

Consultation on draft CEAOB non-binding guidelines on limited assurance on sustainability reporting



COMMITTEE OF
EUROPEAN
AUDITING
OVERSIGHT
BODIES

As per the European Commission request (Commission letter (https://finance.ec.europa.eu/document/download/87f60e8b-eac7-4a4d-b6eb-8f24ffe11f32_en?filename=240307-ceaob-commission-letter-non-binding-assurance-guidelines_en.pdf)), the Committee of European Audit Oversight Bodies (CEAOB) has prepared draft non binding guidelines on limited assurance on sustainability reporting.

This draft is open for public consultation. The consultation period runs from 21 June 2024 to 22 July 2024 COB.

Respondents are invited to provide their input by responding to the following questions with explanations and rationales.

First name

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Position

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Stakeholder group

- Academia
- Assurance services provider
- Auditor
- Non-Governmental Organisation
- Preparer of sustainability reporting
- Standard setter
- User of sustainability reporting
- Other

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Do you accept that your response be published?

- Yes
- No

Is there any content, in the draft CEAOB guidelines on limited assurance on sustainability reporting, that you would assess as not useful or relevant from a public interest perspective?

5,000 character(s) maximum

1. Section 2 states: "Member States' competent authorities may recommend or impose the use of the guidelines.. " Recommending or imposing the CEAOB guidelines would effectively make them into rules, which is not how they were conceived, and is therefore inappropriate.
2. Unlike ISAE 3000 (Revised) or ISSA 5000 (version as at June 2024 IAASB agenda papers) the guidance includes a reference to key (assurance) matters, specifying them in part (3) of section 17. This neither reflects current practice nor current IAASB thinking: The CEAOB guidance may therefore create (unrealizable) expectations.
3. The first sentence of section 8 should be deleted, as the reference to "place particular emphasis" adds confusion. Practitioners need to obtain an understanding of the process to prepare the sustainability information, of which the process to identify the information to be reported is a part.
4. The fifth paragraph of section 9 states: "The nature, timing and extent of procedures.. with limited assurance regarding the absence (OR NOT) of material misstatements." If material misstatements are "not absent", the so-called "deep dive" provision in ISAE 3000 (Revised) and the draft of ISSA 5000 becomes applicable, where the practitioner must "determine" (i.e. obtain more than limited assurance) that a material misstatement exists prior to modifying the opinion for this misstatement. We therefore suggest that "(or not)" be deleted.
5. The second sentence of the second paragraph of section 27: "Obtaining external evidence or assurance reports are not necessarily required ..." , may lead to a false sense of security. It undermines the basis for assurance engagements on information arising from within the value chain. If preparers obtain value chain information from other entities that they do not control, they will make use of that information rather than making proxy estimates. Practitioners will therefore need to consider the reliability of that information, including whether to use the work of other practitioners and their reports. Consequently, this sentence is misleading and should be deleted.

Are there any areas or topics not covered in the draft CEAOB guidelines that would need to be addressed in the guidelines or developed in the future European standard on limited assurance?

5,000 character(s) maximum

6. It would be helpful for the first sentence of section 6 to clearly state that not all fraud(s) and instances of NOCLAR will be relevant to the scope of sustainability assurance engagements - that is, practitioners only seek to detect material misstatements due to fraud and noncompliance with laws and regulations. Section 9 could similarly be clearer. Not all fraud and NOCLAR of which practitioners become aware (e.g., petty theft or speeding tickets) needs to be communicated to authorities - it depends upon the nature of the fraud or NOCLAR (i.e., its severity). This needs to be taken into account.

7. The second sentence in section 6 reads: "Practitioners should communicate irregularities ... to authorities designated by the Member State..." It should be clear that this applies to both fraud and NOCLAR. There may be legal confidentiality provisions that prevent communication to an outside authority. This circumstance needs to be acknowledged in the guideline.

8. As the CEAOB is aware, value chain information poses various challenges to assurance practitioners, including access issues. A description of the inherent limitations relating to using the work of other practitioners in a limited assurance engagement is missing in section 17 and section 27. In particular, the risk of not detecting a material misstatement in information, included in the sustainability information, obtained from sources in the value chain outside of the operational control of the entity is ordinarily higher than this risk in information obtained from sources under the operational control of the entity, because the entity is not able to control the preparation of that information and, due to limitations on access, the practitioner is neither able to directly test this preparation nor, if applicable, become sufficiently and appropriately involved in the work that they use of other practitioners on such information through direction, supervision and review of their work. Without description of such inherent limitations, broad user groups will assume that the quality of the information obtained from value chain entities not under the control of the reporting entity is the same as that obtained from within the entity or group, which will lead to unreasonable expectations and has the potential to damage the reputation of assurance engagements in the sustainability space. Further, the entity should be encouraged to describe and convincingly justify these limitations within the sustainability information so that practitioners can refer to them in their report.

Are there any other suggestions that you would like to share with the CEAOB, before adoption of the final CEAOB guidelines on limited assurance on sustainability reporting?

5,000 character(s) maximum

9. The guidelines are inconsistent in sections 7, 9, 11 and 16 in relation to whether practitioners should “identify” disclosures where material misstatements are likely to arise (the current ISAE 3000 (Revised) approach) or “identify and assess” risks of material misstatement (the potential ISSA 5000 approach). The current “identify” approach is used in practice. Reference is also often incorrectly made to identifying RISKS, whereas it is the DISCLOSURES where misstatements are likely to arise that should be identified under the ISAE 3000 (Revised) approach.

10. Section 16 outlines, with five bullet points, how the practitioner addresses disclosure required by Article 8 of the Taxonomy Regulation. The second bullet gives the incorrect impression that the practitioner assesses only disclosures that relate to activities that are both eligible and aligned.

11. We would be happy to discuss our comments with you.

12. The 2,500-character limit on responses meant that we were unfortunately unable to provide suggestions for improved wording and we can provide this if requested. The increase in the limit to 5,000 characters was at too short notice for us to be able to significantly revise our input before the deadline.

13. There were a number of other terminology and drafting points we also noted, which we can also provide to you upon request.

Thank you for your contribution.

Background Documents

Draft Guidelines on Limited Assurance June 2024.pdf

Contact

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