may not be considered suitable on their own (e.g., may be incomplete or subject to interpretation in application). Therefore, the entity may need to supplement the framework criteria so that the applicable criteria are suitable. The process of developing the applicable criteria and applying it to the sustainability matters may be complex, require judgment, and may be susceptible to bias. The determination required by paragraph 107 may result in the practitioner identifying disclosures where there is an increased susceptibility to misstatement or cause the practitioner to re-evaluate the suitability of the applicable criteria.

A330. The determination of the suitability of the applicable criteria may include understanding:

- The uncertainties and complexities associated with identifying the framework criteria, and any entity-developed criteria used to supplement the framework.
- The criteria for the entity's process to identify sustainability information to be reported.
- The criteria for identifying the reporting boundary, and whether this differs for each disclosure.
- If applicable, how the entity develops its own criteria, including criteria used to supplement the framework criteria.
- The controls over the entity's process for identifying or developing and applying the applicable criteria.
- Whether there are any relief provisions. Such relief may be in relation to disclosure obligations over a certain period (e.g., an entity is only required to provide environmental information for the first three years of reporting), or in respect to data and information required to prepare the sustainability information (e.g., to address concerns about initial costs and resourcing constraints in obtaining required information regarding upstream and downstream value chain information).

A331. Understanding the process for identifying or developing and applying the applicable criteria, including the entity's process to identify sustainability information to be reported, may also help the practitioner determine the suitability of the applicable criteria, including whether the criteria:

- Address the purpose of the sustainability information.
- Are transparent.
- Involve engagement with intended users or their representatives in identifying their information needs for decision-making.
- Address how the criteria are applied in the entity's circumstances, including the selection and application of reporting policies consistent with the applicable criteria.

- Provide appropriate reasons for using the criteria.
- Consider if the criteria are appropriately specific regarding how the sustainability matters should be measured or evaluated.

Specific Considerations for Determining the Suitability of Criteria for Qualitative Information (Ref: Para. 78(c), 107)

A332. In some circumstances, the practitioner may determine that the criteria for qualitative information are unsuitable. For example, not all the characteristics for suitable criteria are exhibited because the criteria lack specificity or criteria for the qualitative information do not exist. In such circumstances, the practitioner may consider:

- Requesting that the entity develop suitable criteria.
- Requesting that the entity not report the information that would result from applying the unsuitable criteria, but if the entity decides to report that information, clearly identifying the information as other information that is not within the scope of the assurance engagement, and performing procedures in accordance with paragraphs 171–177.
- Whether the information may be misleading, and the impact on acceptance and continuance of the engagement.
- The impact on the assurance conclusion.

Specific Considerations for Determining the Suitability of Criteria for Processes, Systems and Controls (Ref: Para. 78(c), 107)

A333. If sustainability information on processes, systems and controls is subject to the assurance engagement, the practitioner may consider whether the criteria encompass the following:

- (a) If the assurance conclusion covers the description of the entity's process, systems or controls:
 - (i) The control objectives and controls designed to achieve those objectives;
 - (ii) The procedures and records, within both information technology and manual systems, by which the sustainability matters, and significant events and conditions, relevant to the sustainability information are recorded, processed, corrected as necessary, and transferred to the sustainability information reported.
- (b) If the assurance conclusion covers the suitability of the design of the processes, systems or controls:
 - (i) Identification of the risks that threaten achievement of the control objectives stated in the description of the processes, systems or controls; and
 - (ii) Whether the controls identified in that description would, if operated as described, provide reasonable assurance about the achievement of the control objectives.
- (c) If the assurance conclusion covers the operating effectiveness of the processes, systems or controls, whether the controls were consistently applied as designed throughout the specified period.

Specific Considerations for Determining the Suitability of Criteria for Performance (Ref: Para. 78(c), 107)

A334. In evaluating whether the criteria to evaluate the entity's performance are suitable, the practitioner

may consider whether the criteria encompass:

- (a) Measures or benchmarks used to set the targets, key performance indicators, commitments or other goals against which performance is to be measured; and
- (b) Methods of measurement or evaluation of the entity's performance.

Specific Considerations for Determining the Suitability of Criteria for Forward-looking Sustainability Information (Ref: Para. 78(c), 107)

A335. In evaluating whether the criteria to be applied in preparing the entity's forward-looking information are suitable, the practitioner may consider whether the criteria encompass:

- (a) The basis of the assumptions to be made and the nature, sources and extent of uncertainty inherent in those assumptions; and
- (b) The measurement or evaluation methods to be used for the forward-looking sustainability information to be prepared on the basis of the assumptions in (a).

Relevance of the Criteria (Ref: Para. 78(c)(i), 107)

A336. In evaluating whether the criteria are relevant, the practitioner may consider whether the criteria:

- (a) Result in sustainability information that assists decision-making by the intended users.
- (b) Were developed through a process, by the entity or an external party, that focused on identifying or evaluating whether the sustainability information assists decision-making by the intended users, including the general types of decisions that intended users are expected to make based on the purpose of the sustainability information.
- (c) Address the inherent level of measurement or evaluation uncertainty in applying the criteria in the circumstances of the engagement, including whether the sustainability information that is subject to high inherent measurement or evaluation uncertainty will be accompanied by disclosures that make the nature and extent of the uncertainty clear.
- (d) Specify the level of disaggregation or aggregation of the information or include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances.
- (e) Are consistent with those generally recognized to be appropriate in the context of the entity's industry or sector or there are justifiable reasons not to use such criteria (e.g., the entity develops more relevant criteria).
- (f) Permit omissions of sustainability disclosures only in circumstances when it is appropriate to do so. For example, the criteria may allow the entity to exclude certain disclosures if:
 - (i) The reporting processes have not yet fully matured, such that the information is incomplete or unavailable, and the criteria require the entity to disclose this fact and its reasons for omitting the disclosures.
 - (ii) That disclosure is not applicable to the entity's circumstances.
 - (iii) There are legal constraints preventing the disclosure.
 - (iv) In extremely rare circumstances, the sustainability information is confidential, or the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of doing so, such as information that might prejudice an investigation into an actual, or suspected, illegal act.

- (g) Are specific to the topics and aspects of the topics, that will result in information that assists decision-making by the intended users, such as whether the criteria for:
- (i) Processes, systems or controls includes, for example, control objectives to evaluate the suitability of their design (see also paragraph A333);
 - (ii) Performance includes the targets, key performance indicators, commitments or goals against which performance is measured and methods of measurement or evaluation of that performance (see also paragraph A334);
 - (iii) Forward-looking information includes the basis for evaluating the reasonableness of the underlying assumptions and methods of preparation based on those assumptions (see also paragraph A335); or
 - (iv) Historical information includes methods of measurement or evaluation of the entity's activities.

Consideration of the relevance of the criteria when financial materiality or impact materiality apply (Ref: Para. 99, 107)

A337. Relevant criteria that assist the decision-making of intended users may relate to:

- (a) Either:
 - (i) The material impacts of environmental, social and governance matters on the entity's strategy, business model and performance, which may be referred to as "financial materiality;" or
 - (ii) The material impacts of the entity's activities, products and services on the environment, society, or economy, which may be referred to as "impact materiality;" or
- (b) Both financial materiality and impact materiality, which may be described by the applicable criteria as "double materiality."

Completeness of Criteria (Ref Para. 78(c)(ii), 107)

A338. In evaluating the completeness of the criteria, including entity-developed criteria to supplement any framework criteria used, the practitioner may consider whether they address:

- Topics or aspects of topics that could reasonably be expected to affect decisions of intended users, or cannot be as readily measured or evaluated as other topics or aspects of topics.
- The basis for significant judgments in preparing the sustainability information.
- The source of significant inherent uncertainties in applying the criteria.
- The reporting boundary.

Reliability of the Criteria (Ref: Para. 78(c)(iii), 107)

A339. In evaluating whether the criteria are reliable, the practitioner may consider:

- Whether the measurement or evaluation of the sustainability matters can be undertaken with the necessary degree of precision to be relevant in the engagement circumstances.
- Whether the criteria are based on definitions with little or no ambiguity.

- Whether applying the criteria allows for reasonably consistent measurement or evaluation of the sustainability matters when used in similar circumstances by different parties.
- The sources of the criteria and the process used to develop them.

Neutrality of the Criteria (Ref: Para. 78(c)(iv), 107)

A340. In evaluating whether the criteria are neutral, the practitioner may consider whether the criteria:

- Require a balanced disclosure of both favorable and unfavorable information and are not subject to management bias by excluding any topics or aspects of topics only on the basis that they may reflect poorly on the entity.
- Do not result in information that is misleading to the intended users in the interpretation of the sustainability information.
- Are consistent between reporting periods, unless there is a reasonable basis for the change.
- Address how the information is presented and disclosed, to reduce the opportunity for management bias.
- Are entity-developed (e.g., may be subject to management bias).

A341. When the criteria are not consistent with previous reporting periods, the practitioner may consider whether:

- The entity has a reasonable basis for the change, for example, the entity may be developing and improving its process to prepare the sustainability information and the entity-developed criteria may have been changed to reflect more appropriate or modern approaches, data or methods.
- The basis for the change is sufficiently disclosed and explained in the sustainability information.
- The criteria are different from those commonly used in the entity's industry or sector, as this may be an indicator of management bias.
- The change results in information that is always positive (e.g., management changes the criteria year on year so that the outcome looks more positive).

Understandability of the Criteria (Ref: Para. 78(c)(v), 107)

A342. In evaluating whether the criteria are understandable, the practitioner may consider whether the criteria:

- Are clear and unambiguous.
- Will enable the intended users to identify readily the main points being made and to infer appropriately whether they affect their decision-making.
- Will result in a presentation that does not obscure relevant information.
- Will result in clear presentation of the sustainability information in a way that effectively summarizes and draws attention to key features of the information reported.
- Will result in the sustainability information being coherent, easy to follow, clear and logical.

- Will result in sustainability information that can be readily located, for example, the information may be difficult to locate if it is spread across different reports, webpages or included by reference.
- Will result in sustainability information that is appropriately balanced between conciseness to be understandable and relevance.
- Will result in logical and comparable time periods, whether those be:
 - A point in time (e.g., for description or implementation of a process not covering the period).
 - Periods that have ended (e.g., for historical information).
 - Periods that end in the future (e.g., for strategy, targets or commitments).

Understanding the Entity's Reporting Policies (Ref: Para. 108–109)

A343. Reporting policies are the bases, conventions, rules and practices applied by an entity in preparing and presenting the sustainability information. The entity's reporting policies are not criteria by themselves, but assist the entity in complying with the applicable criteria. The criteria need to encompass sufficient principles as the basis for the entity to select and apply reporting policies that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the criteria, as explained in paragraph A2. If the existing criteria do not provide sufficient principles for the entity to select and apply reporting policies, criteria from another framework may need to be identified or entity-developed criteria may need to be developed. Matters that the practitioner may consider when obtaining an understanding of the entity's selection and application of reporting policies, including any changes and the reasons for those changes, may include:

- Reporting policies used by similar entities, such as those in the same industry or jurisdiction.
- The methods the entity uses to recognize, measure, present and disclose significant sustainability information, or to address unusual or exceptional circumstances.
- The effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Changes in the environment, such as changes in the applicable criteria, law and regulation or accepted interpretation of the criteria that may necessitate a change in the entity's reporting policies.
- Criteria and laws and regulations that are new to the entity and when and how the entity will adopt, or comply with, such requirements.

A344. Example of the entity selecting and applying reporting policies in accordance with the framework criteria:

- A mining company reports sustainability information in accordance with a sustainability framework that requires specific disclosures on risks and opportunities related to human rights and rights of Indigenous Peoples for the metals and mining industry.
- In complying with the criteria, the entity also selects and applies reporting policies, including the methods used to disclose engagement processes and due diligence practices with respect to human rights and indigenous rights in areas of conflict to mitigate related risks.

Understanding the Entity and Its Environment

Understanding the Entity's Operations, Legal and Organizational Structure, Ownership and Governance, and Business Model (Ref: Para. 110(a))

A345. The practitioner uses professional judgment to determine the characteristics of the entity and its environment that are relevant to the sustainability information and therefore are necessary to understand. The practitioner's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective of the risk assessment procedures. The practitioner's understanding may involve less effort when the scope of the assurance engagement is limited to certain sustainability information (e.g., discrete metrics). On the other hand, a broader understanding of the entity and its environment may be necessary if the scope of the assurance engagement addresses multiple topics or aspects of the topics. Similarly, the depth of understanding of the entity and its environment necessary for a limited assurance engagement may be less than the depth of understanding necessary in a reasonable assurance engagement.

A346. The practitioner's understanding of the entity and its environment may include an understanding of the following:

- (a) The nature of the entity and its sustainability-related business risks, including:
 - (i) The nature of the operations included in the reporting boundary, including:
 - a. Whether the activities or operations within the reporting boundary are internal or external to the entity;
 - b. The contribution of each activity or operation to the sustainability information, including entities or operations within the value chain, if material to the sustainability information; and
 - c. The uncertainties associated with the quantities reported in the sustainability information.
 - (ii) Changes from the prior period in the nature of the entity, its business risks, or the reporting boundary, including whether there have been any mergers, acquisitions, disposals, or outsourcing of functions.
 - (iii) The frequency and nature of interruptions to operations.
- (b) The maturity of the processes and controls over sustainability information and the extent to which they integrate the use of IT.

Understanding the Reporting Boundary (Ref: Para 110(b))

A347. Understanding the reporting boundary may require the analysis of complex organizational structures (e.g., multiple operating units in different jurisdictions), contractual relationships and activities within the entity's value chain. The way operations are organized may also have implications for the reporting boundary. For example, a facility may be owned by one party, operated by another, and process materials solely for a third party, but the sustainability activities of all three entities may be within the reporting boundary. Understanding activities within the reporting boundary help the practitioner:

- Understand whether the disclosures are affected by complexity, judgment, change, uncertainty, or susceptibility to misstatement due to management bias or fraud.

- Identify disclosures for which it may be necessary to use the work of others to obtain sufficient appropriate evidence.
- Identify the members of the engagement team and other parties with whom the engagement leader discusses the susceptibility of disclosures to material misstatements whether due to fraud or error.
- Consider or determine an appropriate materiality for the applicable disclosures.
- Determine the nature, timing and extent of further procedures.
- Identify disclosures where it may be difficult to obtain sufficient appropriate evidence and, as a result, the implications for the assurance report.

Understanding the Entity's Goals, Targets, or Strategic Objectives (Ref: Para. 110(c))

A348. Understanding goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity's performance may help the practitioner identify incentives and pressures that increase the susceptibility of the sustainability information to management bias or fraud.

Understanding the Legal and Regulatory Framework (Ref: Para. 111)

A349. The effect on the sustainability information of laws and regulations will vary. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations may have a direct effect on the sustainability information, in that they may determine the criteria to be applied or specify disclosures required to be included in an entity's sustainability information.

A350. Other laws and regulations may not have a direct effect on the determination of the disclosures in the sustainability information, but compliance with them may be fundamental to the operating aspects of the business. Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may have consequences for the entity's disclosures.

A351. To obtain an understanding of the legal and regulatory framework, and how the entity complies with that framework, the practitioner may, for example:

- Use the practitioner's existing understanding of the entity's industry, regulatory and other external factors.
- Update the understanding of those laws and regulations that establish criteria, frameworks, standards or guidance.
- Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity.
- Inquire of management concerning the entity's policies or procedures regarding compliance with laws and regulations.

Inquiries and Discussion with Appropriate Parties (Ref: Para. 112)

A352. Inquiries of appropriate parties and, when appropriate, others within the entity may offer the practitioner varying perspectives in performing risk assessment procedures.

Examples:

- Inquiries directed towards those charged with governance may help the practitioner

understand the extent of oversight by those charged with governance over the preparation of the sustainability information.

- Inquiries of management may help the practitioner to evaluate the appropriateness of the selection and application of the applicable criteria.
- Inquiries directed towards in-house legal counsel may provide information about matters such as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the sustainability information.
- Inquiries directed towards the risk management function (or inquiries of those performing such roles) may provide information about operational and regulatory risks that may affect the sustainability information.
- Inquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

A353. If an entity has an internal audit function, inquiries of the appropriate individuals within the function may assist the practitioner in understanding the entity and its environment and the entity's system of internal control, in identifying and assessing risks of material misstatement.

Understanding Components of the Entity's System of Internal Control (Ref: Para. 113L, 113R)

A354. Understanding components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information assists the practitioner in identifying the types of misstatements that may occur and factors that affect risks of material misstatement in the disclosures.

A355. The level of formality of the entity's system of internal control, including the control environment, the entity's risk assessment process and process to monitor the system of internal control, may vary by size and complexity of the entity, and the nature and complexity of the sustainability matters and the applicable criteria.

A356. The nature and extent of the practitioner's understanding of the components of the entity's system of internal control may vary depending on the complexity of the assurance engagement and the nature and complexity of the sustainability matters. As the entity and sustainability matters become more complex, more extensive procedures may be necessary to obtain the understanding, for example, by performing a walkthrough to confirm inquiries of entity personnel. A walkthrough involves selecting events or conditions and tracing them through the applicable process in the information system.

A357L. In a limited assurance engagement, the practitioner uses professional judgment to determine the extent of understanding of the components of the system of internal control that is necessary to identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level. It often will not be necessary to obtain a detailed understanding and the procedures to obtain the understanding may be less in extent, and of a different nature than those required in a reasonable assurance engagement. For example, the practitioner may obtain a sufficient understanding of the information system through inquiry in a limited assurance engagement but may need to perform a walk-through in a reasonable assurance engagement.

A358. In some circumstances, the sustainability matters may be related to controls (i.e., the controls are the aspects of the topics). For example, the sustainability information may describe the design, implementation, or effectiveness of controls over occupational health and safety. Paragraph 106

requires the practitioner to understand the sustainability matters (in this case, controls over occupational health and safety). In these circumstances, paragraphs 113L and 113R require the practitioner to obtain an understanding of the entity's system of internal control related to the processes used to design, implement, or operate the controls over occupational health and safety and the processes to prepare information about those controls.

A359. The practitioner's understanding of the relevant components of the entity's system of internal control may raise doubts about the practitioner's ability to obtain sufficient appropriate evidence on which to base the assurance conclusion or may indicate a need to withdraw from the engagement, if withdrawal is possible under applicable law or regulation. For example:

- Concerns about the integrity of those preparing the sustainability information may be so serious as to cause the practitioner to conclude that the engagement cannot be conducted.
- Concerns about the competence of management and the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information.

The Control Environment (Ref: Para. 114L, 114R)

A360. The practitioner's understanding of the control environment, such as how the entity demonstrates behavior consistent with the entity's commitment to integrity and ethical values, may assist the practitioner in identifying risks of material misstatement. For example, deficiencies in the control environment may result in risks of material misstatement in disclosures throughout the sustainability information.

A361R. The practitioner's evaluation of the control environment may assist the practitioner in identifying potential issues in the other components of the entity's system of internal control. This is because the control environment is foundational to the other components of the entity's system of internal control. This evaluation may also assist the practitioner in identifying and assessing the risks of material misstatement.

A362. The practitioner's understanding of the control environment may include understanding the controls, processes and structures that address:

- How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values.
- When those charged with governance are separate from management, the independence of, and oversight over, the entity's system of internal control by those charged with governance.
- The entity's assignment of authority and responsibility.
- How the entity attracts, develops, and retains competent individuals.
- How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the entity's system of internal control.

Scalability

A363. Information about the control environment in less complex entities may not be available in documentary form, in particular when communication between management and other personnel is informal, but the information may still be appropriately relevant and reliable in the circumstances. For example, the practitioner may observe the entity's past and current practices, and engagement with stakeholders. Such observations may contribute to the practitioner's understanding of the

components of the entity's system of internal control, even if policies have not been documented formally.

The Entity's Risk Assessment Process (Ref: Para. 115L, 115R)

A364. Understanding the results of the entity's risk assessment process may assist the practitioner in:

- (a) Identifying and assessing risks of material misstatement in the disclosures; and
- (b) Obtaining an understanding of the sustainability matters and other engagement circumstances.

A365R. The practitioner's evaluation of whether the entity's risk assessment process is appropriate to the entity's circumstances allows the practitioner to understand where the entity has identified risks that may occur, and how the entity has responded to those risks. The practitioner's evaluation of how the entity identifies its risks, and how it assesses and addresses those risks, assists the practitioner in understanding whether the risks faced by the entity have been identified, assessed, and addressed as appropriate to the nature and complexity of the entity.

A366. In some cases, the criteria may require the entity to identify and provide information about sustainability-related risks and opportunities, or the process(es) by which sustainability-related risks and opportunities are identified, assessed and managed. Therefore, understanding the results of the entity's risk assessment process may also assist the practitioner in identifying and assessing risks of material misstatement related to the appropriate application of the applicable criteria by the entity. For example, if the practitioner identifies potential deficiencies in the entity's risk assessment process, the practitioner may determine that there is a heightened risk that sustainability matters required to be reported in accordance with the applicable criteria may not have been identified by the entity and therefore, the presentation or description of such matters in the sustainability information may be incomplete.

A367R. Not all risks identified by the entity give rise to risks of material misstatement. In understanding how management and those charged with governance have identified risks relevant to the preparation of the sustainability information, and decided about actions to address those risks, the practitioner may consider how management or, as appropriate, those charged with governance, have:

- (a) Specified the entity's objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;
- (b) Identified the risks to achieving the entity's objectives and analyzed the risks as a basis for determining how the risks should be managed; and
- (c) Considered the potential for fraud when considering the risks to achieving the entity's objectives.

A368. If the practitioner identifies risks that the entity failed to identify, and those risks are of a kind that the practitioner expects would have been identified by the entity's risk assessment process, it may be an indicator that the entity's risk assessment process is not appropriate to the entity's circumstances.

The Entity's Process for Monitoring the System of Internal Control (Ref: Para. 116L, 116R)

A369. Understanding the results of the entity's process for monitoring the system of internal control may assist the practitioner in:

- (a) Identifying and assessing risks of material misstatement in the disclosures;
- (b) Obtaining an understanding of the sustainability matters and other engagement circumstances;

and

- (c) Determining whether to obtain evidence from testing controls.

A370. Understanding the results of the entity's process for monitoring the system of internal control may provide information about deficiencies in controls; however, the absence of results of the entity's process for monitoring the system of internal control does not necessarily indicate that controls are operating effectively. The absence of results may be indicative of an ineffective process for monitoring the system of internal control.

A371R. Understanding the entity's process for monitoring the system of internal control relevant to the preparation of the sustainability information may involve understanding:

- (a) Those aspects of the entity's process that address:
 - (i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified; and
 - (ii) The entity's internal audit function, if any, including its nature, responsibilities, and activities; and
- (b) The sources of information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.

A372R. The practitioner's evaluation of the entity's process for monitoring the system of internal control assists the practitioner in understanding the other components of the entity's system of internal control. This evaluation may also assist the practitioner with identifying and assessing risks of material misstatement at the assertion level for the disclosures.

A373R. Matters that may be relevant for the practitioner to consider when understanding how the entity monitors its system of internal control include:

- (a) The design of the monitoring activities, for example, whether it is periodic or ongoing monitoring;
- (b) The performance and frequency of the monitoring activities;
- (c) The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and
- (d) How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action.

A374R. The practitioner may also consider how the entity's process to monitor the system of internal control addresses monitoring of information processing controls that involve the use of IT. This may include, for example:

- (a) Controls to monitor complex IT environments that:
 - (i) Evaluate the continuing design effectiveness of information processing controls and modify them, as appropriate, for changes in conditions; or
 - (ii) Evaluate the operating effectiveness of information processing controls.

- (b) Controls that monitor the permissions applied in automated information processing controls that enforce the segregation of duties.
- (c) Controls that monitor how errors or control deficiencies related to the automation of sustainability reporting are identified and addressed.

Scalability

A375R. In less complex entities, and in particular owner-manager entities, the practitioner's understanding of the entity's process to monitor the system of internal control is often focused on how management or the owner-manager is directly involved in operations, as there may not be any other monitoring activities.

A376R. For entities where there is no formal process, understanding the process to monitor the system of internal control may include understanding periodic reviews of information that are designed to contribute to how the entity prevents or detects misstatements.

The Information System and Communication (Ref: Para. 117–118)

A377. The practitioner uses professional judgment to determine which aspects of the information system are relevant to the sustainability matters and the preparation of the sustainability information and may make inquiries of the appropriate party(ies) about those aspects and perform other procedures, as necessary.

A378. The understanding of the information system may include an understanding of the entity's information processing activities, its data and information, the resources to be used in such activities and the policies or procedures that define, for the sustainability information:

- (a) How data and information, including qualitative information, are captured, recorded, processed, reviewed, corrected, and presented, including whether, and if so, how, the entity centralizes activities relevant to sustainability reporting. Such policies or procedures may include internal verification processes whereby the data and information are checked by a reviewer for accuracy and completeness, and signed off to evidence that the review has taken place;
- (b) Supporting records and other relevant information about the sustainability matters relating to the flow of information in the information system; and
- (c) The processes used to prepare the sustainability information, including the aggregation process used, including, if any, aggregation adjustments.

A379. The practitioner's understanding of the information system may be obtained in various ways and may include:

- (a) Inquiries of relevant personnel about the procedures used to initiate, record, process and report events and conditions related to the topics and aspects of the topics;
- (b) Inspection of policy or process manuals or other documentation of the information system;
- (c) Observation of the performance of the policies or procedures by the entity's personnel; or
- (d) Selecting events or conditions and tracing them through the applicable process in the information system (i.e., performing a walk-through).

A380. The entity's information system and communication are likely to involve the use of IT to collect or process data and information. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. The information system includes the IT environment,

IT applications and other aspects of the IT environment that are relevant to the flows and processing of information in the information system. The entity's use of IT applications or other aspects of the IT environment may give rise to risks arising from the use of IT. For example, changes in the flow of information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing or storing that information.

Scalability

A381. The information system and how the entity communicates in smaller or less complex entities are likely to be less sophisticated and are likely to involve a less complex IT environment than in larger and more complex entities. Less complex entities with direct management involvement may not need extensive descriptions of procedures, sophisticated records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an engagement for a less complex entity and may involve a greater amount of inquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important to provide a basis for the design of further procedures and may further assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the entity's process to identify sustainability information to be reported (Ref: Para. 117(a))

A382. The practitioner may consider whether the entity's process to identify sustainability information to be reported includes:

- (a) Identification of, or engagement with, the intended users, or the stakeholders they represent, to determine their information needs;
- (b) The entity's selection or development of suitable criteria, which provides the basis for the identification of sustainability information to be reported prior to the consideration of materiality;
- (c) The appropriate application of the criteria to identify sustainability information to be reported, including the identification of topics, aspects of topics and reporting boundary; and
- (d) Filtering of the sustainability information to select material information to be reported.

A383. If the entity does not have a suitable process to identify sustainability information to be reported, then the topics or aspects of topics selected may be incomplete or include sustainability information that is not relevant or obscures material sustainability information. As the entity's process includes management judgment, there is risk of management bias when identifying the sustainability information to be reported. The greater the degree to which the reporting framework or law or regulation specifies in detail the sustainability information to be reported, the lower the risk of material misstatement may be as there is less opportunity for management bias.

A384. The extent of the practitioner's work effort in obtaining an understanding of the entity's process to identify sustainability information to be reported will depend on the nature and circumstances of the engagement. For some engagements, the reporting framework or law or regulation may specify sustainability information to be reported and the procedures may be limited to identifying those requirements and understanding whether the sustainability information required to be reported is included in the sustainability information. In other engagements, the framework or entity-developed criteria may not specify the sustainability information, or may only specify certain sustainability information to be reported and may set out the process the entity is required to follow to identify the sustainability information, or additional sustainability information to be reported. Alternatively, the entity may need to develop its own criteria for that process. In these circumstances, the entity's

process is likely to be more complex and to impact the nature and extent of the practitioner's procedures.

Understanding how information from external sources is recorded, processed, corrected and incorporated (Ref: Para. 117(b))

A385. The understanding of how information from external sources is recorded, processed, corrected as necessary, and incorporated into the sustainability information may also include an understanding of:

- (a) The nature and significance of the data or information provided by external sources; and
- (b) How the entity addresses the reliability of information from external sources, for example by:
 - (i) Monitoring information provided to, and received back from, the external source;
 - (ii) Considering the reputation of the external source; and
 - (iii) Considering whether there are other sources of similar information, and whether the information from such different available sources is aligned.

Evaluating the information system to support the preparation of the sustainability information (Ref: Para. 118)

A386. The understanding of the information system may also include an understanding of how the entity communicates significant matters that support the preparation of the sustainability information and related reporting responsibilities in the information system and other components of the entity's system of internal control:

- (a) Between people within the entity, including how roles and responsibilities are communicated;
- (b) Between management and those charged with governance;
- (c) With intended users; and
- (d) With external parties, such as regulatory authorities.

Control Activities (Ref: Para. 119R, 120L)

A387. The practitioner's identification and evaluation of controls in the control activities component of the entity's system of internal control may focus on information processing controls, which are controls applied during the processing of information in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy, and validity of information). However, the practitioner is not required to identify and evaluate all information processing controls.

A388. An assurance engagement does not require an understanding of all the controls related to each disclosure or to every assertion relevant to them.

A389. Examples of other controls for which it may be appropriate for the practitioner to obtain an understanding include:

- Controls that address risks of material misstatement assessed as higher on the spectrum of risk based on their likelihood and magnitude.
- Controls that are related to the assembly of, or adjustments to, the sustainability information.
- If the entity uses a service organization, controls at the entity that relate to the services

provided by the service organization.

A390. Identifying IT applications and other aspects of the IT environment, related risks arising from the use of IT, and general IT controls in place to address those risks affects the practitioner's decisions on testing controls, assessing risks of material misstatement, testing information produced by IT applications, and designing further procedures.

A391. In identifying IT applications subject to risks arising from IT, the practitioner may consider the entity's automated controls, information storage and processing, and reliance on general IT controls. The extent of understanding and the number of applications subject to risks arising from the use of IT vary based on the entity's complexity. When the practitioner has identified IT applications that are subject to risks arising from IT, other aspects of the IT environment (for example network, operating systems, databases, and interfaces between IT applications) are likely to be identified because such aspects support and interact with the identified IT applications.

A392. Risks arising from IT may include unauthorized access, program changes, and inappropriate data changes, and their extent depends on the nature and characteristics of the IT applications and environment.

Design and Implementation of Controls (Ref: Para. 120L, 120R)

A393. Evaluating the design of an identified control involves the practitioner's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements (i.e., the control objective).

A394. The practitioner determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the practitioner assessing the implementation of a control that is not designed effectively. Therefore, the practitioner evaluates the design of a control first. An improperly designed control may represent a control deficiency.

A395. The practitioner may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in determining the nature, timing and extent of further procedures. However, when a control is not designed or implemented effectively, there is no benefit in testing it.

A396. When the practitioner plans to test the operating effectiveness of a control, the information obtained about the extent to which the control addresses the risk(s) of material misstatement is an input to the practitioner's risk assessment.

A397. Evaluating the design and determining the implementation of controls is not sufficient to test their operating effectiveness. However, the practitioner may plan to test the operating effectiveness of automated controls by identifying and testing general IT controls that provide for the consistent operation of the automated controls instead of testing the operating effectiveness of the automated controls directly. General IT controls that are not able to be reconfigured or changed by management provide for the consistent operation of an automated control.

A398. The practitioner may expect more formal documentation of the information system and controls when the information system and controls form part of the sustainability matters (e.g., when the sustainability information is about the entity's controls).

A399L. In accordance with paragraph 120L, in a limited assurance engagement, the practitioner is not required to understand the control activities component by evaluating the design of controls and

determining whether they have been implemented, unless the practitioner plans to obtain evidence by testing the operating effectiveness of controls.

Identifying Control Deficiencies (Ref: Para. 121)

A400. If deficiencies are identified related to the control environment, this may affect the practitioner's overall expectations about the operating effectiveness of controls, and therefore the practitioner's plans to test the operating effectiveness of controls.

A401. When understanding the components of the entity's system of internal control, the practitioner may determine that certain of the entity's policies are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that control deficiencies exist. The practitioner may consider the effect of those control deficiencies on the design of further procedures and whether to communicate the deficiencies to management or those charged with governance.

A402. Circumstances that may indicate that control deficiencies exist include matters such as the identification of:

- Fraud of any magnitude that involves senior management;
- Deficiencies in the control environment;
- Risks of material misstatement that were not identified by the entity's risk assessment process;
- The omission of sustainability matters from the sustainability information, that are required to be reported by the applicable criteria and that are material, when those sustainability matters were not identified by the entity's process to identify sustainability matters to be reported; and
- The inclusion of immaterial sustainability matters that obscure sustainability matters to be reported within the sustainability information

A403. If the practitioner's evaluation of the entity's control environment or other components of internal control raise doubts about the ability to obtain evidence on which to base the assurance conclusion, the practitioner may:

- Perform additional risk assessment procedures until evidence has been obtained to alleviate the practitioner's doubts;
- Withdraw from the engagement when permitted by law or regulation; or
- Consider the implications for the practitioner's report.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 122L, 122R)

A404. Identifying and assessing the risks of material misstatement involves professional judgment based on the practitioner's understanding of the sustainability matters and the sustainability information and the entity and its environment.

A405. Identifying and assessing the risks of material misstatement also involves the practitioner considering the potential for a misstatement occurring (i.e., its likelihood) and being material if it were to occur (i.e., whether the potential misstatement is of a magnitude or severity that could reasonably be expected to influence the decisions of users).

A406L. The identification and assessment of the risks of material misstatement at the disclosure level in a limited assurance engagement is less extensive than for a reasonable assurance engagement. This is the case because:

- The breadth and depth of the practitioner's understanding that forms the basis for risk identification and assessment is different because the risk assessment procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement;
- The practitioner is not required to identify and assess risks of material misstatement at the assertion level in a limited assurance engagement; and
- The level of assurance obtained in a limited assurance engagement is substantially lower than the assurance obtained in a reasonable assurance engagement.

A407. The combination of the likelihood and magnitude of a potential misstatement determines where on the spectrum of risk the identified risk is assessed. Making this assessment informs the practitioner's design of further procedures to address the risk. The higher the combination of likelihood and magnitude, the higher the assessment of risk; the lower the combination of likelihood and magnitude, the lower the assessment of risk.

A408. The manner in which the practitioner groups the disclosures for purposes of planning and performing the engagement (see paragraphs A285–A287) affects how the practitioner identifies and assesses the risks of material misstatement.

A409L. For a limited assurance engagement, the practitioner's expectation about a misstatement occurring, and being material if it were to occur, is less specific than for a reasonable assurance engagement because it is based on more limited information, as explained in paragraph A406L. In addition, the practitioner's conclusion in a limited assurance engagement is expressed in terms of whether anything has come to the practitioner's attention that causes the practitioner to believe that the sustainability information is not fairly stated (or properly prepared), in all material respects, in accordance with the applicable criteria. Therefore, for a limited assurance engagement, if in the course of performing procedures to respond to the assessed risks, matters come to the practitioner's attention that indicate the sustainability information may be materially misstated, paragraph 148L requires the practitioner to perform additional procedures.

A410. In considering the magnitude of a possible misstatement, the practitioner may consider the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in a disclosure may be judged to be material due to size, nature or circumstances). The qualitative and quantitative factors in paragraphs A300 and A301, respectively, may be helpful in this regard.

A411. The practitioner's consideration of the magnitude of a potential misstatement in a qualitative disclosure may depend on the importance of that disclosure to the intended users. For example, intended users may place more importance on the entity's efforts to reduce carbon emissions than its efforts to enhance community engagement. Therefore, intended users may have a lower tolerance for a misstatement of disclosures about efforts to reduce carbon emissions than disclosures about efforts to enhance community engagement.

Example:

The practitioner may identify and assess a risk of misstatement in an entity's disclosure that its efforts to reduce carbon emissions includes enhancing its carbon capture and storage capacities and describe its plans to acquire the technology to do so. This may be based on the practitioner's understanding of:

- The pressures that the entity faces to reduce carbon emissions to meet regulatory

targets; and

- The fact that acquiring the technology to capture and store carbon likely would be cost prohibitive to the entity.

Whether the practitioner considers the misstatement material, if it were to occur, depends on the importance that intended users place on the disclosure, and the magnitude of misstatement that would influence the decisions of intended users, which may be influenced by factors including:

- Current or past trends in carbon emissions for the entity and the industry;
- Whether the plan to reduce carbon emissions is important to meeting legal or regulatory emissions targets;
- Whether the plan to enhance carbon capture and storage capacities is the primary approach, or part of a multi-pronged approach, to reducing carbon emissions; and
- Whether customers, employees, or investors in the industry place importance on carbon emissions.

A412. The sustainability reporting framework may require disclosure of a large number of individual metrics for different sustainability matters. In these circumstances:

- The practitioner may treat a group of metrics as a disclosure for purposes of identifying and assessing the risks of material misstatement (i.e., the practitioner need not identify and assess the risk of material misstatement for each individual metric.) This may be the case, for example, if intended users are more likely to focus on the group of metrics rather than individual metrics.
- Depending on the facts and circumstances, the practitioner may determine that the risks of material misstatement for certain metrics or groups of metrics are acceptable in the circumstances (i.e., are at an acceptable level for the engagement (for limited assurance) or an acceptably low level (for reasonable assurance)). In these circumstances, the practitioner need not design and perform further procedures. Irrespective of the assessed risks of material misstatement in a reasonable assurance engagement, paragraph 140R requires the practitioner to consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgment, are material.

A413. The assurance engagement (and the practitioner's assurance conclusion) may relate only to certain metrics. In these circumstances, it is more likely that the individual metrics may be of significance to intended users. Therefore, the practitioner would ordinarily identify and assess the risks of material misstatement for each individual metric.

A414. Risks of material misstatement may relate to one or more entities within the reporting boundary. In these circumstances, the practitioner may consider using the work of a component practitioner to identify and assess the risks of material misstatement. However, the practitioner remains responsible for the identification and assessment of risks of material misstatement of the group sustainability information and for the design and performance of further procedures to respond to the assessed risks.

Assertions

A415R. In identifying and assessing the risks of material misstatement, the practitioner uses assertions to consider the different types of potential misstatements that may occur. The practitioner may use the

assertions described below or may express them differently provided all aspects described below have been covered. Assertions may include:

- Occurrence and existence – the disclosures are related to events or conditions that have occurred or exist.
- Responsibility – the disclosures pertain to the entity.
- Completeness – all events or conditions, pertaining to the entity and the reporting boundary, that should have been included in the sustainability information have been included.
- Accuracy and valuation – the disclosures, including estimates, have been appropriately measured, evaluated or described in accordance with the applicable criteria.
- Cutoff – the disclosures have been recorded in the reporting period to which they relate.
- Presentation, classification and understandability – the disclosures are appropriately aggregated or disaggregated, structured appropriately, and presented and described in accordance with the applicable criteria, and are clearly expressed.
- Consistency – the criteria and application of the criteria are consistent with those applied in the prior period, or changes are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

A416L. Although the practitioner is not required to identify and assess risks of material misstatement at the assertion level in a limited assurance engagement, the practitioner may choose to use assertions if they are useful in considering the types of potential misstatements that could occur or designing and performing procedures in response to them.

A417. Misstatements may arise as a result of human error, process flaws, management bias or fraud.

Examples of different types of possible misstatements include:

- False claims in information (occurrence and existence, or responsibility assertion) – for example, if an entity claimed responsibility for community investment or environmental clean-up that did not actually occur or was done by another party.
- Recording information in the incorrect period (cut-off assertion) – for example, recording an entity's water used in the period preceding or following the period in which the water was actually used.
- Inaccuracies in information (accuracy and valuation assertion) – for example, arising from inaccurately calibrated measuring devices, transposition or other errors in the recording of measurements, or use of inappropriate conversion factors, such as use of a carbon dioxide conversion factor for nuclear energy when the entity has coal and oil-fired facilities.
- Omission of information (completeness assertion) – for example, a company reports on its land rehabilitation program for three of its mining sites but remains silent about two sites where significant degradation has occurred and where there are no plans to rehabilitate the land.
- Incorrectly classified information (presentation, classification and understandability assertion) – for example, the entity classifies seasonal contractors (mainly female) as

permanent full-time employees, which results in erroneous reporting about gender representation on its permanent work force.

- Misleading or unclear representation of information (presentation, classification and understandability assertion) – for example, the preparer gives undue prominence to favorable information by using large, bold or brightly-colored text and images, or other ways to emphasize the presentation, but presents unfavorable information less conspicuously, for example, by using small or light-colored font, and less extensive text.
- Bias in information that focuses on positive aspects of performance and omits negative aspects (presentation, classification and understandability assertion).

Management Override of Controls (Risk Assessment) (Ref: Para. 123R)

A418R. Management is in a unique position to perpetrate fraud because of management's ability to manipulate the data and records and prepare fraudulent sustainability information by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a risk of material misstatement at the upper end of the spectrum of risk.

Evaluating the Evidence Obtained from the Risk Assessment Procedures (Ref: Para. 124)

A419. The practitioner's evaluation of the components of the entity's system of internal control and understanding of controls, along with any control deficiencies identified, may:

- (a) Influence the identification and assessment of risks of material misstatement for the disclosures; and
- (b) Indicate risks of material misstatement that may affect many disclosures, and thus may require overall responses in accordance with paragraphs 128L and 128R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures (Ref: Para. 126L–127)

A420. The practitioner's further procedures may include a combination of procedures such as inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and inquiry. Determining the further procedures to be performed on a particular engagement is a matter of professional judgment. Because sustainability information may cover a wide range of circumstances, the nature, timing and extent of such procedures are likely to vary considerably from engagement to engagement.

A421. Substantive procedures may include:

- Tests of detail, for example:
 - Agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances.
 - Reviewing joint venture agreements and other contracts relevant to the entity's reporting boundary.
 - Reconciling recorded data to, for example, odometers on vehicles owned by the entity.

- Reperforming calculations and reconciling differences noted.
- Sampling and independently analyzing the characteristics of materials such as coal, or observing the entity's sampling techniques and reviewing records of laboratory test results.
- Checking the accuracy of calculations and the suitability of calculation methods used.
- Agreeing recorded data back to source documents, such as production records, fuel usage records, and invoices for purchased energy.
- Analytical procedures when there is a relationship between the sustainability information and other relevant information such that the practitioner may be able to develop an expectation and compare that expectation with the outcome of the measurement or evaluation of the sustainability matters.

A422. The planned nature, timing and extent of further procedures is a matter of professional judgment and is influenced by the circumstances of the assurance engagement, including the information needs of intended users as a group, the criteria, and the sustainability matters within the scope of the engagement.

A423. The nature, timing and extent of the further procedures will be informed by:

- The practitioner's approach to planning and performing procedures, including understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting (see paragraph A284);
- The assessed risks of material misstatement, including the reasons for the assessment given to the risks of material misstatement;
- Whether using the work of others (e.g., practitioner's experts, component practitioners or another practitioner(s)) is necessary to obtain evidence from or pertaining to group components or value chain components; and
- The persuasiveness of evidence to be obtained.

A424. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the further procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The differences between the practitioner's further procedures for a reasonable assurance engagement and a limited assurance engagement on sustainability information may include:

- (a) The emphasis placed on the nature of procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.
- (b) In a limited assurance engagement, the extent of procedures performed compared to those in a reasonable assurance engagement may involve:
 - (i) Selecting fewer items to test;

- (ii) Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed); or
 - (iii) Performing procedures on location at fewer facilities.
- (c) In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:

- (i) Use data that is more highly aggregated, for example, data at a regional level rather than at a facility level, or monthly data rather than weekly data.
- (ii) Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

A425. Examples of reasons for the assessment given to a risk of material misstatement:

- The inherent complexity of the sustainability matter or judgment in its measurement or evaluation. For example, a material misstatement may be more likely to arise in a disclosure where mass balance calculations are involved than when water consumption is read directly from a meter.
- The complexity of the organization, its ownership and control arrangements, or its geographical spread.
- Systems and processes that are less automated or still developing, such that there may be a greater likelihood of human error, processing flaws or opportunity for unauthorized intervention.
- Incentives to misstate, for example, if a particular target performance has to be met to retain a license to operate or to avoid fines, or to meet stakeholders' expectations.
- Inherent limitations in the capabilities of measuring devices (e.g., water meters) or insufficient frequency of their calibration.
- Errors or inappropriate judgments made in measuring, evaluating or disclosing the sustainability information, including in the assumptions used in making estimates, the use of inaccurate or incomplete base data on which estimates are based, or in circumstances when complex calculations are involved (e.g., when a mass balance approach is used to calculate water abstracted).
- The risk that unidentified aspects of the sustainability matter may be missed, for example because of events or transactions outside of the normal course of business, because the preparer relies on a third party for information (e.g., external meter readers or engineering firms to calculate water abstracted), or because of undetected water or wastewater leaks or similar.

- How weaknesses in the design of controls or the ineffective operation of controls might give rise to errors, processing flaws or opportunity for unauthorized intervention.

A426. More persuasive evidence may be needed to provide the basis for a conclusion on the sustainability information due to engagement circumstances. For example, the practitioner may have identified and assessed a higher risk of material misstatement. In such circumstances, it may be appropriate to increase the quantity of the evidence (e.g., by obtaining corroborating evidence from a number of independent sources).

A427. More persuasive evidence may be needed if the practitioner, through the understanding of the entity and its environment and its system of internal control, has identified matters such as:

- A higher assessed risk of material misstatement.
- An increased focus of intended users on a topic or aspect of a topic.
- The lack of a relationship between the sustainability information and other relevant information that precludes the performance of analytical procedures.
- A control environment in which the entity does not demonstrate behavior consistent with a commitment to integrity and ethical values.
- Risks of material misstatement that have not been identified by the entity's risk assessment process.
- Information systems that are not appropriate to the circumstances of the entity.
- A lack of maturity in the sustainability matters or the information system used to prepare the sustainability information.
- Errors in the disclosure in the past.
- A new area, topic or aspect of a topic.

Overall Responses (Ref: Para. 128L, 128R)

A428. Paragraphs 126L and 126R require the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level (limited assurance) or at the assertion level for the disclosures (reasonable assurance). However, the practitioner may identify circumstances that indicate that overall responses may be needed in accordance with paragraph 128L or 128R, such as the following:

- Deficiencies in the control environment may undermine the effectiveness of other controls, in particular in relation to fraud. In such cases, material misstatements may occur in any assertion or in multiple assertions.
- There may be incentives for intentional misstatement of the sustainability information, for example, those who are directly involved with, or have the opportunity to influence, the reporting process may have a significant portion of their compensation contingent upon achieving aggressive targets or complying with laws and regulations that have a direct effect on the sustainability information.
- The practitioner may identify an increased risk of material misstatement pervasively throughout the sustainability information (that is, not related to one disclosure or assertion, or a few disclosures or assertions).

A429. Designing and performing overall responses may include:

- Assigning and supervising personnel, considering the knowledge, skill and ability of the individuals to be given significant engagement responsibilities, and the practitioner's risk assessment procedures.
- Conducting more procedures as of the period end rather than at an interim date.
- Obtaining more extensive evidence from procedures other than tests of controls.
- Increasing sample sizes and the extent of procedures, such as the number of facilities at which procedures are performed.
- Incorporating an element of unpredictability in the selection of the nature, timing and extent of procedures.

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations (Ref: Para. 129–131)

A430. The risk of not detecting a material misstatement due to fraud or non-compliance with laws and regulations is higher than the risk of not detecting one resulting from error. Furthermore, the risk of not detecting fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations is higher in a limited assurance engagement than in a reasonable assurance engagement. The appropriate response to fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations is dependent on the circumstances.

A431. Responding appropriately to identified or suspected fraud or non-compliance with laws and regulations, identified during the engagement, may include taking action, such as:

- Discussing the matter with the entity.
- Requesting the entity to consult with an appropriately qualified third party, such as the entity's legal counsel or a regulator.
- Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
- Considering the implications of the matter in relation to other aspects of the engagement, including the practitioner's risk assessment and the reliability of written representations from the entity.
- Obtaining legal advice about the consequences of different courses of action.
- Withholding the assurance report.
- Withdrawing from the engagement.

A432. In determining the appropriate level of management or those charged with governance, with whom to communicate instances of fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations, the practitioner may consider whether management may have been involved in the fraud or suspected fraud or identified or suspected non-compliance with laws and regulations and whether any of those charged with governance are involved in managing the entity. If those charged with governance are not involved with managing the entity, the practitioner may communicate to them instances of fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations involving management, employees who have significant roles in internal control, or where the fraud or non-compliance with laws and regulations results in a material misstatement in the sustainability information, unless that communication is prohibited by

law or regulation.

A433. In certain circumstances, the practitioner's response to identified or suspected fraud, or instances of non-compliance or suspected non-compliance with laws and regulations may require reporting the identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity. See paragraph 67.

A434. Relevant ethical requirements may include requirements addressing the practitioner's communication of instances of identified or suspected non-compliance with laws and regulations with the financial statement auditor.

A435. Examples of circumstances that may cause the practitioner to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:

- The practitioner suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance in any identified or suspected non-compliance.
- The practitioner is aware that management and, where applicable, those charged with governance have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the matter to an appropriate authority within a reasonable period.

Tests of Controls (Ref: Para. 132, 135)

A436. When more persuasive evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. Other matters the practitioner may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the period that the practitioner is relying on evidence about the operating effectiveness of the control.
- The expected rate of deviation from a control.
- The relevance and reliability of the information to be used as evidence regarding the operating effectiveness of the control at the assertion level.
- The extent to which evidence is obtained from tests of other controls related to the assertion in a reasonable assurance engagement.

A437. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the entity's IT general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness.

A438. In certain circumstances, evidence obtained from previous engagements may provide evidence for the current engagement when the practitioner performs procedures to establish its continuing relevance. For example, in performing a previous engagement, the practitioner may have determined that an automated control was functioning as intended. The practitioner may obtain evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of evidence about these changes may

support either increasing or decreasing the expected evidence to be obtained in the current period about the operating effectiveness of the controls.

A439. In most cases, evidence from a previous engagement's substantive procedures provides little or no evidence for the current period. However, it may be appropriate to use evidence from a previous engagement's substantive procedures if that evidence and the related subject matter have not fundamentally changed, and procedures have been performed during the current period to establish its continuing relevance.

Substantive Procedures (Ref: Para. 140R)

A440R. The practitioner's understanding of the entity's process to identify sustainability information to be reported may indicate that certain disclosures include information that is likely to be of particular importance to intended users (see also paragraphs A285–A287 regarding the grouping of disclosures for purposes of planning and performing the engagement). However, the practitioner may determine that the risks of material misstatement for those disclosures are at an acceptably low level. In these circumstances, due to the importance of that information to intended users, paragraph 140R requires the practitioner to consider the need to design and perform substantive procedures on those disclosures. The need to perform substantive procedures, and the extent of such procedures, is a matter of professional judgment in the circumstances. In addition, the practitioner is not expected to design and perform substantive procedures for all disclosures. Rather, the substantive procedures may focus on the disclosures, or the information within those disclosures, that is expected to be of particular importance to intended users.

A441R. The consideration of the need to design and perform substantive procedures for these disclosures reflects that:

- The practitioner's assessment of the risks of material misstatement is judgmental.
- There are inherent limitations in internal control, including the possibility of management override. Therefore, for example, the practitioner may determine that testing the operating effectiveness of controls may need to be supplemented with limited tests of details.

External Confirmation Procedures (Ref: Para. 141R)

A442. The practitioner may consider performing confirmation procedures to request information regarding assertions, disclosures, topics, or aspects of topics.

A443. External confirmation procedures may provide relevant evidence about such information as:

- Activity data collected by a third party.
- Industry benchmark data used in calculations.
- The terms of agreements, contracts, or transactions between the entity and other parties.
- The results of laboratory analysis of samples.

Extending the Conclusions of Substantive Procedures Performed at an Interim Date (Ref: Para. 142)

A444. In some circumstances, the practitioner may determine that it is effective to perform substantive procedures at an interim date, and to compare and reconcile information at the period end with the comparable information at the interim date to:

- (a) Identify amounts that appear unusual;

- (b) Investigate any such amounts; and
- (c) Perform analytical procedures or tests of details to test the intervening period.

A445. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the practitioner will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. The practitioner may consider factors such as the following in deciding whether to perform substantive procedures at an interim date:

- The control environment and other relevant controls.
- The availability at a later date of information necessary for the practitioner's procedures.
- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the disclosures and related assertions.
- The ability of the practitioner to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

Analytical Procedures (Ref: Para. 143L–143R)

A446. Analytical procedures may be performed when there is a reasonably predictable relationship between the sustainability information and financial or operational information (for example, the relationship between Scope 2 emissions from electricity and hours of operation or the general ledger balance for electricity purchases). Other analytical procedures may involve comparisons of information about the entity's sustainability information with external data such as industry averages; or the analysis of trends during the period to identify anomalies for further investigation, and trends across periods for consistency with other circumstances such as the acquisition or disposal of facilities.

A447. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external procedures (for example, as part of a joint venture agreement or oversight by a regulator).

A448L. In a limited assurance engagement, analytical procedures may be designed to support expectations about the direction of trends, relationships and ratios rather than with the level of precision required in a reasonable assurance engagement to identify possible material misstatements.

Sampling (Ref: Para. 145)

A449. Sampling is not the same as selecting items as part of risk identification or assessment procedures or to evaluate the reliability of information. Sampling involves the following:

- (a) Determining a sample size sufficient to reduce sampling risk to an appropriately low level. Sampling risk is the risk that the practitioner's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same procedure. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too may be the level of sampling risk that is acceptable in the case of tests of details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size may be larger than when used in similar circumstances in a limited assurance engagement.
- (b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.
- (c) Investigating the nature and cause of deviations or misstatements identified and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.
- (d) Evaluating:
 - (i) The results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and
 - (ii) Whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

Estimates and Forward-Looking Information (Ref: Para. 146L, 146R)

A450. Estimation uncertainty may arise due to incomplete knowledge about the measurement of an area, activity or event, or the measurement or evaluation of an estimate may depend on the forecast of an outcome of one or more events or conditions.

A451. Forward-looking information may include forecasts, projections, or future plans of the entity. Forward-looking information may be prepared using scenarios based on best-estimate assumptions or hypothetical assumptions, which are affected by management's judgment. A future event, occurrence or action relating to the sustainability matters may be subject to greater uncertainty, and therefore ordinarily able to be evaluated with less precision than historical events, occurrences or actions. Disclosures become more speculative as the length of the period covered increases and the uncertainty may increase the further into the future the period to which the forward-looking information relates.

A452. The applicable criteria may require disclosure of the entity's intended future strategy, targets, or other intentions. For such forward-looking information, the practitioner is not required to obtain evidence about whether the strategy, target or intention will be achieved, or to come to a conclusion to that effect.

A453R. When designing the procedures required by paragraph 146R(a), the practitioner's procedures may include:

- (a) Based on the practitioner's knowledge and experience, considering if there are reasons to believe that the forward-looking information is clearly unrealistic.
- (b) Inspecting minutes of meetings or reports on the business's operations to evaluate whether:

- (i) Management or those charged with governance have an intention and ability to follow the strategy;
- (ii) The target or intention exists; or
- (iii) There is a reasonable basis for the intended strategy or target.

A454. Regardless of the source or degree of uncertainty, complexity or subjectivity, or the extent of management's judgment, it is necessary for management to appropriately apply the applicable criteria when developing estimates and forward-looking information and the related disclosures, including selecting and using appropriate methods, assumptions and data.

A455L. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures in paragraph 146R.

Evaluating Whether the Method Has Been Appropriately Selected and Applied (Ref: Para 146R(b)(i)a.)

A456R. In evaluating whether the method has been appropriately selected and applied, the practitioner's further procedures may address:

- (a) Whether judgments made in selecting the method give rise to indicators of possible management bias;
- (b) Whether the calculations are applied in accordance with the method and are mathematically accurate;
- (c) When management's application of the method involves complex modelling, whether judgments have been applied consistently and whether, when applicable:
 - (i) The design of the model meets the measurement objective of the applicable criteria, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and
 - (ii) Adjustments to the output of the model are consistent with the measurement objective of the applicable criteria and are appropriate in the circumstances; and
- (d) Whether the integrity of the significant assumptions and the data have been maintained in applying the method. Assumptions used in determining an estimate or forward-looking information are referred to as significant assumptions when a reasonable variation in the assumption would materially affect the estimate or forward-looking information.

Evaluating Whether the Assumptions Are Appropriate (Ref: Para. 146R(b)(i)b.)

A457R. In evaluating whether the assumptions are appropriate, the practitioner's further procedures may address:

- (a) Whether judgments made in selecting the significant assumptions give rise to indicators of possible management bias;
- (b) Whether the significant assumptions are consistent with the purpose for preparing the estimates or forward-looking information, with each other and with those used in other disclosures, or with related assumptions used in other areas of the entity's business activities, based on the practitioner's knowledge obtained in the engagement;
- (c) If applicable, whether management has the intent to carry out specific courses of action and has the ability to do so; and

- (d) Whether the entity has considered alternative assumptions or outcomes, and why it has rejected them.

Evaluating Whether the Data Are Appropriate (Ref: Para. 146R(b)(i)c.)

A458R. In evaluating whether the data are appropriate, the practitioner's further procedures may address:

- (a) Whether judgments made in selecting the data give rise to indicators of possible management bias;
- (b) Whether the data are relevant and reliable in the circumstances; and
- (c) Whether the data have been appropriately understood or interpreted by management, including with respect to contractual terms.

Changes from Prior Periods Not Based on New Circumstances or New Information (Ref: Para. 146L(a)(iii), 146R(b)(i))

A459. When a change from prior periods in a method, significant assumption, or the data are not based on new circumstances or new information, or when significant assumptions are inconsistent with each other and with those used in other estimates, or with related assumptions used in other areas of the entity's business activities, the practitioner may need to have further discussions with management about the circumstances and, in doing so, challenge management regarding the appropriateness of the assumptions used.

Developing a Point Estimate or Range (Ref: Para. 146R(b)(ii))

A460R. Developing a point estimate or range, as applicable, to evaluate estimates and related disclosures may be an appropriate approach when, for example:

- The practitioner's consideration of similar estimates made in the prior period suggests that management's current period process is not expected to be effective.
- The entity's controls within and over management's processes for developing estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the practitioner's report have not been properly taken into account, when it is appropriate for management to do so, and such events or transactions appear to contradict management's point estimate.
- There are appropriate alternative assumptions or sources of relevant data that can be used in developing a practitioner's point estimate or a range.
- Management has not taken appropriate steps to understand or address the estimation uncertainty.

A461R. The practitioner may develop a point estimate or a range in a number of ways, for example, by:

- Using a different model than the one used by management, for example, one that is commercially available for use in a particular sector or industry, or a proprietary or practitioner-developed model.
- Using management's model but developing alternative assumptions or data sources to those used by management.
- Using the practitioner's own method but developing alternative assumptions to those used by

management.

- Employing or engaging a person with specialized expertise to develop or execute a model, or to provide relevant assumptions.

A462R. The practitioner may also develop a point estimate or range for forward-looking information. The practitioner's decision as to whether to do so may depend on the nature of the forward-looking information and the practitioner's judgment in the circumstances. For example, as forward-looking information is subject to greater inherent uncertainty than historical information, the practitioner may choose to determine whether the disclosure presented by management is within a reasonable range of possible outcomes.

Revising the Risk Assessment in a Reasonable Assurance Engagement (Ref: Para. 147R)

A463R. If, having performed the additional procedures required by paragraph 147R(b), the practitioner is not able to obtain sufficient appropriate evidence to reach a reasonable assurance conclusion, a scope limitation exists and paragraph 185 applies.

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement (Ref: Para. 148L)

A464L. Not all misstatements are indicative of the existence of material misstatements. However, the practitioner may become aware of a matter(s) that causes the practitioner to believe the sustainability information may be materially misstated. For example, when performing site visits the practitioner may identify a potential source of emissions that does not appear to be included in the emissions disclosures. In such cases, the practitioner makes further inquiries as to the potential source, and how it has been incorporated into the emissions disclosures.

A465L. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is, for example, guided by:

- Information obtained from the practitioner's evaluation of the results of the procedures already performed.
- The practitioner's updated understanding of the sustainability matters and other engagement circumstances obtained throughout the course of the engagement.
- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the sustainability information may be materially misstated.
- Whether the practitioner judges it appropriate to perform procedures of similar nature or extent to that required in a reasonable assurance engagement.

A466L. The practitioner uses professional judgment to determine the persuasiveness of evidence required to conclude on the matter that causes the practitioner to believe the sustainability information may be materially misstated.

A467L. If, having performed the additional procedures required by paragraph 148L, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated or determine that it does cause the sustainability information to be materially misstated, a scope limitation exists and paragraph 185 applies.

The Entity's Process for Assembling the Sustainability Information (Ref: Para. 149L, 150R)

A468. The process to assemble the sustainability information may be very informal when the entity's information system is immature. In more sophisticated systems, the process may be more systematic and formally documented. The nature and extent of the practitioner's procedures with respect to adjustments and the manner in which the practitioner agrees or reconciles the sustainability information with the underlying records depends on the nature and complexity of the sustainability matters, the entity's reporting process and the related risks of material misstatement. The practitioner also may consider whether all activities within the reporting boundary have been included in the sustainability information in accordance with the applicable criteria.

A469R. Other procedures to respond to the risk of management override of controls may include:

- Inquiring with those charged with governance about the appropriateness of the adjustments made by management in the process for the assembly of the sustainability information.
- Obtaining and examining supporting documentation to determine the rationale, business or otherwise, for the adjustments to the sustainability information.
- Evaluating whether the rationale (or the lack thereof) of the adjustments to the sustainability information suggests that they may have been entered into to engage in fraudulent reporting.
- Inspecting system logs for system overrides or bypasses to controls.

Accumulation and Consideration of Identified Misstatements

Accumulation of Identified Misstatements (Ref: Para. 153)

A470. Uncorrected misstatements are accumulated during the engagement for the purpose of determining whether, individually or in the aggregate, they are material when forming the practitioner's conclusion. "Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial are of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and are misstatements that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

A471. For quantitative disclosures, the practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the disclosures.

A472. Clearly trivial may be considered in the context of the impact of the misstatement on the intended users' decisions. As explained in paragraph A36, intended users may include users who may use sustainability information to make resource allocation decisions, or users who may be interested in the impacts described in paragraph A337. The entity's process to identify sustainability information to be reported may inform the practitioner's consideration of identified misstatements and whether they are clearly trivial.

A473. Examples of where or how misstatements in sustainability information may arise:

- (a) An inaccuracy in gathering or processing information used to prepare the sustainability information.

- (b) Manipulating or obscuring the sustainability information in a manner that would be misleading to the intended users.
- (c) Management's judgments involving estimates being considered unreasonable by the practitioner.
- (d) The inclusion of inappropriate information, for example, information that does not meet the applicable criteria or a misapplication of the entity's process to identify sustainability information to be reported by management which results in the inclusion of excessive immaterial information that obscures or distorts sustainability information required by the applicable criteria.
- (e) The entity's reporting policies to select and apply the criteria are inappropriate or inconsistent with the applicable framework criteria or the criteria used in the relevant industry.
- (f) The inclusion of information that is not supported by sufficient appropriate evidence.
- (g) The omission of sustainability information, for example, information that, in the practitioner's judgment, should have been disclosed based on the entity's process to identify sustainability information to be reported or that otherwise is required to be disclosed by the applicable criteria, or omitting sustainability information relating to a significant subsequent event that would likely change the decisions of users but has not been adequately disclosed.
- (h) Sustainability information that, in the practitioner's judgment, is:
 - (i) Ambiguous; or
 - (ii) Capable of being determined precisely, but is presented in a vague manner.
- (i) Changes since the previous reporting period to the sustainability information without reasonable justification for doing so or without disclosing the reasons for doing so.
- (j) The way the sustainability information is presented, such as:
 - (i) Out of context, in an unbalanced manner, or given greater or lesser prominence than is warranted, based on the available evidence and applicable criteria; or
 - (ii) Using superlatives and adjectives that describe a more positive outcome than is supportable.
- (k) Inappropriately drawing conclusions, based on selective information, through statements such as the following:
 - (i) "A large number of companies worldwide," based on information for only a hundred companies; although a hundred may be large, it is not large compared with the number of companies in the world.
 - (ii) "The numbers have doubled since last year" may be factual, but a small base giving rise to this doubling may not be disclosed.

A474. Some framework criteria may allow the entity to omit information, explain what information has been omitted and why. For example, the entity may be permitted to omit information if a requirement is not applicable, information is unavailable or incomplete, there are legal prohibitions, or confidentiality constraints. In such cases, the omitted information may not be a misstatement. The practitioner may

discuss the omission, and the reasons for it, with management, and where appropriate, those charged with governance before concluding whether the omission is a misstatement.

A475. The sustainability information may include a description of the entity's processes, systems or controls regarding the sustainability matters (e.g., the entity's process to identify, assess, and manage current and anticipated sustainability-related risks and opportunities). The scope of the assurance engagement may require the practitioner to conclude:

- (a) Whether the description of the entity's process, systems or controls fairly presents the design and implementation of those processes, systems or controls;
- (b) Whether the entity's processes, systems or controls are suitable, or operated effectively throughout the period; or
- (c) A combination of both.

A476. What constitutes a misstatement when the sustainability information includes a description of the entity's processes, systems or controls, depends on the scope of the engagement. For example:

- (a) The scope of the engagement includes whether the entity's processes, systems or controls are suitable and operated effectively throughout the period: If the practitioner determines that the entity's description of the processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, this may constitute a misstatement.
- (b) The scope of the engagement does not include whether the entity's processes, systems or controls are suitable and operated effectively throughout the period, and the related disclosures about the entity's processes, systems or controls are considered other information: If the practitioner is aware that the entity's description of its processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, paragraph 175 applies.

Considering Whether Identified Misstatements May Be Due to Fraud (Ref: Para. 154)

A477. Paragraph 78 requires the practitioner to evaluate whether the applicable criteria are suitable. Criteria that are vague and allow manipulation of the sustainability information may not be suitable for the engagement circumstances. If the criteria are suitable but management intentionally did not apply the criteria appropriately, it may be an indication of misstatement due to fraud.

A478. Misstatements due to fraud may result from intentional:

- (a) Manipulation, falsification, or alteration of information or supporting documentation from which the sustainability information is prepared; or
- (b) Misrepresentation in, or omission from, the sustainability information.

A479. Examples of misstatements due to fraud in sustainability information:

- Misstating sustainability information to avoid penalties or fines.
- Intentionally inaccurate or misleading public statements or claims that will favorably impact share price or an assessment of the entity's sustainability credentials, such as an inaccurate statement that a bond is a sustainability bond.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way to influence the outcome of the performance

reward or compensation.

- Emphasizing that a product was produced using recycled materials but intentionally not reporting that the product was produced using forced labor.
- Intentionally reporting topics for which the entity has positive impacts and omitting topics for which the entity has negative impacts.
- Misstating baseline information to make sustainability information look more favorable in subsequent periods.
- Misstating sustainability information associated with specific project milestones, budget approval, or rights to access certain markets or begin projects in certain markets or geographies.

A480. If the practitioner identifies a misstatement that is indicative of fraud, this may have implications in relation to other aspects of the assurance engagement, particularly:

- (a) The practitioner's identification and assessment of risks of material misstatements due to fraud at the disclosures level (in a limited assurance engagement), or at the assertion level for disclosures (in a reasonable assurance engagement), and the resulting effect on the nature, timing and extent of further procedures; and
- (b) The reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.

Consideration of Identified Misstatements as the Engagement Progresses (Ref: Para. 155)

A481. The practitioner may also consider whether accumulated misstatements relate to control deficiencies. Specifically, the practitioner may consider whether the nature or extent of the accumulated misstatements result in the need to update the practitioner's understanding of the entity's system of internal control relevant to the preparation of the sustainability information (see paragraphs 113L and 113R).

Communicating and Correcting Misstatements (Ref: Para. 156–158)

A482. In the case of narrative disclosures, asking management to correct a misstatement may involve management either re-wording or removing the misstated text.

A483. The practitioner's understanding of management's reasons for not making the corrections may indicate possible bias in management's judgments.

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 160)

A484. Determining whether uncorrected misstatements are material involves professional judgment in the context of the applicable criteria and the engagement circumstances, including who the intended users are and what disclosures are likely to be important.

A485. The manner in which uncorrected misstatements are evaluated depends on the sustainability information that is the subject of the engagement. For example, if the practitioner provides an assurance conclusion on the entirety of the sustainability information, the practitioner may determine whether the uncorrected misstatements are:

- (a) Individually material for each of the disclosures to which they relate. If an individual misstatement in a disclosure is determined to be material, it is unlikely that it can be offset by other misstatements within that disclosure unless the misstatements relate to the same matter and involve the same measurement basis.
- (b) If the misstatements are not material individually:
 - (i) Material in aggregate (i.e., collectively with other misstatements) across specific topics or aspects of topics (see paragraphs A488 and A489).
 - (ii) Material in aggregate to the entirety of the sustainability information (i.e., in aggregate across all disclosures) (see paragraph A490).

A486. Misstatements of amounts smaller than the materiality for quantitative disclosures may have a material effect on the reported sustainability information from a qualitative perspective. For example, if an error results in a reversal of a declining trend in an indicator, or if an error prevents an entity from achieving regulatory requirements, these may be considered material, even if the quantitative error is smaller than the quantitative threshold.

A487. When the scope of the assurance engagement is a number of metrics, each relating to a different sustainability matter, the practitioner may evaluate the materiality of misstatements separately for each metric as intended users may have different tolerances for misstatement in each metric. For example, intended users' tolerance for misstatements is likely to be higher for a disclosure about non-hazardous, degradable waste, than it would be for a disclosure about radioactive or other hazardous waste.

A488. When the sustainability information is measured using a common measurement basis (e.g., monetary amounts or physical units), the practitioner may be able to accumulate all misstatements together (i.e., as being of the same nature quantitatively and capable of being aggregated). However, the disclosures may relate to multiple topics, may comprise several aspects of the topics, and the sustainability matters may be measured or evaluated using different measurement bases. The practitioner is not required to convert misstatements in different measurement bases into a common base for purposes of accumulating the misstatements and determining whether the sustainability information is materially misstated.

A489. It may be possible, after all non-quantifiable misstatements have been identified, to group them together, for example, by whether they relate, in common, to particular aspects of the sustainability matters. For example, there may be one or more individually immaterial misstatements in the qualitative statements management has made about occupational health and safety and another immaterial misstatement relating to employee diversity. As occupational health and safety and diversity both relate to the social aspect of sustainability information, the practitioner may be able to group these misstatements together and consider their combined effect on the social aspect of the entity's sustainability information. Similarly, a number of immaterial misstatements in the reported water consumption information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the sustainability information.

A490. The sustainability information as a whole may be misstated, even though the misstatements are individually immaterial. Even if there are misstatements that are not able to be accumulated by sustainability matter or other common factors, they may exhibit a common direction, narrative, tone or trend. For example, if the effect of the misstatements is to make the sustainability information as a whole look more favorable than it actually is or all the misstatements overstate the positive aspects

of the entity's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to the users of the sustainability information.

Other Misstatement Considerations

A491. Materiality of uncorrected misstatements is considered in the context of qualitative and, when applicable, quantitative factors. The practitioner may also consider the extent to which users could reasonably be expected to make a different decision if the sustainability information was not misstated. Qualitative factors that may indicate that a misstatement is more likely to be material, include:

Sustainability matters

- (a) The entity's process to identify sustainability information to be reported is misaligned with the scope or objective of reporting in accordance with the applicable criteria.
- (b) The misstated sustainability information relates to an aspect of the sustainability matter that has been determined as being significant.
- (c) There are multiple misstatements related to the same topic of the sustainability matter.
- (d) The nature of the misstatements is such that they all overstate or understate the sustainability matter.

External factors

- (e) The misstated sustainability information relates to non-compliance with a law or regulation, particularly when the consequence for non-compliance is severe.
- (f) The misstated sustainability information relates to sustainability matters that has implications for a large number of the entity's stakeholders. However, there may be situations when the sustainability matter has implications for only a small number of stakeholders but may, nonetheless, have material implications. For example, a small community affected by radioactive contamination of its water supply from effluent from an entity's operations may result in a lawsuit that could have a material impact on the entity and its other stakeholders.

Nature of the sustainability information

- (g) The misstatements may indicate doubts as to the feasibility of management's plans. For example, an entity may disclose its policies or commitments to mitigate sustainability-related risks in accordance with the applicable criteria, but evidence obtained may indicate these policies or commitments are unrealistic, rely on unproven technologies, or require financing that the entity is unlikely to be able to obtain.
- (h) The misstatement relates to a particular disclosure that is commonly used to compare the entity to its peers.
- (i) The misstatement relates to a target or threshold, and the error significantly impacts whether the target or threshold is met (e.g., the magnitude of the error may be small but may have significant consequences for meeting the target).
- (j) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

- (k) The misstatement that has arisen from the presentation of the sustainability information being misleading because the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly, intended users might make different decisions depending on their interpretation.

Management's behavior

- (l) The misstatement has arisen as a result of fraud by management to mislead intended users.
- (m) Management is reluctant to correct the misstatement for reasons other than they consider it immaterial.
- (n) Management is reporting aggressive targets or estimates, or is defensive in providing explanations.

A492. Misstatements in qualitative information are as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by management, the practitioner may accumulate them by listing them, or marking up or highlighting them in a copy of the sustainability information. When it is not possible to add the misstatements together to determine their effect in the aggregate, the practitioner may consider whether there are any commonalities among the misstatements, such as whether the misstatements reflect a more favorable outcome that is collectively material, or indicate management bias.

A493. Other factors that may help the practitioner evaluate the materiality of misstatements include understanding:

- The underlying cause of identified misstatements. For example, if the qualitative misstatement exists because management has intentionally decided to misrepresent facts, this may indicate the possibility that the sustainability information may contain a material misstatement due to fraud.
- Whether a misstatement may have an indirect effect on misstatements identified in other areas of the engagement. For example, an otherwise immaterial overstatement of an item might indirectly affect a more significant calculation that incorporates the item, causing that calculation to fall below the required minimum threshold included in a contractual requirement, or the qualification criteria for a scheme, grant or funding. Similarly, the lack of a required approval for a relatively unimportant transaction might not be material individually, but it could have implications for the operating effectiveness of controls in areas of the sustainability information that users might consider important.

Measurement or Evaluation Uncertainty

A494. The sustainability matter may have inherent measurement or evaluation uncertainty (for example, the estimation of climate-related risks in the long term across the entity's value chain). As a result of inherent uncertainties relating to the sustainability matter, there may be a wide range of possible outcomes and it may be difficult to identify whether there is a material misstatement of the sustainability information. The practitioner may consider whether the sustainability matter is as precise as is required by the applicable criteria, and the information required by the applicable criteria about the inherent uncertainty is disclosed. Without supporting disclosures to help the intended users understand the uncertainty, the applicable criteria may not be suitable, and the sustainability

information may not be presented appropriately. Paragraphs 190(g) and A579 address the appropriate descriptions to be included in the assurance report.

A495. When the uncertainty is not inherent (i.e., when it results from lack of appropriate application of the applicable criteria), it may give rise to misstatements. For example, management may not have used appropriate information to measure or evaluate the sustainability matter that has resulted in it not being as precise as required by the applicable criteria.

A496. Forward-looking information is ordinarily subject to greater measurement or evaluation uncertainty than historical information. As a result, there may be a broad range of possible outcomes, and it may be difficult to identify and evaluate misstatements, including whether the assumptions are:

- (a) Reasonable, in the case of a forecast; or
- (b) Realistic and in line with the purpose of the information, in the case of projections.

A497. The practitioner may consider ways in which misstatements in forward-looking information may arise, for example:

- (a) Data or other information used may not be relevant, complete or reliable;
- (b) Assumptions may include information that is not relevant, may omit important considerations, may be internally inconsistent, or may be given inappropriate weighting;
- (c) Assumptions may not be consistent with management's decisions or intent; or
- (d) There may be unintentional or deliberate misapplication of the assumptions to the data or other information, or in calculations of quantifiable information.

In some cases, misstatements may arise as a result of a combination of these circumstances.

A498. The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or data in the way in which the sustainability information is presented that may indicate a misstatement or have implications for the rest of the assurance engagement. For example, indicators of possible management bias may include when management has:

- (a) Changed the assumptions or methods used, or has made a judgmental assessment that there has been a change in circumstances, without reasonable justification;
- (b) Used assumptions that are inconsistent with assumptions used elsewhere in the entity's business, including for financial statement or operational purposes, or inconsistent with observable marketplace assumptions; or
- (c) Selected significant assumptions that favor management's objectives, or that may indicate a pattern or trend.

Evaluating the Description of Applicable Criteria (Ref: Para. 162)

A499. The preconditions for an assurance engagement in paragraph 78 require that the criteria that the practitioner expects to be applied in the preparation of the sustainability information will be available to the intended users. This may be done by references to a description of the applicable criteria, which is available to the intended users, or the inclusion of a description of the applicable criteria and the sources of those criteria in the sustainability information, to enable intended users to understand how:

- (a) The content of the sustainability information, such as the topics and aspects of the topics, has been identified and selected;
- (b) The intended users' information needs were identified; and
- (c) The sustainability matter has been measured or evaluated.

A500. Referencing or describing the applicable criteria and their sources is particularly important when:

- (a) There are significant differences between criteria applied by entities in the same industry, region, or jurisdiction that the practitioner expects to have similar circumstances or be equivalent.
- (b) The sustainability matter is subject to a high degree of measurement or evaluation uncertainty, such as forward-looking sustainability information, as there may be more variability, or it may be open to greater interpretation than when there is less uncertainty. This may result in sustainability information that could be misunderstood or misinterpreted by intended users.

A501. In evaluating whether the reference or description of the criteria is adequate, the practitioner may consider whether it addresses:

- (a) The source of the applicable criteria, and whether the applicable criteria are framework criteria embodied in law or regulation or issued by an authorized or recognized organization that follows a transparent due process, other framework criteria or entity-developed criteria.
- (b) How framework criteria have been applied, including the entity's reporting policies for applying the framework criteria.
- (c) For other framework criteria or entity-developed criteria, how the determination was made that these, together with any framework criteria, are suitable.
- (d) When applicable framework criteria were not applied, the reasons therefor.
- (e) The specific aspects of the criteria related to particular types of sustainability information, for example:
 - (i) The basis for evaluating the reasonableness of the underlying assumptions for forward-looking information.
 - (ii) Control objectives for design and operating effectiveness of processes, systems or controls.
 - (iii) Targets, key performance indicators, commitments or goals for evaluating or measuring performance.
- (f) Measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods.
- (g) Any significant judgments made in applying the applicable criteria in the engagement circumstances.
- (h) The inherent limitations, if any, associated with the measurement or evaluation of the sustainability matter against the applicable criteria.
- (i) Other matters relevant to intended users' understanding of the basis for the preparation of the sustainability information, including uncertainties.
- (j) Any changes in the measurement or evaluation methods used, and the reasons therefor.

- (k) Any deviations from the applicable criteria identified, for example, deviations from a framework that the entity has referred to as being the basis for preparing the sustainability information.
- (l) The need for clear meaning, so that the description does not contain imprecise or qualifying language that may result in inconsistent interpretation and provides sufficient detail and clarity to be understandable.

Subsequent Events (Ref: Para. 163–164)

A502. Examples of subsequent events:

- The publication of revised factors, assumptions or benchmarks by a body such as a government agency (e.g., revised emissions factors).
- Changes to relevant legislation or regulations.
- Significant improved scientific knowledge.
- Significant structural changes in the entity.
- The availability of more accurate quantification methods.
- The discovery of a significant fraud or error.
- The discovery of significant water pollution or soil contamination.
- Fatality and other significant health and safety events.

A503R. The practitioner's procedures to identify subsequent events may include:

- (a) Obtaining an understanding of any procedures management has established to identify subsequent events.
- (b) Inquiring of management, and where appropriate, those charged with governance, as to whether any subsequent events have occurred that may affect the sustainability information.
- (c) Reading minutes of meetings of the owners, those charged with governance and management held after the date of the sustainability information and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- (d) Reading the entity's monthly or quarterly sustainability information, if available.

A504L. The practitioner's procedures to identify subsequent events may include inquiring of management, and as appropriate, those charged with governance, about whether any subsequent events have occurred that may affect the sustainability information.

A505. The practitioner has no responsibility to perform any procedures regarding the sustainability information after the date of the assurance report. However, if, after the date of the assurance report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the assurance report, may have caused the practitioner to amend the report, the practitioner may need to discuss the matter with management or those charged with governance or take other action as appropriate in the circumstances.

Written Representations from Management and Those Charged with Governance (Ref: Para. 165)

A506. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and management, and where appropriate, those charged with governance. The

person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the entity, which may vary by jurisdiction, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.

A507. Representations by management and, where appropriate, those charged with governance cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.

Other Information

Obtaining the Other Information (Ref: Para. 171)

A508. As explained in paragraph 5, the scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity or only part of that information. When the assurance engagement does not cover the entirety of the sustainability information, the term “sustainability information” is to be read as the information that is subject to the assurance engagement.

A509. The objective of the required discussion with management in paragraph 171(a) is to help the practitioner understand the entirety of the sustainability information to be reported, including the sustainability information subject to the assurance engagement, and where it will be reported, to be able to identify the other information required to be read and considered in accordance with paragraph 172. For example, the sustainability information subject to the assurance engagement may be included as part of an entity’s management report, annual report or integrated report, or included with other governance information.

A510. As frameworks and practices for reporting sustainability information may be evolving and new laws and regulations may be imposed over time, the location of the sustainability information and the content of the report(s) in which that information is included may change between periods. As a result, it may not be clear which document(s) comprises the report in which the sustainability information will be published. The practitioner may communicate with those responsible for preparing the entity’s reports, whether management or those charged with governance, the practitioner’s expectations in relation to obtaining the final version of the report(s) that will contain the sustainability information in a timely manner prior to the date of the assurance report. This enables the practitioner to complete the procedures required by this ISSA before the date of the assurance report.

A511. When other information is only made available to users via the entity’s website, the final version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the practitioner would perform procedures in accordance with this ISSA. The practitioner has no responsibility under this ISSA to search for other information, including other information that may be on the entity’s website. In addition, the practitioner has no responsibility to perform any procedures to confirm that other information is appropriately displayed on the entity’s website or otherwise has been appropriately transmitted or displayed electronically, unless this is within the scope of the assurance engagement.

Reading and Considering the Other Information (Ref: Para. 172)

A512. If the other information is materially inconsistent with the sustainability information subject to the assurance engagement or the practitioner's knowledge obtained in the engagement, it may indicate that there is a material misstatement of the sustainability information or that a material misstatement of the other information exists. This may undermine the credibility of the sustainability information and the assurance report thereon. Such material misstatements may also inappropriately influence the decisions of the users for whom the assurance report is prepared. The procedures with respect to other information may also assist the practitioner in complying with relevant ethical requirements as required by paragraph 34. Relevant ethical requirements require the practitioner to avoid being knowingly associated with information that the practitioner believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.

A513. In some cases, disclosures in the other information may summarize, or provide additional details about, the disclosures in the sustainability information subject to the assurance engagement. The practitioner may compare a selection of such disclosures in the other information with the disclosures in the sustainability information subject to assurance. The extent of this comparison is a matter of professional judgment recognizing that the practitioner's responsibilities under this ISSA do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information.

*Responding When the Practitioner Concludes That a Material Misstatement of the Other Information Exists**Responding When the Practitioner Concludes That a Material Misstatement Exists in Other Information Obtained Prior to the Date of the Assurance Report* (Ref: Para. 175–176)

A514. The actions the practitioner takes if the other information is not corrected after communicating with those charged with governance are a matter of professional judgment. The practitioner may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the practitioner suspects an intention to mislead. The practitioner may also consider it appropriate to seek legal advice. In some cases, the practitioner may be required by law, regulation or professional requirements to communicate the matter to a regulator or relevant professional body.

Responding When the Practitioner Concludes That a Material Misstatement Exists in Other Information Obtained After the Date of the Assurance Report (Ref: Para. 175–176)

A515. The practitioner has no obligation to perform any procedures regarding the other information that becomes available after the date the assurance report. However, the practitioner may become aware that a material inconsistency appears to exist between the other information available after the date of the assurance report and the sustainability information or the practitioner's knowledge obtained in the engagement. The practitioner may discuss the matter with management or those charged with governance, as appropriate, and if the other information is not corrected take appropriate action. This may include performing other procedures to conclude whether a material misstatement of the other information or of the sustainability information exists. If the practitioner concludes that a material misstatement exists, but the other information is not corrected, the practitioner may seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the practitioner's report is prepared, considering the practitioner's legal rights and obligations.

Reporting Implications (Ref: Para. 176(a))

A516. In rare circumstances, a disclaimer of conclusion or opinion on the sustainability information may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of evidence in general.

Withdrawal from the Engagement (Ref: Para. 176(b))

A517. Withdrawal from the engagement, when possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the assurance engagement.

Responding When a Material Misstatement in the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 177)

A518. In reading the other information, the practitioner may become aware of new information that has implications for:

- The practitioner's understanding of the entity and its environment and, accordingly, may indicate the need to revise the practitioner's risk consideration or assessment.
- The practitioner's responsibility to evaluate the effect of identified misstatements on the engagement and of uncorrected misstatements, if any, on the sustainability information.
- The practitioner's responsibilities relating to subsequent events.

Forming the Assurance Conclusion

Evaluating the Evidence Obtained (Ref: Para. 178)

A519. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. This may particularly be the case when the entity's information system is less mature or when the disclosures, and their characteristics, are subject to greater judgment. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures to meet the intended purpose(s) in performing those procedures. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the planned procedures. When the practitioner determines that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the sustainability information, the practitioner may:

- (a) Extend the work performed; or
- (b) Perform other procedures judged by the practitioner to be necessary in the circumstances.

When neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion.

A520. A procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the procedure (i.e., its application) is inappropriate the purpose of the procedure may not be met. Paragraphs 31–63 address the specific responsibilities of the practitioner regarding

quality management at the engagement level, and the related responsibilities of the engagement leader, which may affect the application of procedures. In addition, paragraph A116 explains that the review of the engagement team's work consists of considering whether, for example:

- (a) The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's assurance conclusion; and
- (b) The objectives of the procedures have been achieved.

A521. The practitioner's professional judgment as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of it having a material effect, individually or when aggregated with other potential misstatements, on the sustainability information.
- Effectiveness of management or those charged with governance's responses to address the known risk of material misstatement.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.
- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the entity and its environment.

A522. The evaluation of evidence obtained related to the preparation of qualitative information or qualitative aspects of quantitative information may include consideration of whether:

- (a) There are indicators of possible bias in judgments and decisions in the making of estimates and in preparing the sustainability information;
- (b) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;
- (c) The information presented in the sustainability information is relevant, reliable, complete, comparable and understandable;
- (d) The sustainability information provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgments made in its preparation; and
- (e) The terminology used in the sustainability information is appropriate.

Evidence Obtained That Is Inconsistent with Other Evidence (Ref: Para. 180)

A523. When evidence is inconsistent with other evidence, it may indicate that some of the information used as evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the practitioner's evaluation of the relevance and reliability of such information, in accordance with paragraph 90. Paragraph 94 addresses the practitioner's responsibilities when the practitioner has doubts about the relevance

and reliability of information intended to be used as evidence. The extent to which the practitioner may need to modify or add to the procedures to resolve the doubts and the effect on other aspects of the assurance engagement may vary.

A524. When performing a procedure, the practitioner may identify items that are inconsistent with the practitioner's expectations or that exhibit characteristics that are unusual. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of interest. These items may indicate a possible misstatement in the sustainability information. They may also indicate inconsistencies in evidence, particularly when other evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information.

A525. In considering the effect of inconsistencies in evidence on other aspects of the assurance engagement, the practitioner may consider whether the practitioner's risk assessment remains appropriate.

A526. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner is required to express a qualified conclusion or disclaim a conclusion on the sustainability information, or, if possible, withdraw from the engagement, in accordance with paragraph 185.

Concluding (Ref: Para. 181–184)

A527. In regulatory disclosure regimes, disclosures specified in the relevant law or regulation are adequate for reporting to the regulator. However, additional disclosures in the sustainability information may be necessary for other intended users to understand the significant judgments made in preparing the sustainability information, such as:

- (a) The method used for determining the reporting boundary, if the applicable criteria allow a choice between different methods, and which operations are included;
- (b) Significant evaluation or quantification methods and reporting policies selected and applied, including:
 - (i) The entity's process to identify the sustainability matters to be included in the sustainability information (see paragraph A3);
 - (ii) Any significant interpretations made in applying the applicable criteria in the entity's circumstances, including data sources and, when choices between different methods are allowed, or entity-specific methods are used, disclosure of the method used and the rationale for doing so; and
 - (iii) How the entity determines whether previously reported disclosures should be restated;
- (c) A statement regarding the uncertainties relevant to the entity's quantification of its sustainability information, including: their causes, how they have been addressed and their effects on the sustainability information; and
- (d) Changes, if any, in the matters mentioned in this paragraph or in other matters that materially affect the comparability of the sustainability information with a prior period(s) or base year.

Evaluating Whether the Sustainability Information Achieves Fair Presentation (Ref: Para. 182)

A528. In the case of fair presentation criteria, the practitioner's evaluation about whether the sustainability information achieves fair presentation is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based

on the practitioner's understanding of the entity and the evidence obtained. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information), such as the effect of evolving requirements or the changing environment.

A529. Evaluating whether the sustainability information achieves fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the disclosures in the sustainability information are aggregated or disaggregated, and whether the presentation of disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

Scope Limitation (Ref: Para. 185)

A530. A scope limitation may arise from:

- (a) Circumstances beyond the control of the appropriate party(ies). For example, documentation the practitioner considers necessary to inspect may have been accidentally destroyed;
- (b) Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process the practitioner considers necessary to observe may have occurred before the practitioner's engagement; or
- (c) Limitations imposed by management, those charged with governance, or the engaging party on the practitioner that, for example, may prevent the practitioner from performing a procedure the practitioner considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of engagement risk and the acceptance and continuance of the client relationship and the assurance engagement.

A531. An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 186(d)(i))

A532. Relevant considerations in determining that the engagement leader's involvement has been sufficient and appropriate throughout the engagement to provide a basis for determining that the significant judgments made and conclusions reached are appropriate, given the nature and circumstances of the engagement, include, for example:

- (a) How consultation on difficult, contentious or other matters has been undertaken and conclusions agreed have been implemented;
- (b) How differences of opinion have been addressed and resolved; and
- (c) How the engagement documentation evidences the engagement leader's involvement throughout the engagement.

A533. Examples of indicators that the engagement leader may not have been sufficiently and appropriately involved:

- Lack of timely review by the engagement leader of the engagement planning, including reviewing the risk assessment procedures performed.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement leader's direction and supervision of the other members of the engagement team and the review of their work.

A534. If the engagement leader's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement leader will not be able to make the determination required by paragraph 186. In addition to taking into account firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement leader may take, include, for example:

- Updating and changing the engagement plan;
- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement leader; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 187)

A535. The requirement to document how the practitioner addressed inconsistencies in information does not imply that the practitioner needs to retain engagement documentation that is incorrect or superseded.

A536. Engagement documentation evidencing the involvement of the engagement leader and the engagement leader's determination in accordance with paragraph 186(d)(i) may be accomplished in different ways depending on the nature and circumstances of the engagement.

Examples:

- Direction of the engagement team can be documented through signoffs of the engagement plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement leader's communications and other actions in respect of culture and expected behaviors that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement leader and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement leader spent on the engagement, may provide evidence of the engagement leader's involvement throughout the engagement and supervision of other members of the engagement team; or

- Signoffs by the engagement leader and other members of the engagement team provide evidence that the working papers were reviewed.

Preparing the Assurance Report

Communicating Effectively in the Assurance Report (Ref: Para. 188–189)

A537. The assurance report is the means by which the practitioner communicates the outcome of the assurance engagement to the intended users. Clear communication helps the intended users to understand the assurance conclusion. The practitioner does not report orally or by use of symbols without also providing a written assurance report that is readily available whenever the oral report is provided or the symbol is used, so that the practitioner's conclusion is not misunderstood. For example, a symbol indicating disclosures have been subject to an assurance engagement could be hyperlinked to a written assurance report.

A538. Appendix 3 contains illustrations of assurance reports on sustainability information, incorporating only the basic elements in paragraph 190 for the fact pattern stated above each illustration. The circumstances of the engagement may necessitate additional matters to be included in the assurance report to comply with this ISSA or the practitioner may consider that additional matters are needed to aid the understanding of the intended users.

Assurance Report Content (Ref: Para. 190)

A539. This ISSA does not require a standardized format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings, in addition to those required by this ISSA, paragraph numbers, the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

Title of the Assurance Report (Ref: Para. 190(a))

A540. To be independent, an assurance report is prepared by a practitioner that complies with the independence requirements of the IESBA Code related to sustainability assurance engagements or requirements that are at least as demanding.

Addressee (Ref: Para. 190(b))

A541. The addressee is usually the engaging party or those charged with governance of the entity. Law or regulation or the terms of the engagement may specify to whom the assurance report is to be addressed in that particular jurisdiction. As well as identifying the addressee of the assurance report, the practitioner may consider it appropriate to include wording in the body of the assurance report that specifies the purpose for which, or the intended users for whom, the report was prepared.

The Practitioner's Conclusion (Ref: Para. 190(c))

The level of assurance obtained (Ref: Para. 190(c)(iii))

A542. When parts of the sustainability information are subject to limited assurance and other parts are subject to reasonable assurance, clear identification in the assurance report of the sustainability information subjected to each level of assurance may aid users' understanding of what has been subject to limited assurance and what has been subject to reasonable assurance. The conclusions relating to each part of the sustainability information may also be distinguished to assist the

intended users. In these circumstances, the practitioner's report contains each of the content elements that are common to both levels of assurance, with the content elements for limited assurance and reasonable assurance clearly separated, to comply with paragraph 190.

Identification or description of the sustainability information (Ref: Para. 190(c)(iv))

A543. Identification or description of the sustainability information subject to the assurance engagement and, when appropriate, the sustainability matters, may include:

- The title or other identifying features of the sustainability information and, if applicable any broader report (such as an annual report or integrated report) within which the sustainability information is reported.
- If the sustainability information subject to the assurance engagement is not the entire sustainability information reported, identification of the part of the sustainability information subject to the assurance engagement, and if necessary to assist users' understanding, identification of the sustainability information not subject to the assurance engagement (see also paragraph A544).
- Where applicable, the name of other entity(ies) (such as entities in the value chain), facility(ies), location(s), jurisdiction(s) or other boundary(ies) to which the sustainability matters relate.
- An explanation of those characteristics of the sustainability matters or the sustainability information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the sustainability matters against the applicable criteria, or the persuasiveness of available evidence. For example:
 - The degree to which the sustainability information is qualitative versus quantitative, narrative versus numeric, objective versus judgmental, or historical versus forward-looking.
 - Changes in the sustainability matters, criteria or other engagement circumstances that affect the comparability of the sustainability information from one period to the next.

A544. In some circumstances, the entity may refer to the fact that certain sustainability information (e.g., information related to a value chain entity outside of the entity's control) has been subject to assurance, and may also include a reference in the sustainability information to the report of the practitioner that performed that assurance engagement. Such references could imply that the practitioner is taking responsibility for the content of, or conclusions expressed, in the assurance report of that other practitioner. In these circumstances, the practitioner may decide to clearly identify these references as not being subject to the assurance engagement.

Expression of the practitioner's conclusion (Ref: Para. 190(c)(vi)–(vii), 198L, 198R)

A545L. Examples of conclusions expressed in a form appropriate for a limited assurance engagement:

- (a) When expressed in terms of the sustainability information and the applicable criteria:
 - (i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria."

- (ii) Under a fair presentation framework: “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria.”
- (b) When expressed in terms of a statement made by the appropriate party:
 - (i) Under a compliance framework: “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party’s] statement that [the entity] has complied, in all material respects, with XYZ requirements is not properly prepared.”
 - (ii) Under a fair presentation framework: “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party’s] statement that the [sustainability information] is prepared in accordance with XYZ criteria is not, in all material respects, fairly stated.”

A546R. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement:

- (a) When expressed in terms of the sustainability information and the applicable criteria:
 - (i) Under a compliance framework: “In our opinion, the entity’s [sustainability information] is prepared, in all material respects, in accordance with XYZ criteria;” or
 - (ii) Under a fair presentation framework: “In our opinion, the entity’s [sustainability information] is fairly presented, in all material respects, in accordance with XYZ criteria;”
- (b) When expressed in terms of a statement made by the appropriate party:
 - (i) Under a compliance framework: “In our opinion, the [appropriate party’s] statement that the entity has complied with XYZ requirement is, in all material respects, properly prepared” or
 - (ii) Under a fair presentation framework: “In our opinion, the [appropriate party’s] statement that the [sustainability information] is prepared in accordance with XYZ criteria is, in all material respects, fairly stated.”

A547. Forms of expression that may be useful for sustainability matters include, for example, one, or a combination of, the following:

- For compliance frameworks—“in compliance with” or “in accordance with.”
- For engagements when the applicable criteria describe a methodology for the preparation or presentation of the sustainability information—“properly prepared.”
- For engagements when the principles of fair presentation are embodied in the applicable criteria—“fairly stated” or “presents fairly.”

Identification of the applicable criteria (Ref: Para. 190(c)(vii))

A548. In order for the practitioner to accept or continue the engagement, paragraph 81 requires the preconditions to be met, including that the criteria will be available to the intended users. Management or those charged with governance may make the applicable criteria available to users, either in the sustainability information or by reference, in order for the intended users to understand the basis of preparation of the sustainability information. The entity's sustainability information or the description of the criteria referenced, may include matters such as:

- Details of the sources of the applicable criteria, and whether or not the applicable criteria are framework criteria, embodied in law or regulation, or issued by an authorized or recognized organization that follow a transparent due process, and if they are not, who developed the criteria, the basis for that development (such as how the intended users' needs were identified) and a description of why they are considered suitable.
- Reporting policies for the measurement or evaluation methods used, including when the applicable criteria allow for choice between a number of methods.
- Any significant interpretations made in applying the applicable criteria.
- Whether there have been any changes in reporting policies for the measurement or evaluation methods used since the prior period.

A549. A statement that management has prepared the sustainability information in accordance with particular criteria is appropriate only if the sustainability information complies with all the requirements of those criteria that are effective during the period covered by the sustainability information.

A550. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, "the sustainability information is in substantial compliance with the requirements of XYZ") is not an adequate description as it may mislead users of the sustainability information.

A551. Sometimes management may report the sustainability information using more than one framework. In such a case, user understanding is likely to be enhanced if management or those charged with governance make available the criteria relating to each framework separately, rather than being summarized or combined. When management prepares the sustainability information in accordance with multiple frameworks (e.g., a national framework and a global framework), those frameworks represent the applicable criteria and are identified in accordance with paragraph 190(c)(vii), if each framework is complied with individually. If the sustainability information is prepared in accordance with one sustainability reporting framework and, in addition, discloses the extent to which the sustainability information complies with another framework, such disclosure is covered by the assurance conclusion if it cannot be clearly differentiated from the sustainability information.

Informing the intended users of the context in which the practitioner's conclusion is to be read (Ref: Para. 190(c)(ix))

A552. It may be appropriate to inform the intended users of the context in which the practitioner's conclusion is to be read when the assurance report includes an explanation of particular characteristics of the sustainability matter of which the intended users should be aware. The practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."

Basis for Conclusion Section (Ref: Para. 190(d))

Statement that the engagement was conducted in accordance with this ISSA (Ref: Para. 190(d)(i))

A553. Practitioner's statements that contain imprecise or limiting language (for example, "the engagement was performed by reference to (or based on) ISSA 5000") may mislead users of assurance reports. In these circumstances, users may understand that all of the requirements of this ISSA have all been complied with, even if they have not (see paragraph 20).

Statement about independence requirements specific to certain entities (Ref: Para 190(d)(v))

A554. Relevant ethical requirements may:

- Establish independence requirements that are specific to sustainability assurance engagements of certain entities specified in the relevant ethical requirements, such as the independence requirements for sustainability assurance engagements of public interest entities in the IESBA Code.
- Require the practitioner to publicly disclose when the practitioner applied independence requirements specific to sustainability assurance engagements of certain entities. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing a sustainability assurance engagement of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.

Responsibilities for the Sustainability Information (Ref: Para. 190(f))

A555. Identifying relative responsibilities informs the intended users that management, or those charged with governance, as appropriate, is responsible for the preparation of the sustainability information, and that the practitioner's role is to independently express a conclusion about the sustainability information.

A556. Those charged with governance instead of management may be responsible for the sustainability information depending on the engagement circumstances and the legal framework in the particular jurisdiction. In other jurisdictions, those charged with governance may be responsible for the oversight of the process to prepare the sustainability information, and management fulfills the responsibilities described in paragraph 190(f)(i).

Applicability of responsibility for fair presentation of the sustainability information (Ref: Para. 190(f)(i)a.)

A557. Some criteria acknowledge explicitly or implicitly the concept of fair presentation. As noted in the definition of criteria (see paragraph 18), fair presentation criteria not only require compliance with the criteria, but also acknowledge explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the criteria. Therefore, the responsibilities of management or those charged with governance, as appropriate, for preparing the sustainability information in accordance with a fair presentation framework, extend to whether fair presentation is achieved in the sustainability information presented.

Inherent Limitations in Preparing the Sustainability Information (Ref: Para. 190(g))

A558. While in some cases inherent limitations can be expected to be well understood by the intended users, in other cases it may be appropriate for the practitioner to make explicit reference to them in the assurance report. This may particularly be the case when inherent measurement or evaluation

uncertainties may be fundamental to intended users' understanding of the sustainability information. For example, for greenhouse gas emissions, it may be appropriate to note that the entity's disclosures about Scope 3 emissions are subject to more inherent limitations than for Scope 1 and Scope 2 emissions, given the lack of availability and relative precision of information used for determining both qualitative and quantitative Scope 3 information from value chain entities outside the control of the group.

A559. Management may choose to explain limitations on the ability to obtain information from value chain entities included in the sustainability information reported and, if not, the practitioner may discuss with management whether to do so. The practitioner may also choose to describe the effects on the practitioner's procedures in the assurance report (e.g., in the Inherent Limitations section of the report). However, it is important that any such description in the assurance report does not imply that the practitioner's responsibility for obtaining sufficient appropriate evidence to support the assurance conclusion is reduced with respect to such information.

A560. For engagements on sustainability information containing forward-looking information (i.e., goals or targets, forecasts, scenario analyses or transition plans) the preparation of this information may be subject to inherent limitations. If the practitioner describes such limitations in an Inherent Limitations section of the assurance report, such description may refer to management's explanation, if any, and state that:

- For a forecast expressed as specific disclosure(s): Actual results are likely to be different from the forecast sustainability information since anticipated events frequently do not occur as expected and the variation could be material;
- For a forecast expressed as a range: For forecast information expressed in a range the actual results may fall outside of that range and the variation could be material; or
- For projections, scenario analyses or transition plans: The forward-looking sustainability information has been prepared for (state purpose), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, users are cautioned that the forward-looking sustainability information is not used for purposes other than that described.

An Informative Summary of the Work Performed as the Basis for the Practitioner's Conclusion (Ref: Para. 190(i))

A561. For engagements that require the practitioner to obtain different levels of assurance on different topics, aspects of topics or disclosures, the practitioner may also delineate the procedures performed for each level of assurance so that it is clear to the users which procedures were performed in relation to the sustainability information.

A562R. The assurance report in a reasonable assurance engagement requires a section with the subheading "Practitioner's Responsibilities" that briefly describes procedures performed (see paragraph 190(h)(iv-v)). This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified conclusion is issued, sufficient appropriate evidence has been obtained to enable the practitioner to form a reasonable assurance conclusion.

A563L. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in the limited assurance report. The summary of work performed is therefore ordinarily more detailed than the

procedures described in the Practitioner's Responsibilities section in a reasonable assurance report. It also may be appropriate to include a description of procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the procedures in a limited assurance engagement vary in nature and timing from, and are less than for, a reasonable assurance engagement.

A564L. Factors to consider in determining the level of detail to be provided in the summary of work performed may include:

- Circumstances specific to the entity (e.g., the differing nature of the entity's activities compared to those typical in the sector).
- Specific engagement circumstances affecting the nature and extent of the procedures performed.
- The intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

A565L. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarized to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan. The procedures for limited assurance, which are described in the "Summary of Work Performed" section, may appear to a user to be more comprehensive than the procedures described in a reasonable assurance engagement, so it may be helpful for the practitioner to explain why this is the case. This may be accomplished by including in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding, especially when both reasonable and limited assurance are in the same assurance report.

Date of the Assurance Report (Ref: Para. 190(I))

A566. Including the assurance report date informs the intended users that the practitioner has considered the effect on the sustainability information and on the assurance report of events that occurred up to that date.

Form of the Assurance Report (Ref: Para. 190)

A567. An assurance conclusion expressed in a binary manner (e.g., concludes that the sustainability information either has, or has not, been prepared in accordance with the applicable criteria) may not be able to communicate sufficiently the complexities that may be present in a sustainability assurance engagement without additional contextual information to aid the intended users' understanding. The practitioner may choose a "short-form" or "long-form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements, as required by paragraph 190. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion, such as:

- (a) Detailed description of the terms of the engagement;
- (b) Findings relating to particular aspects of the engagement;

- (c) Details of the qualifications and experience of the practitioner and others involved with the engagement;
- (d) The practitioner's considerations of materiality, and whether those considerations are in respect of qualitative or quantitative sustainability information;
- (e) The intended users of the assurance report and the purpose for which it has been prepared;
- (f) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement; or
- (g) Explanation of why, in an assurance engagement, the practitioner cannot become involved in the preparation of the sustainability information because such an engagement is designed to give a conclusion by an independent practitioner over the sustainability information.

The practitioner may find it helpful to consider the significance of providing such information to the information needs of the intended users. As required by paragraph 189, additional information is clearly separated from the practitioner's conclusion and phrased in such a manner so as to make it clear that it is not intended to detract from that conclusion.

A568. Including the practitioner's recommendations on matters, such as improvements to the entity's information system, in the assurance report may imply that those matters have not been appropriately dealt with in preparing the sustainability information. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users, and whether they are worded appropriately so that they will not be misunderstood as a qualification of the practitioner's conclusion on the sustainability information.

A569. In addition to the basic elements described in paragraph 190, the practitioner may decide to include additional information in the assurance report (see paragraph A567). Matters that may be relevant to the practitioner's decision to include such additional information may include:

- (a) Sustainability information may be prepared for diverse groups of users, and may cover sustainability matters that are diverse in nature, ranging from a single aspect, such as greenhouse gases emitted by the entity during a period, through to an entity's strategy, business model and performance, which may comprise:
 - Historical information.
 - Forward-looking information.
 - Processes, systems and controls.
 - Performance against targets, goals or commitments.
- (b) The sustainability matters may be complex to measure or evaluate, or be subject to measurement or evaluation uncertainties, which the intended users may not be aware of.
- (c) The criteria used to measure or evaluate them may be set out in an established framework, may be developed by the entity, or may be selected from various frameworks, with or without further development by the entity, making it difficult for a user to understand how the sustainability information has been prepared.
- (d) The sustainability information may be presented in the form of a traditional standalone report, or as part of a larger report or reports. It may also be presented partially in narrative and partially

through the use of graphs, images, embedded videos or similar representations. The presentation could support the users' understanding of what is, and what is not, subject to the assurance engagement.

Name of the Engagement Leader in the Assurance Report (Ref: Para. 191)

A570. The objective of the firm in ISQM 1 is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional requirements and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Notwithstanding the objective of ISQM 1, naming the engagement leader in the assurance report is intended to provide further transparency to the users of the assurance report on sustainability information of a listed entity.

A571. Law, regulation or national standards may require that the practitioner's report include the name of the engagement leader responsible for assurance reports other than those of sustainability information of listed entities. The practitioner may also be required by law, regulation or national standards, or may decide to include additional information beyond the engagement leader's name in the assurance report to further identify the engagement leader, for example, the engagement leader's professional license number that is relevant to the jurisdiction where the engagement leader practices.

A572. In rare circumstances, the practitioner may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement leader is made public, may result in physical harm to the engagement leader, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement leader may be omitted.

Reference to a Practitioner's Expert in the Assurance Report (Ref: Para. 192)

A573. In some cases, law or regulation may require a reference to the work of a practitioner's expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in other circumstances, for example, to explain the nature of a modification of the practitioner's conclusion, or when the work of an expert is integral to findings included in a long-form report. In such circumstances, the practitioner may need the permission of the practitioner's expert before making such a reference.

A574. As the practitioner has sole responsibility for the assurance conclusion expressed, it is important that, if the assurance report refers to a practitioner's expert, the wording of that report does not imply that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of that expert. For example, in describing the practitioner's approach to an estimate that has been identified as having high estimation uncertainty, the practitioner may wish to highlight that

the practitioner employed or engaged a practitioner's expert without identifying that expert. Such a reference to the use of a practitioner's expert does not reduce the practitioner's responsibility for the conclusion on the sustainability information and is therefore not inconsistent with paragraph 192.

A575. A generic reference in a long-form report to the engagement having been conducted by suitably qualified personnel, including subject matter experts and assurance specialists, is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short-form reports, where minimum contextual information is able to be presented, or when law or regulation require the practitioner's expert to be referred to by name. Therefore, additional wording may be needed in such cases to prevent the assurance report implying that the practitioner's responsibility for the conclusion expressed is reduced.

Other Reporting Responsibilities

Assurance Report Prescribed by Law or Regulation (Ref: Para. 193–194)

A576. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are additional to the practitioner's responsibilities under this ISSA. For example, the practitioner may be required to provide a conclusion on specific matters, such as compliance of the sustainability information with a digital taxonomy. Assurance standards in the specific jurisdiction often provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A577. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities as part of their assurance report on the sustainability information. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A578. Paragraphs 193–194 permit combined presentation of other reporting responsibilities and the practitioner's responsibilities under this ISSA only when they address the same elements as those presented under the reporting responsibilities required by this ISSA and the wording of the assurance report clearly differentiates the other reporting responsibilities from those under this ISSA. Such clear differentiation may make it necessary for the assurance report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under ISSA 5000. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the assurance report with the heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section.

Emphasis of Matter Paragraph and Other Matter Paragraph

The Difference between Inherent Limitations, Emphasis of Matter and Other Matter Paragraphs (Ref: Para. 199)

A579. When significant inherent limitations are described in the assurance report in accordance with paragraph 190(g), the description of those inherent limitations is different from including an Emphasis of Matter paragraph in the assurance report. Inherent limitations are present in the measurement or evaluation of the sustainability matters, irrespective of whether they have been disclosed by management. However, it may be useful for management to disclose such inherent limitations in greater detail within the sustainability information. In some cases, the inherent measurement or evaluation uncertainties may be fundamental to the users' understanding of the sustainability information and may be described within the sustainability information.

A580. An Emphasis of Matter paragraph can only draw attention to a matter which is presented or disclosed by management in the sustainability information. The content of an Emphasis of Matter paragraph includes a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the sustainability information. It also indicates that the practitioner's conclusion is not modified in respect of the matter emphasized. An Emphasis of Matter paragraph may be appropriate when, for example:

- (a) Different criteria have been used or the criteria have been revised, updated or interpreted differently than in prior periods and this has had a fundamental effect on the sustainability information.
- (b) A system breakdown for part of the period impacted the operation of controls or recording of matters material to the engagement.

A581. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the sustainability information. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by law, regulation or professional requirements, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management. An Other Matter paragraph may be appropriate when, for example, the scope of the engagement has changed significantly from the prior period and this has not been stated in the sustainability information.

A582. A widespread use of Emphasis of Matter or Other Matter paragraphs may diminish the effectiveness of the practitioner's communication of such matters. Emphasis of Matter or Other Matter paragraphs are not a substitute for a modified assurance conclusion.

Criteria Designed for a Specific Purpose (Ref: Para. 200)

A583. In some cases, the applicable criteria used to measure or evaluate the sustainability matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstanding, the practitioner alerts readers of the assurance report to this fact and that, therefore, the sustainability information may not be suitable for another purpose.

A584. In addition to the alert required by paragraph 200, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not in itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Other Information (Ref: Para. 201–202)

A585. When the practitioner disclaims a conclusion on the sustainability information, the assurance report does not include an "Other Information" section because providing further details about the engagement, including a section to address other information, may overshadow the disclaimer of conclusion on the sustainability information as a whole.

A586. If the other information includes the financial statements that have been audited by the practitioner or the practitioner's firm, ordinarily this is acknowledged in the Other Information section of the

assurance report by expanding the statement required by paragraph 202(c) to indicate that a conclusion is not provided on the other information as part of the engagement on the sustainability information, but the practitioner or the practitioner's firm has audited the financial statements that form part of the other information and provided a separate auditor's opinion thereon that is included with the other information.

Modified Conclusion (Ref: Para. 203–206)

Impact of Qualified Conclusions Due to Limitation of Scope on the Statement on Other Information (Ref: Para. 203(a))

A587. When there is a limitation of scope with respect to a material item in the sustainability information, the practitioner will not have obtained sufficient appropriate evidence about that matter. In these circumstances, the practitioner may be unable to conclude whether or not the disclosures in the other information related to this matter result in a material misstatement of the other information. Accordingly, the practitioner may need to modify the statement required by paragraph 202(e)(i) to refer to the practitioner's inability to consider management's description of the matter in the other information in respect of which the assurance conclusion on the sustainability information has been qualified as explained in the Basis for Qualified Conclusion paragraph. The practitioner is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Impact of Modified Conclusions Due to Uncorrected Misstatements on the Statement on Other Information (Ref: Para. 203(b))

A588. A qualified or adverse assurance conclusion on the sustainability information may not have an impact on the statement on other information required by paragraph 202(e) if the matter for which the assurance conclusion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. In other circumstances, there may be implications for such reporting as described in paragraphs A589–A590.

A589. When the assurance conclusion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified conclusion on the sustainability information.

A590. An adverse conclusion on the sustainability information relating to a specific matter(s) described in the Basis for Adverse Conclusion paragraph does not justify the omission of reporting of material misstatements of the other information that the practitioner has identified in the assurance report in accordance with paragraph 202(e)(ii). When an adverse conclusion has been expressed on the sustainability information, the practitioner may need to appropriately modify the statement required by paragraph 202(e)(ii), for example, to indicate that the disclosures in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse conclusion on the sustainability information.

Effects of the Matter Are Pervasive (Ref: Para. 204)

A591. The term 'pervasive' describes the effects on the sustainability information of misstatements or the possible effects on the sustainability information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the sustainability information are those that, in the practitioner's professional judgment:

- (a) Are not confined to specific aspects of the sustainability information;

- (b) If so confined, represent or could represent a substantial proportion of the sustainability information; or
- (c) In relation to disclosures, are fundamental to the intended users' understanding of the sustainability information.

A592. The nature of the matter, and the practitioner's judgment about the pervasiveness of the effects or possible effects on the sustainability information, affects the type of conclusion to be expressed.

Examples of Modified Conclusions (Ref: Para. 203)

A593L. Examples of a qualified conclusion for a limited assurance engagement (with a material misstatement)

- Qualified conclusion (compliance framework) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria.”
- Qualified conclusion (fair presentation framework) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria.”

A594R. Examples of qualified conclusion for a reasonable assurance engagement (with a material misstatement):

- Qualified conclusion (compliance framework) – “Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is prepared, in all material respects, in accordance with XYZ criteria.”
- Qualified conclusion (fair presentation framework) – “Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is fairly presented, in all material respects, in accordance with XYZ criteria.”

A595. Examples of adverse conclusions and a disclaimer of conclusion for both limited and reasonable assurance engagements:

- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a compliance framework) – “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] is not prepared in accordance with “XYZ criteria.”
- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a fair presentation framework) – “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our

report, the [sustainability information] does not present fairly the entity's compliance with XYZ criteria."

- Disclaimer of conclusion (an example for a material and pervasive limitation of scope) – "Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the [sustainability information]. Accordingly, we do not express a conclusion on that [sustainability information]."

Comparative Information (Ref: Para. 207–211)

A596. Law or regulation, the criteria or the terms of the engagement, may specify the requirements regarding the presentation, reporting and assurance of the comparative information in the sustainability information.

A597. If there are inconsistencies between the comparative information and the current-period sustainability information, the practitioner may consider the reasons for those differences to evaluate whether those inconsistencies are addressed in accordance with the criteria. When sustainability information includes comparisons of period-on-period information, such as references to percentage reductions or increases in measures or key performance indicators, it is important that the practitioner consider the appropriateness of the comparisons. These may be inappropriate due to:

- Significant changes in operations from the prior period;
- Significant changes in conversion factors;
- Significant changes in assumptions, or
- Inconsistency of sources or methods of measurement or evaluation.

A598. Information reported in a prior period may need to be restated in accordance with law or regulation or the applicable criteria because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error.

A599. When comparative information is presented with the current sustainability information, but some or all of that comparative information is not referred to in the practitioner's conclusion, it is important that the status of such information is clearly identified in both the sustainability information and the assurance report in accordance with paragraphs 209 and 210.

A600. The identification of information required under paragraphs 209 and 210 to be included in an "Other Matter" paragraph with respect to an assurance engagement conducted on the comparative information in the prior period, may be complex and lengthy. In these circumstances, it may be appropriate to include this information by way of reference if it is included in the sustainability information, or as an attachment to the assurance report.

A601. If the engagement does not include assurance on comparative information, the requirement to perform procedures in the circumstances addressed by paragraph 211 is to satisfy the practitioner's ethical obligation to not knowingly be associated with materially false or misleading information.

Documentation

Matters Arising After the Date of the Practitioner's Report (Ref: Para. 212)

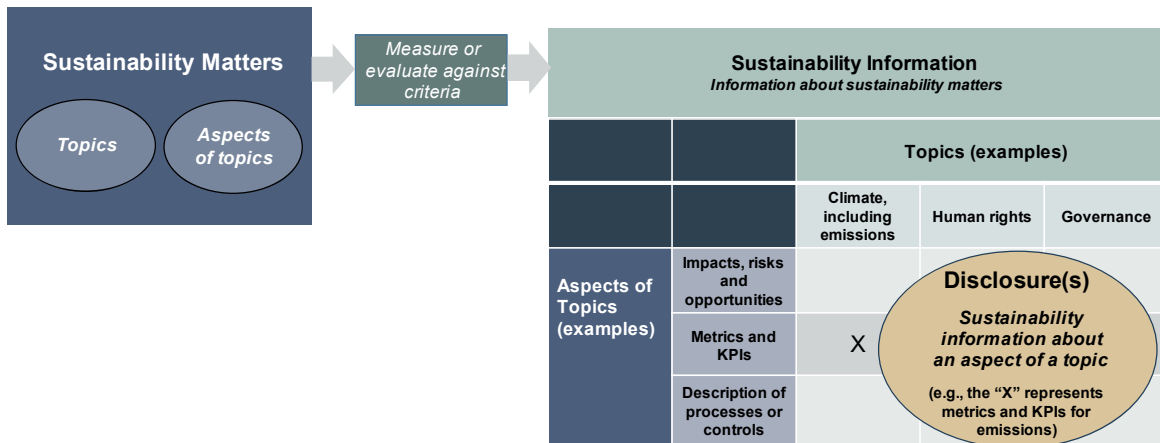
A602. Examples of exceptional circumstances include facts that become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the sustainability information to be amended or the practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the engagement documentation are reviewed in accordance with the firm's policies or procedures with respect to the nature, timing and extent of the review of engagement team members' work as required by ISQM 1, with the engagement leader taking final responsibility for the changes.

Appendix 1

(Ref: Para. 2, A21–A22)

Sustainability Matters and Sustainability Information

1. This appendix explains the relationship between sustainability matters (i.e., the underlying subject matter); sustainability information (i.e., the subject matter information), which results from measuring or evaluating the sustainability matters against the criteria; and the related disclosures.
2. This relationship can be illustrated as follows:



3. Paragraph 75 requires the practitioner to obtain a preliminary knowledge of the sustainability information to be reported by the entity. As a part of establishing whether the preconditions for an assurance engagement are present, paragraph 76(a) requires the practitioner to consider whether the entity has a process to identify sustainability information to be reported.
4. As explained in paragraph 3, sustainability information is reported in accordance with the criteria. The topics and aspects of topics of sustainability matters are considered by management in determining the sustainability information to be reported, and are manifested in the related disclosures. A disclosure represents sustainability information reported by the entity about an aspect of a topic. A more comprehensive list of examples of topics and aspects of topics is provided in paragraph A43.
5. Disclosures can be in various forms (e.g., narrative descriptions or other qualitative information, tables with key performance indicators or other quantitative information, or a combination thereof) and may be limited to a single paragraph or table or may span multiple pages in a separate sustainability report, part of the entity's annual report or some other reporting mechanism. How the entity presents the disclosures (i.e., how the entity aggregates or disaggregates the sustainability information for purposes of presentation) is determined by the criteria. Whether and how the practitioner may further group the disclosures for purposes of planning and performing the engagement is a matter of professional judgment, as explained in paragraph A287.

The Practitioner's Consideration of the Entity's Process to Identify Sustainability Information to be Reported

1. This appendix sets out the requirements and application material relevant to the practitioner's conduct of an engagement, in the circumstances when the entity has a process to identify sustainability information to be reported, as described in paragraph 4.

Note 1

Engagement acceptance and continuance 76(a)-(b), 78c

Consider if the entity has a process to identify the sustainability information to be reported and the criteria (including for the process) are suitable [A3, A187, A190-A191]

Note 2

Risk Assessment

Understanding of SM* and SI** 106, 107, 117, 118, 121

Evaluate information system [A323, A330, A331, A382-A384, A386, A402]

Identify control deficiencies

Iterative Engagement Process:

If the practitioner identifies material omissions, in the topics or aspects of topics identified and selected to be included in the sustainability information, that are corrected by management, the practitioner conducts additional procedures (see Para. 157).

Responding to Risks

Performing further procedures 126L/R

Note 3

Accumulation and Consideration of Identified Misstatements

Omitted or obscured material sustainability information 153, 156 [A472-A473]

Note 3

Concluding

Materiality of omissions from, or information obscuring, the sustainability information reported 160, 181 [A491, A527]

Reporting

Express a conclusion, modified if material sustainability information is omitted or obscured 203

*SM - Sustainability matters

**SI - Sustainability information

Notes to the flowchart:

1. The practitioner is required to consider whether the entity has a process to identify the sustainability information to be reported (paragraph 76(a)). The practitioner is also required to evaluate the suitability of the criteria for the sustainability information, which would include understanding whether the entity is required to have such a process and whether the criteria in respect of that process exhibit the suitability characteristics in paragraph 78(c), in particular the relevance and completeness of the criteria.
2. As part of the practitioner's understanding of the entity's information system and controls, the practitioner obtains an understanding of the entity's process, and based on that understanding, and in the context of the reporting framework, the practitioner evaluates whether it appropriately supports the preparation of the sustainability information (paragraphs 117 and 118). The practitioner's understanding of the entity's process, along with other risk assessment procedures, may highlight where there are risks of material misstatement, including in relation to the completeness of the sustainability information to be reported.
3. Misstatements accumulated include any misstatements arising from material omissions in, or obscuring of, the sustainability information to be reported.

Requirements and application material for reference

Requirement [Application Material] Paragraph Number	Relevant extract of the requirement wording The practitioner shall...
76 (a) [A3, A187]	Consider whether the entity has a process to identify the sustainability information to be reported.
76 (b) [A190–A191]	Evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information.
78	Evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. In doing so, the practitioner shall:...
106 [A323]	(c) Evaluate whether the criteria exhibit the following characteristics: (i) Relevance; (ii) Completeness...

Requirement [Application Material] Paragraph Number	Relevant extract of the requirement wording The practitioner shall...
107 [A330–A331]	Determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 78.
117 [A382–A384]	Obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information, including: (a) The entity's process to identify sustainability information to be reported....
118 [A386]	Evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria.
121 [A402]	Based on the practitioner's understanding of the components of the entity's system of internal control, the practitioner shall consider whether one or more control deficiencies have been identified.
126L/R	Design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level/ assertion level for the disclosures.
153 [A472–A473]	Accumulate misstatements identified during the engagement, other than those that are clearly trivial.
156	Communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements.
160 [A491]	Determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence.
181 [A527]	Form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error...
203	Express a modified conclusion ... when, in the practitioner's professional judgment, a scope limitation exists, and the effect of the matter could be material ... (or) ... the sustainability information is materially misstated.

Illustrations of Assurance Reports on Sustainability Information

- Illustration 1: Unmodified Reasonable Assurance Report on Sustainability Information of a Listed Entity Prepared in Accordance with Fair Presentation Criteria
- Illustration 2: Unmodified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria
- Illustration 3: Unmodified Combined Reasonable and Limited Assurance Report on Sustainability Information for an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria
- Illustration 4: Modified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria

Illustration 1 – Unmodified Reasonable Assurance Report on Sustainability Information of a Listed Entity Prepared in Accordance with Fair Presentation Criteria

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A reasonable assurance engagement relating to the entirety of the Sustainability Report of ABC Company (the Company), a listed entity, for the year ended December 31, 20X1 (the Sustainability Information).
- The Sustainability Information is prepared by management of the Company in accordance with fair presentation criteria (Sustainability Reporting Framework Version x.1).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a reasonable assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- Those charged with governance are responsible for oversight of the Company's sustainability reporting process.
- The terms of the assurance engagement reflect the description of management's responsibility for the Sustainability Information in ISSA 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") opinion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both. The IESBA Code and the ethical requirements relating to the assurance engagement in the jurisdiction include independence requirements that are applicable to sustainability assurance engagements of public interest entities. They also require the practitioner to publicly disclose that the independence requirements applicable to sustainability assurance engagements of public interest entities were applied.

- The firm of which the practitioner is a member applies ISQM 1.
- The Sustainability Information and the practitioner's report thereon have been included in the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and has not identified a material misstatement of the other information in the Annual Report.
- In addition to the reasonable assurance engagement on the Sustainability Information, the practitioner has other reporting responsibilities required under local law.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Reasonable Assurance Report on the Sustainability Information¹

Reasonable Assurance Opinion

We have conducted a reasonable assurance engagement on the Sustainability Report of ABC Company (the "Company") for the year ended December 31, 20X1 (the "Sustainability Information").

In our opinion, the accompanying Sustainability Information is fairly presented, in all material respects, in accordance with the Sustainability Reporting Framework Version x.1.

Basis for Opinion

We conducted our reasonable assurance engagement in accordance with International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, issued by the International Auditing and Assurance Standards Board.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, as applicable to sustainability assurance engagements of public interest entities, together with the ethical requirements that are relevant to assurance engagements of public interest entities in [title/identification of requirements, name of appropriate authority and jurisdiction]. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

¹ The sub-title "Reasonable Assurance Report on the Sustainability Information" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter²

We draw attention to [identify the specific disclosure in the Sustainability Information], which describes [...]. Our opinion is not modified in respect of this matter.

Other Information³

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual report],⁴ but does not include the Sustainability Information and our assurance report thereon.

Our opinion on the Sustainability Information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our assurance engagement on the Sustainability Information, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Sustainability Information or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation and fair presentation of the Sustainability Information in accordance with the Sustainability Reporting Framework Version x.1.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with the Sustainability Reporting Framework Version x.1, that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Company's sustainability reporting process.

Inherent Limitations in Preparing the Sustainability Information⁵

As discussed in [identify the specific disclosure in the Sustainability Information], [provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria].

² Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

³ Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable Assurance Report Thereon."

⁴ A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

⁵ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain reasonable assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a reasonable assurance engagement in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶
- Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the disclosures. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the assurance report will vary depending on the nature of the practitioner's other reporting responsibilities. The matters addressed by other law, regulation or national standards (referred to as "other reporting responsibilities") are addressed within this section unless the other reporting responsibilities address the same report elements as those presented in accordance with the reporting responsibilities required by ISSA 5000 as part of the Reasonable Assurance Report on the Sustainability Information section. The reporting of other reporting responsibilities that address the same report elements as those required by this ISSA may be combined (i.e., included in the Reasonable Assurance Report on the Sustainability Information section under the appropriate subheadings) provided that the wording in the assurance report clearly differentiates the other reporting responsibilities from the reporting that is required by ISSA 5000, when such a difference exists.]

The engagement leader on the assurance engagement resulting in this independent practitioner's assurance report is [name].

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction]

[Practitioner's address]

[Date of the assurance report]

⁶ Remove the words "but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control " if the reasonable assurance engagement includes an opinion on the effectiveness of internal control.

Illustration 2 – Unmodified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A limited assurance engagement relating to the entirety of the Sustainability Report of ABC Company (the Company), an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Information).
- The Sustainability Information is presented in a stand-alone document (i.e., the entity's Sustainability Report).
- The Sustainability Information is prepared by management of the Company in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a limited assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement reflect the description of management's responsibility for the Sustainability Information in ISSA 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") conclusion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both.
- The firm of which the practitioner is a member applies ISQM 1.
- There is no other information because the Sustainability Information is presented in a stand-alone document.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Limited Assurance Conclusion

We have conducted a limited assurance engagement on the Sustainability Report of ABC Company (the Company) for the year ended December 31, 20X1 (the "Sustainability Information").

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the accompanying Sustainability Information is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Conclusion

We conducted our limited assurance engagement in accordance with International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, issued by the International Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, together with the ethical requirements that are relevant to our assurance engagement of the Sustainability Information in [title/identification of requirements, name of appropriate authority and jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Emphasis of Matter⁷

We draw attention to [identify the specific disclosure in the Sustainability Information], which describes [...]. Our conclusion is not modified in respect of this matter.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation of the Sustainability Information in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with XYZ Law of Jurisdiction X that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information⁸

As discussed in [identify the specific disclosure in the Sustainability Information], [provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria].

⁷ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

⁸ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a limited assurance engagement in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.⁹
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed

A limited assurance engagement involves performing procedures to obtain evidence about the Sustainability Information. The nature, timing and extent of procedures selected depend on professional judgment, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement, we:

*[Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.]*¹⁰

- [...]

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction]

[Practitioner's address]

[Date of the limited assurance report]

⁹ Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control " if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

¹⁰ The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management and in most cases will not detail the entire work plan.

Illustration 3 – Unmodified Combined Reasonable and Limited Assurance Report on Sustainability Information for an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria, comprising:

- a) **Reasonable Assurance Opinion on the selected disclosures, [identified by ...],¹¹ from the Sustainability Report (“Information RA”)**
- b) **Limited Assurance Conclusion on the selected disclosures, [identified by ...],¹² from the Sustainability Report (“Information LA”)**

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A reasonable assurance engagement relating to Information RA and a limited assurance engagement relating to Information LA of the Sustainability Report of ABC Company (the Company), an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Report).
- The Sustainability Report represents the sustainability information reported by the Company and Information RA and Information LA represent the sustainability information subject to the assurance engagement.
- The Sustainability Report is prepared by management of the Company in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Report includes comparative information that is not referred to in the practitioner’s conclusion. With respect to the comparative information: comparative Information RA was subject to a reasonable assurance engagement, and comparative Information LA was subject to a limited assurance engagement, in the prior period, and the practitioner’s respective conclusions were unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement accurately reflect the description of management’s responsibility for the Sustainability Information in ISSA 5000.
- The assurance practitioner has concluded that, based on the evidence obtained, an unmodified (i.e., “clean”) reasonable assurance opinion and limited assurance conclusion are appropriate with respect to Information RA and Information LA, respectively.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both.
- The firm of which the practitioner is a member applies ISQM 1.

¹¹ Provide a specific identification and location of the information that is subject to a reasonable assurance opinion, which should be distinct from the information subject to a limited assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

¹² Provide a specific identification and location of the information that is subject to a limited assurance conclusion, which should be distinct from the information subject to a reasonable assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

- Information LA and Information RA, and the practitioner's report thereon, have been included in the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and has not identified a material misstatement of the other information in the Annual Report.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S REASONABLE AND LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Reasonable Assurance Opinion

We have conducted a reasonable assurance engagement on the selected disclosures, [identified by ...],¹³ of the Sustainability Report of ABC Company (the Company) for the year ended December 31, 20X1 ("Information RA").

In our opinion, the Information RA of the accompanying Sustainability Report is prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Limited Assurance Conclusion

We have conducted a limited assurance engagement on the selected disclosures, [identified by ...],¹⁴ included in the Sustainability Report of the Company for the year ended December 31, 20X1 ("Information LA").

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Information LA of the accompanying Sustainability Report is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Reasonable Assurance Opinion and Limited Assurance Conclusion

We conducted our engagement in accordance with International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*, issued by the International Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

¹³ Provide a specific identification and location of the information that is subject to a reasonable assurance opinion, which should be distinct from the information subject to a limited assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

¹⁴ Provide a specific identification and location of the information that is subject to a limited assurance conclusion, which should be distinct from the information subject to a reasonable assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, together with the ethical requirements that are relevant to our assurance engagement of the Information RA and Information LA in [title/identification of requirements, name of appropriate authority and jurisdiction], and we have fulfilled our other responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion and limited assurance conclusion.

Emphasis of Matter¹⁵

We draw attention to [identify the specific disclosure in the Sustainability Report] from the Information LA of the Sustainability Report, which describes [...]. Our limited assurance conclusion is not modified in respect of this matter.

Other Information¹⁶

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual Report],¹⁷ but does not include the Information RA and Information LA subject to this engagement and our assurance report thereon.

Our reasonable assurance opinion and limited assurance conclusion on Information RA and Information LA, respectively, do not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our limited and reasonable assurance engagements on the Information RA and Information LA, respectively, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Information RA and Information LA, respectively, or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation of the Information RA and Information LA in accordance with XYZ Law of Jurisdiction X.

¹⁵ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

¹⁶ Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable and Limited Assurance Report Thereon".

¹⁷ A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Information RA and Information LA, in accordance with XYZ Law of Jurisdiction X, that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information¹⁸

As discussed in *[identify the specific disclosure in the Sustainability Report]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to:

- (a) Plan and perform the assurance engagement to obtain reasonable assurance about whether the Information RA is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion.
- (b) Plan and perform the assurance engagement to obtain limited assurance about whether the Information LA is free from material misstatement, whether due to fraud or error and to issue an assurance report that includes our conclusion.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Information RA and Information LA.

As part of both limited and reasonable assurance engagements in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- (a) For a reasonable assurance engagement:
 - Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁹
 - Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the disclosures in the Information RA. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) For a limited assurance engagement:
 - Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.²⁰

¹⁸ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

¹⁹ Remove “but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control” if the reasonable assurance engagement includes an opinion on the effectiveness of internal control.

²⁰ Remove “but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control” if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level in the Information LA. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed for Limited Assurance Conclusion

A limited assurance engagement involves performing procedures to obtain evidence about the Information LA. The nature, timing and extent of procedures selected depend on professional judgment, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error, in the Information LA.

In conducting our limited assurance engagement, we:

[Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.]²¹

- [...]

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction]

[Practitioner's address]

[Date of the assurance report]

²¹ The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

Illustration 4 – Modified Limited Assurance Report on Sustainability Information of an Entity Other than a Listed Entity Prepared in Accordance with Compliance Criteria

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A limited assurance engagement relating to the entirety of the Sustainability Report of ABC Company (the Company), an entity other than a listed entity, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Information).
- The Sustainability Information is presented in a stand-alone document (i.e., the entity's Sustainability Report).
- The Sustainability Information is prepared by management of the Company in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a limited assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement reflect the description of management's responsibility for the Sustainability Information in ISSA 5000.
- The assurance practitioner has concluded that a modified conclusion is appropriate due to a limitation of scope arising from an inability to obtain sufficient appropriate evidence regarding an identified matter that the practitioner has determined is material but not pervasive.
- The relevant ethical requirements that apply to the assurance engagement comprise the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements relating to assurance engagements in the jurisdiction, and the assurance report refers to both.
- The firm of which the practitioner is a member applies ISQM 1.
- There is no other information because the Company's Sustainability Information is presented in a stand-alone document.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC

Qualified Limited Assurance Conclusion

We have conducted a limited assurance engagement on the Sustainability Report of ABC Company (the Company) for the year ended December 31, 20X1 (the "Sustainability Information").

Based on the procedures we have performed and the evidence we have obtained, except for the possible effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come

to our attention that causes us to believe that the accompanying Sustainability Information is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Qualified Conclusion

The Company has disclosed [...].²² We were unable to obtain sufficient appropriate evidence about [...] as at December 31, 20X1 because [...].²³ Consequently, we were unable to determine whether any adjustments to [...] were necessary.

We conducted our limited assurance engagement in accordance with International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, issued by the International Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants, together with the ethical requirements that are relevant to our assurance engagement of the Sustainability Information in [title/identification of requirements, name of appropriate authority and jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm applies International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified conclusion.

Emphasis of Matter²⁴

We draw attention to [identify the specific disclosure in the Sustainability Information], which describes [...]. Our conclusion is not modified in respect of this matter.

Responsibilities for the Sustainability Information

Management of the Company is responsible for:

- The preparation of the Sustainability Information in accordance with XYZ Law of Jurisdiction X.

²² Insert a description of the relevant disclosure.

²³ Provide a description of the matter giving rise to, and the reasons for, the qualified conclusion.

²⁴ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with XYZ Law of Jurisdiction X, that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information²⁵

As discussed in *[identify the specific disclosure in the Sustainability Information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a limited assurance engagement in accordance with ISSA 5000, we exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.²⁶
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed

A limited assurance engagement involves performing procedures to obtain evidence about the Sustainability Information. The nature, timing and extent of procedures selected depend on professional judgment, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement, we:

*[Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.]*²⁷

- [...]

²⁵ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

²⁶ Remove “but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control” if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

²⁷ The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction]

[Practitioner's address]

[Date of the limited assurance report]

Conforming and Consequential Amendments to Other IAASB Standards Arising from ISSA 5000

PREFACE TO THE INTERNATIONAL QUALITY MANAGEMENT, AUDITING, REVIEW, SUSTAINABILITY AND OTHER ASSURANCE, AND RELATED SERVICES PRONOUNCEMENTS

Introduction

1. This preface to the *International Quality Management, Auditing, Review, Sustainability and Other Assurance, and Related Services Pronouncements* is issued to facilitate understanding of the scope and authority of the pronouncements the International Auditing and Assurance Standards Board (IAASB) issues, as set forth in the IAASB's Terms of Reference.

...

The IAASB's Pronouncements

IAASB Authoritative Pronouncements

3. The IAASB's pronouncements govern audit, review, sustainability and other assurance, and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on sustainability or other information in a particular country required to be followed in accordance with that country's national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards. A professional accountant or practitioner should not represent compliance with the IAASB's Standards unless the professional accountant or practitioner has complied fully with all standards relevant to the engagement.

...

The Authority Attaching to International Standards Issued by the International Auditing and Assurance Standards Board

...

- 6A. International Standards on Sustainability Assurance (ISSAs) are to be applied in assurance engagements on sustainability information.
7. International Standards on Assurance Engagements (ISAEs) are to be applied in assurance engagements other than audits or reviews of historical financial information or assurance engagements on sustainability information.

....

9. ISAs, ISREs, ISSAs, ISAEs, and ISRSs are collectively referred to as the IAASB's Engagement Standards.

...

Other International Standards

...

15. The basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant or practitioner may judge it necessary to depart from a relevant essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the professional accountant or practitioner is required to document how alternative procedures performed achieve the purpose of the procedure and, unless otherwise clear, the reasons for the departure. The need for the professional accountant or practitioner to depart from a relevant essential procedure is expected to arise only where, in the specific circumstances of the engagement, that procedure would be ineffective.

...

Professional Judgment

17. The nature of the International Standards requires the professional accountant or practitioner to exercise professional judgment in applying them.

Applicability of the International Standards

18. The scope, effective date and any specific limitation of the applicability of a specific International Standard is made clear in the Standard. Unless otherwise stated in the International Standard, the professional accountant or practitioner is permitted to apply an International Standard before the effective date specified therein.

...

ISQM 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS CONTENTS

...

International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, should be read in conjunction with the *Preface to the International Quality Management, Auditing, Review, Sustainability and Other Assurance, and Related Services Pronouncements*.

...

Definitions

16. For purposes of this ISQM, the following terms have the meanings attributed below:

...

- (i) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants or practitioners, or public sector equivalent. (Ref: Para. A18)

...

- (p) Professional standards – IAASB Engagement Standards, as defined in the IAASB's Preface to the International Quality Management, Auditing, Review, Sustainability and Other Assurance, and Related Services Pronouncements, and relevant ethical requirements.

...

- (t) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants or practitioners when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A22–A24, A62)

...

Application and Other Explanatory Material

...

Scope of this ISQM (Ref: Para. 3–4)

- A1. Other pronouncements of the IAASB, ~~including ISRE 2400 (Revised) and ISAE 3000 (Revised)~~, also establish requirements for the engagement partner or engagement leader, as applicable, for the management of quality at the engagement level, including ISRE 2400 (Revised)¹ and ISAE 3000 (Revised)² for the engagement partner, and ISSA 5000³ for the engagement leader.⁴ ~~for the management of quality at the engagement level.~~
- A2. The IESBA Code⁵ contains requirements and application material for professional accountants or practitioners that enable professional accountants and practitioners to meet their responsibility to act in the public interest. As indicated in paragraph 15, in the context of engagement performance as described in this ISQM, the consistent performance of quality engagements forms part of the professional accountant's or practitioner's responsibility to act in the public interest.

...

¹ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

² International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³ International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements

⁴ ISSA 5000, paragraph A25, states that the term engagement leader in ISSA 5000 is the equivalent of "engagement partner" in ISQM 1.

⁵ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

Authority of this ISQM (Ref: Para. 12)

...

- A9. This ISQM includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this ISQM. These definitions are provided to assist in the consistent application and interpretation of this ISQM, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Management, Auditing, Review, Sustainability and Other Assurance, and Related Services Pronouncements published by IFAC includes the terms defined in this ISQM. The Glossary of Terms also includes descriptions of other terms found in the ISQMs to assist in common and consistent interpretation and translation.

...

Relevant Ethical Requirements (Ref: Para. 16(t), 29)

- A22. The relevant ethical requirements that are applicable in the context of a system of quality management may vary, depending on the nature and circumstances of the firm and its engagements. The term “professional accountant” may be defined in relevant ethical requirements. For example, the IESBA Code defines the term “professional accountant” and further explains the scope of provisions in the IESBA Code that apply to individual professional accountants in public practice or practitioners and their firms.
- A23. The IESBA Code addresses circumstances when law or regulation precludes the professional accountant or practitioner from complying with certain parts of the IESBA Code. It further acknowledges that some jurisdictions might have provisions in law or regulation that differ from or go beyond those set out in the IESBA Code and that professional accountants or practitioners in those jurisdictions need to be aware of those differences and comply with the more stringent provisions, unless prohibited by law or regulation.

...

Relevant Ethical Requirements (Ref: Para. 16(t), 29)

- A62. The IESBA Code sets out the fundamental principles of ethics that establish the standards of behavior expected of a professional accountant or practitioner and establishes the International Independence Standards. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The IESBA Code also specifies the approach that a professional accountant or practitioner is required to apply to comply with the fundamental principles and, when applicable, the International Independence Standards. In addition, the IESBA Code addresses specific topics relevant to complying with the fundamental principles. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.

...

Engagement Documentation (Ref: Para. 31(f))

- A83. Law, regulation or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of

engagements conducted under the ISAs, ISSAs or ISAEs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

...

- A85. Law, regulation or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ISAs, ISSAs or ISAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

...

ISQM 2, ENGAGEMENT QUALITY REVIEWS

...

Definitions

13. For purposes of this ISQM, the following terms have the meanings attributed below:

...

- (c) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountant or practitioners when undertaking the engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. (Ref: Para. A12–A15)

...

Application and Other Explanatory Material

...

Relevant Ethical Requirements (Ref: Para. 13(c), 18(b))

- A12. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may apply only to individual professional accountants or practitioners, such as an engagement quality reviewer, and not the firm itself.
- A13. Relevant ethical requirements may include specific independence requirements that would apply to individual professional accountants or practitioners, such as an engagement quality reviewer. Relevant ethical requirements may also include provisions that address threats to independence created by long association with an audit or assurance client. The application of any such provisions dealing with long association is distinct from, but may need to be taken into consideration in applying, the required cooling-off period in accordance with paragraph 19.

...

A15. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the IESBA Code provides specific guidance, including examples of:

- Circumstances where threats to objectivity may be created when a professional accountant or practitioner is appointed as an engagement quality reviewer;
- Factors that are relevant in evaluating the level of such threats; and
- Actions, including safeguards, that might address such threats.

...

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner or Engagement Leader Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

...

A26. ISAE 3000 (Revised)⁶ and ISSA 5000⁷ also establishes requirements for the engagement partner and engagement leader, respectively, in relation to the engagement quality review.⁸

...

ISRE 2400 (REVISED), ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

...

Definitions

...

16. The Handbook's Glossary of Terms⁹ (the Glossary) includes the terms defined in this ISRE as well as descriptions of other terms used in this ISRE, to assist in consistent application and interpretation. For example, the terms "management" and "those charged with governance" used throughout this ISRE are as defined in the Glossary.

...

ISAE 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

⁶ ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

⁷ International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

⁸ ISSA 5000 paragraph A25, states that the term engagement leader in ISSA 5000 is the equivalent of "engagement partner" in ISQM 1

⁹ The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Management, Auditing, Review, Sustainability and Other Assurance, and Related Services Pronouncements (the Handbook), published by IFAC

Introduction

1. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements other than audits or reviews of historical financial information or assurance engagements on sustainability information, which are dealt with in International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs), and International Standards on Sustainability Assurance (ISSAs), respectively. (Ref: Para. A21–A22)

...

Scope

5. This ISAE covers assurance engagements other than audits or reviews of historical financial information or assurance engagements on sustainability information, as described in the International Framework for Assurance Engagements (Assurance Framework). Where a subject-matter specific ISAE is relevant to the subject matter of a particular engagement, that ISAE applies in addition to this ISAE. (Ref: Para. A21–A22)

Application and Other Explanatory Material

...

Conduct of an Assurance Engagement in Accordance with ISAE

Complying with Standards that Are Relevant to the Engagement (Ref: Para. 1, 5, 15)

- A21. This ISAE includes requirements that apply to assurance engagements¹⁰ (other than audits or reviews of historical financial information or assurance engagements on sustainability information), including engagements in accordance with a subject matter-specific ISAE. In some cases, a subject matter specific ISAE is also relevant to the engagement. A subject matter-specific ISAE is relevant to the engagement when the ISAE is in effect, the subject matter of the ISAE is relevant to the engagement, and the circumstances addressed by the ISAE exist.
- A22. The ISAs and ISREs have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process generally for practitioners undertaking an assurance engagement in accordance with this ISAE.

...

ISRs 4400 (REVISED), COMPILATION ENGAGEMENTS

...

Definitions

...

¹⁰ This ISAE contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements. This ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.

17. The Handbook's Glossary of Terms¹¹ (the Glossary) includes the terms defined in this ISRS and also includes descriptions of other terms found in this ISRS, to assist in consistent interpretation. The following terms have the meanings attributed below for the purposes of this ISRS:

...

ISA 720, THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

...

Application and Other Explanatory Material

...

Definitions

Annual Report (Ref: Para. 12(a))

...

- A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
- Chairman's statement.
- Corporate governance statement.
- Internal control and risk assessment reports.
- Sustainability reports or other sustainability-related information.

...

- A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA, include ~~separate industry or regulatory reports~~ (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries, or special purpose reports addressing certain kinds of sustainability information.

¹¹ The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Management, Auditing, Review, Sustainability and Other Assurance, and Related Services Pronouncements (the Handbook), published by IFAC

- ~~Corporate social responsibility reports.~~
- ~~Sustainability reports.~~
- ~~Diversity and equal opportunity reports.~~
- ~~Product responsibility reports.~~
- ~~Labor practices and working conditions reports.~~
- ~~Human rights reports.~~

...

ISA 805, SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

...

Application and Other Explanatory Material

...

Scope of this ISA (Ref: Para. 1, 6(c))

...

- A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with International Standard on Assurance Engagements (ISAE) 3000¹² (Revised) or ISSA 5000,¹³ as applicable.

...

INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS

Introduction

1. This Framework is issued solely to facilitate understanding of the elements and objectives of an assurance engagement and the engagements to which International Standards on Auditing (ISA), International Standards on Review Engagements (ISRE), International Standards on Sustainability Assurance (ISSA) and International Standards on Assurance Engagements (ISAE)_(hereinafter referred to as Assurance Standards) apply.
2. This Framework is not a Standard and, accordingly, does not establish any requirements (or basic principles or essential procedures) for the performance of audits, reviews, sustainability or other assurance engagements.¹⁴ An assurance report cannot, therefore, claim that an engagement has been conducted in accordance with this Framework, but rather should refer to relevant Assurance Standards. Assurance Standards contain objectives, requirements, application and other explanatory material, introductory material and definitions that are consistent with this Framework, and are to be

¹² ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

¹³ International Standard on Sustainability Assurance (ISSA) 5000. General Requirements for Sustainability Assurance Engagements

¹⁴ See the *Preface to the International Quality Management, Auditing, Review, Sustainability and Other Assurance and Related Services Pronouncements*.

applied in audit, review, sustainability and other assurance engagements. Appendix 1 illustrates the ambit of pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and their relationship to each other and to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).

...

Description of Assurance Engagements

11. The outcome of the measurement or evaluation of an underlying subject matter is the information that results from applying the criteria to the underlying subject matter. For example:

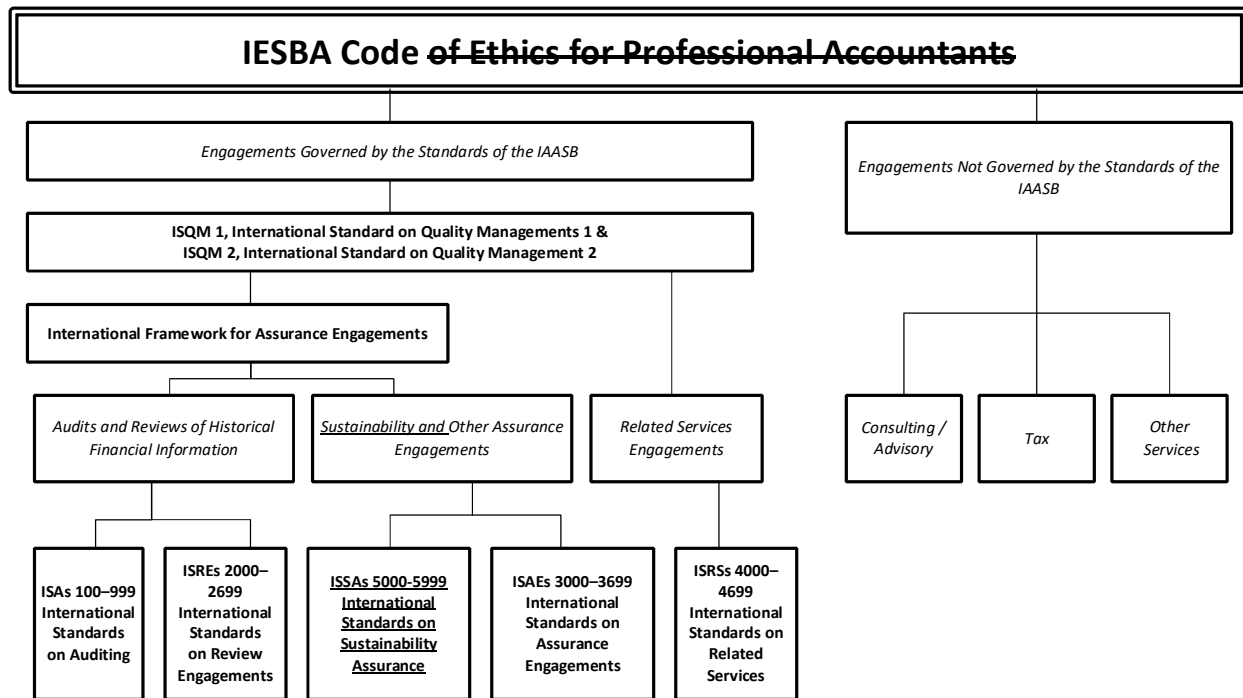
- The financial statements (outcome) result from measuring an entity's financial position, financial performance and cash flows (underlying subject matter) by applying a financial reporting framework (criteria).
- A statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity's internal control process (underlying subject matter) by applying relevant criteria.
- Entity-specific performance measures (outcome) result from measuring various aspects of performance (underlying subject matter) by applying relevant measurement methodologies (criteria).
- ~~A greenhouse gas statement (outcome) results from measuring an entity's greenhouse emissions (underlying subject matter) by applying recognition, measurement and presentation protocols (criteria).~~
- Sustainability information (outcome) results from measuring or evaluating an entity's sustainability matters (underlying subject matter) by applying a sustainability reporting framework (criteria).
- A statement about compliance (outcome) results from evaluating the compliance of an entity (underlying subject matter) with, for example, law and regulation (criteria).

...

Appendix 1

Pronouncements Issued by the IAASB, and Their Relationship to Each Other and the IESBA Code

This Appendix illustrates the ambit of pronouncements issued by the IAASB, and their relationship to each other and to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) ~~IESBA Code of Ethics for Professional Accountants~~.



International Standards on Auditing, the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, International Standards on Review Engagements, International Standards on Sustainability Assurance, International Standards on Assurance Engagements, International Standards on Related Services, International Standards on Quality Management, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are copyright of IFAC.

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The 'International Auditing and Assurance Standards Board', 'International Standards on Auditing', 'International Standard on Auditing for Audits of Financial Statements of Less Complex Entities', 'International Standards on Review Engagements', 'International Standards on Sustainability Assurance', 'International Standards on Assurance Engagements', 'International Standards on Related Services', 'International Standards on Quality Management', 'International Auditing Practice Notes', 'IAASB', 'ISA', 'ISA for LCE', 'ISRE', 'ISSA', 'ISAE', 'ISRS', 'ISQM', 'IAPN', and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries. The 'International Foundation for Ethics and Audit' and 'IFEATM' are trademarks of IFEA, or registered trademarks and service marks of IFEA in the US and other countries.



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ISA (NZ) FOR LCE SUBMISSIONS

Submissions were received in a variety of formats:

- Microsoft Form
- Email or email attachments
- XRB website Form

The attached documents are from contributors who have agreed to share their submissions publicly.

- **Use the Bookmarks menu to move between submissions.**

The following comprise the 26 submissions received. 24 are in this document

Organisation/ Individual	Category
Withheld	Auditor
Assoc Prof Dr Radiah Othman, Massey University	Other (academic)
Withheld	Other stakeholder
Baker Tilly Staples Rodway	Auditor
AG Accounting	Preparer
Audit Assistant	Other (software)
Chrissy Murray	Auditor
Moore Markhams Wellington Audit	Auditor
Michael A Burt	Auditor
Te Omanga Hospice Trust	Preparer
Ministry of Education (schools)	User (government agency)
Auckland Regional Amenities Funding Board	User (Funder)
Audit Plus Accounting Services Limited	Auditor
The Invisible Office Company Ltd	Auditor
CATAS Limited	Preparer
Ashton Wheelans Limited	Auditor
Craig Fisher	User (Governance)
Smith and Jack Limited Chartered Accountants	Auditor
CAANZ and CPA Australia	User (Regulator)
Sport NZ	User (government agency)
Cranford Hospice	Preparer
Deloitte	Auditor
OAG	Auditor
PWC	Auditor
BDO	Auditor
Charities Services	User (Regulator)

Preliminary questions

What is your role? *

Other



Educator

Please provide your name *

Assoc Prof Dr Radiah Othman

Please provide the name of the organisation that you are employed by, or affiliated with *

Massey University

Please provide your email address *

r.othman@massey.ac.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?



Yes



No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

Benefits (macro level): The risks of not adopting the standard in the long run could be significant, particularly in the face of unprecedented global health, economic, and political challenges. Implementing the standard could better prepare businesses and the country to withstand future uncertainties.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *



Yes



No

Why?

I am an educator specializing in fraud and forensics, so my views reflect my area of expertise. According to MBIE (2023), a significant portion of firms in New Zealand (97%) are small businesses, making them well-suited for the adoption of the ISA (NZ) for LCE. The pandemic and ongoing economic challenges have heightened the pressure on these businesses to perform in order to survive. This standard will provide a safeguard and help minimize accounting malpractices, regardless of the industry's challenging environment. The same applies to the public sector, where it can enhance accountability in the use of public funds, no matter how small the organization is.

Will you or your firm use the ISA (NZ) for LCE?



Yes



No



Not applicable

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

☐ Yes

☒ No

Why?

I might have a biased view as an educator, but I believe the timeline could be extended to allow for adequate education and training for management who may potentially use the standard. This is particularly important given the potential expectation gap, where management might assume the standard will result in lower audit fees, despite the requirement for auditors to provide reasonable assurance.

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

1. Changes in Size, Structure, and Complexity: The XRB might want to consider not only the expectation gap but also the challenges of transitioning small businesses from the ISA for LCE to the full standards when their size, structure, or complexity no longer permits the use of the simplified standard. This transition process could pose significant practical and operational challenges for both businesses and auditors.

2. Work Involved for Auditors of Public Sector Entities: Public sector entities can present unique challenges, such as difficulties in determining whether they fall under the category of Part A authority. Additionally, changes in the ruling government may lead to a reclassification of entities, resulting in situations where entities that were previously eligible for the standard no longer qualify after their recent formation under the previous government. These scenarios could create uncertainties for auditors and stakeholders alike.

In any case, providing more specific guidance for auditors would be highly beneficial. This would help address uncertainties, ensure consistent application of the standard, and support auditors in navigating complexities such as transitions, classification issues, and changes in eligibility criteria.

Applicability in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

☒ Yes

☐ No

Do you agree that we **do not** specifically prohibit FMC reporting entities with *lower levels* of public accountability from being audited under the ISA (NZ) for LCE? *

☐ Yes

☒ No

If you answered no to the above, please comment why

This could potentially increase confusion and widen the expectation gap regarding the applicability of the standard.

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

I think the proposed standard is sufficiently clear on this aspect.

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

☒ Yes

☐ No

Do you have any other comments regarding the Authority?

The public sector comprises a mixed nature of entities that vary significantly in size, complexity, and levels of expected accountability. This diversity can pose challenges in determining the applicability of the standard, as smaller or less complex entities may seem eligible, but their heightened accountability requirements could necessitate more rigorous auditing standards. Clear criteria and tailored guidance are crucial to addressing these variations and ensuring that the standard is appropriately applied across the sector.

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?

☒ Yes

☐ No

Are the requirements in Part 11 appropriately tailored for LCEs?

☒ Yes

☐ No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

As an educator, I am not in the best position to answer this.

Do you agree that the EEM included in Part 11 is appropriate?

☒ Yes

☐ No

What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

As mentioned earlier, the entities affected by changes in the ruling government may face reclassification or shifts in their roles and responsibilities, which can impact their eligibility under the standard. For example, entities formed under one government may no longer qualify or fall under a different regulatory framework under a new administration.

Final questions

Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

No comment.

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

☒ Yes

☐ No

Do you have any other comments on the proposed standard?

I fully support the proposed standard as it will help the country prepare for future uncertainties and uphold the integrity of accounting and auditing practices for LCEs in both the private and public sectors.

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.

If you have any further comments or attachments, send them to assurance@xrb.govt.nz

4 February 2025

Assurance Standards Team

External Reporting Board

WELLINGTON

Via email assurance@xrb.govt.nz

SUBMISSION ON ISA (NZ) FOR LESS COMPLEX ENTITIES

Overall Comments

Thank you for the opportunity to comment on the consultation document, *ISA (NZ) for Less Complex Entities: New Zealand adoption of a standard for audits of Less Complex Entities* ("ISA (NZ) for LCE"). Overall, we support the XRB's efforts in endeavouring to develop a New Zealand version of the ISA for LCE standard. We consider there is significant demand for such a standard in New Zealand and, in our view, adoption of the ISA (NZ) for LCE would assist practitioners in balancing the cost of an LCE audit with the benefit to users. However, we caution that if, as seems likely, the ISA for LCE standard is not widely adopted across the world, firms such as ours, that are part of a global network, will be unable to adopt this standard until a significant increase in adoption levels has been achieved and global networks have invested in developing an ISA for LCE compliant audit methodology. The significance of this risk appears to be understated in the XRB's consultation documents.

We have included our responses to the specific questions raised in the Consultation Document in Appendix 1. Information about the Baker Tilly Staples Rodway network is provided in Appendix 2.

We hope the comments contained in our submission are useful. If you would like to discuss any of these comments please contact me.

Kind regards



Nicola Hankinson FCA
National Technical Director
Baker Tilly Staples Rodway New Zealand

Appendix 1: Responses to specific questions in the Consultation Document

1. *Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?*

We agree with the list of potential benefits and costs/risks provided and do not consider there are additional benefits or costs/risks that require consideration. However, we do note that the potential lack of adoption of the ISA for LCE standard in all jurisdictions is listed as the last cost/risk. In our view lack of adoption of the ISA for LCE across the world is the number one risk which would impact on adoption of the standard in New Zealand. Refer to our response to question 3 for further discussion on this.

2. *Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?*

Yes. In our view, the nature of the audit population in New Zealand, arising from legislation that requires audits for a number of small and non-complex entities, means there is widespread demand for adoption of such a standard.

The ISA (NZ) for LCE distils the key requirements of the ISAs, including NZ AS 1 (Revised) *The Audit of Service Performance Information*, down from 38 individual auditing standards to one stand-alone standard of less than 200 pages. While we have not undertaken a detailed comparison of the requirements of the ISAs with the requirements of the ISA for LCE, our understanding is that the core requirements are very much the same. This will allow auditors to streamline their audit approach and deliver a more efficient audit for LCEs. Our experience is that LCEs and their funders and other stakeholders are not overly familiar with the requirements of the ISAs and are likely to accept an LCE audit in much the same way as they accepted an audit undertaken using the ISAs.

3. *Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.*

Given our role as part of a global network, we will only be able to use the ISA (NZ) for LCE if this is permitted by our global office and an ISA for LCE compliant audit methodology has been developed (either globally or locally). Our global office has advised that "at this point stakeholder support and regulatory endorsement is opaque and is clear in only a few countries which means that global effort for a global ISA for LCE tool is not yet warranted".

As such, while our New Zealand audit partners are supportive of the need for, and adoption of, the ISA (NZ) for LCE, we will be unable to adopt this standard until it has received global support and is formally adopted for use by our global office.

4. *Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?*

Yes. The potential 2 ½ year time lag between amendments made to the ISAs and corresponding amendments being made to the ISA for LCE standard is concerning as, not only will it result in inconsistencies between audits undertaken using the ISAs and those undertaken using the ISA for LCE standard, it may also mean that, for a period of time, the requirements relating to LCE audits are more stringent than those for audits of all other entities. We encourage the XRB to early adopt ISA changes into the ISA (NZ) for LCE standard wherever possible.

5. *Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?*

Yes.

6. *Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?*

Yes.

7. *Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?*

No. We consider it is appropriate to allow audit partners and firms to use their professional judgement to determine whether an entity meets the criteria for adopting the ISA (NZ) for LCE (i.e. is not an entity for which application is specifically prohibited and meets the qualitative characteristics outlined within the ISA (NZ) for LCE).

8. *Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?*

Yes. Refer to our response to question 7 above.

9. *Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?*

Yes. In our view, including the SPI audit requirements in the ISA (NZ) for LCE is in line with the objective of creating a stand-alone auditing standard for LCEs.

10. *Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?*

Yes. We did not identify any issues with that requirements in Parts 1-10 that we consider would be difficult to apply.

11. *Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?*

Yes.

12. *What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?*

While we acknowledge the broader issues in auditing SPI, we do not consider that these issues will be exacerbated as a result of the ISA (NZ) for LCE.

13. *Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?*

No.

14. *Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?*

Yes.

15. *Do you have any other comments on the proposed standard?*

We really appreciate the work undertaken by the XRB in understanding whether the ISA (NZ) for LCE standard should be adopted for use in New Zealand.

Appendix 2: About Baker Tilly Staples Rodway

Baker Tilly Staples Rodway is an association of independent accounting firms, located in Auckland, Waikato, Tauranga, Hawke's Bay, Taranaki, Wellington and Christchurch. Baker Tilly Staples Rodway is a full-service accounting and business advisory firm with a strong reputation for providing quality advice to privately owned, corporate and public sector organisations.

Baker Tilly Staples Rodway provides cross-border services through our international affiliated firms, including Pitcher Partners in Australia and the Baker Tilly International network.

Preliminary questions

What is your role? *

Preparer (i.e. accountant, management, director) 

Please provide your name *

Angela Giddy

Please provide the name of the organisation that you are employed by, or affiliated with *

Awhina Society Trust; Waiora Community Trust; Tongariro Natural History Society

Please provide your email address *

angela.giddy@agaccounting.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?

☒ Yes

☐ No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Why?

Current audit process is very arduous for small organisations, as well as being costly

Will you or your firm use the ISA (NZ) for LCE?

☒ Yes

☐ No

☐ Not applicable

When? Please provide your rationale.

as soon as we are able to use this we will, it will be very helpful for my charity clients

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

☐ Yes

☒ No

Why?

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

Applicability in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

☒ Yes

☐ No

Do you agree that we **do not** specifically prohibit FMC reporting entities with *lower levels* of public accountability from being audited under the ISA (NZ) for LCE? *

☒ Yes

☐ No

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

organisations that have an affiliation with an international body, eg. religious organisations

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

☒ Yes

☐ No

Do you have any other comments regarding the Authority?

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?

☒ Yes

☐ No

Are the requirements in Part 11 appropriately tailored for LCEs?

☒ Yes

☐ No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

Do you agree that the EEM included in Part 11 is appropriate?

- ☒ Yes
- ☐ No

What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

Final questions

Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

- ☒ Yes
- ☐ No

Do you have any other comments on the proposed standard?

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them to assurance@xrb.govt.nz

Preliminary questions

What is your role?

Other



Audit Software Provider

Please provide your name

Clive McKegg

Please provide the name of the organisation that you are employed by, or affiliated with

Audit Assistant

Please provide your email address

clive@auditassistant.com

Weighing up the potential benefits and issues

Should the XRB adopt the ISA for LCE in New Zealand? *



Yes



No

Please provide your reasoning on why the XRB should (if you answered yes) or should not (if you answered no) adopt the ISA for LCE in New Zealand

The ISA for LCE is a fit for purpose standard for the majority of audit work in NZ, which should allow auditors to provide more focussed, more efficient work for smaller, less complex entities.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *



Yes



No

Are there any other potential benefits or issues which should be considered? How might the issues identified be mitigated?

It may well attract more talent to auditing as it provides a great stepping stone for graduates to learn the flow of an audit the transfer the basis skills they have gained in LCE work into larger work if necessary.

Strengthening the Authority in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?



Yes



No

If you answered no to the above, please comment why

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate guardrails exist around the use of the ISA for LCE in New Zealand?

Mt feeling is that all Tier 1 entities should be excluded from scope, and now that the threshold for Tier 2 has moved, possibly all Tier 2 work excluded as well. Also I cannot see how Public Sector entities can be regarded as less complex, except perhaps some schools.

Do you have any other comments regarding the Authority?

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI by auditors of less complex entities? *

☒ Yes

☐ No

Do you have comments regarding the audit of service performance information or the addition of Part 11 to the ISA for LCE in New Zealand?

It does help to keep a single audit approach, as envisioned by NZ AS1 (revised), so including in the LCE standard is good, but not essential as NZ AS1 (revised) doesn't seem to need much work to adapt the LCEs.

Final questions

Do you agree with the proposed application date of periods beginning on or after 15 December 2025? *

☒ Yes

☐ No

Do you have any other comments on the proposed standard?

When the auditor intends to use a report provided by a service auditor of a service organisation either as audit evidence about the design and implementation of controls at the service organisation (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organisation are operating effectively (i.e., a type 2 report), as this would ordinarily exclude the organisation from being regarded as an LCE. This seems a bit over the top. Many firms use SOC1 or IOS 27001 reports from Xero as part of their audit file. So are all entities using Xero not LCE? I'm sure this is not what the standard drafters intended. Also see our article <https://www.auditassistant.com/news/less-complex-audits-for-less-complex-entities/>.

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them through to assurance@xrb.govt.nz

Preliminary questions

What is your role? *

Audit engagement partner



Please provide your name *

Chrissie Murray

Please provide the name of the organisation that you are employed by, or affiliated with *

Personal response, not on behalf of my firm

Please provide your email address *

chrissie.murray@bakertillysr.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?

☒ Yes

☐ No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Why?

Most audits in the New Zealand market are LCE, when considered on a global scale. The attempted application of full ISAs to these audits tends to result in both higher costs and lower audit quality than is appropriate and useful to users and the economy overall.

Will you or your firm use the ISA (NZ) for LCE?

☒ Yes

☐ No

☐ Not applicable

When? Please provide your rationale.

I would expect to use the LCE standard, in preference to ISAs, for all audits where it is allowable and the client wants to.

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

- ☐ Yes
- ☒ No

Why?

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

It is important that we judge what is an 'LCE' on a global scale, not just on a NZ scale. It's not just applicable to audits that are small for NZ (such as ECE, schools, often cited by XRB). Many, if not most, of our locally 'medium sized' audits (of tier 2 charities and not for profits, and non-issuer companies, including simple groups) are really small / less complex and appropriate for the LCE standard.

Applicability in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

- ☒ Yes
- ☐ No

Do you agree that we **do not** specifically prohibit FMC reporting entities with *lower levels* of public accountability from being audited under the ISA (NZ) for LCE? *

- ☒ Yes
- ☐ No

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

Where a small (5?) % of the shareholders vote to require a ISA-compliant audit

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

- ☒ Yes
- ☐ No

Do you have any other comments regarding the Authority?

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?

- ☒ Yes
- ☐ No

Are the requirements in Part 11 appropriately tailored for LCEs?

- ☒ Yes
- ☐ No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

Do you agree that the EEM included in Part 11 is appropriate?

- ☒ Yes
- ☐ No

What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

Consistency of judgement is always more difficult with SPI than with financial information, but this is not unique to the LCE standard.

Final questions

Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

- ☒ Yes
- ☐ No

Do you have any other comments on the proposed standard?

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them to assurance@xrb.govt.nz

From: Andrew Steel <andrew.steel@mooremarkhams.nz>
Sent: Wednesday, 15 January 2025 3:23 pm
To: XRB Assurance Standards
Subject: RE: XRB Consultation: proposed adoption of a standard for audits of Less Complex Entities in New Zealand...

Kia ora

We have concerns that other (larger) jurisdictions do not consider the LCE standard to be appropriate in their marketplace, and seriously question then why such a comparably smaller economic area as NZ would need this additional regime.

From our perspective, the cost / benefit of such a new standard does not warrant adoption in NZ at this time.

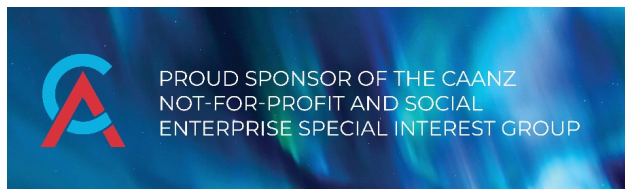
- There will be a perception and actual trend toward lower quality audit engagements under the LCE standard
- The current audit standards already are already scalable, and *will become more so* as technology continues to improve
- Questionable whether size of NZ market needs two audit standards particularly given simplified financial reporting regime we have particularly in the PBE space, and option for limited assurance review engagements. Perhaps expanding the scope and availability of limited assurance engagements for smaller entities is a better, more cost effective and more straightforward option
- Other comparable (and much larger) jurisdictions are not adopting, therefore again questionable whether smaller NZ would benefit
- Professional judgement required as to when ISA for LCE is applicable may give rise to variety in audit standards being applied, and therefore some inconsistency and confusion in the sector
- With the evolving SPI audit area, there risks again disconnect between audit quality, perception and expectations if there are differences in the audit requirements of this area

Our intention would not be to use the standard if adopted in NZ unless the market clearly signals the need for us to – we would continue to market ourselves as a premium and best practice, fully compliant audit provider under the ISA's.

Many thanks

Andrew Steel

Partner
[Moore Markhams Wellington Audit](#)
[Audit and Assurance](#)



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Opinions, conclusions and other information in this message that do not relate to the official business for our firm shall be understood as neither given nor endorsed by it. If you have received this message in error, please notify us immediately and destroy this message. Thank you.

From: [Michael Burt](#)
To: [XRB Assurance Standards](#)
Subject: RE: XRB Consultation: proposed auditing standard for less complex entities...
Date: Thursday, 16 January 2025 5:46:19 pm

ABOUT BLOODY TIME.

HOORAY.

NEXT WEEK???

Michael A Burt
Chartered Accountant
Auditor

Ph: (07) 863 8031
Mob: 021 044 0516
E: burtwaihi@xtra.co.nz

Preliminary questions

What is your role?

Preparer (i.e. accountant, management, director) 

Please provide your name

Denise Kramer

Please provide the name of the organisation that you are employed by, or affiliated with

Te Omanga Hospice Trust

Please provide your email address

denise.krmaer@teomanga.org.nz

Weighing up the potential benefits and issues

Should the XRB adopt the ISA for LCE in New Zealand? *

☒ Yes

☐ No

Please provide your reasoning on why the XRB should (if you answered yes) or should not (if you answered no) adopt the ISA for LCE in New Zealand

Adopting the ISA for LCE in New Zealand for not-for-profits would offer several benefits and be a positive step for not-for-profit.

The ISA for LCE is specifically designed for smaller and less complex entities, which includes many not-for-profits. This standard is easier to navigate and apply compared to the full suite of ISAs, making the audit process more efficient.

Using a globally recognised standard like the ISA for LCE helps maintain consistency and comparability in financial reporting. This can enhance the credibility of financial statements and build trust among stakeholders.

The streamlined nature of the ISA for LCE can reduce the time and resources required for audits, making it a cost-effective option for not-for-profits that often operate with limited budgets.

Adopting the ISA for LCE aligns with international best practices, which can be beneficial for New Zealand's regulatory environment. It ensures that audits of not-for-profits meet high standards of assurance.

The ISA for LCE recognises the unique needs of smaller entities, providing a proportionate approach to auditing that supports the sustainability and growth of not-for-profits.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Are there any other potential benefits or issues which should be considered? How might the issues identified be mitigated?

Other Potential Benefits:
Adopting a recognised standard like the ISA for LCE can enhance the confidence of donors, grant providers, and other stakeholders in the financial statements of not-for-profits.

The ISA for LCE is less complex, which can simplify training for auditors and staff within not-for-profits, leading to better understanding and implementation.

The standard allows auditors to focus on areas most relevant to less complex entities, potentially improving the quality and relevance of the audit.

Potential Issues and Mitigation Strategies:
Transitioning to a new standard may incur initial costs related to training and system updates for auditors. This could be mitigated by phased implementation plans and financial support or subsidies for training to ease the transition.

There may be concerns that a simplified standard could lead to a reduction in audit quality. This could be mitigated emphasising that the ISA for LCE still maintains rigorous requirements for obtaining reasonable assurance and ensuring continuous monitoring and feedback mechanisms are in place.

Some auditors and entities may resist changing from the current standards due to familiarity and comfort. This could be mitigated by conducting awareness campaigns highlighting the benefits and providing comprehensive training and support to facilitate the transition.

Strengthening the Authority in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

- ☒ Yes
- ☐ No

If you answered no to the above, please comment why

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate guardrails exist around the use of the ISA for LCE in New Zealand?

no

Do you have any other comments regarding the Authority?

no

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI by auditors of less complex entities? *

- ☒ Yes
- ☐ No

Do you have comments regarding the audit of service performance information or the addition of Part 11 to the ISA for LCE in New Zealand?

no

Final questions

Do you agree with the proposed application date of periods beginning on or after 15 December 2025? *

- ☒ Yes
- ☐ No

Do you have any other comments on the proposed standard?

no

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them through to assurance@xrb.govt.nz

Preliminary questions

What is your role?

User of audit reports (i.e. regulator, government agency, investor, grant provider, or other stakeholder) ✓

Please provide your name

Hannah Levy

Please provide the name of the organisation that you are employed by, or affiliated with

Ministry of Education

Please provide your email address

hannah.levy@education.govt.nz

Weighing up the potential benefits and issues

Should the XRB adopt the ISA for LCE in New Zealand? *

☒ Yes

☐ No

Please provide your reasoning on why the XRB should (if you answered yes) or should not (if you answered no) adopt the ISA for LCE in New Zealand

This will reduce compliance costs for schools while also still providing reasonable level of assurance.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Are there any other potential benefits or issues which should be considered? How might the issues identified be mitigated?

There needs to be a clear process if an organisation becomes ineligible for LCE auditing due to its size (i.e. growth) allowing it to transition to a fully scoped audit through training for the auditor and the organisation.

Strengthening the Authority in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

☒ Yes

☐ No

If you answered no to the above, please comment why

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate guardrails exist around the use of the ISA for LCE in New Zealand?

Organisations that have significant trade in harmful goods such as alcohol, tobacco or use significant levels of slave labour (this may depend on Modern Slavery Act being passed in parliament).

Do you have any other comments regarding the Authority?

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI by auditors of less complex entities? *

- ☒ Yes
- ☐ No

Do you have comments regarding the audit of service performance information or the addition of Part 11 to the ISA for LCE in New Zealand?

Final questions

Do you agree with the proposed application date of periods beginning on or after 15 December 2025? *

- ☒ Yes
- ☐ No

Do you have any other comments on the proposed standard?

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them through to assurance@xrb.govt.nz

To: assurance@xrb.govt.nz

RE: Consultation on Audits of Less Complex Entities (LCEs)

The Auckland Regional Amenities Funding Board (ARAFB) would welcome the introduction of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

Last year we wrote to the XRB with concerns regarding escalating audit fees for charities and other non-profit entities. We fund seven charities and non-profits through legislation and audit has become a cost each amenity has highlighted as significantly increasing over recent years. I am pleased to see that this consultation is now taking place.

We understand the importance of audits, but we are not convinced that – in their current state – the audits conducted are proportionate to many charities' activities, nor their material risks. Despite their simple operations, charities are experiencing increasingly long and complex audits that require significant internal resources and incur high audit costs, which don't appear to add value to their work.

This creates a time and resource burden especially when charities run on thin margins, so any additional operating costs reduces the services they can provide to communities.

We agree that a quantitative threshold is not necessary, as the value of transactions is not a clear indicator of operational complexity. For example, the ARAFB handles approximately \$18M each year, but its financial operations are simple, receiving a levy from Auckland Council, and distributing most of these funds to seven specified amenities, with only a small portion being set aside for operational costs.

While we welcome a simpler audit model for less complex entities, we note the following statement in the consultation documents with some concern: *"It is important to emphasise that the tailored nature of the requirements of the ISA for LCE doesn't necessarily translate into lower fees, as the level of assurance remains the same"*. We recommend that the XRB seeks assurances from Audit NZ and other organisations that provide audit services that they will ensure that they take a simplified approach to the ISA for CLE and aim for fees for these audits that are lower than what non-profit organisations have been facing recently.

Kind regards,



Victoria Carter ONZM
vcarter@xtra.co.nz

Chairperson
Auckland Regional Amenities Funding Board

Preliminary questions

What is your role? *

Audit engagement partner



Please provide your name *

Adrienne Dempsey

Please provide the name of the organisation that you are employed by, or affiliated with *

Audit Plus Accounting Services Limited

Please provide your email address *

adrienne@auditplus.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?

☒ Yes

☐ No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

I think that the benefits and the mitigating factors outlined in the Costs/Risks items can be championed by the CAANZ, so that the expectation gap may be reduced for users of audited reports, and clients alike.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Why?

NZ has 26,000 charities, with more incorporated societies coming on board under the new Inc Soc Act 2022. There is an under-abundance of assurance practitioners in NZ. The ISA LCE is required to provide a choice under the benefits listed.

Will you or your firm use the ISA (NZ) for LCE?

☒ Yes

☐ No

☐ Not applicable

When? Please provide your rationale.

As soon as we are able to adopt, we will. Smaller assurance firms need to be able to provide professional and compliant services, but without the complexities that exists with larger entity reporting. We spend a lot of time going through audit checklists, considering aspects of the audit that, with LCEs, just do not need to be there.

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

☐ Yes

☒ No

Why?

In my view this could be dove-tailed into any changes implemented in the XRB accounting Tiers

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

No

Applicability in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

☒ Yes

☐ No

Do you agree that we **do not** specifically prohibit FMC reporting entities with *lower levels* of public accountability from being audited under the ISA (NZ) for LCE? *

☐ Yes

☒ No

If you answered no to the above, please comment why

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

☒ Yes

☐ No

Do you have any other comments regarding the Authority?

No

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?

☒ Yes

☐ No

Are the requirements in Part 11 appropriately tailored for LCEs?

☒ Yes

☐ No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

No in my view

Do you agree that the EEM included in Part 11 is appropriate?

- ☒ Yes
- ☐ No

What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

On-going engagement with sector reporters by professional bodies will help to provide guidance in this area. Not all reporting entities have access to systems suitable for data capture. Training to Governance Groups will also help their understanding on what is required.

Final questions

Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

No

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

- ☒ Yes
- ☐ No

Do you have any other comments on the proposed standard?

No

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them to assurance@xrb.govt.nz

From: no-reply@xrb.govt.nz <no-reply@xrb.govt.nz>

Sent: Tuesday, 18 February 2025 8:56 am

To: External Reporting Board Enquiries <enquiries@xrb.govt.nz>; External Reporting Board Enquiries <enquiries@xrb.govt.nz>

Subject: XRB Open For Comments Submission



FirstName	Mark

LastName	Weston

Organisation	The Invisible Office Company Ltd

Email	mark@ioca.co.nz

Comments	As an auditor of predominantly smaller Tier 3 entities, I would welcome an auditing standard specifically for LCEs. Current standards are set to capture all entities from small to very large, which does not seem practical for the majority of smaller less complex charities and NFPs operating within NZ.

With the appropriate parameters being set to define exactly what an LCE is, I think incorporating a standard for LCEs should be a practical option.

Consultation Page URL

<https://www.xrb.govt.nz/consultations/assurance-standards-in-development/audits-of-less-complex-entities-ices/>

Level 6/154 Featherson Street, Central Wellington 6011
Phone: [04 550 2030](tel:045502030) Email: enquiries@xrb.govt.nz

[xrb.govt.nz](https://www.xrb.govt.nz)

Preliminary questions

What is your role? *

Preparer (i.e. accountant, management, director) 

Please provide your name *

Cameron Fisher

Please provide the name of the organisation that you are employed by, or affiliated with *

CATAS Limited

Please provide your email address *

cameron@catas.co.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?

☒ Yes

☐ No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

A potential benefit of this change would be an increase in the availability of auditors willing to provide services to LCEs. Within our own client base, several auditors have ceased engagements with smaller clients stating the audit standards no longer make it cost-effective or practical to audit smaller entities. The pool of willing auditors is noticeably significantly smaller than five years ago.

In regard to the risk of a perception of reduced audit quality, The NFP reporting standards already consist of four different reporting tiers. The same logic could be applied that a tier 3 report could be perceived as of lower quality than a tier 2 report. However in practice, this is not the case. Grant funders, government agencies, and other users all accept the different tiers relate to the requirements set by the XRB and the context each entity operates in. It is our opinion the new ISA for LCEs would be similarly viewed.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Why?

Audit standards have been increasing in complexity for many years. The level these standards are set at far exceeds the contexts LCEs operate in. The status quo is unsustainable. This proposal represents a practical and sensible solution to a pressing issue and it has our full support. This is greatly needed in the sector.

Will you or your firm use the ISA (NZ) for LCE?

☐ Yes

☐ No

☒ Not applicable

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

☐ Yes

☒ No

Why?

Not an auditor

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

I appreciate the consultation document states this change may not lead to lower audit fees. However a positive outcome from this new standard, while not the intention, would be if fewer audit hours were required on an LCE client and therefore lead to slightly reduced or more stabilised audit fees. For those who have a choice, i.e. not at statutory thresholds or with large grant funding, several clients have recently updated their trust deeds to remove the audit requirement clause as they can no longer afford the audit fees and can no longer justify the cost over the benefit. Significant increases in audit fees in recent years are a growing issue and leading to less engagement by LCEs with auditors.

Applicability in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

☒ Yes

☐ No

Do you agree that we **do not** specifically prohibit FMC reporting entities with *lower levels* of public accountability from being audited under the ISA (NZ) for LCE? *

☒ Yes

☐ No

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

☐ Yes

☒ No

If not, what quantitative thresholds would you suggest and why?

Excluding all tier 1 entities would help simplify who the ISA (NZ) LCE can apply to

Do you have any other comments regarding the Authority?

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?

☒ Yes

☐ No

Are the requirements in Part 11 appropriately tailored for LCEs?

☒ Yes

☐ No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

Do you agree that the EEM included in Part 11 is appropriate?

- ☒ Yes
- ☐ No

What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

Final questions

Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

- ☒ Yes
- ☐ No

Do you have any other comments on the proposed standard?

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them to assurance@xrb.govt.nz

Preliminary questions

What is your role? *

Audit engagement partner



Please provide your name *

Michael Taylor

Please provide the name of the organisation that you are employed by, or affiliated with *

Ashton Wheelans Limited

Please provide your email address *

michael.taylor@ashtonwheelans.co.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?

☒ Yes

☐ No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

Benefit is huge for the NFP sector who struggle with compliance costs of full ISA audit.

I think key risk is the auditor documenting their determination and professional judgement as to whether an entity should be considered 'less complex' or not, don't think there is a hard and fast rule - the tendency/risk is there is bias towards LCE to make the job easier (pressure on ethics/PES-1 operation), but there are also risks that using set criteria to revert to full ISAs results in a self defeating outcome ie 'any engagement containing estimates' -> depreciation is a judgement/estimate, basic portfolio investments are financial instruments etc so I think it will always be prof judgement based to have practical outcomes but documenting this will be paramount.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

☒ Yes

☐ No

Why?

Cost of compliance is becoming too great, particularly in the NFP sector and this will help alleviate that.

Will you or your firm use the ISA (NZ) for LCE?

☒ Yes

☐ No

☐ Not applicable

When? Please provide your rationale.

For our smaller NFP clients which make up a significant part of our practice, this will help us keep costs down for the client while maintaining an appropriate and practical level of assurance procedures.

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

☐ Yes

☒ No

Why?

Just like any set of standards there is always a 'trickle down' effect so as long as the fundamental principles are still consistent don't see how a 2 tier set of standards is an issues. We don't struggle with multi-tier accounting/PBE standards so don't see why audit standards would have any issue with a tiered approach. If anything it would be consistent with the management of accounting/compilation standard setting and maintenance

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

I think the sooner the better as auditing at the smaller end of the market is onerous vs the low level of complexity in many of these 'micro' entities (vs international corporate/listed entities etc)

Applicability in New Zealand

Do you agree that FMC reporting entities with *higher levels* of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

☒ Yes

☐ No

Do you agree that we **do not** specifically prohibit FMC reporting entities with *lower levels* of public accountability from being audited under the ISA (NZ) for LCE? *

☐ Yes

☒ No

If you answered no to the above, please comment why

I think there is the perception (user) that FMC entities are inherently high risk

Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

No

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

☒ Yes

☐ No

Do you have any other comments regarding the Authority?

I think it's important to have flexibility for practical outcomes but documenting that judgement is paramount

Audit of service performance information (SPI) with the ISA (NZ) for LCE

Do you support the addition of Part 11 to the ISA (NZ) for LCE to enable the audit of SPI?

☒ Yes

☐ No

Are the requirements in Part 11 appropriately tailored for LCEs?

☒ Yes

☐ No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

Do you agree that the EEM included in Part 11 is appropriate?

☒ Yes

☐ No

What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

Final questions

Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

☐ Yes

☒ No

If you answered no to the above, why not?

Do you have any other comments on the proposed standard?

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.
If you have any further comments or attachments, send them to assurance@xrb.govt.nz

From: [Craig Fisher](#)
To: [XRB Assurance Standards](#); [Misha Pieters](#); [Bruce McNiven](#)
Subject: LCE Consultation feedback from Craig Fisher
Date: Wednesday, 26 February 2025 9:19:04 pm
Attachments: [image001.png](#)

Dear NZAuASB and team

Thanks for the opportunity to provide feedback albeit apologies in advance for the brevity of my submission. I trust that my comments and input made while being on your recent webinar panel on the LCE consultation have already been taken into account by the team and will not specifically repeat them here.

I make these comments as someone who has been deeply involved in this debate, as both a practicing auditor and standard setter since last century. More latterly I find myself as a consumer of auditing services across a range of entities.

In summary I am in support of adopting the LCE standard in New Zealand.

I believe that there will be sufficient use cases to prove its worth, especially amongst smaller or sole audit practitioners which appears to be an area of practice somewhat under threat at present in NZ. Albeit that this may take some time to gather momentum amongst audit practitioners. I am positively persuaded by the opportunity, and the positive indications from the representative from the OAG on the webinar, to utilise this standard for a significant suite of OAG audits being the audit of schools. From my long experience in these audits I think this standard could be well suited to this significant block of audit work in NZ. This would also provide a useful base of auditors who would then find it much easier to then apply this standard to other less complex audits. There are many of these audits required in the for-purpose space, especially of charities, and the ability to utilise the benefits of the LCE standard should in my view allow more cost effective audit option and hopefully assist in the sustainability of the audit profession to service this important but smaller and simpler end of the audit market in NZ.

I was initially surprised by Australia and Canada not seeking to adopt at this stage. However I don't see that as a reason to inhibit NZ. Those jurisdictions have quite different populations of entities to be audited with NZ arguably having a greater proportion of LCEs required by legislation to be audited.

Turning to your specific questions:

1. Do you agree with the potential benefits and costs/risks as outlined? **Yes** Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why? **Yes. The market for auditors has been under increasing threat for some years now. The complexity and sheer volume of the suite of ISAs has made it increasingly difficult for smaller auditors.**

This has caused many to make the choice to leave this market. Coupled with ongoing challenges attracting people into the audit profession and then seeing them stay in it through to senior levels equates to a sustainability threat. I know from now being on the other side of the fence that seeking auditors for small statutory audits is difficult. I believe the LCE standard may assist address some of this pressure at the lower end.

3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale. **No longer providing audit services. Just a consumer of them now!**

4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why? **No. Reflecting on changes to audit standards in recent years they have largely been tweaks or refinements or additions of detail (often at the behest of regulators). In my experience I am struggling to think of any that have resulted in fundamental changes to the core principles of performing a good independent audit. As such I don't think that delays in maintenance of a couple of years would prove fatal to audit quality which is the key point here.**

5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE? **Absolutely agree.**

6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?

Agree. However, one of the key focus areas on introduction of this standard will be guidance and training for auditors around assessing if the LCE standard can be applied. I see this as one of the largest practical issues in its implementation and use.

7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand? **None spring to mind.**

8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? **Yes. Size per se does not equate to complexity.** If not, what thresholds would you suggest and why?

9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI? **Yes. Is essential.**

10. Are the requirements in Part 11 appropriately tailored for LCEs? **I thought it was well written and succinct. Well done.** Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

11. Do you agree that the EEM included in Part 11 is appropriate? **Yes** If not, what do you recommend?

12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI?

Do you have any suggestions on how to mitigate these challenges? **In my experience the main challenge for auditors in auditing SPI is being too hung up on numeric measures and traditional accounting style recording systems. IMHO what is actually needed is more of a first principles mindset to auditing. I.e. the auditor is seeking to independently verify/assure information provided by their client based on some systems of recording and assessing the verifiability of those systems in enabling accurate recording. Personally I think the brevity of the SPI requirements in the LCE may help engender this first principles auditing clarity.**

13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE? **No**

14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not? **I query why this needs to be so far out? I expect once some auditors get their heads around this LCE standard they may be keen to crack on and start using it. I do appreciate there will be a need for professional bodies and possibly others to assist with training etc.**

15. Do you have any other comments on the proposed standard?

In summary, well done in continuing to grapple with this challenging area. I hope this does go ahead and is supported by the professional bodies and the profession and that it provides a valuable cost effective and pragmatic tool to go in the auditors toolkit.

Kia kaha!

Ngā mihi

Craig Fisher

Kea New Zealand Limited

craig@kea-nz.co.nz

021 899 848



Submission Supporting the Adoption of an Auditing Standard for Less Complex Entities

Name Bevan Smith

Director Smith and Jack Limited Chartered Accountants

Email bevan@smithandjack.co.nz

Background

We specialise in providing audit services and both partners/directors of the Company are actively involved – largely to registered charities and Incorporated Societies and we currently have in excess of 110 audits.

We have some long-term audit clients and rotate audits between partners and audit staff.

I have been providing auditing services as a sole trader and since 2019 through our Company for 27 years.

During this time, I have been disappointed at the increase in audit standards and have long felt they do not really fit with the audits we complete.

Examples of the increase in pages and complexity in our online audit work papers files are.

Community Preschool	Turnover 773K 2013 98 pages	2023 151 pages
Community Preschool	Turnover 847K 2013 90 pages	2024 186 pages
Charity providing Adult Learning	Turnover 602K 2014 82 pages	2023 151 pages
Company Subsidiary of Charitable Trust - Component Audit	Turnover 3.4M 2015 98 pages	2023 142 pages
Community Neighbourhood Trust	Turnover 670K 2014 94 pages	2023 160 pages

Many of the audits are not complex e.g. in the first preschool above MOE funding is 84% of turnover and wages are 81% of total expenses.

None of the early audits have been queried or proved to be deficient.

I do not believe the increased complexity for our audits has resulted in a better audit product for this level of audit.

Support For LCE Standards.

The thought of having one principles based standard has strong appeal. This would replace the multitude of standards and rules we currently must adhere to.

The thought of a three year period of stability also has strong appeal.



-2-

The standard stating the core fundamentals would be great and I see no risk of a deterioration in audit quality.

New Zealand, I understand is somewhat unique with our proliferation of registered charities and incorporated societies.

I feel we should adopt LCE audit standards that fit our situation and not have standards dictated by International Accounting firms who may have very limited understanding of our situation or no desire to tailor standards for our situation. The resources required by NZ affiliates of International Accounting firms to tailor NZ audits to LCE standards has been raised as an issue – if they had a will the resources would be available.

The fact other countries are not adopting LCE standards should not deter us from having standards that fit the NZ situation.

We did introduce tiered financial statement standards for statements preparation and feel the same can be introduced for audit standards.

The argument an LCE audit may be seen as a lesser audit is unlikely. I have never heard anyone complain that Tier 3 financial statements are a lesser product to Tier2. It will certainly not be an issue for our clients where the external users of the audited financial statements are Government Departments, Funders and Charities Filing.

Conclusion

For many years I have had a sense of frustration re audit standards and the lack of progress in introducing audit standards that fit our situation. I had almost resigned myself to not seeing such standards in my lifetime. I am delighted this consultation has been produced.

I have viewed the XRB panel discussion 17 February 2025, and the consensus seemed to be. LET'S GIVE THIS A GO. I AGREE 100%.



Bevan Smith

Director

27 February 2025



Thursday, 27 February 2025

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142

Via email: assurance@xrb.govt.nz

Dear Marje

Consultation Document – ISA (NZ) for Less Complex Entities

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout New Zealand, Australia and internationally. We welcome the opportunity to provide feedback on the above consultation and make this submission on behalf of our members and in the public interest.

We are supportive of the adoption of ISA for LCEs in New Zealand, including the addition of a section dealing with the audit of Service Performance Information (SPI) to the proposed ISA (NZ) for Less Complex Entities (ISA (NZ) for LCEs).

Our detailed responses to the consultation questions are included in the Attachment to this letter. Should you have any questions about the matters raised in this submission, please contact Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA
Group Executive – Advocacy and International
Development
Chartered Accountants Australia and New Zealand

Elinor Kasapidis CPA
Chief of Policy, Standards &
External Affairs
CPA Australia

Attachment

Question 1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

We agree with the potential benefits and costs. We believe that most of the potential risks can be mitigated with education and guidance. Issues such as perception of the audit or the challenges of managing two audit methodologies for firms that choose to do so, can be managed with education and guidance. In terms of specialisation risk, most of the firms and practitioners who are most likely to adopt ISA (NZ) for LCE are already specialised. Auditors entering the profession will still be trained on the full suite of ISAs via their professional education with the accounting bodies, and ultimately, the choice to specialise in LCEs is an individual career decision.

Question 2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?

Yes. Given the nature of New Zealand's audit market, which has many less complex entities, the efficiencies delivered to practitioners who adopt the standard, should result in more effective audits for LCEs. These efficiencies and an increase in audit quality, outweigh the costs and address long term concerns about the scalability of the ISAs raised by practitioners. As discussed in our response to Question 1, we believe many of the risks can be mitigated. There will be some initial costs in changing methodology or implementing a second methodology, but practitioners who choose to adopt the standard will do so because they believe they will benefit in the long term.

Question 3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.

Not applicable. However, overall, we have heard enthusiastic support from firms and the Office of the Auditor General for making the ISA (NZ) for LCE available for adoption in New Zealand.

Question 4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

No. While we have heard some concerns on the impact on audit quality, the model of periodic updates of the standard is the same as IFRS for SMEs which seems to work well in jurisdictions that adopt that standard. Given that, in general, there are fewer changes to auditing standards than there are to the accounting standards, we do not think this should cause problems. On the contrary, a limited moratorium meaning audit standards are being updated periodically rather than continuously is likely to make dealing with change more practical for firms working primarily with LCEs, without losing the overall strengthening of standards over time.

As the entities audited under ISA (NZ) for LCEs will be less complex this should further minimise the risks of any delay in updating the standard. While some members raised concerns about operating two methodologies with different timing for adoption of changes, they felt that this could be managed. In relation to SPI, the board could consider whether it needs to establish a process by which updates could be made to the SPI requirements outside the international update cycle in the rare circumstances in which it may be warranted if there was a substantial change to NZ AS 1.

Question 5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

Yes, we believe this is appropriate as this is the term used in New Zealand auditing standards rather than 'listed entity' and these entities are public interest entities (PIEs).

Question 6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?

Yes. Other than the clarification necessary for FMC reporting entities with higher levels of public accountability, we do not believe that the XRB should establish any further limitations on the application of the standard other than those set out in the standard as this would introduce an unnecessary level of complexity.

The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities. Similar to all other entities, auditors should exercise professional judgment when deciding whether to use ISA (NZ) for LCE in their audits of FMC reporting entities with lower levels of public accountability. If certain entities within this category exhibit complexities due to their business nature, it is incumbent upon the auditor to apply their professional judgment regarding the appropriateness of using ISA (NZ) for LCE.

We have also received positive feedback indicating that, in situations of uncertainty, auditors should refrain from using ISA (NZ) for LCEs. This approach helps maintain the integrity and effectiveness of the auditing process while ensuring that appropriate standards are upheld.

Question 7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

No. We do not believe that the XRB should establish any further limitations on the application of the standard other than those set out in the standard as this would introduce an unnecessary level of complexity. The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities.

Question 8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?

Yes, we agree. The size of an entity as established by quantitative thresholds is not necessarily indicative of the complexity of an entity's operations. The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities.

Question 9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?

Yes. Due to the nature of the entities likely to be audited under the standard, some will have a requirement to report SPI, and have it assured, so we believe it is appropriate to add this part to the ISA (NZ) for LCE.

Question 10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

Yes, the feedback we have received from members has been largely positive. We have two comments on specific requirements.

- 11.3.1 Planning should recognise that planning the SPI audit concurrently may not always be practicable as the SPI may not be available at the initial stage of the audit.
- 11.3.2 Formal discussion with TCWG at the planning stage should not be mandatory as it may increase costs for the entities. Alternatives such as discussion with management supplemented by written communications to TCWG should be permitted.

Question 11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?

Yes, the EEM seems appropriate, and our members have not raised any specific concerns.

Question 12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

We have not identified any specific concerns.

Question 13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?

We have two suggestions in relation to amendments to provide clarity in the case of an audit moving to the full ISA (NZ) suite when the prior year audit used ISA (NZ) for LCE, whether due to a change in auditor or a change in the entity's complexity.

- An amendment to ISA (NZ) 510 paragraph A3 to make clear that use by the prior auditor of the ISA (NZ) for LCE standard does not in itself affect the value of the auditor's work in relation to the audit of opening balances
- An amendment to ISA (NZ) 710 paragraph 17 to make clear that no disclosure should be made if the previous year audit was under the ISA (NZ) for LCE standard (by the same auditor), and if the previous auditor used the ISA (NZ) for LCE standard.

Question 14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

Yes. This aligns with the application date for the international standard. As the standard will be optional, firms can take the time they need to implement an ISA (NZ) for LCE methodology if they choose to adopt the standard. We note that the term mandatory date is used in the commencement and application section paragraph 3. This term may confuse practitioners and make them think use of the standard is not optional. If mandatory date is the term required to be used for legal reasons, it would be useful to ensure that the optional nature of the standard is clear.

Question 15. Do you have any other comments on the proposed standard?

We have a concern that the use of the word "concurrently" in the standard could be misinterpreted in relation to SPI. For example, in the introduction to Section 11: "Part 11 sets out the considerations that apply when auditing service performance information, concurrently with the financial statements".

As noted above, the audit work on the SPI may not be concurrent with the work on the FS due to availability of information. However, the audit report will contain opinions on both the FS and the SPI. It should be clear that the standard still applies in this case.

The board should consider whether it would be appropriate to track the update and usage of the standard after the first few years of implementation. This will allow both understanding of how the standard is used in New Zealand but also inform any responses the board may wish to make to the IAASB as they update, or do post-implementation reviews, of the standard.

27 March 2025

Sport NZ Ihi Aotearoa Submission on ISA (NZ) for Less Complex Entities (LCE) in New Zealand.

Via email: assurance@xrb.govt.nz

We appreciate the opportunity to provide feedback on the consultation document and the proposed changes to audit processes to accommodate less complex entities.

Summary of Sport NZ Ihi Aotearoa

Sport NZ Ihi Aotearoa is the Crown Entity responsible for New Zealand's play, active recreation, and sport system. Our role is to promote and support quality experiences in play, active recreation, and sport, to improve the well-being of everyone in New Zealand. We work with a wide range of partners including national and regional sports organizations, iwi, councils, and government agencies to achieve our goals.

Context in relation to the proposed changes

The majority of our sector partners are governed by voluntary boards with constrained capacity and at times capability. On their behalf we support any change in legislative and related compliance that reduces complexity and frees up time, while ensuring boards continue to operate legally, ethically, and can demonstrate accountability to their range of stakeholders.

Responses to consultation questions

We have focused on the questions that appear to most relate to our sector (as recipients of audit services) rather than the auditing industry.

Questions	Response
1 Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?	These appear to have been carefully considered. We support a comprehensive communication plan so all those affected by the changes have clarity.
2 Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?	As we understand it, while there may not be material cost savings (although we imagine over time the changes may limit material increases), it appears there may be reduced time required to

	meet the auditor's information requirements. Any time saved would be welcomed by our nonprofit partners.
3 Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.	N/A
4 Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?	As noted above so long as communications are timely and clear.
5 Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?	N/A
6 Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?	N/A
7 Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?	N/A
8 Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?	While we understand the rationale we note it is a complex compliance environment. Any simplification and or alignment with related legislation for example audit requirements in both the ISA (2022) and Charities Act (2005) would be beneficial.
9 Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?	This seems a pragmatic approach.
10 Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?	They appear to have been well thought through. We note it will be the auditor's decision on which standard to use.
11 Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?	N/A
12 What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?	We welcome the inclusion of SPI.
13 Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?	These seem a good example of standards alignment.

14 Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?	As noted earlier the regulatory and compliance environment in our (and other sectors) is ever changing placing pressure capacity and capability. In the Sport and Recreation sector for example, over 24,000 incorporated societies in NZ need to re-register under the new Incorporated Societies Act (2022) by April 2026 by submitting (updated) and compliant constitutions. There is a new Integrity Code (2025) requiring attention and recent changes to the Charities Amendment Act (2023) which will require updated Trust Deeds. Clear communications and timelines that appreciate the existing environment (where practicable) would be appreciated.
15 Do you have any other comments on the proposed standard?	N/A

Summary

Many sport and recreation organisations are governed by voluntary boards with varying degrees of capacity and at times capability. On their behalf, Sport NZ Ihi Aotearoa supports changes in the regulatory and compliance environment that reduces complexity, frees up time, while ensuring boards continue to operate legally, ethically, and can demonstrate accountability to their range of stakeholders.

Thank you for the opportunity to consult on this proposal.

Contact details

We can be contacted via Governance@sportnz.org.nz if further information is required.

Consultation Questions

Respondents are asked to consider the following questions and to respond to the XRB by 27 February 2025.

1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

Yes Cranford hospice as a registered charity agrees with the potential benefits and costs / risks as outlined.

An audit that provides reasonable assurance is not, in our view an audit of lesser quality, as audits are often “qualified” for one reason or another.

2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?

The introduction of a new less complex audit, tailored for the local NZ environment is welcomed. We currently have one audit standard for all organisations regardless of size and complexity (from multi nationals such as Rio Tinto to the local schools who run voluntary boards). It could be argued the current arrangement disadvantages both parties large and small. Is there enough rigour in an audit for the multi-national? Conversely is the small budget of a local school being burdened with unnecessary obligation.

Auditor costs are born by the recipient of the audit. While we appreciate that the new standard will not necessarily be “a cheaper audit”, we appreciate that a less complex audit may well lead to a softening of cost escalation over the medium term. We accept this is not a foregone conclusion. The introduction of new standards for LCE’s also allows for the introduction of new audit providers who choose to subspecialise in such an environment (competition).

3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.

This will be for the Finance Audit and Risk Committee to determine; however, it seems logical that small charities such as hospices would be very interested in this form of audit. The crown, as a funder would also be required to agree.

4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

No, not every standard is reviewed annually. It would need to be kept current with political policy changes.

5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

Yes we agree

6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?

As a charitable organisation Question 5-7 may have subtleties around the edges that we do not appreciate, however on the surface of it, yes we support this. A consideration for us may be the reliance placed on the FMCs for public funding, under this where there is a delineation of funding requirements i.e. where financial charities are required to ensure distribution of a percent of their funds or income. Whether this is affected by using LCE is not clear at this stage.

7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

Again, probably beyond our expertise, but we agree that financial business-like investment funds for charities might benefit from higher levels of safeguarding.

8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?

Yes, however there would need to be clear rationale for how the standards apply and to whom. We understand that unlike international organisations most of NZ business is run at a threshold below the international levels for inclusion, so it is appropriate to set our own terms for the threshold if any. It makes sense to use other criteria for complexity and we agree with the suggestions in A3 of the Draft ISA, excepting the key management team number as we run a flat organisation with a lot of department heads who are considered part of the management but actually have very little or no responsibility for the financial management of the organisation. Is there a way of defining key management for the purposes of the ISA, limiting the key management personnel to people who can affect change or make financial decisions within the organisation.

9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?

Yes, we support the addition of Part 11 to enable audits of the Service Performance Information and note that it should be flexible based on need (option #1 of the proposal in part 11)

10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

One of the key difficulties with the SPI is that the charities' needs often conflict with the audit requirements. This happens as in organisational terms the SIP is seen as a story telling opportunity to showcase the work that the organisation does for its members/ community and an opportunity to solicit more funds. However, from an audit perspective some of these are not measurable, auditable or even necessarily attributable to financial performance.

It would be useful if the LCE or in fact NZ AS 1, whichever option is adopted, could be amended to allow for recognition and separation of these two features and allow for the inclusion of more narrative that does not require any auditing beyond a sense check against the other audit factors that have already been reviewed, without requiring an automatic qualification on the audit report.

11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?

Yes, it is quite comprehensive.

12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

While the guidelines are comprehensive, there does not appear to be any significant difference in simplifying the audit process for the SIP between the two. Given that the purpose of the change is to make it less complex perhaps there could be some guidelines as to what depth of audit is required and maybe a lightening on the requirements mentioned in Part 11.

13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?

See below

14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

Yes

15. Do you have any other comments on the proposed standard?

Like many charities, hospices have accountability and transparency requirements for their community, donors and taxpayers. We support the new standards which reduce complexity of the audit requirements.

We understand that the IAASB has recommended countries establish their own quantitative parameters for inclusion and the Tier system that exists within the NZ audit environment may provide a logical approach.

Charities do find audit costs significant. It would be hoped that over time the implementation of the standards would dampen the escalation of audit fees over time.

Auditing the Statement of service performance is important for organisational accountability. However different audit agencies have interpreted the need for audit in different ways. Our audit experience involved an auditor sitting with a senior medical clinical for 5-part days combing through medical files to be assured that “contacts” were auditable. This proved a costly exercise, not to mention a poor use of our Senior Medical Officer and his time.

27 February 2025

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Submitted electronically

Dear Board Members,

Deloitte Submission on adoption of the International Standard on Auditing ('ISA') for Less Complex Entities ('LCE') in New Zealand.

Thank you for the opportunity to provide feedback on the adoption and application of the International Standard on Auditing for Less Complex Entities ('the standard' or 'LCE standard'). We appreciate the XRB's efforts to explore this important topic and engage with stakeholders in the process.

Deloitte New Zealand is part of a global network of firms. Our global firm, Deloitte Touche Tohmatsu Limited ('DTTL' or 'Deloitte Global') confirmed it will not adopt the LCE standard globally because Deloitte has already adapted and scaled the full suite of International Standards on Auditing ('ISAs') within our methodology, technology, and tools for less complex engagements. DTTL's submission on the exposure draft of the *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* issued by the International Auditing and Assurance Standards Board ('IAASB') can be accessed [here](#).

As a result, to implement the LCE standard would necessitate additional local investment in tools, resources and training, which we do not believe would provide sufficient proportionate benefits. Additionally, requirements to revert to the full ISAs in certain circumstances, including those set out in par 6.5.1 of the standard, introduces complexity and uncertainty in the application of the LCE standard.

Given the above, should the LCE standard be adopted in New Zealand, we ask that its application remains voluntary, ensuring that firms wishing to continue applying the full suite of the ISAs scaled for less complex engagements, can do so.

Furthermore, we provide the following overall comments:

Market perceptions

We encourage the XRB to further investigate the "marketplace" reaction to the proposed standard, to gauge the understanding, interest and demand of users for this different engagement. We consider that the risks and benefits identified by the XRB should be carefully weighted and that more information is needed to understand the impacts of perceptions in relation to 'lower audit quality' and a 'two-tiered' audit approach.

In addition, as Australia has not adopted the LCE standard, further analysis is required on the impact that a lack of harmonisation will have across our jurisdictions given the closeness of our markets and cross border activities, in particular for groups.

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NZ Part 11 Audit of Service Performance Information

We note the XRB's proposal to add Part 11 *Audit of Service Performance Information* to the LCE standard. We understand this part has been developed with reference to the approach in New Zealand Auditing Standard 1 (Revised) *the Audit of Service Performance information* ('NZ AS 1') but tailored and proportionate to an audit of a less complex entity.

We agree that the addition of Part 11 maintains the standalone nature of the LCE standard in New Zealand, avoiding the need to use it in conjunction with NZ AS 1. However, we note that due to its nature, performance information is distinct from the historical financial information as a subject matter and could be subject to different risks and complexities.

Given the judgements in applying the LCE standard, a key question is whether there are circumstances where it may be appropriate to apply the LCE standard for the audit of the financial statements but where risks and complexities within the service performance information could warrant the use of NZ AS 1 instead of [NZ] Part 11 of the LCE standard.

If such circumstances exist, it is unclear how this may impact the practical application of the LCE standard as a whole or if such complexities within the performance information (notwithstanding a less complex nature of financial information) would mean the LCE standard cannot be applied, given its intended standalone nature.

We therefore encourage the XRB to investigate this further in order to provide clarity as to the application of part 11 in such circumstances.

Please do not hesitate to contact us if you require any further clarification.

Yours sincerely,



Victoria Turner
Partner
for Deloitte Limited



John Ryan

25 February 2025

Marje Russ
Chair
New Zealand Auditing and Assurance Standards Board
Level 6
154 Featherston Street
Wellington 6011

Tēnā koe Marje

Submission on exposure draft ISA (NZ) for audits of financial statements of less complex entities

Thank you for providing the opportunity to comment on the proposed standard for audits of financial statements of less complex entities dated November 2024 (the Exposure Draft).

I am responsible for auditing the financial reports of around 3,300 public sector entities each year. Of this number a substantial majority (over 75%) of these entities fit the definition of “less complex” in the Exposure Draft.

Whilst I am confident that many of the audits of the less complex entities in the public sector are already carried out on a cost-effective basis, I am interested in taking advantage of opportunities that allow me to continue to deliver audits that provide value-for money to New Zealanders. I view the Exposure Draft as providing a significant opportunity towards achieving that objective.

In addition, New Zealand is characterised by a large number of less complex entities in various sectors – such as the charities sector; many of which are required to be audited. In our view there is a need for an auditing standard for less-complex entities. The benefits to auditors of only having to refer to one auditing standard, instead of the 30+ auditing standards they currently are required to comply with, are likely to deliver more cost-effective audits.

As a consequence, I strongly encourage the New Zealand Auditing and Assurance Standards Board (the Board) to continue with the work needed to promulgate an auditing standard that is relevant to less complex entities in New Zealand.

I have already made staff available to assist the Board in preparing aspects of the Exposure Draft. I am happy for my staff to continue to support the Board in the development of the standards that emerges from the consultation process.

Responses to the consultation questions are included in Appendix 1 that accompanies this letter. Appendix 2 to this letter provides further comments on Part 11 of the Exposure Draft on the audit of service performance information prepared by less complex entities.

If you have any questions, please contact Chong Lim at Chong.Lim@auditnz.parliament.nz

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMRyan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General

Appendix 1 - Responses to consultation questions

1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

The Consultation Document identifies a number of costs or risks that might arise from the adoption of the ISA (NZ) for LCE. However, the costs or risks do not take account of the counterfactual situation where auditors, as they are entitled to do, scale the full suite of ISA (NZ)s to the audits of particular entities. The process by which auditors scale the full ISA (NZ)s to particular entities is likely to exacerbate the costs or risks noted in the Consultation Document.

We should take confidence that the IAASB has carried out the process of scaling the full suite of ISAs to develop a single standard for the audit of LCEs. In doing so many of the costs or risks identified by the XRB have been mitigated. In our view, an ISA (NZ) for LCE provides a sound base that will enable the auditors of LCEs to focus on the risks of material misstatement whilst removing compliance with requirements from the full ISAs (NZ) that are not applicable or relevant under the circumstances.

The perception that an ISA for LCE is viewed as a lesser form of audit has been assumed by some jurisdictions, with the consequence that they will not adopt the ISA for LCE. Unfortunately, this is a perception that the IAASB could have avoided at the outset by giving the ISA for LCE standard the same status as the full ISAs; and in allowing auditors to publicly assert that the audit has been carried out in accordance with "International Standards on Auditing".

In this regard, it should be noted that the ISA for LCE requires compliance with the same quality management, and ethics and independence standards. The Auditor-General will continue to expect auditors appointed to act on their behalf to comply with AG-PES 3 and the Auditor-General's Code of Ethics. It should also be noted that the fundamental audit concepts have not been amended, these include determining audit materiality, audit sampling, how to identify risks and responding to assessed risks of material misstatement, and how to evaluate uncorrected misstatements.

Auditors face audit fee pressures at present regardless of the standards they apply. The cost of performing the audit in accordance with the ISA (NZ) for LCE will only be known once it is applied in practice and should not be used as a deterrent from adopting the standard. The audit fee may not increase as significantly or regularly as is currently the case due to additional requirements that should only affect audits of more complex entities. Examples include the IT control requirements in ISA NZ 315 (Revised), and the group engagement partner's involvement in group audits where component auditors are used in ISA (NZ) 600.

2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?

We agree the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so. The Auditor-General is required to audit the financial statements of a large number of public sector organisations that can be characterised as LCEs. As noted above, having one auditing standard that provides a sound basis for the auditor to focus on the risks of material misstatement of an LCE's financial report is an important consideration.

Having a single standard in New Zealand promotes a consistent high-quality audit of an LCE's financial report, i.e., each firm or auditor is not scaling the audit back by themselves (and potentially doing so inappropriately).

We believe that a standard is needed to fill the gap that currently exists between entities that are required to be audited in accordance with the full suite of ISAs and those that may have a review instead. There is a large difference between reasonable and limited assurance and most entities that are able to have their financial reports reviewed obtain an audit.

3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.

The Auditor-General will adopt the ISA (NZ) for LCE as soon as it is practical to do so, after it has been issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The auditors appointed to act on behalf of the Auditor-General would need time to develop an audit approach in accordance with the standard and audit staff would need training. However, we don't believe that initial education and training costs should be reason for not adopting the standard.

We have made an initial assessment that the ISA (NZ) for LCE could be applied to a large number of the approximately 3,300 entities that the Auditor-General is required to audit annually. These entities are finding it difficult to afford an audit in accordance with the full ISAs (NZ) due to the increasing cost that the auditor has to incur due to complying with all the audit requirements of the full ISAs, and the current economic environment.

If the XRB decided not to adopt the standard and the Auditor-General developed a standard based on the ISA for LCE, it could significantly affect the pool of auditors that the Auditor-General could use to carry out such audits on their behalf. This is because only global network firms that operate in a jurisdiction where the standard has been adopted by a recognised standard setter would have access to an audit approach that complies with the ISA for LCE.

4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

The timing of the maintenance of the ISA for LCE does not affect our view on its adoption.

From our observations, the international standard setting board is primarily focussing its attention on marginal amendments to the ISAs which are of importance to audits of FMC reporting entities with higher levels of public accountability. If those amendments are reflected in the ISA for LCE at a later date the quality of the audit is unlikely to be compromised.

However, where a fundamental change to the way in which we audit is introduced we would expect the ISA for LCE to be changed at the same time as the ISA.

5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

Yes.

- 6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?**

Yes.

- 7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?**

Please refer to our detailed comment on paragraph NZ1.2.2. under question 15. The Auditor-General will develop its own policy on audits where this standard may not be applied.

- 8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?**

We agree with the XRB's position that a quantitative threshold is nor necessarily an indicator of complexity. A quantitative threshold may result in auditors having to apply different standards year-on-year.

- 9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?**

We support the addition of Part 11 in the ISA (NZ) for LCE.

- 10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?**

We disagree with how Part 11 has been tailored for LCEs. In summary, we consider Part 11 should be further simplified.

Please refer to our separate comments in Appendix 2 of this submission.

- 11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?**

We disagree with how Part 11 has been tailored for LCEs. In summary, we consider Part 11 should be further simplified.

Please refer to our separate comments in Appendix 2 of this submission.

- 12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?**

Please refer to our separate comments in Appendix 2 of this submission.

- 13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?**

No, apart from the separate comments in Appendices 1 and 2 of this submission.

14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

The proposed application date is reasonable. Please also refer to our response to question 3.

15. Do you have any other comments on the proposed standard?

We have several additional comments – as follows:

Reference to Exposure Draft	Observation	Suggested Response
Contents page, NZP.13, and page 37	The structure of the ED does not make a clear distinction between Part A (the Authority part) and the parts that regulate the conduct of the audit (Parts 1 to 11). From a reader's perspective if there is a Part A then it follows there should be a Part B – but there is no Part B. The structure of the ED is explained in NZP.13 (on page 11) but this explanation comes too late to reduce confusion about structure.	Ideally, the contents page should include a reference to a Part B immediately below the Part A reference. Part B should be suitably titled – possibly: B APPLICATION OF THE ISA (NZ) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES The “sub-parts” under Part B in the contents page could be differentiated by smaller font? Another improvement could be to move the explanation of the structure in NZP.13 to the beginning of the Preface.
NZ1.2.2 on page 20	We agree that a firm will have a policy on PES 3 and PES 4 and will have requirements on which audits will require an EQR in addition to FMC reporting entities with a higher level of public accountability. However, we do not agree that PES 4 will be relevant to the audit of a LCE, i.e., an EQR is required for higher-risk audit engagements and should be an indicator to the auditor that the standard for LCE is perhaps not appropriate for a particular audit engagement.	Consider including the need for an EQR as a factor for not applying the Standard on LCE. Adapt the current application material accordingly.

Reference to Exposure Draft	Observation	Suggested Response
6.4.2 on page 61	For an audit of an LCE we question whether there should be a presumed risk of fraud in revenue recognition. This is because the entity is likely to have a single type of simple revenue transaction. Receiving cash revenue for small entities in the public sector is also reducing and becoming less of a risk for such audits.	6.4.2 could be redrafted similarly to 6.4.3 (relating to estimation uncertainty of accounting estimates), to consider specific matters when identifying and assessing the risk of material misstatement in revenue recognition (so that it is not automatically assessed as significant, triggering additional procedures around controls etc.). The specific matters to consider could include the complexity over revenue recognition and how revenue is received by the entity.
6.5.1 on page 63	The requirement to consider whether the ISA for LCE is still appropriate after the “risk assessment” process, seems problematic from a cost and timing perspective. It is also not clear what the risk assessment would need to indicate for the auditor to conclude that the full ISAs are necessary.	Consider prohibiting a change during an audit. Consider the requirements from ISAE NZ 3000 which does not allow an auditor to move from reasonable assurance to limited assurance during the engagement based on what was identified during planning.

Reference to Exposure Draft	Observation	Suggested Response
6.6.1 on page 63	6.6.1 requires the auditor to communicate with management, and where appropriate, those charged with governance, the <i>significant risks</i> identified by the auditor. The ED does not explain the purpose of this requirement and needs to do so in order to give proper effect to the audit. The requirement flows from paragraph 15 of ISA (NZ) 260. The communication is carried out following the audit planning process regarding the planned scope and timing of the audit. The communication helps entity personnel to understand the significant risks and may assist them in fulfilling their responsibility to oversee the financial reporting process. The communication may also assist entity personnel in identifying any areas in which they may request the auditor to undertake additional procedures. In our opinion, apart from not explaining its purpose, the requirement comes too late in the audit process to be effective. For example the fieldwork component of the audit for many less complex entities will take place over the course of one or two days. Any significant risks that have not previously been identified will be identified and resolved (if possible) at the time of the audit visit. There will be insufficient time for the communication required under 6.6.1.	Many of the significant risks will be known to the auditor at the planning stage of the audit. We recommend that the communication of significant risks to the entity is carried out either: • When the auditor has completed the requirements in 5.2.4, 5.2.5 and 5.2.6; or • Following the engagement team discussion in 5.2.7. As a consequence the requirement to communicate significant risks to entity personnel should be combined with the communication requirements of 5.4.1.
7.3.7 on page 68	We understand that this is a conditional requirement, however we question why the ISA (NZ) for LCE is referring to an 'interim audit'. It is not clear why an interim audit would be relevant or necessary in an audit of a less complex entity.	Consider removing reference to interim audits.

Reference to Exposure Draft	Observation	Suggested Response
The EEM following 8.6.3 on page 91.	The second paragraph of the EEM beneath 8.6.3 states: <i>“[NZ] If the auditor intends to rely on some, or all, of the written representations made by those charged with governance in a written public statement, the auditor ordinarily communicates their intention to place such reliance.”</i> We presume that the communication is intended to be made by the auditor to entity governors. In the public sector a written public statement of representation is often required to be provided by entity governors. This statement is required to accompany the entity’s audited accountability documents. It is not normal practice for the auditor to communicate their intention to place reliance on the written public representations for two reasons: 1. Auditors don’t normally communicate their intention to rely on a representation – whether the representation is made in a written public statement or in a representation letter provided by the entity; and 2. Auditors don’t rely solely on representations provided by an entity. The representations support evidence that the auditor has obtained as part of the audit.	We recommend that the second paragraph of the EEM beneath 8.6.3 is removed.
8.8.1 and 8.8.2 on pages 92 and 93.	These requirements are quite prescriptive in that they make a clear distinction between management and those charged with governance. When auditing a less complex entity it is possible that a single communication to one party (such as those charged with governance) with a copy to the other party (management) will satisfy the requirements of 8.8.1 and 8.8.2.	We recommend that the ED is amended to provide flexibility to communicate appropriately to an entity where a clear distinction between entity governors and management is not obvious. This is the case in many small entities. A suitable amendment could be made by drawing on the content of paragraphs 13 and A8 of ISA (NZ) 260.

Reference to Exposure Draft	Observation	Suggested Response
9.7.1, 9.7.2, 9.7.4, 9.7.7 and 9.7.8 on pages 110 and 111	These paragraphs do not apply in the NZ context.	These paragraphs should be removed to avoid confusion and enable auditors to comply with Part 9 in full (A requirement of ISA (NZ) for LCE).
Page 98 and page 134 - the auditor's report	To mitigate misconceptions that an audit carried out under the ISA (NZ) for LCE provides less assurance than an audit carried out under the full ISA (NZ)s we suggest that two steps could be taken: 1. Check that the audit report format and structure aligns with the illustrated audit reports in the Appendix commencing on page 41 of ISA (NZ) 700 (Revised); and 2. Include a paragraph in the audit reports to indicate that the ISA (NZ) for LCE standard provides the same assurance as an audit carried out under the ISA (NZ)s, as they both provide reasonable assurance, with the only difference being that the ISA (NZ) for LCE is tailored for the audits of LCEs.	Implement the suggestions under the "Observation" column.
Page 100 and page 135 - the auditor's report	The auditor's reports, in both instances, make no reference to the possibility that the auditor may need to refer to "Other Information". If auditors refer to the template auditor's reports in the ED they may overlook the need to inform the users of the work carried out on the other information that accompanies the audited information.	In both instances we recommend that the template auditor's reports include the heading "Other Information" and beneath that heading cross refer to the other Information requirements on pages 112 and 113 of the ED.

Appendix 2 - Comments on Part 11 of the Exposure Draft on the audit of service performance information

Overall comments on Part 11

We understand that concerns may have been expressed by some auditors that NZ AS 1 (Revised): *The Audit of Service Performance Information* (NZ AS 1 (Revised)) is not fit-for-purpose for the audit of service performance information prepared by less complex entities. In our view the ISA (NZ) for LCE provides an opportunity to simplify the requirements (and terminology) in NZ AS 1 (Revised) that have been carried into the proposed ISA (NZ) for LCE.

It would seem appropriate that the ISA (NZ) for LCE should be the “go to” standard for the majority of auditors of the many “public benefit entities” that are required to prepare a “statement of service performance” under the Tier 3 and Tier 4 reporting requirements – as referred to in 11.5.1 of the Exposure Draft.

We would suggest that the NZAuASB “step back” and re-think the requirements and the explanatory material that regulate the audit of service performance information in the context of less complex entities. We understand that responding to our observations, noted below, will require significant effort. However, we consider that effort will be worthwhile by effectively responding to the concerns expressed by some auditors about NZ AS 1 (Revised). We would be happy to assist the NZAuASB with this work.

Our observations (below) identify opportunities to simplify Part 11 of the ISA (NZ) for LCE.

Detailed comments on Part 11

Reference to Exposure Draft	Observation	Suggested Response
The wording of (a) in the EEM following 11.1.1 on page 119	We consider that some of the terminology that has been carried across from NZ AS 1 (Revised) is confusing and should be simplified. The wording of (a) in the EEM following 11.1.1 is confusing because it does not align with the plain English wording in the applicable accounting standard. We think it should do so.	We recommend that the wording of (a) in the EEM following 11.1.1 is reworded to align to the requirements in paragraphs A43 and A44 of the Tier 3 (NFP) Standard - Reporting Requirements for Tier 3 Not-for-Profit Entities (Issued May 2023). Suggested wording is: <i>“The auditor may achieve the objectives of this Part by considering the following two steps:</i> (a) <i>Assess whether the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework:</i> <i>Describe what the entity is seeking to achieve over the medium to long term (that should be closely related to the entity’s mission or purpose); and</i> <i>Describe, and quantify to the extent practicable, the significant activities the entity has undertaken or what it has achieved during the financial year.”</i>

Reference to Exposure Draft	Observation	Suggested Response
Throughout Part 11 (including the Independent Auditor's Report), the Engagement Letter in [NZ] APPENDIX 2A, and the Representation Letter in [NZ] APPENDIX 7A.	We consider the simplified terminology (referred to above) should be reflected throughout Part 11. These changes are needed to facilitate more cost effective audits of service performance information prepared by less complex entities.	Refer to our recommendation under the "Observation" column.
11.7.2	Paragraph 11.7.2.(b)(i) and the last paragraph under "Assertion Level Risks" in the explanatory material appear to be confusing two matters - assertions and identifying significant (material) measures. We identify material measures first, then consider inherent risk at the assertion level for those measures. In other words, if we think about the "two-step" process in the explanatory material following 11.1.1, we would only consider inherent risk for the "aspects" of service performance that are assessed as being "appropriate and meaningful". This assessment is carried out under 11.6.1 (a).	We suggest that the sequencing of the procedures in relation to identifying and assessing the risks of material misstatement are clarified. This process equates with (b) in the explanatory material following 11.1.1 – being step 2 of the "two step" process.
The EEM following 11.7.2	The last sentence in the explanatory material for 11.7.2 notes that <i>"the [inherent] risk assessment is conducted at a meaningful level ..."</i> .	We were not sure what the phrase "meaningful level" means. Could this be explained or rephrased in another way.
11.9.1	Sufficient and appropriate audit evidence is typically obtained to support the entity's assertions of its actual performance during the reporting period. In other words it relates to step 2 of the "two step" process. The auditor's work to assess whether the entity reports on the "aspects" of service performance that are "appropriate and meaningful" does not typically employ the evidential processes that are used to validate an assertion. Instead, as stated in 11.6.1 (a), the information used by the auditor to make this assessment is derived from their understanding of the entity under 11.4. This is step 1 of the "two step" process.	We recommend that 11.9.1 clarifies the application of the "two step" process in the context of eventual procedures. One way of doing this may be to develop a flow diagram that provides a road map in the application of the "two step" process.

Reference to Exposure Draft	Observation	Suggested Response
The EEM following 11.9.1	Much of the explanatory comment derives from ISA (NZ) 500. It is difficult to form a view on whether the proposed standard has captured the important evidential issues that an auditor is likely to encounter when auditing a less complex entity. In our opinion, the segregation of duties risk will be an important consideration as will the ability of the auditor to rely on systems of internal control.	We recommend that the proposed standard provides guidance on the important evidential issues that an auditor is likely to encounter when auditing a less complex entity.
The EEM following 11.9.1	The 4 th paragraph of the EEM following 11.9.1 is not clear. In particular we had difficulty in understanding how the second sentence relates to the first sentence.	We suggest this paragraph is clarified.
The EEM following 11.9.1	The 5th paragraph of the EEM following 11.9.1 (on pages 128 and 129) discusses the difficult assertion of “attribution”. In some instances a number of separate entities contribute to an outcome but find it difficult to quantify their individual contribution towards the outcome. In this situation auditors’ responsibilities are likely to be limited to: 1. Ensuring there is a connection between the reported measure and the entity’s activity during the reporting period; and 2. Assessing the adequacy of the entity’s disclosures in that they fairly reflect the extent of the entity’s contribution towards an outcome. This involves the exercise of professional judgement by the auditor.	It is suggested that it may not be possible for the entity to quantify the extent to which its activities contribute to an outcome. In this situation the auditor will need to exercise professional judgement on the reliability of the disclosures made by the entity in the context of the “attribution” assertion. Currently the the “attribution” assertion is presented as a “black and white” situation in the EEM. We would suggest that the verification of the “attribution” assertion is more nuanced in some situations and that the EEM should reflect this possibility. We also consider this paragraph should explain the relationship between the attribution assertion and the associated evidential processes.
11.11.1	The representation letter should also obtain a representation that the reported service performance information fairly reflects the actual service performance. This the audit objective noted in (b) in the EEM following 11.1.1 on page 119. In addition, and where applicable, the auditor should obtain a representation on internal control – in accordance with 44(d) of NZ AS 1 (Revised) – “Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.”	Include these as additional representations in 11.11.1.

Reference to Exposure Draft	Observation	Suggested Response
11.11.1 (a), 11.12.1, 11.12.3, the audit opinion on page 133, the Engagement Letter in [NZ] APPENDIX 2A, and the Representation Letter in [NZ] APPENDIX 7A..	These paragraphs and documents contain the qualifying term <i>“in accordance with the entity’s measurement bases and evaluation methods”</i>. The equivalent term that would be used for the financial statements would be <i>“in accordance with the entity’s accounting policies”</i>. In our view the use of this qualifying phrase is unnecessary because it detracts from the particular matter on which the auditor is forming their opinion; in this instance that the service performance information <i>“is prepared, in all material respects, in accordance with the applicable financial reporting framework”</i>.	Remove the qualifying term <i>“in accordance with the entity’s measurement bases and evaluation methods”</i> .
11.12.4 (c)	We consider the wording of this particular measure to be confusing. As observed previously carrying across wording in NZ AS 1 (Revised) to the ISA (NZ) for LCE is unnecessarily confusing. Instead of referring to <i>“measurement bases or evaluation methods”</i> it is suggested that we use terms found in the applicable accounting standard. In this instance paragraph A46 of the Tier 3 (NFP) Standard - Reporting Requirements for Tier 3 Not-for-Profit Entities (Issued May 2023) refers to <i>“measures and/or descriptions of the entity’s significant activities or achievements”</i>. We also suggest that referring to <i>“are available to intended users”</i> is confusing. More usual terminology is <i>“are adequately disclosed”</i>.	We recommend that 11.12.4 (c) is amended to read <i>“the measures and/or descriptions of the entity’s significant activities or achievements are adequately disclosed”</i> .

Reference to Exposure Draft	Observation	Suggested Response
11.13.4	The second sentence of 11.13.4 states: <i>“However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such service performance information is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor’s report.”</i> The use of the words <i>“in extremely rare circumstances”</i> makes an assumption about the integrity of a compliance framework that may be unfounded. An unintended consequence of including this wording may cause the auditor to abandon (or severely curtail) the exercise of “professional scepticism”.	We recommend that the words <i>“in extremely rare circumstances”</i> are removed from 11.13.4.
11.20.1 (a)	11.20.1 (a) requires the auditor to communicate any <i>significant risks</i> identified with the service performance information to those charged with governance. As noted in Appendix 1 of our submission (in the reference to 6.6.1 on page 63 of the Exposure Draft) the purpose of this requirement is not made clear and needs to do so in order to give proper effect to the audit. In addition to explaining the purpose of this requirement, we suggest that it be relocated beneath the Planning Activities heading (section 11.3) of Part 11. Relocating this requirement to the audit planning section (and by including a suitable cross-reference to Part 5 of the Exposure Draft) is more likely to give proper effect to the audit.	We recommend that the actions we have previously proposed following our observation in Appendix 1 of our submission (in the reference to 6.6.1 on page 63 of the Exposure Draft) incorporate the requirement of 11.20.1 (a) to communicate any significant risks identified with the service performance information to those charged with governance.



External Reporting Board
Level 6, 154 Featherston St.
Wellington 6142 New Zealand

By email: assurance@xrb.govt.nz

28 February 2025

Subject: Proposed new audit standard for less complex entities - PwC response

Dear Bruce,

We appreciate the opportunity to submit our views on the External Reporting Board's (XRB) Proposed new auditing standard for less complex entities "ISA (NZ) for Less Complex Entities".

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only.

Overall comments

While in principle we support initiatives to streamline audit processes and procedures without sacrificing quality, we do not believe the XRB's proposal to introduce a new auditing standard for less complex entities ("LCE") will be effective in achieving this. The existence of two standards will always create a perception that the LCE standard will result in substantially less time and effort which will rarely be the outcome.

The issue is that no amount of explanatory materials will likely overcome this perception by audit clients and practitioners, and that just because a different standard is utilised (i.e. the LCE standard) doesn't mean less work can be performed as the requirements remain the same.

Using a few small audit clients as test cases, we compared the scalable guidance in the existing ISAs with the proposed LCE standard and concluded we would effectively do the same amount of work. There is already speculation by certain practitioners that this new standard will lead to less work on these types of engagements, with the hopes that it will remove more fundamental aspects of the requirements such as the amount of substantive procedures necessary to address a risk, or the amount of documentation necessary to support those procedures.

This mismatch between practitioner hopes of what the standard will achieve, and the reality of what is included in the standard, will lead to inevitable frustration stemming from the fact that the entire purpose of this standard was to make audits for less complex entities easier, but if the requirements are substantially the same, this will never actually materialise leading to confusion and frustration in the profession and may harm audit quality. Therefore we do not believe adopting this standard will provide a net positive outcome for New Zealand.



Questions for respondents

Our responses to the specific questions raised in the consultation document are attached in Appendix A. We appreciate the opportunity to provide feedback on the proposed standard. Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jon Freeman".

Jon Freeman
Risk Management Partner

Appendix A

Our responses to the specific questions raised in the consultation document

Question number	Response
Q1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?	The risks focus on the perception related to users of the financial statements, but do not sufficiently address perceptions by practitioners. There is already significant speculation within the profession that this standard is needed because “we are required to perform too many audit procedures for smaller audit clients”, but the reality is that other than a few exceptions which we consider would rarely be material or relevant to the LCE anyway, the required audit procedures are effectively the same. The risk is that even if the wording of the two standards is similar, this perception means the interpretation will likely be read in a way that suggests less is required for the LCE standard which is not true. The existing ISAs are already drafted with scalability in mind and if a minimum level of work is unable to be achieved through that scalability, this should not open the door for allowing even less work. If it does, this means we have effectively created two tiers of audits driven entirely by the perceptions of those in the profession. The only way this can be overcome is if the guidance is clear that the level of audit procedures and related documentation is unlikely to differ between the standards, and the messaging is clear that the main benefit of this standard is that it creates an abridged version which is easier to read for the practitioner, but doesn’t mean less work is required.
Q2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?	We do not believe the benefits outweigh the costs. Once this is in the market, firms and practitioners will need to manage perceptions of clients and audit professionals that this does not open the door for less audit procedures and a cheaper audit. If it’s an ISA compliant audit, we should get to the same outcome under either set of standards thus creating the ongoing confusion as to why this new set of standards exists.

Q3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.	We are unlikely to use this new standard. We already have scalable guidance and workpaper technology that supports the existing ISAs. Given this effectively requires the same level of work, adoption would create confusion amongst our practitioners. It will also create additional work as guidance manuals, templates and other firm resources will effectively need to be doubled which will lead to increased maintenance costs.
Q4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?	We believe the fact that requirements in the main ISAs will be adopted into the LCE standards with a delay reinforces the view that this creates two tiers of audits. Using the upcoming standards as examples, a new requirement should only be introduced into the Going Concern or Fraud standards if it's necessary to support increased audit quality. If this new requirement is necessary to support a base level of audit quality, its absence from the LCE standard in the delay period implies that the LCE standard will provide a lower level of audit quality during this time period. If the additional requirements in the main ISAs have not contributed to a base level of audit quality, we should question why they were added to the main ISAs in the first place.
Q5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?	Yes. The draft LCE standard in its current form does not include the incremental requirements for FMC entities with higher public accountability, such as key audit matter requirements, therefore they are not fit for purpose in their current state for FMC entities with higher public accountability. If the standards were to be updated to include these incremental requirements, then it would beg the question why they are not allowed for listed entities, especially given the premise that both standards provide the same level of assurance. If we are limiting this for listed entities, then we believe it's appropriate to limit FMC reporting entities with higher public accountability to align with the NZ amendments.

Q6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?	No concerns with this approach.
Q7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?	No
Q8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?	Other than a few exceptions, the requirements are the same in both sets of standards, therefore it feels arbitrary to use a quantitative threshold to move from one set of standards to another because an entity crossed an arbitrary numerical threshold. It appears to us the LCE standard is more about the size of the practitioner than the size of the audit client. Perhaps the threshold should be audit firms with less than 30 staff (to identify the types of practitioner that might benefit), otherwise they are reaching a size where they should be able to manage the overhead costs of building templates for the full suite of ISAs.
Q9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?	No concerns with this approach
Q10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?	No comment
Q11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?	No comment

Q12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?	No comment
Q13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?	It is noted the current requirement to obtain a legal letter from in-house legal counsel has not been included for situations where in-house legal counsel has primary responsibility. This is paragraph NZ10.1 in ISA (NZ) 501. While it will be uncommon for these types of entities to have in-house legal counsel, the fact that the scope does not have a size threshold means the standard could be used on a large private company which could encounter litigation. Therefore it seems reasonable to include this for consistency purposes.
Q14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?	Indifferent as we will likely not use it
Q15. Do you have any other comments on the proposed standard?	No further comments

Consultation Response

Proposed ISA for Less Complex Entities

27/02/2025

1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

We largely agree with the potential benefits and costs/risks as outlined in the consultation document. The consultation online sessions indicated strong support amongst the small to medium sized audit practices. We acknowledge that a small audit practice with only less complex clients could benefit from a simplified audit standard. However, as a medium to large sized international network audit firm we'd like to focus our feedback on issues relevant to us.

For this question, one of the key risks for us is the auditor judgement required in applying the LCE Standard. Our individual firms within NZ generally have a diverse client base. The Standard requires an auditor to apply qualitative, rather than quantitative, criteria. While these criteria are described within the Standard, there is potential significant judgement in "borderline" cases. Our concern is that the auditor will be held liable for judgement calls on these where external regulators determine that the auditor reached the incorrect judgement. We note what Misha stated in the online discussions: "if in doubt, you're out", however there may be circumstances where a particular auditor makes a judgement and does not see their judgement as having any doubt, but others would disagree.

In the NZ context we already have a degree of complexity in financial reporting due to the large number of frameworks available. There is already increased compliance costs associated with transitioning between different tiers when circumstances change for clients. Adding the risk of transitioning in and out of the LCE based on the circumstances of the client is yet another layer of costs and complexity. We note that our Global network raised this specific point in its consultation response in 2022 to the IAASB. We quote from that consultation: "The main challenge will arise in instances where during one period the entity is out of scope of the LCE standard because of a one-off transaction (e.g., an estimate with high estimation uncertainty) that cannot be comprehensively audited without also performing procedures that would be required under the full suite of ISAs, especially where this is identified partway through the audit.

We also believe that if estimates with high estimation uncertainty remain in the qualitative characteristics of complexity, the need to transition to full ISAs may arise quite frequently – particularly as facts and circumstances change. It may not be practical for engagement teams to 'switch over' to a full ISA audit mid-way through the engagement as that may require switching to another automated auditing tool where the full ISA methodology is housed. As relevant ISA requirements are virtually the same in the full suite of ISAs and the ISA for LCE, it is not a productive use of time to replicate or move documentation from a LCE automated tool to the 'full ISA' version."

2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?

We consider one of the key risks being one of perception. If the firm is known to widely apply the LCE Standard, will they be considered a "tier 2" type audit firm? Will personnel within these firms consider that LCE clients are low risk clients and inadvertently apply a lesser standard of quality to these clients? If these firms start losing skills for more complex audits as a result of both client perception as well as extensive use of the LCE Standard, would the audit market become separated into larger vs small audit firms?

Noting that this standard still requires reasonable assurance, we expect that we will still be performing a similar level of work and do not expect significant efficiencies. This is primarily because all our firms in the NZ network have clients in both the LCE space and normal ISA's. Therefore, there is not the ability to uniformly apply the LCE Standard in any of our firms. Our audit teams will still need to be able to audit under both frameworks.

Within our network, we audit clients across all PBE and for-profit accounting frameworks along with special purpose reporters. As it stands, we have a significant number of templates that require customisation for each type of client and their engagement type. For example, engagement letters must specify the reporting framework adopted, whether the entity is a group, the legal structure of the entity etc. Adding in yet more customisation to our suite of templates, both increases costs, as well as the risk of incorrect templates being used.

While others have noted that there may not be a significant amount of training required for this, we disagree and point out the additional layer of complexity and how this adds to the training requirements for new graduates as well as existing staff. It also adds to the risks that staff may not be fully conversant with all the reporting and auditing requirements within NZ as it is nearly impossible as is for everyone to be conversant with everything. See discussion above for this risk of specialisation and concentration of skills/knowledge in a few firms.

3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.

While we don't support the new Standard, we acknowledge that there is likely to be some application of this across our firms in NZ. Smaller, regional firms would possibly utilise this should BDO NZ receive international support. We cannot definitively state at this point whether we will use this Standard or not.

There is also the risk that the international network does not fully embrace this Standard, and therefore the associated software and technical support to NZ will not be forthcoming. It is compulsory that we use the existing auditing software provided by our international network.

4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

We agree that there needs to be stability in the short term over the maintenance of the ISA for LCE. As pointed out in the Panel discussion, there must also be a mechanism to allow early adoption of any significant changes to other ISA's where they are applicable to LCE's.

5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

Yes, it is only natural that these entities are audited under the full set of ISA's due to their level of public accountability.

6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?

Yes, as the qualitative criteria for applying the LCE Standard can be applicable to them depending on their unique structure and operations.

7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

None noted

8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?

Yes we agree. The numbers presented in financial statements only tell part of the story of an entity's operations and associated complexity. For example, significant estimates in valuation may not be material from a numerical perspective as presented in the financials, but should the underlying assumptions, estimates, judgements be significantly wrong, the impact could be material.

9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?

Yes we do. Considering the LCE Standard incorporates all the other ISA's, it would not make sense to then have to refer to the NZ AS 1.

10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

We welcome any effort to streamline or simplify the process of auditing SPI. However, we note that the same level of assurance will still need to be obtained no matter how simplified Part 11 is or could be. We have encountered significant challenges in auditing SPI, as has the rest of the industry. It's an ongoing challenge and obtaining reasonable assurance has proved difficult for a number of our clients.

11. Do you agree that the EEM (Essential Explanatory Material) included in Part 11 is appropriate? If not, what do you recommend?

Yes, no particular feedback. Explanatory material is generally useful in the other ISA's.

12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

No particular feedback here.

13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?

No particular feedback here.

14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

We do not. There is not enough time to train our audit teams, communicate with our clients and update our audit tools and software to be ready to implement by the application date.

15. Do you have any other comments on the proposed standard?

None noted.



Te Tari Taiwhenua Internal Affairs

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10 March 2025

ISA (NZ) for Less Complex Entities

Charities Services is pleased to provide a submission to the External Reporting Board (the XRB) on the consultation and exposure draft of the proposed audit standard *ISA (NZ) for LCE*. We have taken the opportunity to provide general comments from our perspective as a regulator of the charitable sector under the Charities Act 2005.

Our primary purposes as set out in the Act are to promote public trust and confidence in the charitable sector; and encourage and promote the effective use of charitable resources. Charities Services' functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to submit audited financial statements when required.

Regulatory impacts

We have considered the regulatory impact of the proposed ISA (NZ) for LCE on the following:

Impact on public trust and confidence

We consider the proposed ISA (NZ) for LCE to have minimal impact on public trust and confidence. There is a risk that some readers of Performance Reports where audits were undertaken under the ISA (NZ) for LCE standard may perceive the audit to be of a lesser quality, which may lead them to consider charities in the same reporting tier not comparable. However, we generally consider that an accepted audit standard will provide public assurance of effective use of charitable resources.

Impact on Charities Services ability to regulate

Charities Services conducts compliance checks on charities in all tiers to ensure charities are complying with the Charities Act and the relevant accounting standard(s) when filing their Annual Returns and Performance Reports. We do not consider the proposed ISA (NZ) for LCE audit standard to limit our ability to assess compliance.

Impact on easing the burden for less complex entities

Charities Services aims to ensure complying with the Charities Act is not overly burdensome, especially for smaller charities.

The ISA (NZ) for LCE is likely to be simpler to use for auditors due to the way it is structured and the length of the standard. However, audits may not be shorter or less expensive for charities audited under this standard and therefore may not necessarily provide a lesser burden on charities. This may give rise to conflict between

charities and their auditors. Appropriate information and education by XRB in advance of the standard being introduced may mitigate this risk.

We also understand a concern for auditors both within New Zealand and abroad is the potential to discover during an audit that the ISA for LCE standard cannot be applied, and they must shift to the full standards. In such a situation, Charities Services is likely to receive enquiries and potential requests for extensions from affected charities. We favour the establishment of clear, early guidance to auditors regarding the applicability of this standard.

General comments

Finally, Charities Services is aware of concerns regarding the alignment of updates to the current audit standards and the ISA (NZ) for LCE. We understand there could be misalignment between the new standard and the general audit standards. Without understanding the depth of the updates to the audit standards, it is difficult to estimate the risk in this misalignment. We encourage efforts by the XRB to minimise any associated risk.

Thank you for the opportunity to comment.

Nga mihi,

A handwritten signature in black ink, appearing to read 'Charlotte Stanley', with a stylized, flowing script.

Charlotte Stanley

Director – Charities Services | Ngā Ratonga Kaupapa Atawhai
Regulatory and Identity Services
Department of Internal Affairs Te Tari Taiwhenua