

Post-Implementation Review

**South African Assurance Engagements Practice
Statement 1, Sustainability Assurance Engagements:
Rational Purpose, Appropriateness of Underlying Subject
Matter and Suitability of Criteria**

Purpose of this Feedback Statement

Almost six years ago, the Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved and issued the South African Assurance Engagements Practice Statement (SAAEPS) 1, *Sustainability Assurance Engagements: Rational Purpose, Appropriateness of Underlying Subject Matter and Suitability of Criteria*. Issued in August 2018, it provides practical assistance to practitioners on certain preconditions that need to be present when requested to accept a sustainability assurance engagement, according to the requirements of the International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

Since its issue, the rapid pace of developments on sustainability reporting, from the preparer and assurance perspectives, has accelerated. Some of these developments include the International Auditing and Assurance Standards Board's (IAASB) approving the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, and consequential amendments to other IAASB standards, at its meeting in September 2024.

Due to this evolving landscape, towards the end of 2023 the IRBA decided to carry out a post-implementation review (PIR) of SAAEPS 1. This involved reaching out to firm leadership and other stakeholders to:

- Determine the extent of usage of SAAEPS 1;
- Establish whether this practice statement is understood and implemented in a consistent manner that achieves the IRBA's intended purpose;
- Identify how practical challenges and concerns, if any, are addressed; and
- Gain an understanding of whether SAAEPS 1 is still fit for purpose, considering the assurance developments at the IAASB and globally.

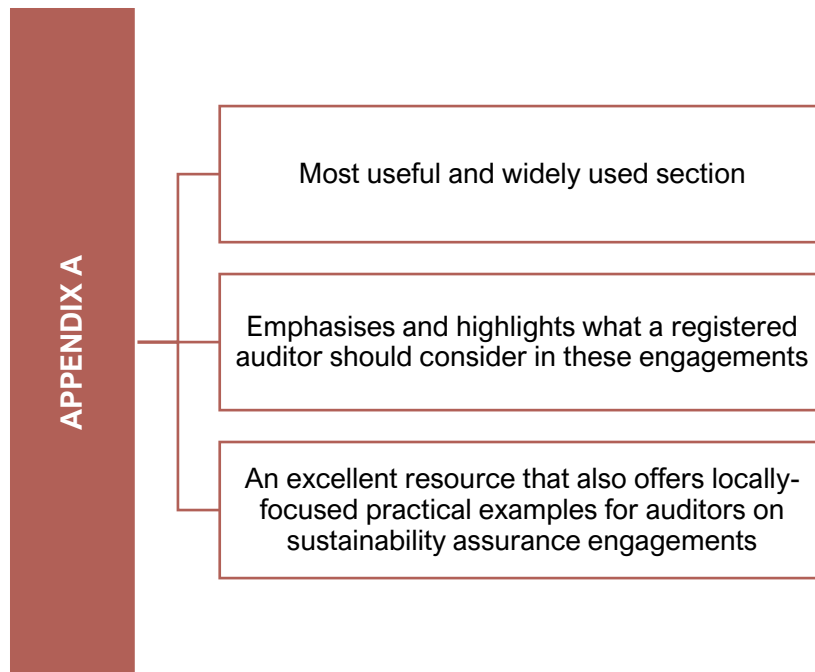
“The process to establish whether all the preconditions for a sustainability assurance engagement are present is not linear and may be considered individually and collectively.”

Therefore, this Feedback Statement summarises the key themes raised during the SAAEPS 1 PIR in-person discussions with representatives from audit firms. The next step will be for the CFAS' Sustainability Standing Committee (SSC) to develop recommendations for a project(s) for the CFAS' approval, based on the feedback. This post implementation review did not include any regulatory activity by the IRBA, and did not include an external monitoring review of any engagement files. Further, we are not aware of any complaints or current investigations related to the work of registered auditors applying SAAEPS 1.

Summary of views on SAAEPS 1

The views from our in-person discussions with representatives from seven firms can be summarised as follows:	
<i>Objective as set out at the commencement of the PIR:</i>	<i>Summary of views received:</i>
Determine the extent of usage of SAAEPS 1	The firms' views ranged between direct quotation of SAAEPS 1 in the sustainability assurance engagement working appears, to using SAAEPS 1 to inform firm methodology while relying on global firm working papers that reference ISAE 3000 (Revised) in the main.
Establish whether this practice statement is understood and implemented in a consistent manner that achieves the IRBA's intended purpose	Respondents overwhelmingly indicated that the practice statement is well understood by auditors and used to supplement the requirements in ISAE 3000 (Revised).
Identify how practical challenges and concerns, if any, are addressed	Firms indicated that practical challenges experienced from ensuring that a sustainability assurance engagement exhibits rational purpose are addressed through, among others, using the SAAEPS 1 as a discussion tool with management in pre-engagement activities and/or in the performance of readiness assessments.
Gain an understanding of whether SAAEPS 1 is still fit for purpose, considering the assurance developments at the IAASB and globally.	Firms agreed that SAAEPS 1 is relevant, given the South African guidance therein, but that it will need revision from the current version that addresses ISAE 3000 (Revised) to addressing matters under ISSA 5000.

Further, a comment that came up often was the importance that auditors have placed on Appendix A of SAAEPS 1. The graphic below highlights at least three of the reasons given for those sentiments.



In addition, opinions varied regarding whether SAAEPS 1 chapters pertaining to appropriateness of the underlying subject matter and suitability of criteria will remain relevant given global developments on reporting frameworks and/or standards for preparers.

However, there was general consensus that SAAEPS 1 will have to be revised, to ensure that it aligns with the finalised ISSA 5000 that was issued by the IAASB in November 2024. As of publication, the IRBA's CFAS was in the process of considering the local adoption of ISSA 5000.

Lastly, there was unanimous support for SAAEPS 1's content in respect of rational purpose and the continued relevance thereof in the marketplace.

Rational Purpose Explored

What Does ISAE 3000 (Revised) Say about Rational Purpose?	
Requirement	Application
Paragraph 24(b)(vi) requires that an engagement exhibits rational purpose as one of its characteristics, including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance.	<p>Paragraph A56 states that in determining whether the engagement has a rational purpose, relevant considerations may include the following:</p> <ul style="list-style-type: none"> The intended users of the subject matter information and the assurance report (particularly, when the criteria are designed for a special purpose). A further consideration is the likelihood that the subject matter information and the assurance report will be used or distributed more broadly than to intended users. Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.

	<ul style="list-style-type: none"> • The characteristics of the relationships between the responsible party, the measurer or evaluator, and the engaging party, for example, when the measurer or evaluator is not the responsible party, whether the responsible party consents to the use to be made of the subject matter information and will have the opportunity to review the subject matter information before it is made available to intended users or to distribute comments with the subject matter information. • Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria. • Any significant limitations on the scope of the practitioner's work. • Whether the practitioner believes the engaging party intends to associate the practitioner's name with the underlying subject matter or the subject matter information in an inappropriate manner.
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Source: The above table is extracts of the requirements and application material pertaining to rational purpose from ISAE 3000 (Revised), further the bolded content from paragraph A56 of ISAE 3000 (Revised) are the rational purpose characteristics (that are considered during the Acceptance and Continuance – Preconditions for the Assurance Engagement phase in determining whether the preconditions for a sustainability assurance engagement set out in ISAE 3000 (Revised) are present) that SAAEPS 1 deals with.

Respondents' Views on How Rational Purpose is Addressed in SAAEPS 1	
1.	The need to consider rational purpose on sustainability assurance engagements as a precondition criterion remains relevant, due to the vastness of sustainability as a subject matter. This is especially important because of the voluntary nature of sustainability reporting, which could result in preparers picking and choosing what they should disclose and want assured, whether as limited or reasonable assurance.
2.	Rational purpose assessments assist registered auditors (RAs) in guarding against greenwashing in assurance engagements.
3.	In planned revisions to SAAEPS 1, rational purpose/scoping can be further enhanced, and that could include expanding on other preconditions for a sustainability assurance engagement.
4.	The evolution of South African regulations related to sustainability reporting and assurance may impact the consideration of the rational purpose requirement over time, although this requirement will continue to be a key factor in accepting and conducting sustainability assurance engagements.

Other Perspectives on Sustainability Assurance Engagements

In addition to the views expressed above, respondents provided the following information, which will be considered in the SSC's project to develop new Frequently Asked Questions on Sustainability Assurance Engagements, CFAS's upcoming strategic discussions, and the SSC's future work programme:

- Processes and controls for non-financial information, such as sustainability information, are vital.
- The involvement of the social and ethics committee as well as the audit committee in an entity's sustainability journey is important.
- Some respondent noted a decrease for sustainability engagements due to COVID-19.
- Some respondents raised the issue of how to provide assurance on the Johannesburg Stock Exchanges' Green Bonds.
- The impact of Corporate Sustainability Reporting Directive, International Council on Mining and Metals guidelines, and Sustainable Finance requirements on sustainability reporting.
- The role of readiness assessments in getting preparers ready for assurance engagements cannot be overlooked, as that also assists the preparers in deciding on what the appropriate matrices are.
- Reporting criteria need to be available for the intended users.
- Criteria must accurately describe the subject matter, including the assurance practitioner being able to challenge it, where appropriate.
- Comparability is possible where the criteria are made publicly available.
- The lack of availability of evidence may pose scope limitations for RAs.
- There may be public interest considerations that require the IRBA to issue guidance that can be made available to non-RAs. In this regard, the IRBA's future awareness-raising efforts on its pronouncements on sustainability may need to incorporate non-RAs. This is especially important, as ISSA 5000 introduced the concept of that IAASB standard being professional agnostic.