



Agenda Item 5

Discussion Memo: Draft Sustainability Attestation Standard

Objectives of Agenda Item 5

To discuss the draft proposed SSAE, *Attestation Engagements on Sustainability Information*, of the Clarified Attestation Standards and, in particular, the following key issues identified by the Sustainability Task Force:

Issue 1: Scope of the proposed SSAE

Issue 2: Language differences from AT-C 205 and 210

Issue 3: Measurement uncertainty

Issue 4: References to information on websites or other forms of interactive data

Background

At the January 2016 ASB meeting, a listing of additional requirements included in an early draft of a proposed SSAE on sustainability attestation engagements was discussed with the ASB. Much of the ASB discussion centered on whether such requirements are unique to sustainability information or whether they apply to a broader range of subject matter and thus belong in the clarified attestation standards rather than a subject-specific standard. The options of whether a standard versus a guide should be drafted for sustainability attestation engagements, or a standard supplemented with a guide were also reviewed with the ASB. Ultimately, the ASB directed the Sustainability Task Force to draft a proposed SSAE and to include any such new requirements in the draft SSAE for discussion at the May 2016 ASB meeting.

Actions Taken to Address January 2016 ASB Feedback

The Sustainability Task Force revisited the additional requirements that were highlighted at the January ASB meeting and identified some general requirements in AT-C 205 or 210 to hook some of such additional requirements onto and converted those to application guidance. The remaining additional requirements have been highlighted in yellow in the draft proposed SSAE.

The Sustainability Task Force also addressed the specific recommendations made by ASB members regarding certain of the items on the listing of additional requirements, including the following:

- **Scope of the proposed SSAE**—see Issue 1 below for proposed discussion during the May ASB meeting

- **Measurement uncertainty disclosures**—Concern was expressed at the January ASB meeting that the requirement included in the planning section appeared too early in the standard. *Action taken:* As the Sustainability Task Force believes that obtaining a preliminary understanding of the nature of planned disclosures during the planning stage allows the practitioner to design appropriate procedures relating to the subject matter, the application guidance includes the prior requirement as a matter to consider during planning to design appropriate procedures (see paragraph .A54).
- **Management’s specialist**— As discussed at the January ASB meeting, AT-C sections 105, 205 and 210 do not address using the work of management’s specialist, an area that is expected to be frequently encountered in sustainability attestation engagements. The Task Force was directed to include the requirement regarding the work of management’s specialist in the section on evidence rather than in the section “Using the Work of a Specialist or Internal Auditor.” *Action taken:* Included this requirement paragraph in the section “Evaluating the Reliability of Information Produced by the Entity (Examinations)” (see paragraph .30); this language and placement is consistent with AU-C 500.08. [Note, that the Task Force concluded that it would not be appropriate to include a requirement or application guidance regarding considerations of the work of a management’s specialist for a review.]
- **Using the work of a practitioner’s specialist in a review engagement**—The Task Force was requested to provide a different example to illustrate the lesser extent of the practitioner’s procedures involving the use of the work of a practitioner’s specialist in a review engagement. *Action taken:* the example was changed from a focus on the specialist’s qualifications to the extent of evidence obtained regarding the specialist’s work (see paragraph .A125).

ASB members agreed with the use of different terminology between examinations and reviews relating to consistency; accordingly, the differences highlighted for the January ASB meeting were retained in the proposed SSAE.

Issues to be Discussed at May ASB Meeting

Issue 1: Scope of the proposed SSAE

At the January 2016 ASB meeting, the Sustainability Task Force was directed to more clearly articulate when the practitioner was in this proposed SSAE or when only AT-C 205 or 210 applies. Accordingly, paragraph .01 articulates that this proposed SSAE is applicable when the subject matter is sustainability information and the reporting entity holds out the subject matter of the practitioner’s engagement as sustainability information. Paragraph .A3 illustrates ways in which the reporting entity might hold out the subject matter as sustainability information, such as:

- Labeling the report containing the subject matter as a sustainability report, corporate social responsibility report, or environmental, social and governance report, or a similar title

- Labeling the presentation of information as a greenhouse gas (GHG) emissions schedule or statement
- Submitting the presentation in response to a third party requirement for the submission of sustainability information (for example, to sustainability rating bodies)
- Labeling sections of a broader report, such as a report submitted to a securities regulator (for example, in an MD&A section of an SEC Form 10-K), as sustainability, corporate social responsibility, or environmental, social and governance information
- Citing a sustainability framework as criteria

Paragraph .A4 states that a practitioner may apply this proposed SSAE regardless of whether the reporting entity holds the information out as sustainability information.

Question for the ASB:

1. Do you agree with the construct of when this proposed SSAE is applicable?
2. Do you agree with the application guidance that allows the practitioner to apply this proposed SSAE even when the sustainability information is not held out as sustainability information?

Issue 2: Language Differences from AT-C 205 and 210

The draft standard follows the clarified standards with a few differences in the use of certain language. At various points throughout AT-C 205 and 210, the clarified standards reference whether “the subject matter is in accordance with (or based on) the criteria” (such as in discussing the objectives of the examination or review engagement, forming an opinion or conclusion, the content of the practitioner’s report, and the illustrative report examples. The Sustainability Task Force believes a more explicit statement with respect to sustainability information is appropriate and accordingly, proposes the following language differences in the proposed SSAE:

- **Elimination of “(or based on)” language:** The “(or based on)” language has not been included in the draft proposed SSAE as an option because the Sustainability Task Force believes that such language is too vague for the nature of this subject matter information and that such language was intended for a situation in which there is not a presentation, unlike sustainability reporting.
- **Use of Fairly Presented:** The Sustainability Task Force believes that a more affirmative statement of “fairly presented in accordance with the criteria” is more reflective of the requirements for the subject matter of sustainability information. While fair presentation is a concept defined in generally accepted accounting principles, AT-C 205.A82 listed “the subject matter is presented fairly, in all material respects, based on the criteria” as an acceptable conclusion in an attestation report. While “presented fairly” was not used in AT-C 210, the Task

Force believes that such language is still relevant for a review of sustainability information.

Accordingly, the objectives of expressing an opinion or conclusion in paragraphs .05-.06 excludes “(or based on)” and includes “fairly presented in accordance with the criteria.” Similar changes are made throughout the document, including in the reporting section and illustrative reports.

Question for the ASB:

3. Do you agree with the elimination of “or (based on)”?
4. Do you agree with the use of the phrase “fairly presented [, in all material respects,] in accordance with the criteria” throughout the proposed standard (e.g., paragraphs .05-.06, .16, .A157-.A158)?

Issue 3: Measurement Uncertainty

The draft standard contains several requirements with related application guidance concerning measurement uncertainty, which has been defined in paragraph .07g. as a characteristic of reported measured values that informs users of the subject matter about the dispersion of the values that could reasonably be attributed to the reported value.

A trigger threshold of the existence of large measurement uncertainty has been included for certain requirements and large measurement uncertainty has been defined in paragraph .07d as measurement uncertainty that is greater than the applicable materiality threshold.

The following requirements are included with respect to measurement uncertainty:

- Paragraphs .17-.18 require the practitioner in an examination engagement to (1) evaluate the degree of measurement uncertainty associated with the reported information subject to the engagement and to tailor further procedures to respond to identified risks and (2) when large measurement uncertainty is identified, to evaluate whether, in the practitioner’s professional judgment, it gives rise to an increased risk of material misstatement.
- Paragraph .43 requires when large measurement uncertainty is identified in a review engagement for the practitioner to place increased focus in those areas in which the practitioner believes there are increased risks that the sustainability information may be materially misstated.
- Paragraph .53 requires certain representations to be obtained regarding large measurement uncertainty
- Paragraph .59 requires the practitioner to consider the adequacy of disclosures regarding large measurement uncertainty

While an argument can be made that measurement uncertainty applies to various subject matters, not just sustainability information, the clarified attestation standards do not address it. Accordingly, the Task Force has included requirements in the proposed SSAE. The extent of discussion of measurement uncertainty may appear disproportionate to the discussion of other

risks; however, the Task Force believes that such perceived unbalance is partially a function of the fact that it may not be necessary to elaborate on other risks that the practitioner already understands.

Question for the ASB:

5. Do you agree with the definitions of measurement uncertainty and large measurement uncertainty?
6. Do you agree with inclusion of the requirements and related application guidance concerning measurement uncertainty in this proposed SSAE?

Issue 4: References to information on websites or other forms of interactive data

Given that certain stakeholders are interested in more details about certain sustainability information than what might be included in a sustainability report, entities typically provide further details on their websites or provide interactive approaches to learning more about particular matters. Accordingly, it is common practice for such entities to include references or links in their sustainability reports to such other information.

The Task Force is aware that the AITF has been discussing the topic of links to websites in financial statements subject to auditor reports and other interactive data as to what guidance should be provided to make clear the auditors' responsibility. While the proposed SSAE currently does not contain any requirements in this area, it does provide the following application guidance:

.A30 Considerations in agreeing on the terms of the engagement may include:

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- the form of the subject matter (for example, whether an on-line, web-based report or a PDF posted to the entity's website) and the potential risks that the practitioner's report could be believed to cover more than intended. For example, if a web-based form of a sustainability report that includes symbols to indicate the specific information that was the subject of the engagement is to be used, there is the risk that the practitioner's report may not be posted for the duration of the posting of the sustainability report and therefore may not be available to the readers.

.A31 On-line, web-based sustainability reports also run the risk of being updated without the practitioner's knowledge. Accordingly, as part of agreeing on the terms of the engagement, the practitioner might establish

- an understanding with the client regarding the conditions that are to exist for the practitioner's report to be posted to the entity's website and
- the protocol for notification of the practitioner by the client in the event of any changes.

Question for the ASB:

7. Do you agree with the approach in the proposed SSAE and is the guidance sufficient?

Discussion Memo: Sustainability Attestation Standard
ASB Meeting, May 25, 2016

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