



The International Auditing and Assurance Standards Board (IAASB)

Mr. T. Seidenstein (Chair)

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Submitted via [www.iaasb.org](http://www.iaasb.org)

Subject: Eumedion's Response to the Proposed International Standard on Sustainability Assurance 5000

Reference: B23.26

The Hague, 1 December 2023

Dear Mr. Seidenstein,

Eumedion welcomes the opportunity to provide feedback on your Proposed International Standard on Sustainability Assurance 5000 ('Proposed ISSA 5000'). Sustainability reporting according to mandatory sustainability standards is an imminent reality in Europe, and inevitably, other jurisdictions worldwide will follow suit.

We commend the IAASB for drafting a clear and comprehensive proposal aimed at encompassing all aspects of an assurance engagement on sustainability information and for initiating the consultation process in time for this imminent reality. While we have several suggestions and concerns to highlight, we believe these should not impede the prompt finalisation of this standard.

### **Connectivity**

The proposed standard appears to assume that the auditor conducts in isolation a 'sustainability assurance engagement', and any information from the audit of the financial statements should be classified as 'Other Information', which according to the Standards is not as significant:

*Reading and Considering the Other Information (Ref: Para. 155)*

*A437. 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.*

The assurance engagements for financial statements and for sustainability reporting can and should not be conducted in isolation. Both pertain to the same reporting entity, and investors digest both forms of reporting cohesively when making decisions to buy, sell, vote, and engage. There are multiple actual and potential instances of connectivity between the two forms of reporting. These factors should influence what the IAASB expects from auditors in its standards, extending beyond the basic requirement that reports and their assumptions should 'not be inconsistent'.

In alignment with the IAASB's purpose, Eumedion expects the IAASB to amend the Proposed ISSA 5000 to fully embrace the related potential enhancements to audit and assurance quality. Therefore, instead of diminishing the readily in-house available insights gained during the financial statement audit at the audit firm to mere 'Other Information', the Standards should require auditors to consider such information in their assurance work on sustainability reports, and vice versa. For example, key assumptions related to net zero commitments, need to be consistent throughout a company's annual report.

Specific considerations should be developed for the cases in which different firms provide assurance services to a single client to ensure that no undue obstacles hinder the sharing of insights between them. We are convinced that such changes can significantly enhance investors' trust in the quality of and consistency between the financial statements and the sustainability report.

### **Key Assurance Matters**

The introduction of ISA 701 'Communicating Key Audit Matters in the Independent Auditor's Report' has led to a significant improvement in the insightfulness of the auditor's report. Key Audit Matters (KAM) play a vital role in effectively informing investors and enhancing meaningful dialogues between investors, auditors, and companies. We cannot consider the Proposed ISSA 5000 as complete if requirements for Key Assurance Matters that mirror ISA 701 remain missing.

### **Future Maintenance**

The format of a comprehensive standard raises questions about how the 5000 Standard will be maintained in the future, especially as other ISSAs covering related topics are expected to evolve over time. To ensure that the Proposed ISSA 5000 remains up-to-date, we recommend establishing a mechanism for periodically integrating improvements from other ISSAs.

We also acknowledge the risk that a single standard, even if quite substantial in size, may not adequately address all specific topics with the necessary rigour; for example on the topic of providing assurance on company processes aimed at obtaining reliable information from actors up and down the value chain.

Another drawback of a single standard is that explaining and preparing for future improvements may prove more challenging, as it will be less apparent in what context an improvement should be seen.

## **Corruption**

While the Proposed ISSA 5000 touches upon corruption, we believe its significance and implications for sustainability warrant a more explicit treatment. Currently, corruption is mentioned only once in the Proposed ISSA 5000, within the context of an example of a sustainability matter that has an 'economic impact'. Our response<sup>1</sup> to a recent consultation on a draft practice statement on corruption by The Royal Netherlands Institute of Chartered Accountants (NBA) elaborates on the severe impact of corruption on society, on the companies involved in corruption themselves, and on investment portfolios at large. The response also outlines several suggestions for how audit and assurance standards can strengthen the auditor's role in addressing this crucial issue.

In line with the changes made by the NBA to the practice statement on corruption, we propose that the final ISSA 5000, and audit standards regarding financial reporting, explicitly define that 'fraud' includes corruption. This elevation would be beneficial for the rigour with which assurance is conducted on this topic and would raise the profile of corruption, corruption risks, anti-corruption policies, and the effectiveness of such policies from an (potential) event of 'non-compliance with laws and regulations' to an (potential) event of fraud.

## **Limited versus Reasonable Assurance**

Limited and reasonable assurance have been the key levels of assurance in engagements thus far. Sustainability reporting extends well beyond organizational boundaries, and there is typically no double-entry bookkeeping for its metrics. We caution against diluting the definition of 'reasonable assurance' as currently applied to financial statements by implicitly or explicitly introducing a diluted definition of 'reasonable assurance in the context of sustainability reporting', as this could add to confusion among stakeholders regarding what reasonable assurance encompasses.

While we don't have a specific solution at this point, we wonder if one or more additional levels of assurance are needed to better describe and designate for stakeholders what assurance, also in the context of sustainability, reporting entails.

## **Written Representations from Management and Those Charged with Governance**

We recommend enhancing the guidance on exercising professional scepticism when dealing with written representations from Management and Those Charged with Governance.

*A431. 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.*

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<sup>1</sup> <https://en.eumedion.nl/Latest-news/eumedion-supports-revised-nba-practice-statement-on-corruption.html>

*A432. 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.*

The current paragraph does not explicitly emphasize that management might have an interest in providing or disclosing information that does not meet the criteria of relevance and faithful representation. It could, for example, include an explicit reference to the broader 'exercise of professional scepticism' when dealing with written representations from these sources and cite the current text of A432 as an example thereof.

We appreciate the ongoing efforts of the IAASB and its clear commitment to expediting improvements to audit and assurance standards. Eumedion remains open to dialogue and deeper discussions on any of the topics raised. Our contact person is Martijn Bos (email: [martijn.bos@eumedion.nl](mailto:martijn.bos@eumedion.nl), tel. +31 70 2040 304).

Yours sincerely,

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