



10 November 2023

Mr Doug Niven
Chair, Australian Auditing and Assurance Standards Board
600 Bourke Street
Melbourne Vic 3000

Dear Doug

ED-ISSA 5000 - Submission by Deakin University Integrated Reporting Centre

Thank you for the opportunity for us as leaders of the Deakin University Integrated Reporting Centre to make a submission on this important consultation. We believe in sustainability reporting assurance given its benefits for preparers, investors and other stakeholders, and thereby its contribution to the public interest.

Paragraph 6 of the AUASB Consultation Paper asks for comments on Australian-specific questions and on the IAASB's questions. In relation to the latter, we refer to our submission to the IAASB, a copy of which is attached. We recommend that the AUASB consider the need to specific Australian guidance and examples to the extent that the matters raised in our submission to the IAASB are not addressed in the final ISSA 5000. Our responses to the AUASB-specific questions are set out in the attached.

A Changed and Changing External Reporting and Assurance Environment

To drive change in Australian capital markets we must win their trust. Critical to achieving this is aligning widely understood and accepted definitions and concepts with the specific language and methodologies used by investors to price risk and value business opportunities. However, with sustainability disclosure standards increasingly reflecting the strong connection between sustainability matters, financial performance and the business model, it is important that assurance standards reflect these business realities.

Our submission to the IAASB referred to the changed and changing external reporting assurance environment at the international level. The same is true in Australia.

In addition to international initiatives such as the IFRS Foundation forming the International Sustainability Standards Board, we note the likely Australian Government mandate for the AASB to issue Australian equivalents to IFRS Sustainability Disclosure Standards on a climate-first basis; and the AUASB initiating its sustainability reporting assurance project on a basis aligned with the IAASB's project. We congratulate the AUASB for its role in this important change in the Australian reporting ecosystem.

Market practice towards a more integrated approach to assurance

Australia is part of evolving market practice around the world which is already moving towards a more integrated approach to assurance. The matter of assuring descriptions of a business is important given existing market practice. It is estimated that there are currently around 5,000 company reports around the world containing a comprehensive or partial description of a business which is being independently assured

on either a mandatory or voluntary basis. That number is expected to grow to around 20,000 with the advent of the EU Corporate Sustainability Responsibility Directive.

Such market practice is likely to be growing further including in Australia given that sustainability information is increasingly being located in annual reports or separate integrated reports, with less being located in standalone sustainability reports.

Examples of sustainability reporting standards and frameworks used in Australia requiring some form of a description of an organisation's business include / will include the governance, strategy and risk management disclosure requirements of Australian equivalents of IFRS Sustainability Disclosure Standards S1 and S2, the Integrated Reporting Framework (which is now a resource of the IFRS Foundation), the Operating and Financial Review, and the IASB's draft Management Commentary Practice Statement.

Certain disclosures in Spain, Italy and France and reporting under the Brazilian integrated reporting directive have independent external assurance requirements. Voluntary assurance under the Integrated Reporting Framework is occurring in Australia, the Netherlands, India, and Sri Lanka, and is likely to occur on Australian equivalents of S1 and S2 disclosures.

Momentum for such forms of assurance is likely to increase significantly if stakeholder feedback to the ISSB on its Request for Information agenda consultation favours an Integration in Reporting project. Alternatively, if that feedback favours development of further sustainability topic standards in advance of taking steps to drive more widespread adoption of integrated reporting, it is possible that the ISSB and IASB will recommend continued adoption of the Integrated Reporting Framework in its current form.

Assurance of reporting under these sustainability reporting mechanisms, standards and frameworks requires the assurance practitioner to *evaluate* the description of the business. Complex assurance practitioner judgements are typically required to evaluate such qualitative disclosures. The knowledge, skills, experience and assurance procedures required to make such evaluations are quite different to those required for assuring quantitative metrics and associated narratives, which typically relate to *measurement* rather than *evaluation* assurance procedures.

Proposed ISSA 5000

In our view, the proposed ISSA 5000 provides suitable standards for assurance practitioners in relation to assuring metrics and associated disclosures. However, the guidance and examples in the proposed ISSA 5000 relate almost exclusively to *measurement* of metrics as compared to guidance and examples related to *evaluating* qualitative disclosures such as the description of an organisation's business required by certain sustainability reporting mechanisms, frameworks and standards. All of the procedure-specific examples in the proposed ISSA 5000 relate to metrics.

We believe that a solution can be achieved by adding examples and making a relatively simple change to the definition of 'sustainability matters' in ISSA 5000. This would clarify that all matters relating to enterprise value, a whole-of-business financial concept, are sustainability matters under ISSA 5000.

With these targeted adjustments, the IAASB's proposed global sustainability assurance standard has the potential to become the comprehensive global standard that enhances trust and confidence across capital markets and society.

The above theme permeates our submission to the IAASB including our answers to the IAASB's key questions. In summary, we recommended that the IAASB:

1. Change the definition of 'sustainability matters' and so improve the bridge between sustainability matters, sustainability information, sustainability topics and aspects of sustainability topics. Refer our answer to Question 1.
2. Add examples to guide assurance practitioners in making often-complex evaluation judgements on qualitative descriptions of the following as part of sustainability information:
 - a) the business - refer answer to Question 7.
 - b) whether the pre-conditions for assurance have been met - refer answer to Question 8.

- a) the materiality process - refer answer to Question 9.
- b) internal control – evaluation when part of sustainability information - refer answer to Question 10.

The Deakin University Integrated Reporting Centre offers to draft examples for the AUASB if our recommendations are not taken up by the IAASB.

The Deakin University Integrated Reporting Centre

The Deakin University Integrated Reporting Centre (DIRC) is an independent thought leadership centre with deep connections into academia, accounting and assurance standard-setting, and the business world. It provides leadership across three pillars of excellence in integrated reporting: thought leadership and engagement, education and training, and research. It also provides the Secretariat for the Australian Business Reporting Leaders Forum (BRLF).

The BRLF is a discussion forum. It is the IFRS Foundation’s designated Integrated Reporting Community for Australia and is a reporting stakeholder to the Financial Reporting Council (FRC). Accordingly, it has direct international connectivity and a strong local voice. Its mission is to drive better business reporting with a focus on integrated reporting and integrated reporting assurance, and producing support research, thought leadership and education in integrated reporting and integrated reporting assurance.

This consultation is core to the missions of both the DIRC and BRLF given the importance of integrated reporting and integrated reporting assurance to well-functioning capital markets, well-informed stakeholders and the public interest within a better business reporting context. We make this submission on behalf of the DIRC and offer any required assistance to the IAASB.

Yours faithfully



John Stanhope AM
Chancellor,
Deakin University; Chair,
Australian Business
Reporting Leaders Forum



Michael Bray
Professor of Practice (Integrated Reporting),
Deakin University; Director, Deakin Integrated
Reporting Centre; Special adviser – Connectivity
and Integrated Reporting, IFRS Foundation



Peter Carey
Executive Director, Deakin
Integrated Reporting
Centre

Australian Specific Questions:

For all Australian Stakeholders:

Aus 1 When conducting GHG assurance engagements, are you currently using ASAE 3410 Assurance Engagements on Greenhouse Gas Statements along with ASAE 3000 Assurance Engagements Other than Audits or reviews of Historical Financial Information? If not, which assurance standards are you currently using? At a more granular level:

a) *Which assurance standards are you currently using for National Greenhouse Energy Reporting (NGER) and climate active assurance? Are you currently conducting a limited or reasonable level assurance engagement?*

Not applicable.

b) *Which assurance standards are you currently using for Emissions Reduction Fund and Safeguard audits?*

N/A

Aus 2 When conducting wider sustainability engagements, are you currently using ASAE 3000 Assurance Engagements Other than Audits or reviews of Historical Financial Information? If not, which assurance standards are you currently using?

Yes, while a practitioner.

Aus 3 Proposed ISSA 5000 is neutral as to the disclosure framework. Should the AUASB develop guidance on applying the proposed assurance standard in the context of the upcoming Australian Accounting Standards Board climate disclosure framework? Are there any other topics, aspects of topics or elements of an assurance engagement that stakeholders would like the AUASB to issue guidance on? If yes, please provide specific details.

It may be appropriate for the AUASB to develop guidance on applying the proposed assurance standard in the context of the upcoming Australian Accounting Standards Board climate disclosure framework to the extent that this framework goes beyond the coverage of ISSA 5000, and the matters addressed in the attached Deakin Integrated Reporting Centre submission to the IAASB are not addressed.

Aus 4 While Appendix 2 of Proposed ISSA 5000 provides illustrations of assurance reports on sustainability information, should an Australian specific assurance opinion be developed?

An Australian specific assurance opinion should be considered and the Deakin Integrated Reporting Centre offers to assist with any drafting.

Aus 5 Do stakeholders foresee any implementation issues regarding Proposed ISSA 5000 in the context of the proposed assurance requirements as being discussed through the recent Treasury Consultation Paper?

The recent Treasury Consultation Paper contemplates assurance over descriptions of Governance as it relates to climate-related financial disclosures. The Deakin Integrated Reporting Centre submission to the IAASB focuses on assurance practitioner evaluations of the description of the business, including of Governance in relation to climate-related financial disclosures.

Aus 6 Have applicable laws and regulations been appropriately addressed in the proposed standard?

Yes.

Aus 7 Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).

No.

Aus 8 Are there any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may

conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).

No.

Aus 9 If you are an assurance provider, do you expect to have sufficient qualified and experienced staff and access to suitable experts to undertake assurance engagements under the Proposed ISSA 5000 under the proposals outlined in the June 2023 Treasury Consultation paper – Climate-related financial disclosure: Second consultation?

The Deakin University Integrated Reporting Centre is not an assurance provider. However as a university that researches and educates on sustainability reporting, and particularly integrated reporting, assurance we are concerned that the required capacity does not yet exist. We believe that financial statement auditors are ideally placed to lead sustainability reporting assurance teams, through supplementing their existing knowledge, skills and experience and bringing appropriate subject matter specialists to their teams.

Universities have a critical role in the corporate reporting ecosystem. They can be an important contributor to the required capacity being built.

Questions particularly targeted at non-accountant practitioners:

Aus 10 Proposed ISSA 5000 requires the engagement leader to be a member of a firm that applies the ISQMs (in Australia the ASQMs) or other professional requirements that are at least as demanding as the ISQMs. Does your firm operate under the AUASB's Quality Management Standards? If your firm is not currently captured by the AUASB's Quality Management Standards:

a) *Which quality standards are you operating under and would the use of those standards instead of the AUASB's Quality Management Standards create any impediments to applying proposed ISSA 5000?*

The Deakin University Integrated Reporting Centre is not an assurance provider. However members of the Centre who have been assurance practitioners operated under the AUASB's Quality Management Standards.

b) *Do you consider the quality management framework that you are using to be at least as demanding as that of the AUASB's Quality Management Standards? Please explain your response and how you have determined this.*

Not applicable.

c) *What practical issues would arise if your firm were required to apply the AUASB's Quality Management Standards in addition to another quality management framework that already applies to your firm? Are there any impediments to applying the AUASB's Quality Management Standards from 1 July 2024?*

Aus 11 Proposed ISSA 5000 requires the practitioner to comply with relevant ethical requirements, including those relating to independence. Relevant Ethical Requirements are defined by Proposed ISSA 5000 for both accounting practitioners and non-accounting practitioners. Are you currently operating under the Accounting Professional and Ethics Standards Board (APESB) APES 110 Code of Ethics for Professional Accountants (including independent standards)? If you are not currently operating under the APES 110:*

a) *Which ethical standards are you operating under and would the use of an alternative ethical framework create any impediments to applying proposed ISSA 5000?*

Not applicable.

b) *Do you consider Ethics Framework that you are using to be at least as demanding as that expected from APES 110? Please explain your response and how you have determined this.*

Not applicable.

c) *What practical issues would arise if your firm were required to apply APES 110 in addition to other ethical requirements that already apply to your firm?*

Not applicable.

Aus 12 Is the Proposed ISSA 5000 consistent with existing frameworks or standards used to assess the professional competency of sustainability assurance practitioners?

Yes.

Appendix – Deakin Submission to IAASB



6 November 2023

Mr Tom Seidenstein
Chair, International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, New York 10017

Dear Tom

Submission by Deakin University Integrated Reporting Centre

Thank you for the opportunity for us as leaders of the Deakin University Integrated Reporting Centre to make a submission on this important consultation. We believe in sustainability reporting assurance given its benefits for preparers, investors and other stakeholders, and thereby its contribution to the public interest.

A Changed and Changing External Reporting and Assurance Environment

The concept of 'sustainability' and its relationship to sustainability reporting, disclosure and assurance, have been recognised as core components of the corporate reporting ecosystem in recent years, including through the initiatives of the peak bodies for corporate reporting and assurance, the IFRS Foundation and the International Auditing and Assurance Standards Board (IAASB) respectively.

Their initiatives include the IFRS Foundation forming the International Sustainability Standards Board (ISSB) after receiving resounding stakeholder support for doing so and issuing IFRS Sustainability Disclosure Standards S1 and S2; and in the IAASB initiating its sustainability reporting assurance project which has resulted in the issue of the proposed International Standard on Sustainability Assurance 5000, 'General Requirements for Sustainability Assurance Engagements' ('ISSA 5000').

We congratulate the IAASB for its role in this important change in the corporate reporting ecosystem. There is much to be gained by close alignment between the standards and frameworks of these peak bodies in relation to sustainability reporting and assurance. In fact in our submission to the ISSB on its Request for Information agenda consultation, we recommended a shared conceptual framework for corporate reporting for the IFRS Foundation and IAASB as the basis for future sustainability reporting standard-setting by both organisations, ensuring continued connectivity in standards and reporting under them.

Market practice towards a more integrated approach to assurance

Market practice around the world is already moving towards a more integrated approach to assurance. The matter of assuring descriptions of a business is important given existing market practice. It is estimated that there are currently around 20,000 company reports around the world containing a comprehensive or partial description of a business which is being independently assured on either a mandatory or voluntary basis. Such market practice is likely to be growing further given research that sustainability information is increasingly being located in annual reports or separate integrated reports, with less being located in standalone sustainability reports.

Examples of sustainability reporting standards and frameworks requiring some form of a description of an organisation's business include the governance, strategy and risk management disclosure requirements of

IFRS Sustainability Disclosure Standards S1 and S2, paragraph 19(a) of the EU Non-Financial Reporting Directive (NFRD) / Corporate Sustainability Reporting Directive (CSRD), and the business model, governance, strategy and risk management disclosure requirements of the Brazilian integrated reporting directive, the Integrated Reporting Framework (which is now a resource of the IFRS Foundation) and the IASB's draft Management Commentary Practice Statement.

Paragraph 19(a) disclosures in Spain, Italy and France and the Brazilian integrated reporting directive have independent external assurance requirements. Voluntary assurance under the Integrated Reporting Framework is occurring in the Netherlands, India, Australia and Sri Lanka, and is likely to occur on S1 and S2 disclosures.

Momentum for such forms of assurance is likely to increase significantly if stakeholder feedback to the ISSB on its Request for Information agenda consultation favours an Integration in Reporting project. Alternatively, if that feedback favours development of further sustainability topic standards in advance of taking steps to drive more widespread adoption of integrated reporting, it is possible that the ISSB and IASB will recommend continued adoption of the Integrated Reporting Framework in its current form.

Assurance of reporting under these sustainability reporting mechanisms, standards and frameworks requires the assurance practitioner to *evaluate* the description of the business. Complex assurance practitioner judgements are typically required to evaluate such qualitative disclosures. The knowledge, skills, experience and assurance procedures required to make such evaluations are quite different to those required for assuring quantitative metrics and associated narratives, which typically relate to *measurement* rather than *evaluation* assurance procedures.

To drive change in capital markets we must win their trust. Critical to achieving this is aligning widely understood and accepted definitions and concepts with the specific language and methodologies used by investors to price risk and value business opportunities. However, with sustainability disclosure standards increasingly reflecting the strong connection between sustainability matters, financial performance and the business model, it is important that assurance standards reflect these business realities.

Proposed ISSA 5000

In our view, the proposed ISSA 5000 provides suitable standards for assurance practitioners in relation to assuring metrics and associated disclosures. However, it is unbalanced in relation to application guidance for assuring the descriptions of a business and other qualitative descriptive disclosures required by certain sustainability reporting mechanisms, frameworks and standards. With some targeted adjustments, the IAASB's proposed global sustainability assurance standard has the potential to become the comprehensive global standard that enhances trust and confidence across capital markets and society.

The guidance and examples in the proposed ISSA 5000 relate almost exclusively to *measurement* of metrics as compared to guidance and examples related to *evaluating* qualitative disclosures such as the description of an organisation's business. All of the procedure-specific examples in the proposed ISSA 5000 relate to metrics.

We believe that a solution can be achieved by adding examples and making a relatively simple change to the definition of 'sustainability matters' in ISSA 5000. This would clarify that all matters relating to enterprise value, a whole-of-business financial concept, are sustainability matters under ISSA 5000.

The above theme permeates the following submission including our answers to the IAASB's key questions¹. In summary, we recommend that the IAASB:

3. Change the definition of 'sustainability matters' and so improve the bridge between sustainability matters, sustainability information, sustainability topics and aspects of sustainability topics. Refer our answer to Question 1.

¹ Many of the points made in this submission repeat points made in our submission to the IAASB of April 2023 on the IAASB's 2024-27 work plan.

4. Add examples to guide assurance practitioners in making often-complex evaluation judgements on qualitative descriptions of the following as part of sustainability information:
- c) the business - refer answer to Question 7.
 - d) whether the pre-conditions for assurance have been met - refer answer to Question 8.
 - c) the materiality process - refer answer to Question 9.
 - d) internal control – evaluation when part of sustainability information - refer answer to Question 10.

The Deakin University Integrated Reporting Centre confirms its offer to draft examples that the IAASB may choose to use, specifically as mentioned below in our responses to Questions 8, 9 and 10.

The Deakin University Integrated Reporting Centre

The Deakin University Integrated Reporting Centre (DIRC) is an independent thought leadership centre with deep connections into academia, accounting and assurance standard-setting, and the business world. It provides leadership across three pillars of excellence in integrated reporting: thought leadership and engagement, education and training, and research. It also provides the Secretariat for the Australian Business Reporting Leaders Forum (BRLF).

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This consultation is core to the missions of both the DIRC and BRLF given the importance of integrated reporting and integrated reporting assurance to well-functioning capital markets, well-informed stakeholders and the public interest within a better business reporting context. We make this submission on behalf of the DIRC and offer any required assistance to the IAASB.

Yours faithfully



John Stanhope AM
Chancellor,
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Michael Bray
Professor of Practice (Integrated Reporting),
Deakin University; Director, Deakin Integrated
Reporting Centre; Special Adviser – Connectivity
and Integrated Reporting, IFRS Foundation



Professor Peter Carey
Executive Director, Deakin
Integrated Reporting
Centre

Questions asked by the IAASB

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

We believe that ED-5000, as an overarching standard:

- *Cannot* be applied for all sustainability topics and aspects of topics for the reasons set out in our covering letter.

To achieve this, descriptions of the components of a business – its purpose, business model (including internal control), governance, innovation and risk management must be explicitly recognised as sustainability matters and therefore sustainability information and sustainability topics in ISSA 5000.

The corollary of ‘framework-neutral’ is framework-inclusive. We believe that the IAASB must provide standards, guidance and examples covering the key aspects of the global baseline of IFRS Sustainability Disclosure Standards as well as other sustainability reporting mechanisms, frameworks and standards which are built on comprehensive or partial descriptions of an organisation’s business. Such descriptions provide context for the reporting of sustainability metrics and associated disclosures.

- If this matter is adjusted for, ED-5000 can be applied for:
 - all mechanisms for reporting
 - any suitable criteria
 - all intended users, including investors and other stakeholders
 - limited and reasonable assurance engagements
 - all assurance practitioners.

2. *Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal? If not, why not?*

Yes, the proposals in ED-5000 are responsive to the public interest in conjunction with the work being performed by IESBA on ethics and independence standards for sustainability reporting assurance.

The key issue will be regulating compliance with ISSA 5000 and the companion IESBA ethics and independence and quality management system standards. This is not a matter within the IAASB’s control.

3. *Is the scope and applicability of ED-5000 clear, including when ISAE 3410 should be applied rather than ED-5000? If not, how could the scope be made clearer?*

Yes

4. *Is ED-5000 sufficiently clear about the concept of ‘at least as demanding’ as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm’s responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?*

Yes

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

We believe that there is a lack of alignment between the IFRS Foundation’s enterprise-value based concept of ‘sustainability’ and definition of ‘sustainability-related financial’, and the IAASB’s definition of ‘sustainability matters’. It is not clear at this stage that an organisation’s business is a sustainability matter for the purposes of ISSA 5000.

This is not surprising given that the content of the proposed ISSA 5000 largely pre-dates the finalisation of IFRS Sustainability Disclosure Standards S1 and S2. That is, the proposed ISSA 5000 is largely a consolidation

of content existing in April 2022. This submission analyses how the concept of sustainability and definition of ‘enterprise value’ evolved from the 2022 exposure drafts of S1 and S2 to the 2023 final versions.

Enterprise Value in Exposure Drafts of IFRS Sustainability Disclosure Standards S1 and S2

In explaining why the ISSB published the S1 and S2 exposure drafts, the ISSB explained that enterprise value “reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity’s risk profile, and its access to finance and cost of capital. The information contained in its financial statements and the information included in an entity’s sustainability-related financial disclosures are essential inputs to a primary user’s assessment of an entity’s enterprise value.”

Accordingly, in the language of the ISSB ‘sustainability-related financial’ is equivalent to at least enterprise value, and ‘sustainability-related financial matters’ are those which are material to enterprise value or in other words the net present value of future cash flows.

The ISSB went on to explain that the information requirements in S1 and S2 “are designed to enable primary users to assess enterprise value. The information required reflects the way in which an entity operates, covering governance, strategy, risk management and metrics and targets.”

Paragraph 17 of the exposure draft of S1 explicitly made the link between enterprise value, the entity’s resources and relationships² and its sustainability-related risks and opportunities:

“An entity’s sustainability-related risks and opportunities arise from its dependencies on resources and its impacts on resources, and from the relationships it maintains that may be positively or negatively affected by those impacts and dependencies. ... When such impacts, dependencies and relationships create risks or opportunities for an entity, they can affect the entity’s performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user.”

Paragraph 57 identified material sustainability-related **financial** information³ as a sub-set of sustainability-related information:

“Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users’ assessments of an entity’s enterprise value. The information relates to activities, interactions and relationships and to the use of resources along the entity’s value chain if it could influence the assessment primary users make of its enterprise value.”

Enterprise Value Concept Remains Implicit in Final IFRS Sustainability Disclosure Standards S1 and S2

While enterprise value featured explicitly and prominently in the exposure drafts, the term enterprise value was not used in the final S1 and S2. However, the concept remains in substance. The term was effectively replaced with sustainability-related financial information being defined in terms of expectations about the amount, timing and certainty of future cash flows over the short, medium and long term, and the value of those cash flows in the light of the entity’s risk profile, and its access to finance and cost of capital.

The Basis for Conclusions for S1 explained ISSB decisions made in relation to enterprise value. Based on stakeholder submissions received, the ISSB felt that the use of the term enterprise value might have constrained the objective of the exposure draft and created confusion for some stakeholders:

² The capitals, or resources and relationships, are a fundamental concept in the Integrated Reporting Framework

³ The exposure draft of S1 included the following definitions:

- **“Sustainability-related financial disclosures** – “Disclosures about sustainability-related risks and opportunities that are useful to **users of general purpose financial reporting** when they assess an entity’s **enterprise value**, including information about its governance, strategy and risk management, and related metrics and targets.”
- **Sustainability-related financial information** – “Information that gives insight into sustainability-related risks and opportunities that affect **enterprise value**, providing a sufficient basis for **users of general purpose financial reporting** to assess the resources and relationships on which an entity’s **business model** and strategy for sustaining and developing that model depend.”

- Some respondents stated that ‘enterprise value’ can be defined or understood too narrowly, thereby creating a risk that the sustainability-related financial information disclosed in accordance with IFRS S1 would not be useful for their purposes.
- Many respondents stated that the reference to market capitalisation meant that the term applied only to listed entities.
- Some respondents stated that the use of this term could create confusion because it has a particular and different meaning in European legislation.
- The ISSB confirmed that the materiality definition in IFRS Sustainability Disclosure Standards is aligned with the IASB’s definitions of ‘material information’ and ‘material’ in its Conceptual Framework and IAS 1 respectively. These do not refer to enterprise value.

None of these reasons breaks the nexus between enterprise value, ‘sustainability-related financial’, and the discounted value of expected future cash flows. The concept of enterprise value remains in S1 and S2 even though the term enterprise value is not used.

Enterprise value relates to the whole of an organisation’s value creation, and not only the sustainability risks and opportunities relating to environmental, social, economic and cultural matters. It results from the pursuit of the Purpose of the organisation through its business as a whole, which is most comprehensively described in an integrated report or management commentary. Managing climate and other environmental, societal, economic and cultural matters are aspects of governing, managing and operating the business.

Enterprise Value Concept is Missing from Proposed ISSA 5000

We believe that there is a lack of alignment between the IFRS Foundation’s current enterprise-value based concept of ‘sustainability’ and definition of ‘sustainability-related financial’, and the IAASB’s definition of ‘sustainability matters’. This creates confusion as to the place of assurance of descriptions of an organisation’s business in reports containing IFRS sustainability-related financial disclosures (metrics and associated disclosures)⁴.

The root cause of this imbalance is that the ‘entry point’ into the proposed ISSA 5000 is through the definition of ‘sustainability matters’ and not the lens of the whole of the business (enterprise value), the sustainability of its enterprise value and the resilience of its business model:

“Sustainability Matters: *“Environmental, social, economic and cultural matters, including:*

- i. The impacts of an entity’s activities, products and services on the environment, society, economy or culture, or the impacts on the entity*
- ii. The entity’s policies, performance, plans, goals and governance relating to such matters.”*

This definition of sustainability matters drives content relating to ‘sustainability information’. Sustainability information relates to information about sustainability matters covering a number of topics and aspects of those topics:

“Sustainability Information: *“Information about sustainability matters. Sustainability information results from measuring or evaluating sustainability matters against the applicable criteria. For purposes of the ISSAs, sustainability information is the equivalent of ‘subject matter information’ in other IAASB assurance standards.”*

The consequence of this definition for the coverage of ISSA 5000 is most evident in the table set out in paragraph A32 of the Application and Other Explanatory Material for ISSA 5000, where key aspects of the business are relegated to secondary status as ‘aspects of’ sustainability topics behind disclosures on environmental, social, economic and cultural topics:

⁴ And in reports containing general business disclosures under GRI Standards.

Topics	Aspects of the Topics
<ul style="list-style-type: none"> • 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. • 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. • Economic impacts, such as government assistance, tax strategy, anti-competitive behavior, anti-corruption and market presence. 	<ul style="list-style-type: none"> • Governance. • Strategy and business model. • Risks and opportunities. • Risk management or mitigation. • Innovation to address risks and opportunities. • Metrics and key performance indicators. • Targets. • Internal control over monitoring and managing risk. • Scenario analysis. • Impact analysis, including magnitude of impact.

The business model, governance, strategy, innovation and risk management are matters of holistic importance to the entire business in terms of the manner in which it is operated in an integrated manner for the benefit of all stakeholders in the short, medium and long term⁵. They are not aspects of topics such as climate, biodiversity and human rights. They are key drivers of enterprise value creation including how the business deals with environmental, social, economic and cultural matters.

The sustainability risks and opportunities of an organisation only exist because of the pursuit of its reason for being - the Purpose. An organisation pursues its opportunities as a matter of governance and strategy and in doing so it must manage its risks. Sustainability risks and opportunities should be treated as such in relation to assurance under sustainability reporting standards and frameworks requiring a comprehensive or partial description of the business.

For whole-of-report assurance, the sustainability matter under ISSA 5000 needs to be the business, the sustainability information needs to be the description of the business, the sustainability topics need to be the Strategy, Governance, Business Model, Risk Management and Innovation of the business. Aspects of sustainability topics can include how sustainability risks and opportunities in relation to climate, energy and so on are managed in pursuit of the organisation's Purpose.

Where the assurance scope relates only to metrics included in reports not subject to assurance overall, narrative can be added in relation to, for example, governance in relation to climate risks and opportunities.

Recommendation

We believe closing the gap between the ISSB's concept of sustainability and the IAASB's definition of sustainability matters, and the need to strengthen the coverage of *evaluation* assurance procedures, can be achieved by making a relatively simple change to the definition of 'sustainability matters' in paragraph 17(vv) of ISSA 5000 – by adding in (i):

- "value created by and outcomes of" before "the impacts of an entity's activities"
- "business model, governance, strategy," before "products and services"
- "for or" before "on",
- "investors," before "the environment",

and in (ii):

- add "business model, governance, strategy," before "policies"
- delete "and governance" after "goals and".

⁵ Further detail can be obtained from the IFRS Foundation's 'Integrated Thinking Principles'.

The revised definition of sustainability matters would be:

“Environmental, social, economic and cultural matters, including:

- i. The value created by and outcomes and impacts of an entity’s business model, governance, strategy, products and services for or on investors, the environment, society, economy or culture, or the impacts on the entity
- ii. The entity’s business model, governance, strategy, policies, performance and plans relating to such matters.”

This would clarify that all matters relating to enterprise value, a whole-of-business financial concept, are sustainability matters under ISSA 5000.

The main consequence of making the change will confirm that all matters relevant to an organisation’s Purpose and enterprise value are matters that could reasonably be expected to affect its cash flows, access to finance or cost of capital and are in-scope for ISSA 5000.

Importantly, we recommend that the table in paragraph A32 should also be changed as follows to accommodate whole-of-report assurance, including assurance of descriptions of *The Business* under sustainability reporting mechanisms, frameworks and standards, as well as assurance of sustainability metrics and associated disclosures:

	Topics	Aspects of the Topics		
Description of The Business-Based Assurance	Description of <i>The Business</i>: <ul style="list-style-type: none"> • Purpose • Governance • Business model: Key Business Processes including internal control – Governance, Strategic Management, Risk Management, Materiality Determination, Stakeholder Management, Reporting • Risks and opportunities • Risk management or mitigation • Innovation to address opportunities 	Performance and Prospects: <ul style="list-style-type: none"> • Metrics and key performance indicators: <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"> <ul style="list-style-type: none"> - Climate - Energy - Water and effluents - Biodiversity - Labor practices </td> <td style="width: 50%;"> <ul style="list-style-type: none"> - Human rights and community relations - Customer health and safety - Economic impacts </td> </tr> </table> • Targets • Scenario analysis • Impact analysis, including magnitude of impact 	<ul style="list-style-type: none"> - Climate - Energy - Water and effluents - Biodiversity - Labor practices 	<ul style="list-style-type: none"> - Human rights and community relations - Customer health and safety - Economic impacts
		<ul style="list-style-type: none"> - Climate - Energy - Water and effluents - Biodiversity - Labor practices 	<ul style="list-style-type: none"> - Human rights and community relations - Customer health and safety - Economic impacts 	
Metrics and supporting narratives: <ul style="list-style-type: none"> • 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. • 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. • Economic impacts, such as government assistance, tax strategy, anti-competitive behavior, anti-corruption and market presence. 	Performance and Prospects: <ul style="list-style-type: none"> • Metrics and key performance indicators • Targets • Scenario analysis • Impact analysis, including magnitude of impact Supported by Narratives: <ul style="list-style-type: none"> • Governance • Strategy and business model • Risks and opportunities • Innovation to address opportunities • Internal control • Risk management or mitigation 			

Having made these adjustments, limitations of the proposed ISSA 5000 will provide guidance for practitioners on a standards / framework-agnostic and standards / framework-inclusive basis in relation to practitioners evaluating comprehensive or partial descriptions of the business.

That is, ISSA 5000 will then cover IFRS Sustainability Disclosure Standards, paragraph 19(a) of the CSRD, the Brazilian integrated reporting directive, the Integrated Reporting Framework, the Management Commentary Practice Statement and the standards, guidance and examples will need to be boosted accordingly. This matter needs to be addressed in the final version of ISSA 5000.

Matters needing explanation relate to the assurance practitioners evaluating descriptions of:

- e) the business - refer answer to Question 7.
- f) whether the pre-conditions for assurance have been met - refer answer to Question 8.
- e) the materiality process - refer answer to Question 9.
- f) internal control – evaluation when part of sustainability information - refer answer to Question 10.

Available resources, such as Examples 9 (Management Commentary + GRI), 10 (Integrated Reporting Framework), 16 (TCFD Recommendations) and 17 (qualitative misstatements) of the IAASB's 2021 Extended External Reporting Assurance Guidance can be drawn upon in building this area on a standards and framework-agnostic basis.

Otherwise at least a conforming and consequential amendment would be required to clarify that descriptive material including a description of the business must be assured under ISAE 3000 with a corresponding change ISAE 3000, which would be contrary to the aim of ISSA 5000 being a 'one stop shop' for all aspects of sustainability reporting assurance.

6. *Is the relationship between sustainability matters, sustainability information and disclosures clear? If not, what suggestions do you have for making it clearer?*

Refer to our answer for Question 5.

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

An example about evidence required to conclude on whether description of design and operation of a business model (including governance, strategic management, materiality determination, stakeholder management and reporting processes) in, alternatively, a limited or reasonable assurance engagement, would be helpful. The Deakin Integrated Reporting Centre offers to draft this example for the IAASB.

8. *Is ED-5000 sufficiently clear about the practitioner's responsibility to obtain a preliminary knowledge about the sustainability information expected to be reported and the scope of the proposed assurance engagement? If not, how could the requirements be made clearer?*

In our view, without the inclusion of appropriate guidance and examples in ISSA 5000, if sufficient attention is not given to analysing whether the documentation of the business is likely to be assurance-standard evidence there will be a significant risk that engagements may be 'passed' in terms of meeting the pre-conditions for assurance when they do not in fact meet those pre-conditions. Once engagements are accepted, they must be completed and reported on. As a consequence, there is a risk of an unnecessarily high number of assurance report modifications if practitioners misjudge the preconditions for assurance being met. This could create reputation risks in relation to the reporting organisation, the assurance practitioner and ISSA 5000.

The risk could have been mitigated by the organisation waiting say a year to obtain integrated reporting assurance and having an assurance readiness review completed and acted upon in that year. Such an assurance readiness review may be completed by the sustainability reporting assurance practitioner. This matter was addressed in the draft Example 10 of the IAASB's 2021 Extended External Reporting Assurance Guidance. Assurance practitioners need guidance on this matter when they first apply ISSA 5000 (as do preparers – preparers need to have done sufficient preparation when they ask for assurance), for their first adoption of ISSA 5000 which will co-incide with the first adoption of IFRS Sustainability Disclosure Standards S1 and S2.

It is likely that most organisations will begin with limited assurance and later move to reasonable assurance when evidence exists that reasonable assurance will be valued by users, a consideration of rational purpose.

We believe that there is a strong case for bespoke 'assurance-related advisory' guidance to be issued on the pre-conditions for assurance, focusing on evaluation of foundational descriptions of a business in relevant reports.

An example is needed in relation to the assurance practitioner reviewing, without doing extensive work, whether *available* documentation of the business model is likely to stand up to the scrutiny of independent external assurance, and how to shape an assurance readiness review as an alternative in the short term. The Deakin Integrated Reporting Centre offers to draft this example for the IAASB.

9. *Does ED-5000 appropriately address the practitioner’s consideration of the entity’s “materiality process” to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?*

In our view ED-5000 appropriately addresses the practitioner’s consideration of the entity’s “materiality process” to identify topics and aspects of topics to be reported. We believe that the application guidance in ISSA 5000 should include an example of how to evaluate a description of the materiality process (which will always in itself be material and therefore described as part of the description of a business) in a basis of preparation in a report containing a whole or partial description of a business and sustainability-related financial and other metrics (determined through a standard or self-determined). The Deakin Integrated Reporting Centre offers to draft this example for the IAASB.

In our view, the Integrated Reporting Framework provides a sound basis for a materiality determination process and its description in a report containing a description of the business. The Framework itself does not need to be mentioned in ISSA 5000. Rather, the way in which this is approached in the Framework can be included in an example in non-framework specific terms. Materiality is defined in the Integrated Reporting Framework:

- The primary intended audience of an integrated report is providers of financial capital. A matter is material if it could substantively affect the organisation’s ability to create value in the short, medium and long term. This is equivalent to the definition of material in IFRS Sustainability Disclosure Standard S1.
- Paragraph 2.2 of the Integrated Reporting Framework notes that value is not created by or within an organisation alone. It is influenced by the external environment; created through relationships with stakeholders; and is dependent on various resources.
- Paragraph 4.43 of the Integrated Reporting Framework requires that an integrated report include a summary of the organisation’s materiality determination process in its Basis of Preparation and Presentation under paragraph 4.41 and key judgements, including a brief description of the process (‘materiality process’ in ISSA 5000) used to:
 - determine material matters,
 - evaluate their importance, and
 - narrow them down to material matters.

Delivering an assurance report expressed in terms of both IFRS Sustainability Disclosure Standards S1 and S2 and GRI Standards will require that the assurance practitioner is able to distinguish between S1 / S2 and GRI disclosures.

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

We believe it is critical that reports containing sustainability information include a comprehensive basis of preparation and presentation in order to constitute suitable criteria for assurance. The basis of preparation and presentation should include a description of the reporting process, including internal controls therein, as this process will always in itself be material.

We recommend that an example be included in ISSA 5000 of how an assurance practitioner should evaluate a description of a basis of preparation and presentation in a report containing a whole or partial description of a business and sustainability-related financial and other metrics, with a focus on internal controls within that process over how the description of the business has been prepared and how the metrics have been determined. The Deakin Integrated Reporting Centre offers to draft this example for the IAASB.

In our view, the Integrated Reporting Framework provides appropriate guidance as to the contents of a basis of preparation and presentation. Without mentioning the Framework, the example could address the recommended contents of a basis of preparation and presentation set out in paragraphs 4.41 and 4.42 of the Framework.

The example should focus on the need for the assurance practitioner to understand, evaluate and conclude upon the basis for and validity of statements made:

- Summary of the materiality determination process, including the role of those charged with governance
- Description of the reporting boundary and how it has been determined
- Summary of the frameworks and standards chosen (for instance, the Integrated Reporting Framework, IFRS Sustainability Disclosure Standards, GRI Standards)
- Methods used to quantify or evaluate material matters - for instance, the use of:
 - IFRS Sustainability Disclosure or GRI Standards, or
 - the self-determination of metrics such as in relation to customer satisfaction and other intangibles
- How the integrity of underlying information has been ensured

11. *Does ED-5000 appropriately address the notion of “double materiality” in a framework-neutral way, including how this differs from the practitioner’s consideration or determination of materiality? If not, what do you propose and why?*

ED-5000 appropriately differentiates preparer and practitioner materiality. Refer to our answer to Question 9 which stresses not only the importance of preparers having a materiality process but also the importance of disclosing that process such that the process description is subject to assurance under ED-5000. This will include a description of sustainability risks and opportunities considered but judged to be not financially material at the reporting date.

We question the inclusion of the term ‘double materiality’ in a framework-agnostic assurance standard given that ‘double materiality’ is framework-specific.

We are also concerned by the use of the term ‘impacts’ in the definition of sustainability matters in the proposed ISSA 5000. That term is associated with GRI Standards and not IFRS Sustainability Disclosure Standards, the CSRD, ESRS and the Integrated Reporting Framework.

The use of ‘impacts’ on a stand-alone basis detracts from the aim that ISSA 5000 should be framework-agnostic. The terms, ‘resources and relationships’, ‘activities’ and ‘outcomes’ should be added so that ISSA 5000 becomes framework-inclusive and framework-agnostic.

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

Refer to our answer to Question 9.

13. *Do you agree with the differentiation in the approach in ED-5000 for obtaining an understanding of the entity’s system of internal control for limited and reasonable assurance engagements? If not, what suggestions do you have for making the differentiation clearer and why?*

Refer to our answer to Question 10. We believe that the reporting process and the internal controls within it will always be a material business process within an organisation’s business model. Accordingly, it will be described in a report containing sustainability information, either in the basis of preparation and presentation or as part of the description of the business model.

In this way, what is ‘underlying subject matter’ in a financial statements audit will become ‘sustainability information’ subject to assurance in a sustainability reporting assurance engagement.

We believe that in due course the whole of an annual report will become subject matter or sustainability information subject to assurance and there will be a whole-of-annual report assurance report.

We also believe that financial statement auditors leading teams with appropriate subject matter experts will be ideally placed to deliver such assurance reports given the comprehensive understanding of the

business and expertise in interacting and communicating with boards of directors and senior executives that they must have.

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

ED-5000 is clear about when a firm(s) and the individuals from that firm(s) are members of the engagement team, or are "another practitioner" and not members of the engagement team.

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

The requirements in ED-5000 for using the work of a practitioner's external expert or another practitioner are clear and capable of consistent implementation.

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

We agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information. The description of an organisation's business is inherently forward-looking information.

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

We support the approach in ED-5000 to require the practitioner to design and perform risk procedures in a limited assurance engagement sufficient to identify disclosures where material misstatements are likely to arise, rather than to identify and assess the risks of material misstatement as is done for a reasonable assurance engagement.

We note that this approach will have special importance in relation to the description of the business model and of the reporting process as sustainability information. Refer our answer to Question 7 and the example we suggest therein. The evidence required to evaluate the design and operation of the business model will be significantly different between a limited and reasonable assurance engagement.

In a reasonable assurance engagement the assurance practitioner will need to observe and evaluate the operation of the board of directors' governance process and the CEO's strategic management process.

18. *Recognizing that ED-5000 is an overarching standard, do you agree that the principles-based requirements in ED-5000 can be applied for assurance engagements on the sustainability information of groups or in other circumstances when "consolidated" sustainability information is presented by the entity? If not, what do you propose and why?*

No comment.

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

We would not support the use of the term 'greenwashing' in an IAASB assurance standard. Any use of the term in application guidance would need to be carefully positioned to make clear that 'greenwashing' is a colloquial term in common use today, and that the concept is accommodated by the concepts of and distinction between fraud and misstatement.

We note that most discussion about 'greenwashing' today relates to the selective use of certain metrics. We also note that mis-statements as to an organisation's business model as designed and operated, including the governance, strategic management, materiality determination and reporting processes therein, and the basis of selecting metrics to be disclosed, are potentially more insidious and likely to mislead investors and other users than mis-statements in relation to individual metrics.

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

We support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate.

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

No comment.

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

No comment.

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

Yes.

24. *Are there any public sector considerations that need to be addressed in ED-5000?*

No comment.

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

No.