Chair
International Auditing and
Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

December 01, 2023

Re: General Requirements for Sustainability Assurance Engagements

Dear Mr. Seidenstein,

On behalf of more than 500,000 Public Citizen members and supporters, we welcome the opportunity to respond to the International Auditing and Assurance Standards Board's request for comment on the Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements.[1] Investors are increasingly relying on auditors to provide assurance for information associated with climate change, environmental impacts, and the clean energy transition. Around 80 percent of S&P 100 companies are already using third-party assurance or verification for climate information, including greenhouse gas (GHG) emissions and ESG metrics, to boost investor confidence in these disclosures.[2] Increasingly, there is a vital need for clear standards for third-party assurance engagements of climate-related disclosures. We commend IAASB for proposing standards for sustainability assurance engagement to enhance market confidence in sustainability-related information. We strongly urge IAASB to establish clearly the distinction between limited and reasonable assurance, set expectations for communication between assurance providers and financial auditors to align sustainability disclosures with financial reporting, and promote the use of sustainability-related key audit matters.

Differentiation of Limited Assurance and Reasonable Assurance (Q7, Q13, Q17)

The distinction between limited and reasonable assurance is crucial due to the high prevalence of limited assurance engagements for sustainability disclosures. Limited assurance is inherently a lighter touch process, which has led many companies to opt for it because it is cheaper and subjects them to less scrutiny. It also fails to provide auditors with sufficient evidence to confidently assert an affirmative opinion that claims are reasonably stated, and therefore provides

[1] International Auditing and Assurance Standards Board (IAASB). 2023. "Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements."
[2] Securities and Exchange Commision. 2021. "The Enhancement and Standardization of Climate-Related Disclosures for Investors" 87 Fed. Reg. 21334, 21346

a false impression of thorough examination in its presentation to investors. There is market confusion on the level of assurance provided by the limited assurance of sustainability disclosures,[3] and its popularity among companies raises concerns of widespread greenwashing.[4]

The inadequacies of limited assurance in the context of sustainability reporting are extensive. The primary problem is that registrants have broad discretion in deciding the evidence to be shared during the engagement. Unlike reasonable assurance audits, limited assurance does not require a practitioner to probe and design an audit process to affirmatively state an opinion that the disclosure is fairly presented. The scope and nature of limited assurance is determined by the issuer, allowing it to define what data will be presented to the auditor. As a result, the auditor's statement is limited to confirming that management hasn't given them anything to suggest its own assertions are inaccurate. This falls short of gathering sufficient evidence and essential information required for a thorough examination and testing of the purported claims.

IAASB's likening of limited assurance to the assurance process for interim or quarterly financial statements is not accurate. For limited assurance sustainability reports, auditors typically don't proceed to conduct a subsequent reasonable assurance engagement in a manner analogous to interim financial statements leading to an annual report. While quarterly reviews mandate auditors to affirm that they have identified nothing inconsistent with their comprehensive yearly audit, this "negative" attestation relies on the context and understanding developed during the annual audit conducted at a reasonable assurance level.

Reasonable assurance demands a more comprehensive and rigorous approach, necessitating a thorough risk assessment and examination to address the risk of material misstatements. This higher level of scrutiny, which is essential for forming a well-founded opinion, is not conducted for limited assurance. Additionally, since assurance providers are not giving an affirmative opinion, this allows room for assurance providers to circumvent liability for the failure to identify material misstatements that would have been identified by an auditor exercising due care.

The broad definition of "limited assurance" within the proposal may result in varied interpretations by practitioners regarding the required procedures for achieving limited assurance. These interpretive differences might not align with investors' expectations. Clearly defined procedures for limited assurance engagements are needed to minimize expectation gaps between assurance providers and market participants and the difficulty for investors of

[3] Institute of Chartered Accountants in England and Wales. "A buyer's guide to assurance on non-financial information."https://docs.wbcsd.org/2019/11/WBCSD_ICAEW_A_buyers_guide_to_assurance_on_non-financial_information.pdf

[4] Huw Jones and Simon Jessop, February 22, 2021. "Focus: Corporate sustainability push a $35 trillion dollar conundrum for auditors." *Reuters.* https://www.reuters.com/markets/funds/corporate-sustainability-push-35-trillion-dollar-conundrum-auditors-2022-02-22/

navigating an array of inconsistent limited assurance practices in the market. IAASB should articulate detailed procedures for "limited assurance" engagements, including defining how (1) organizational and operational boundaries for sustainability-related disclosures are reasonably set, justified, and disclosed; (2) credible data sources are utilized when primary measured data is lacking, with full disclosure of data inputs and assumptions; and (3) procedures are established for testing of calculations to ensure accuracy.

Finally, IAASB's proposal should require a more substantially different presentation of practitioners' conclusions for limited and reasonable assurance. The similarity of practitioners' statements in company filings may obscure the distinction between the two levels of assurance, potentially leading to misunderstandings regarding the depth of examination and the strength of the conclusions made. By asserting that the practitioner's analysis is "based on the procedures performed and evidence obtained," even though the procedures for limited assurance are minimal or insufficient to form an affirmative opinion, the proposed presentation inaccurately conflates limited and reasonable assurance and implies that limited assurance offers much more than it does.[5] IAASB should align practitioner statements for limited assurance with the true nature of the engagement—simply checking management's presented information for material misstatement, rather than undertaking rigorous procedures and collecting evidence to challenge and verify claims, as done in a reasonable assurance engagement.

Fraud and Greenwashing (Q19)

The widespread use of limited assurance today, in connection with corporate sustainability disclosures, has not meaningfully reduced the risk of greenwashing. Limited assurance engagements, by definition, are exposed to a greater risk of greenwashing by leaving room for inaccuracies, incompleteness, or even potentially misleading information. An auditor's ability to uncover and address potential greenwashing is restricted by the scope and lack of proactive information gathering inherent to limited assurances, yet the majority of sustainability assurance engagements are conducted at a limited assurance level.[6]

We believe even companies understand the risks associated with limited assurance. For example, Allbirds, a company that prominently promotes its commitment to sustainability, acknowledged in an SEC Form 10-X that limited assurance itself presented a risk worthy of discussion in a risk factor. Specifically, the company acknowledges in its filings that

---

[5] International Auditing and Assurance Standards Board (IAASB). 2023. "Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements." https://ifacweb.blob.core.windows.net/publicfiles/2023-08/IAASB-International-Standard-Sustainability-5000-Exposure-Draft_0.pdf

[6] Zhou, Shan. 2022. "Reporting and Assurance of Climate-Related and Other Sustainability Information: A Review of Research and Practice." *Australian Accounting Review.* https://onlinelibrary.wiley.com/doi/full/10.1111/auar.12387

> certain metrics we use receive limited assurance from and/or verification by third parties. This process may entail a less stringent review compared to traditional audits, and such a review might not uncover errors or shield us from potential liabilities under securities laws.[7]

This disclosure underscores the inherent weakness of the limited assessment process, suggesting that the findings may not provide investors with sufficiently robust information for making informed decisions. To combat greenwashing and fraudulent sustainability claims, IAASB should establish a more extensive process for limited assurance engagement and distinguish the presentation of practitioner conclusions for a limited assurance engagement to avoid misleading investors on the strength of the assessment.

Use of Key Audit Matters (Q22)

IAASB should establish standards and expectations for the discussion of key audit matters (KAMs) related to sustainability and climate-related disclosures. The triggering of KAMs is crucial for communicating the impact of climate risk and the energy transition on financial statements. KAMs convey the materiality of disclosures to the financial statements or the involvement of significant auditor judgment. This is evident in climate-related estimates and assumptions that require extensive auditor judgment, making them a prime example for discussion as key audit matters. Though auditors have been slow to identify climate-related KAMs,[8] they are starting to show up in companies' audit reports. Shell's 2022 annual report includes a KAM that details the impact of climate change and the energy transition on areas of accounting judgment.[9] IAASB should provide guidance on the link between sustainability disclosures and financial statements to prompt further use of climate-related KAMs.

Alignment of sustainability information with financial statements (Q24)

Because IAASB oversees financial statement audits, it is in a unique position to develop assurance standards that integrate the assurance of sustainability-related disclosures with the financial statement audit. This integration will benefit both assurance engagements and financial audits, as it will give financial statement auditors deeper insights about companies' climate-related financial risks and activities, and will provide sustainability assurance providers deeper insights about financial risks that may impact the accuracy of disclosures. Established regular communication between assurance providers of sustainability information and auditors is crucial to maintain consistency of the data and information used in financial statements and

[7] All Birds, 2022. "Form 10-K." https://ir.allbirds.com/static-files/66199551-bb59-4070-9d19-9cdca77dfe4d.
[8] Carbon Tracker Initiative. 2021. *Flying Blind: The Glaring Absence of Climate Risks in Financial Reporting.* London: Carbon Tracker Initiative. https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/.
[9] Helen Thomas. October 6, 2022."Where climate change isn't global: auditing," *Financial Times* https://www.ft.com/content/ea63671c-ad00-4da0-8d52-ff2b7ba3940c

sustainability reports. To reinforce this uniformity, IAASB should establish requirements for communication between sustainability assurance providers and financial auditors, especially regarding sustainability matters closely linked to the financial statements.

Conclusion

We commend IAASB for proposing assurance standards for third-party validation of sustainability-related disclosures. We support the proposal and urge further clarification to provide investors with more meaningful and accurate information about practitioner conclusions.

For questions, please contact Mekedas Belayneh at mbelayneh@citizen.org.

Sincerely,
Public Citizen