A case study: Demystifying materiality in accordance with ISSA 5000.

ACCA

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About this report.

Using a practical case study, this report provides a guide on how to apply the ISSA 5000 requirements with respect to materiality relating to both quantitative and qualitative disclosures, in a Sustainability Assurance Engagement. Additionally, the report clarifies the difference between the entity's materiality assessment and the assurance practitioner's materiality assessment. The report concludes with some practical considerations and recommendations that our members and stakeholders should take into account when applying the ISSA 5000 requirements relating to materiality.

Foreword.

Mike Suffield
Director – Policy & Insights, ACCA

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Sustainability reporting has firmly established itself as a key component of corporate reporting, with many jurisdictions already shifting towards mandatory sustainability reporting requirements. By offering a holistic view of an organisation's performance, sustainability reporting supports more informed decision-making by investors, regulators and the wider public. Sustainability reports include information on environmental, social and governance (ESG)-related matters, including actions taken to meet certain targets and obligations.

This raises questions about the credibility and trustworthiness of sustainability reporting and while the recently established sustainability reporting frameworks, such as the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, include requirements that promote credibility and trust, this is where the role of sustainability assurance becomes critically important. To enable global consistency in sustainability assurance, the swift response of the International Auditing and Assurance Standards Board (IAASB), in developing *ISSA 5000, General Requirements for Sustainability Assurance Engagements* (here and after 'the Standard), sets the global baseline for sustainability assurance.

In this report, ACCA and CA ANZ have joined forces to provide a practical guide to some key requirements of ISSA 5000, as part of a planned series of publications; this one focuses on materiality. Our case study aims to provide a practical guide to applying the Standard's requirements for materiality, including insights into the various judgement points involved, to assist our members and other stakeholders in applying the Standard.

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Antonis holds an LLB (Hons) Law degree from the University of Essex, the CFA Certificate in ESG investing and is a fellow member of the Association of Chartered Certified Accountants. He is also a member of the Institute of Certified Public Accountants of Cyprus.

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Contents.

executive summary.

The evolution in sustainability reporting continues and as a result the demand for sustainability assurance continues to rise alongside. The consistent application of ISSA 5000, the international standard that sets the global baseline for sustainability assurance engagements is therefore vital.

At the time of its publication, ACCA's report *Sustainability Assurance – Rising to the Challenge* (ACCA 2023a) provided an overview of the landscape for sustainability reporting and assurance, including an introduction to relevant requirements of standards and guidance issued by the IAASB. It also provided insights into some of the key challenges faced by practitioners, followed by some recommendations.

A report by Chartered Accountants Australia and New Zealand, *Sustainability Assurance Playbook* (CA ANZ 2022), tailored for small and medium-sized audit firms, offered some suggestions on how to get started on sustainability assurance. The playbook provided an overview of the sustainability reporting and assurance landscape evolution at the time of publication and described experiences and insights from several practitioners who had already started their sustainability assurance journey.

Following the IAASB's publication of ISSA 5000, in this report ACCA and CA ANZ have joined forces to continue our work in this space, as part of a planned series of publications, with this first one focusing on materiality.

This guide is intended to support assurance practitioners in applying professional judgement when planning and performing sustainability assurance engagements under ISSA 5000. It is critical that assurance practitioners focus on the most significant aspects of the sustainability information to ensure the engagement addresses the disclosures that are most likely to influence the decisions of intended users.

Our case study follows a fictional engagement with ABC plc and is structured around the application of materiality to Scope 1, 2 and 3 greenhouse gas (GHG) emissions. For the purposes of case study, it is assumed that the sustainability assurance practitioner is engaged to provide limited assurance services.

'This guide is intended to support assurance practitioners in applying professional judgement when planning and performing sustainability assurance engagements under ISSA 5000.'

The case study:

- Outlines the applicable ISSA 5000 requirements and the various professional judgement points involved in considering or determining materiality for qualitative and quantitative disclosures respectively.
- Demonstrates the assurance practitioner's considerations when setting thresholds, benchmarks and performance materiality.
- Explores an approach to grouping disclosures logically based on similarity in expression, user interest and user tolerance for misstatement.
- Supports assurance practitioners in assessing the needs and expectations of intended users.
- Guides the addressing of aggregation risk in assurance engagements.
- Navigates application of double materiality in accordance with European Sustainability Reporting Standards (ESRSs).

Additionally, the guide recommends that practitioners recognise the importance of the materiality stage in an assurance engagement and, in particular, the various professional judgement points that are involved, ensuring that they allocate sufficient time to applying the requirements appropriately, including the relevant documentation requirements. The results of the materiality stage will assist the practitioner in developing the approach to obtaining evidence and when evaluating identified misstatements of the sustainability information.

The guide recommends that practitioners recognise the importance of the materiality stage in an assurance engagement and, in particular, the various professional judgement points that are involved.

Introduction.

Following the strong demand for a global sustainability assurance standard, the IAASB developed and, in 2024, published ISSA 5000, a specialised standard focusing on sustainability assurance engagements. This was achieved following an accelerated plan enabling the IAASB to develop and finalise ISSA 5000 at an unprecedented pace.

The development of ISSA 5000 complements the developments in sustainability reporting following the publication of IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB), and the European Sustainability Reporting Standards (ESRSs) issued by the European Financial Reporting Advisory Group (EFRAG). ISSA 5000 aims to set the global baseline for sustainability assurance engagements and promote consistency of application.

Under ISSA 5000, the materiality stage in a sustainability assurance engagement is crucial because it forms the foundation for determining the scope and procedures of the engagement. In sustainability assurance engagements, materiality is considered from the perspective of the intended users. Materiality helps the practitioner to assess whether any misstatements or omissions are of sufficient importance to be considered material and thus requiring further investigation. In this guide, we explore how to consider or determine materiality for qualitative and quantitative disclosures respectively, in accordance with the requirements of ISSA 5000. It is critical that assurance practitioners focus on the most significant aspects of the sustainability information to ensure the engagement addresses the disclosures that are most likely to influence the decisions of intended users.

This guidance focuses on the materiality requirements under ISSA 5000 and forms part of a planned broader series of publications designed to support practitioners in applying the Standard. Through a case study, we explore the application of the Standard's materiality requirements in depth, with the aim of assisting our members and other stakeholders with an interest in this area. For the purposes of this guide and the accompanying example, it is assumed that the sustainability assurance practitioner is engaged to provide limited assurance services.

1. The entity's materiality assessment and its relevance

Before diving into the materiality requirements for assurance practitioners under ISSA 5000, it is important to clarify what is meant by the *'entity's materiality assessment'*, and how it differs from materiality assessment requirements that apply to assurance practitioners.

'Materiality is a fundamental concept that is applied by the entity in preparing and presenting sustainability information and by assurance practitioners in planning and performing a sustainability assurance engagement.'
(IAASB 2023)

The entity (or preparer's) judgements about what is material are specific to the facts and circumstances. It is therefore critical that the assurance practitioner understands the judgements made by the preparer in determining what sustainability information is disclosed under the applicable sustainability reporting framework. When considering the facts and circumstances, preparers also assess whether the reporting framework requirements are sufficient and decide whether they should be supplemented with entity-developed criteria. For instance, an entity operating in water-scarce regions might develop criteria for water usage intensity or local water stress thresholds, while a software company could establish criteria for data privacy and cybersecurity incidents that are tailored to its unique operations.

The assurance practitioner, on the other hand, considers or determines materiality for qualitative and quantitative disclosures respectively, in order to develop the approach to obtaining evidence and evaluating identified misstatements. The assurance practitioner takes into account the entity's materiality assessment throughout the course of the engagement, including, for example:

- **During engagement acceptance and continuation procedures**, when evaluating whether the reporting framework that the assurance practitioner expects to be applied in the preparation of the sustainability information is suitable for the engagement circumstances.
- **When obtaining an understanding of the entity's polices or procedures** to identify (or develop) the applicable criteria and determine susceptibility of the disclosures to misstatement.
- **When obtaining an understanding of the entity's internal controls** relevant to the identification and preparation of the sustainability information reported.

- **When performing further procedures** to obtain sufficient appropriate evidence to assess whether the requirements of the reporting framework have been properly applied in the preparation and presentation of the sustainability information.
- **When evaluating identified misstatements** to determine whether uncorrected misstatements, individually or in aggregate, are material.

The nature of the entity's materiality assessment is closely linked to the applicable sustainability reporting framework. In this publication, we will refer to the relevant IFRS Sustainability Disclosure Standards and the ESRSs in discussing the entity's materiality assessment.

Whilst the IFRS Sustainability Disclosure Standards and the ESRSs are in theory interoperable (i.e., the standards do not have contradictory requirements, meaning that a preparer could theoretically comply with both sets of standards in the same report), in practice differences exist. Such differences exist, largely resulting from the wider definition of materiality used in the ESRSs, known as 'double materiality', than that in the IFRS Sustainability Disclosure Standards.

When determining materiality, the focus of IFRS Sustainability Disclosure Standards is on the needs of the primary users of general-purpose financial reports (GPFR), the financial materiality, consistent with IFRS Accounting Standards.

ESRSs, on the other hand, consider not only the primary users of GPFR, but all users, as well as any affected individuals or groups. More specifically, under ESRSs, the preparer is required to consider double materiality, which includes both impact materiality and financial materiality.

'Financial materiality' assesses how sustainability matters could affect a company's financial performance and value, whereas 'impact materiality' refers to the impacts of a company's activities on external stakeholders, including the environment and society.

1.1 IFRS Sustainability Disclosure Standards

Starting with the IFRS Sustainability Disclosure Standards, under IFRS S1.17, an entity shall disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. IFRS S1 specifically states that an entity does not need to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if the information is not material (IFRS Foundation 2023).

In the context of sustainability-related financial disclosures: *'information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity'* (IFRS Foundation 2023: para. 18). IFRS S1 defines primary users as existing and potential investors, lenders and other creditors (IFRS Foundation 2023: Appendix A).

Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances. Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Sustainability-related financial disclosures are intended to meet common information needs of primary users.

To identify and disclose material information, an entity applies paragraphs B19–B37 of IFRS S1 (IFRS Foundation 2023).

ACCA has developed a detailed guide titled *Sustainability Reporting – The Guide to Preparation* to assist stakeholders who are interested in applying the IFRS Sustainability Disclosure Standards (ACCA 2023b). The guide discusses the entity's materiality assessment in detail, including the various considerations and judgement points involved.

1.2 European Sustainability Reporting Standards (ESRSs)[1]

In contrast to IFRS S1, ESRSs require that certain items always be disclosed, irrespective of materiality. According to ESRS 1 paragraph 21, sustainability matters are reported based on the double materiality principle (EFRAG 2023a). Double materiality has two interrelated and interdependent dimensions: impact materiality and financial materiality. A sustainability matter is 'material' when it meets the criteria defined for impact materiality or financial materiality, or both. The criteria are applied using appropriate quantitative and/or qualitative thresholds (EFRAG 2023a).

According to section 3.4 of ESRS 1, a sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short, medium or long term. In this context, impacts include those on environmental, social and governance matters. Impacts are captured by the impact materiality perspective irrespective of whether they are financially material (EFRAG 2023a).

According to section 3.5 of ESRS 1, a sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. The scope of financial materiality for sustainability reporting is an expansion of the scope of materiality used in the process of determining which information should be included in the financial statements.

Paragraph 24 of ESRS 1 states that entities must engage with affected stakeholders when undertaking the sustainability materiality assessment (EFRAG 2023a). The two main groups of stakeholders are defined in paragraph 22 of ESRS 1:

1. *'**Affected stakeholders**: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain; and*
2. *'**Users of sustainability statements**: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings) and other users of sustainability statements, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.'* (EFRAG 2023a)

Accountancy Europe (2024) has issued a publication titled *ESRS Perspectives: Materiality Assessment*, which summarises the requirements for the entity's materiality assessment as per ESRS, including the requirements regarding the financial and impact perspectives of double materiality.

1 We note that the European Sustainability Reporting Standards (ESRS) currently in force and discussed in this report are subject to ongoing revision, as part of the Omnibus Directive and the related simplification initiative.

2. The assurance practitioner's materiality assessment

The assurance practitioner's materiality assessment focuses on considering or determining materiality for the purpose of developing the approach to obtaining evidence and evaluating identified misstatements of the sustainability information.

Before looking into the detailed requirements of the Standard, it is important to clarify that while materiality is initially determined during the planning phase of the engagement, assurance practitioners should recognise that the assessment of materiality is inherently an iterative process throughout the performance of the sustainability assurance engagement under ISSA 5000. As new information is obtained or as the assurance practitioner's understanding of the entity and its sustainability reporting matures, the assurance practitioner may need to reconsider and, if necessary, revise the materiality thresholds or criteria.

This may arise, for example, from findings during procedures that indicate significant risks not previously identified, changes in stakeholder expectations, or evolving contextual factors such as regulatory developments or emerging sustainability topics. Accordingly, assurance practitioners are encouraged to remain alert to such developments and to update their materiality assessment where appropriate to ensure the assurance conclusions remain meaningful and aligned with the intended users' information needs.

According to paragraph 98 of ISSA 5000, *'for the purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall:*

'(a) Consider materiality for qualitative disclosures; and

'(b) Determine materiality for quantitative disclosures' (IAASB 2024).

The Standard uses a **bifurcated approach**, given that it would be impractical to determine materiality for qualitative disclosures owing to the nature of those disclosures.

It is important to clarify that, given the nature of sustainability disclosures, they can vary and may not be subject to the same materiality considerations. In practice, it is common for assurance practitioners to consider and/or determine multiple materialities (i.e., for each disclosure or a sub-group of disclosures). This will typically depend on the information needs of the intended users of each disclosure and their tolerance for misstatements. For example, the way that disclosures are expressed, such as the measurement method, could be of particular importance for some users.

As noted in the IAASB's ISSA 5000 Implementation Guide, for the purposes of considering or determining materiality *'the practitioner may decide to group the sustainability information consistent with how management has presented the sustainability information, or they may decide there are other logical ways of grouping the sustainability information for purposes of planning and performing the engagement. Grouping disclosures will affect the level at which the practitioner considers or determines materiality and designs and performs risk assessment procedures'* (IAASB 2025).

Disclosures with common attributes can be grouped for the purposes of planning and performing the engagement, including the basis chosen for considering or determining materiality or setting performance materiality. How the entity presents the disclosures (i.e., how the entity aggregates or disaggregates the sustainability information for the purposes of presentation) is determined by the criteria. Whether and how the assurance practitioner may further group the disclosures for purposes of planning and performing the engagement is a matter of professional judgement.

In addition, the entity's materiality process is relevant for the assurance practitioner's application of materiality. As per paragraph 99 of ISSA 5000, if the applicable reporting criteria require the entity to apply both financial materiality and impact materiality in preparing the sustainability information, the assurance practitioner shall take into account both perspectives when considering or determining materiality in accordance with paragraph 98.

This means that the assurance practitioner should apply a double materiality 'lens' but, when assessing both perspectives, use the more conservative materiality consideration or determination for purposes of planning and performing assurance procedures and evaluating whether identified misstatements are material (IAASB 2025: para 312).

2.1 Qualitative disclosures

In order to assist assurance practitioners in considering materiality for qualitative disclosures, paragraph A300 of ISSA 5000 includes the following list of factors as examples that may be relevant to the assurance practitioner's consideration.

'Disclosures with common attributes can be grouped for the purposes of planning and performing the engagement, including the basis chosen for considering or determining materiality or setting performance materiality.'

Table 2.1.1: Potentially relevant factors when considering qualitative disclosures

The number of persons or entities affected by, and the severity of the effect of, the sustainability matter. For example, a hazardous waste spill may impact a small number of people, but the effect of that spill could lead to serious adverse consequences to the environment.
The interaction between, and relative importance of, multiple topics and aspects of the topics.
The form of the presentation of the sustainability information when the applicable criteria allow for variations in the presentation.
The nature of a potential misstatement and when it would be considered material, for example, the nature of observed deviations from a control when the sustainability information is a statement that a process exists, or the control is effective.
Whether a potential misstatement could affect compliance with law or regulation, including whether there is an incentive or pressure on management to achieve an expected target or outcome. For example, a practitioner may consider a potential misstatement to be material if it affected a threshold at which a carbon tax would be payable by the entity.
Whether a potential misstatement would be significant based on the practitioner's understanding of known previous communications to the intended users on matters relevant to their information needs, for example, in relation to the expected outcome of goals or targets, the degree to which a potential misstatement would impact the entity achieving the goal or target.
When the sustainability matter relates to a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
If the applicable criteria include the concept of due diligence regarding impacts, the nature and extent of those impacts. For example, a practitioner may consider whether the entity's disclosures omitted or distorted the actions taken to prevent or mitigate negative impacts or ignored additional negative impacts, or the entity's actions to prevent or mitigate negative impacts were not effective.
For narrative disclosures, whether the level of detail of the description or the overall tone of the words used to describe the matter, may give a misleading picture to users of the sustainability information.
How the presentation of the information influences users' perception of the information. For example, when management presents the disclosures in the form of graphs, diagrams or images, materiality considerations may include whether using different scales for the x- and y-axes of a graph may be potentially misleading.

2.2 Quantitative disclosures

To assist assurance practitioners in determining materiality for quantitative disclosures in accordance with paragraph 98b, paragraph A301 of ISSA 5000 includes the following list of quantitative factors *'which relate to the magnitude of misstatements relative to the disclosures, if any, that are:*

(a) Expressed numerically; or

(b) Otherwise related to numerical values (e.g., the number of observed deviations from a control may be a relevant quantitative factor when the sustainability information is a statement that the control is effective).'

While the list of factors in paragraph A300, discussed above, relate to qualitative disclosures, they could also be relevant when determining materiality for quantitative purposes (IAASB 2024: para. A302). Furthermore, paragraph A303 states that *'for disclosures that are quantitative (e.g., a key performance indicator expressed in numerical terms), materiality may be determined by applying a percentage to the reported metric, or to a chosen benchmark related to the disclosure'* (IAASB 2024).

According to paragraph A304, the following factors may affect the identification of an appropriate benchmark and percentage.

Table 2.2.1: Factors that may affect the identification of an appropriate benchmark and percentage

(a)	*The elements of the disclosure. For example, if there is an element that is likely to be the focus of intended users, it may be the appropriate benchmark.*
(b)	*The relative volatility of the benchmark. For example, if the benchmark varies significantly from period to period, it may be appropriate to set materiality relative to the lower end of the fluctuation range even if the current period is higher.*
(c)	*The requirements of the applicable criteria. If the applicable criteria specify a percentage threshold for materiality, this may provide a frame of reference to the practitioner in determining materiality for the disclosure.*

2.3 Performance materiality and its importance

Paragraph 100 of ISSA 5000, states that *'for quantitative disclosures, the practitioner shall determine performance materiality'* (IAASB 2024).

Performance materiality can be applied at various points throughout the assurance engagement. For instance, in a limited assurance engagement, it may assist in identifying and evaluating the risks of material misstatement related to disclosures. In a reasonable assurance engagement, it can help assess such risks at the assertion level for disclosures, and guide decisions on the nature, timing, and scope of further procedures (IAASB 2024: para. A307)

Paragraph A308 of ISSA 5000 notes that when dealing with quantitative disclosures, planning the engagement with the sole aim of detecting individually material misstatements may ignore aggregation risk. That is, the risk that multiple uncorrected or undetected misstatements, when combined, exceed the materiality threshold. This risk exists because sustainability information may be broken down into parts, with assurance procedures applied separately to each. According to the Standard, *'it may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to:*

'(a) Determine performance materiality for quantitative disclosures to reduce aggregation risk to an appropriately low level; and

'(b) Consider what types of errors or omissions would potentially constitute a material misstatement when aggregated with other misstatements' (IAASB 2024: para. A308).

The Standard also clarifies that determining performance materiality should not be perceived as a mechanical calculation. Critically, it involves exercising professional judgement according to the assurance practitioner's understanding of the entity, which is continually updated during the risk assessment procedures. Some of the *factors the practitioner may take into account in setting performance materiality include the following:*

- *'The extent of disaggregation of the disclosures. For example, in a group engagement, as the extent of disaggregation across components increases, a lower performance materiality ordinarily would be appropriate to address aggregation risk. The relative significance of the component to the reporting entity may affect the extent of disaggregation (e.g., if a single component represents a large portion of the reporting entity, there likely may be less disaggregation across components).*
- *'Expectations about the nature, frequency and magnitude of misstatements of the disaggregated disclosures, including those identified in previous engagements'* (IAASB 2024).

The case study in Chapter 3 of this report, discussed subsequently, demonstrates how the above requirements could be applied in practice.

2.4 Documentation

Given the various professional judgement points involved with the practitioner's materiality assessment, it is very important for the assurance practitioner to document the work performed. As part of the overarching documentation requirements, paragraph 69 of ISSA 5000 states that *'the practitioner shall prepare, on a timely basis, engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable a practitioner experienced in sustainability assurance, having no previous connection with the assurance engagement, to understand*

(a) The nature, timing and extent of the procedures performed to comply with this ISSA, other relevant ISSAs and applicable legal and regulatory requirements;

(b) The results of the procedures performed, and the evidence obtained; and

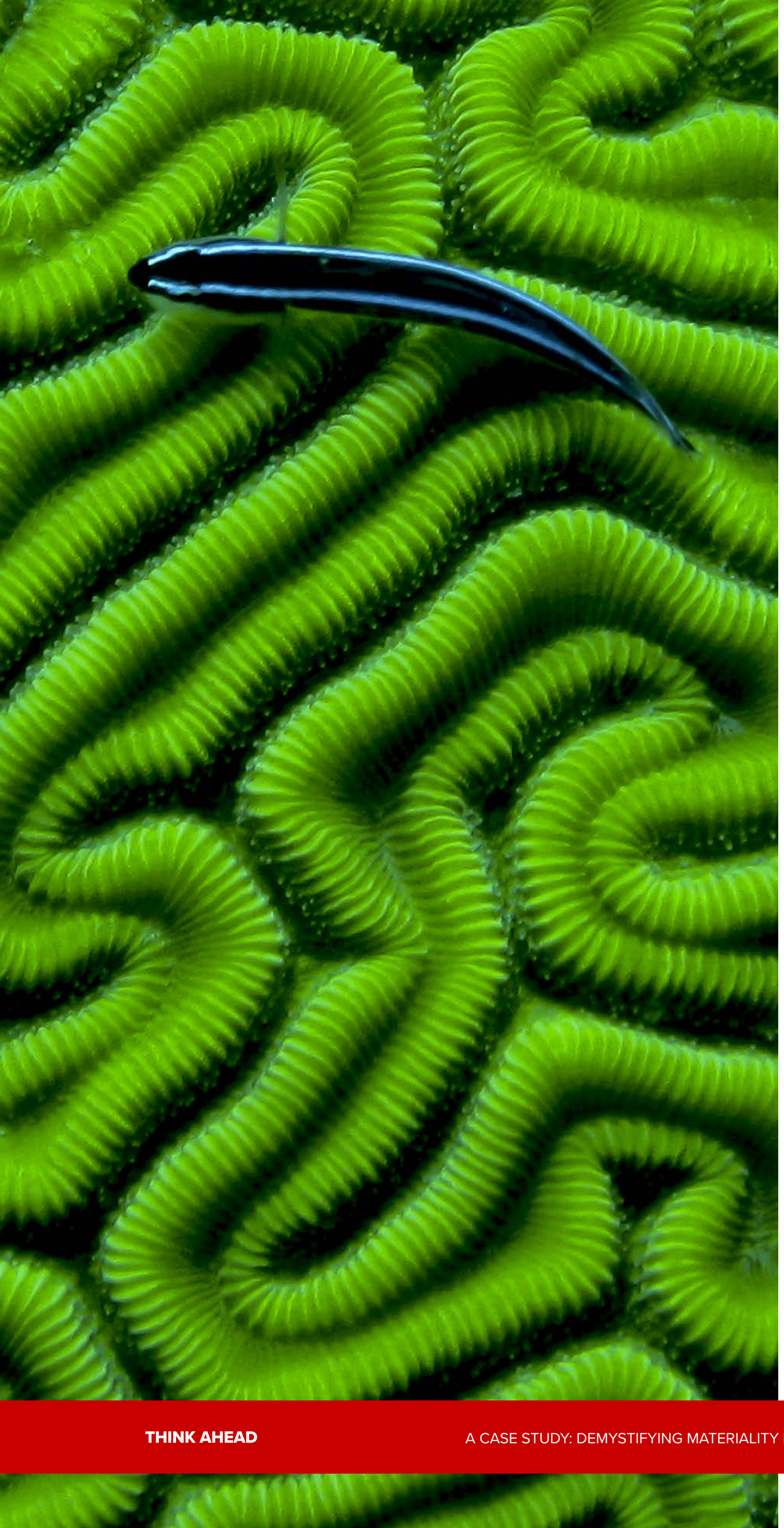
(c) Significant matters arising during the assurance engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (IAASB, 2024)

When it comes to materiality specifically, paragraph 102 of ISSA 5000 states that 'the practitioner shall include in the engagement documentation:

'(a) The factors relevant to the practitioner's consideration of materiality for qualitative disclosures in accordance with paragraph 98(a);

(b) The basis for the determination of materiality for quantitative disclosures, in accordance with paragraph 98(b); and

(c) The basis for the practitioner's determination of performance materiality in accordance with paragraph 100.' (IAASB, 2024)



3. Applying the ISSA 5000 materiality requirements

Using a case study, in this chapter we outline some of the key steps involved in applying the requirements of ISSA 5000 with respect to materiality, which were introduced in Chapter 2 of this report.

This guide is designed to help those interested in applying ISSA 5000 and, more specifically, its requirements in relation to the practitioner's materiality assessment, but it is not a substitute for the requirements of the Standard, or the implementation guidance issued by the IAASB.

ISSA 5000 is a principles-based standard and while it guides assurance practitioners when considering and/or determining materiality, deciding how to apply the requirements is a matter of professional judgement. In practice, firm methodologies often assist assurance practitioners in determining appropriate benchmarks and necessary adjustments. Decisions are further informed by the assurance practitioner's experience, the nature of the entity and the industry in which it operates, and other relevant factors.

In the first few years of ISSA 5000 sustainability assurance engagements, there will be limited historical precedence to base materiality reasoning on and accordingly the assurance practitioner will need to consider other context when determining the materiality threshold range, such as analogous circumstances for audits of historical financial information. The following case study uses a 1%-5% materiality threshold range, however it is important to note that:

- ISSA 5000 does not explicitly prescribe any specific numerical range for setting materiality thresholds. Instead, it emphasises exercising professional judgement based on user needs.
- ESRSs do not specify quantitative materiality thresholds or percentage ranges for financial or impact materiality. The exact determination of materiality remains subject to entity-specific assessment and professional judgement.
- IFRS Sustainability Disclosure Standards do not specify any thresholds for material information or predetermine what information would be material in a particular situation.

In the context of a sustainability assurance engagement, the determination of materiality is not a purely quantitative exercise based on a single benchmark or threshold. Rather, it requires the assurance practitioner to apply professional judgement when considering both qualitative and quantitative factors. While a benchmark may provide a useful starting point, it does not by itself define what is material. The critical consideration is that the chosen threshold is well-justified, grounded in professional judgement, and appropriately reflects both the needs of users and the nature of the information.

Similarly, the performance materiality range chosen may differ based on the respective firm's methodology or risk assessment frameworks. Some firms may establish standard benchmarks or thresholds based on historical experience, assurance maturity, or sector-specific risk profiles. However, such methodologies should still align with ISSA 5000's principles and clearly justify the rationale. For example, some firms may apply the lower end of the range when there is:

- high risk of undetected misstatements;
- poor data quality or less mature reporting systems;
- complex or fragmented data sources; or
- higher aggregation risk.

Alternatively, the higher end of the range may be justified when:

- data is of high quality, directly measured, and subject to internal controls;
- risks of misstatement are low;
- the scope is narrow and well-understood; and
- the nature of the sustainability information is straightforward.

This case study is a fictional assurance engagement scenario developed only for educational and illustrative purposes. It draws inspiration from publicly available sustainability disclosures but does not reference or represent any specific company, report, or assurance practitioners. All figures have been modified, and disclosures have been paraphrased to maintain anonymity and comply with fair use.

Case study: ABC plc

Firm XYZ is appointed as the sustainability assurance practitioner engaged to provide limited assurance services on the sustainability report of ABC plc, a multinational producer of high-volume packaged goods for daily consumer use, including hygiene, nutrition and home products, for the year ended 30 June 2024.

For the purposes of this case study, we will focus on the Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions disclosures. The applicable Sustainability Reporting framework is the ESRS, and ABC plc also aligns its sustainability reporting with the IFRS Sustainability Disclosure Standards.

Firm XYZ is currently at the planning stage and is going through the steps to consider and/or determine materiality for Scope 1, 2 and 3 GHG emissions disclosures in accordance with the requirements of ISSA 5000 *General Requirements for Sustainability Assurance Engagements.*

For the purposes of this case study, XYZ's methodology suggests using 1%-5% materiality threshold range and between 50%-75% of materiality in determining the performance materiality.

Additional information

Scope 1

- ABC plc's Scope 1 emissions consist of direct GHG emissions from energy use and refrigerants across their manufacturing, logistics and office sites.
- ABC plc's total Scope 1 GHG emissions were **0.50 million tonnes (Mt) CO2e** (carbon dioxide equivalent) for the reporting period.

Scope 1 relevant qualitative disclosures

1. ABC plc has set a target to eliminate all greenhouse gas emissions from its direct operations (Scopes 1 and 2) by 2030, using 2016 levels as the reference point.
2. As of 30 June 2024, ABC plc has achieved a 70% absolute decrease in greenhouse gas emissions from its direct operations (Scopes 1 and 2), compared to its 2016 baseline.
3. According to the information provided, the 2016 baseline is **2.10 Mt CO2e**.
4. ABC plc states: 'We have developed implementation plans that address the full range of Scope 1 and 2 emissions included within our reduction target.'
5. Progress on Scope 1 emissions is incorporated into the ABC plc's Scope Performance Indicator (SPI), which was reported at 75%. This metric is also tied to executive remuneration.
6. The baseline and historical data for Scope 1 emissions have been revised to meet the coverage criteria set by the Science Based Targets initiative (SBTi), such as incorporating previously excluded smaller facilities.
7. Priority actions for Scope 1 include electrification, renewable heat, and refrigeration improvements.
8. ABC plc states: 'In accordance with minimum scope requirements under the SBTi, the target excludes biogenic fuels and emissions from vehicles that are owned or leased and operated by the ABC plc.'

Scope 2

- ABC plc's Scope 2 emissions consist of emissions from the generation of purchased electricity, heating, cooling, and steam — emissions that occur at the facility where the energy is produced, not where it is consumed.
- ABC plc's market-based Scope 2 emissions, which reflect actual supplier-specific emissions data or renewable energy certificates, were **0.20 Mt CO2e**.
- ABC plc's location-based Scope 2 emissions, which are average grid emission factors, were **1.25 Mt CO2e** for the reporting period.

Scope 2 relevant qualitative disclosures

1. Discontinuation of Renewable Energy Certificates (RECs) in 2024. This was a material change in methodology that caused a 15% increase in what were considered Scope 2 emissions, affecting comparability and trust in trends.
2. ABC plc's electricity sourcing follows GHG Protocol Scope 2 guidance, with alignment to RE100 (a global corporate initiative promoting 100% renewable electricity) criteria for qualifying renewable electricity purchases. This informs users about the principles and rules ABC plc applies when calculating market-based emissions.
3. Timely acquisition of the Energy Attribute Certificates (EACs) is key to substantiating market-based accounting. Delays, such as purchasing EACs for a prior year in Q1 2025, may undermine confidence in the integrity of reported Scope 2 emissions.
4. Renewable electricity share is 80%. This is the operational driver behind low Scope 2 market-based emissions and is critical to understanding underlying performance.
5. For sites not in central systems, ABC plc assumes non-renewable electricity use. This affects how location-based emissions are calculated and interpreted.

Scope 3

- ABC plc's Scope 3 emissions consist of those produced from the purchase of goods and services, use of sold products, transportation and distribution, etc.
- ABC plc's total Scope 3 GHG emissions were **55 Mt CO2e** for the reporting period.

Scope 3 relevant qualitative disclosures

1. ABC plc has set a goal to reduce by 40% Scope 3 emissions from energy and industrial (E&I) sources by 2030, using 2020 as a baseline.
2. ABC plc aims to achieve a 30% absolute reduction in Scope 3 forest, land and agriculture (FLAG) emissions by 2030.
3. ABC plc aims to achieve a 40% reduction in total Scope 3 emissions in scope of the target by 2030 vs 2020. Baseline is **40 Mt CO2e**; reduction target = **16 Mt CO2e**.
4. ABC plc includes a table attributing emission reductions to specific initiatives, such as energy-efficient refrigeration systems = 18% and supplier climate partnership programme = 15%.
5. ABC plc discloses that 20% of the targeted reductions (**3.2 Mt CO2e**) are not yet covered by defined interventions, highlighting a delivery gap.
6. ABC plc's Scope 3 reporting boundaries exclude emissions, including use-phase emissions (except for water purifiers), franchised operations, investment-related activities, and supply chain emissions from select categories outside Vietnam.
7. ABC plc's targets follow SBTi near-term pathway (Science Based Targets 2021) and draft GHG Protocol Land Sector & Removals Guidance (Greenhouse Gas Protocol 2024).
8. ABC plc's Scope 3 targets include not just baseline reductions but also a 100% offset of the additional emissions attributable to product volume growth through 2030.

The disclosures relating to Scopes 1, 2 and 3 GHG emissions consist of both quantitative and qualitative elements.

Below are the steps an assurance practitioner could take when considering and determining materiality for each emission scope, demonstrating the professional judgement involved in deciding the approach to multiple materialities.

ISSA 5000 relevant requirements for materiality

3.1 Scope 1 GHG emissions – Quantitative disclosures

Step 1 – Select the appropriate benchmark

In applying ISSA 5000 paragraph 98(b) to ABC plc, the assurance practitioner must **determine** a quantitative materiality threshold above which a misstatement would be considered material.

The information provided shows that ABC plc's Scope 1 emissions amount to **0.50 Mt CO2e**. The assurance practitioner takes into account:

- the relative size of Scope 1 emissions relative to the total GHG emissions
- the change relative to last year
- user sensitivity to Scope 1 emissions claims, and
- magnitude and visibility of Scope 1 actions.

ABC plc's Scope 1 emissions are small in relation to total GHG emissions, but they are public-facing and part of the company's headline reduction claim ('70% reduction since 2016'). Furthermore, intended users such as investors, regulators and ESG rating agencies may rely on this metric to track transition progress and assess performance-linked pay (an SPI). According to the information provided, the 2016 baseline is **2.10 Mt CO2e**.

The assurance practitioner must therefore use professional judgement to determine whether the appropriate benchmark to determine materiality is the actual Scope 1 emissions or the 2016 baseline. The assurance practitioner decides to use actual emissions as the benchmark, concluding that this more accurately reflects current operations and therefore provides stakeholders with the most up-to-date information for informed decision-making. This professional judgement supports a decision-useful assessment that is aligned with ISSA 5000.

Step 2 – Consider the factors in paragraphs A301–A305

Table 3.1.1: Guidance on ISSA 5000, its application and impact on judgement

ISSA 5000 PARAGRAPH	GUIDANCE	HOW IT WAS APPLIED (QUANTITATIVE SCOPE 1)	IMPACT ON MATERIALITY JUDGEMENT
A301	No fixed formula; focus on users' information needs	Used 2024 reported Scope 1 emissions (**0.50 Mt CO2e**) as base to reflect the actual data subject to assurance and users' reliance on current performance figures	Ensures conservative threshold and direct alignment with reported value.
A302	Use appropriate internal or external benchmarks	While entity frames progress vs. 2016 baseline (**2.10 Mt CO2e**), the benchmark for materiality was current year reported figure, to address misstatement risk in the assured value	Supports 3% threshold as a practical and relevant benchmark.
A303	Consider the nature of the metric (absolute, intensity, comparative)	Scope 1 emissions are presented as both absolute and as a percentage reduction from baseline. Users interpret both, but assurance covers the absolute value	Confirms materiality should focus on current-year tonnes (t) CO2e while treating percentage reduction claims as qualitative.
A304	A range of thresholds may be considered with professional judgement	Range of 1–5% considered; 3% selected to reflect double materiality and strategic relevance of emissions data	3% provides a reasonable balance between caution and proportionality.
A305	Apply double materiality if criteria require it	ESRS applies, requiring consideration of both financial and impact materiality lenses	Justifies a threshold towards the lower end of acceptable range (3%) despite small emissions size.

Step 3 – Determine a materiality threshold range

For the purposes of this case study, it is assumed that 1%–5% is typical for such disclosures. The assurance practitioner decides that the higher end of the range is justified, given that the benchmark used in Step 1 was the lower of two options, and considers setting the materiality threshold at 5% (**25,000 t CO2e**).

Step 4 – Select a point within the range (adjust for double materiality if applicable)

If ABC plc's Sustainability Reporting framework was IFRS Sustainability Disclosure Standards, XYZ could proceed with setting the materiality threshold at 5%. In fact, while ABC plc also aligns its sustainability reporting framework with the IFRS Sustainability Disclosure Standards, its applicable Sustainability Reporting framework is ESRSs, which requires double materiality.

Per paragraph 99 of ISSA 5000, if the applicable criteria require an entity to apply both financial materiality and impact materiality in preparing the sustainability information, the assurance practitioner shall take into account both perspectives when considering or determining materiality in accordance with paragraph 98. For quantitative disclosures, ordinarily the lower level of materiality for financial or impact materiality would be used (IAASB 2024: paragraph A306(a)).

Accordingly, the assurance practitioner opts to use a lower threshold than initially considered. Applying 3% instead of 5% results in a materiality threshold of **15,000 t CO2e**.

Step 5 – Set a performance materiality range

Paragraph 100 of ISSA 5000 requires the assurance practitioner to determine performance materiality for Scope 1 emissions to account for aggregation risk (IAASB 2024, as discussed in Chapter 2 of this guide). This is to reduce the risk of multiple undetected misstatements totalling a material misstatement. Performance materiality is usually set between 50% and 75% of group materiality, depending on the assurance practitioner's professional judgement.

Step 6 – Determine final performance materiality

In the case of ABC plc, given the small size of Scope 1 emissions in relation to total emissions and the fact that the materiality base was selected using a more conservative approach, the assurance practitioner decides to set performance materiality at the higher end of the range, being 75% (**11,250 t CO2e**) (see Table 3.1.2).

We note that in practice some additional considerations would be to set lower group-level performance materiality or apply component level thresholds in testing, focusing on the largest contributors to key disclosures (e.g., top 5 components), high-risk jurisdictions (complex regulations, weak controls) and sites with known past issues or newly acquired entities.

Table 3.1.2: The rationale for determining values

ELEMENT	VALUE	RATIONALE
Materiality base	2024 reported Scope 1 (**0.50 Mt CO2e**)	The direct subject matter under assurance and represents the most conservative benchmark
Materiality threshold (3%)	**15,000 t CO2e**	Lower end of acceptable range (1%-5%) owing to double materiality as required by ESRS
Performance materiality (75%)	**11,250 t CO2e**	Reflects low complexity, high-quality data, and direct measurement of emissions, which reduces the risk of undetected aggregate misstatements

The steps to considering materiality

1 Step 1: Decide whether to group or assess individually

2 Step 2: Apply the factors in A300 (account for double materiality if applicable

3 Step 3: Conclude on materiality for group or individual disclosure

3.2 Scope 1 GHG emissions – Qualitative disclosures

Step 1 – Decide whether to group or assess individually

ABC plc's report sustainability also includes qualitative disclosures related to Scope 1 emissions. As per paragraph 98(a) of ISSA 5000, the assurance practitioner shall **consider** materiality of these qualitative disclosures as part of the assurance engagement (IAASB 2024).

Professional judgement is required when deciding whether to consider materiality for each qualitative disclosure separately or whether to group some qualitative disclosures for materiality purposes. The assurance practitioner may decide to group the sustainability information in line with how management has presented that information, or they may decide there are other logical ways of grouping the sustainability information for purposes of planning and performing the engagement.

This decision is influenced by the similarity of the disclosures in expression and content, information needs of the intended users of each disclosure and their tolerance for misstatements. In addition, the same intended users may themselves differ in their information needs or have different tolerances for misstatements. Grouping the disclosures will affect the level at which the assurance practitioner considers or determines materiality and designs and performs risk-assessment procedures. Paragraph 278 of the IAASB's ISSA 5000 Implementation guide provides examples of possible ways to group disclosures (IAASB 2025).

In the case of ABC plc, the assurance practitioner decides to group the disclosures for materiality assessment according to similarity in expression, user interest and user tolerance for misstatement. Where user expectations, decision-usefulness, or misstatement tolerance differed significantly, disclosures were assessed separately. The assurance practitioner decides to group the disclosures as shown in Table 3.2.1.

Table 3.2.1: Grouping various disclosures

GROUP	DISCLOSURES INCLUDED	RATIONALE
Group A – Strategic targets and progress claims	1. Net Zero target: *'Eliminate all greenhouse gas emissions from direct operations (Scopes 1 and 2) by 2030, using 2016 levels as the reference point.'* 2. Progress to date: As of 30 June 2024, a 70% absolute decrease in GHG emissions from direct operations (Scopes 1 and 2), compared to 2016 baseline. 3. Target Coverage: *'We have developed implementation plans that address the full range of Scope 1 and 2 emissions included within our reduction target.'*	These disclosures serve the same user base, are part of the same narrative, and have interdependent materiality.
Group B – Governance-linked performance (an SPI)	4. A 2024 SPI score of 75%, which includes Scope 1 progress and is tied to executive remuneration.	Linked to pay and governance decisions, distinct from narrative strategy. Stakeholders are more sensitive to small shifts. Handle separately.
Group C – Methodological transparency	5. The baseline and historical data for Scope 1 emissions have been revised to meet the coverage criteria set by SBTi, such as incorporating previously excluded smaller facilities.	This is about estimation uncertainty and transparency — users need this for trend comparability. Handle separately.
Group D – Scope 1 operational details (levers and exclusions)	6. Decarbonisation levers (e.g., electrification, renewable heat, refrigeration changes). 7. Exclusions (biogenic fuels and owned/leased vehicles not in target scope).	Similar in nature, similar audience and use, moderate and aligned tolerance levels.

Step 2 – Apply the factors in paragraph A300 (account for double materiality if applicable)

Paragraph A300 of ISSA 5000 (IAASB 2024) lists factors to help assurance practitioners exercise professional judgement when considering materiality for qualitative disclosures. For ABC plc the assurance practitioner applies these factors as in Table 3.2.2.

Table 3.2.2: Relevant factors when considering materiality for qualitative disclosures

Group A – Strategic targets and progress claims

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Strategic in nature; defines decarbonisation ambition and signals transition leadership.
User relevance and decision-usefulness	Used by investors, ESG analysts, civil society and regulators for performance tracking and credibility assessment.
Estimation or judgement involved	Judgement applies to boundaries, data completeness, and interpretation of performance vs. baseline.
Impact on trust or reputation	High impact – failure to meet or misstate progress could damage brand trust.
Double materiality lens (financial and/or impact)	Material under both financial (investor performance) and impact (GHG reduction) lenses.

Group B – Governance-linked performance

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Governance performance metric tied to climate delivery.
User relevance and decision-usefulness	Relied upon by investors and governance committees for executive pay decisions.
Estimation or judgement involved	Scoring involves some judgement and linkage to underlying Scope 1 data.
Impact on trust or reputation	Material to shareholder trust and financial governance alignment.
Double materiality lens (financial and/or impact)	Material from financial lens; limited direct impact relevance.

Group C – Methodological transparency

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Technical disclosure supporting transparency and reliability of emissions trends.
User relevance and decision-usefulness	Used by ESG raters, assurance providers and regulators assessing consistency.
Estimation or judgement involved	Estimation updates directly affect trend comparability and restated baselines.
Impact on trust or reputation	Material to data credibility and perception of progress integrity.
Double materiality lens (financial and/or impact)	Material under both financial and impact lenses (especially owing to trend implications).

Group D – Scope 1 Operational details (levers and exclusions)

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Operational detail describing how emissions will be reduced or what is excluded from accounting.
User relevance and decision-usefulness	Users interested in implementation feasibility or technical boundary decisions may rely on these disclosures.
Estimation or judgement involved	Moderate estimation/judgement in technical assumptions (e.g., boiler efficiency, system boundaries).
Impact on trust or reputation	May be relevant to impact lens (delivery risk), less likely to affect financial decisions.
Double materiality lens (financial and/or impact)	Potentially material depending on prominence and user interpretation; more likely to be supporting context.

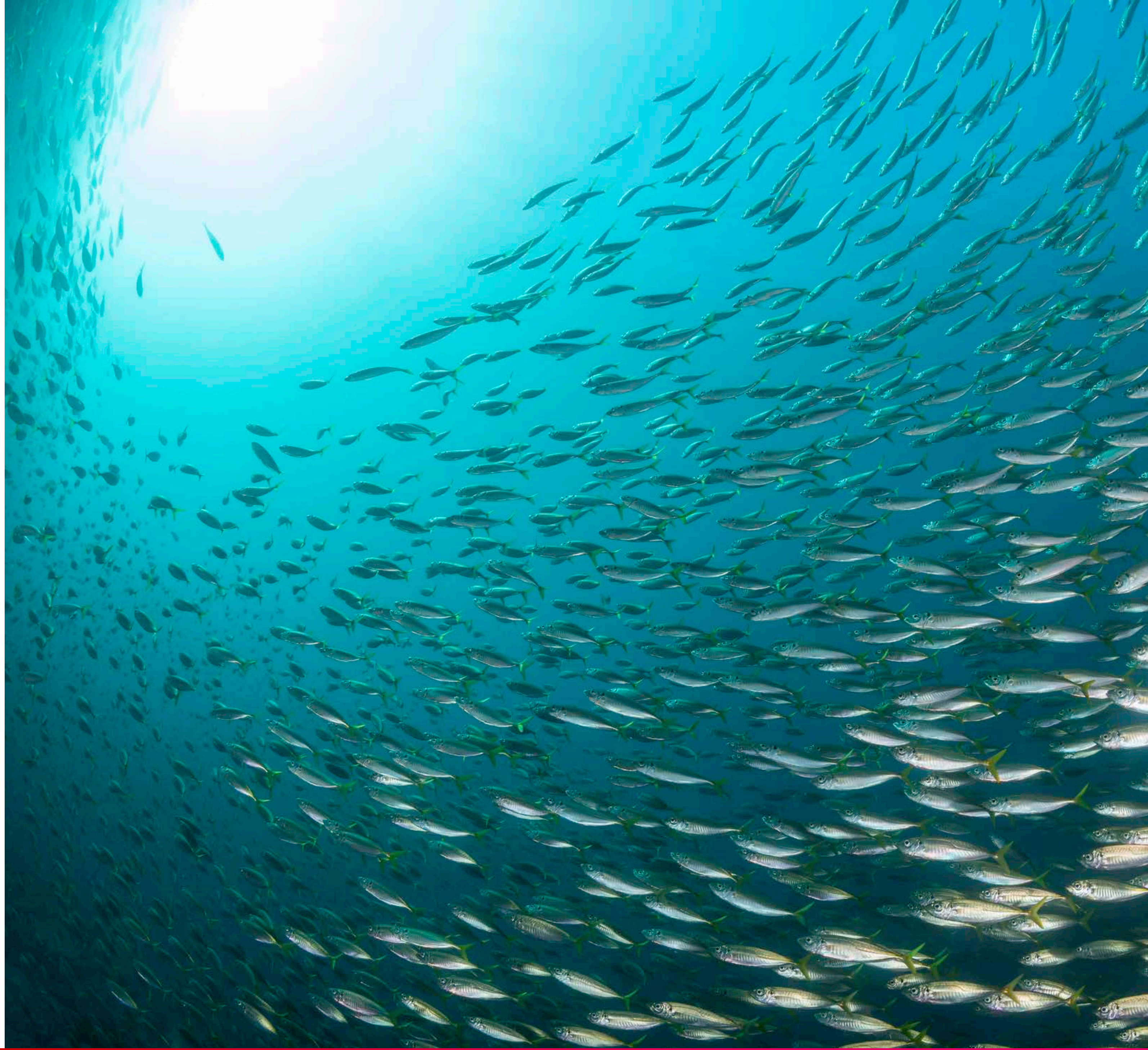
Step 3 – Conclude on materiality for group or individual disclosures

Table 3.2.3: The assurance practitioner’s decisions on materiality

GROUP	MATERIAL?	RATIONALE
Group A – Strategic targets and progress claims	Yes	Highly visible, relied upon by broad stakeholder base, reputationally sensitive, and relevant under both financial and impact materiality.
Group B – Governance-linked performance (SPI)	Yes	Financially material owing to link to executive pay and governance relevance. Low tolerance for misstatement by key users (e.g., investors, audit committee).
Group C – Methodological transparency	Yes	Material owing to its effect on trust, comparability, and accuracy of performance trends. High transparency and estimation relevance.
Group D – Scope 1 operational details (levers and exclusions)	Potentially	May be material if relied upon to assess achievability of goals. Often contextual to more material disclosures, but not independently material unless prominence is high, or misstatement would mislead users.

We note that in practice given that disclosures are aggregated, the assurance practitioner will need to assess the level of aggregation risk before concluding whether separate materiality thresholds per jurisdiction/component would be necessary.

The assurance practitioner will normally need to perform procedures at the component level such as for example, sample test how the data is collected and converted at high-impact sites, how jurisdictional protocols were aligned to group standards, review whether emissions factors, scopes and boundaries were consistently applied all of which support the assurance of the group disclosure.



3.3 Scope 2 GHG emissions – Quantitative disclosures

The assurance practitioner must first decide whether to use the market-based or location-based figure. According to the information provided on the Scope 2 emissions for 2024, the market-based figure is **0.20 Mt CO2e** and the location-based figure is **1.25 Mt CO2e**. The market-based method reflects the actual supplier-specific emissions data, or RECs. The location-based method uses the average grid emission factors.

Given that they were accounted for using different methods, the assurance practitioner decides to determine a different materiality for each method.

Scope 2 – Market-based method

Step 1 – Select the appropriate benchmark

Scope 2 emissions under the market-based method amount to **0.20 Mt CO2e**.

Step 2 – Consider the factors in paragraphs A301–A305

Table 3.3.1: How the factors in ISSA 5000 apply to the Scope 2 market-based method

FACTOR	HOW IT APPLIES TO SCOPE 2 MARKET-BASED METHOD
A301 – No fixed formula	Materiality is judgement-based and considers the nature and use of the Scope 2 data. Users rely on this for transition tracking.
A302 – Use of benchmarks	Base used is actual 2024 emissions (**0.20 Mt CO2e**), as this is the subject of assurance. No separate segment benchmarks are available.
A303 – Nature of the information	Absolute value, used for year-on-year progress tracking. Materiality reflects users' interest in operational footprint.
A304 – Use of a range	3% selected from typical 1%–5% range. Balanced choice reflecting size.
A305 – Double materiality	Required under ESRS. Scope 2 emissions are material from both financial (cost of energy, RECs) and impact (GHG footprint) perspectives. Suggest selecting a lower range (i.e., 2%) to account for double materiality.

Step 3 – Determine a materiality threshold range

The range used typically is between 1% and 5% and the assurance practitioner needs to account for the fact that ABC plc's applicable sustainability reporting framework, ESRS, requires double materiality.

Step 4 – Select a point within the range (adjust for double materiality if applicable)

In the case of ABC plc, the assurance practitioner decides to reduce the range from 3% to 2% to account for double materiality, resulting in a materiality of **4,000 t CO2e**.

Step 5 – Set a performance materiality range

According to paragraph 100 of ISSA 5000, the assurance practitioner must also determine performance materiality to account for aggregation risk. Performance materiality is usually set between 50% and 75% of group materiality, depending on the assurance practitioner's professional judgement. Owing to low complexity and stable measurement methods, the assurance practitioner opts to set performance materiality at 75% of group materiality.

Step 6 – Determine final performance materiality

The assurance practitioner determines materiality and performance materiality for Scope 2 quantitative disclosure using the market-based method as shown in Table 3.3.2.

The assurance practitioner should also exercise professional judgement on whether the materiality and performance materiality should be set at group or segment level. According to the information provided, ABC plc does not report Scope 2 emissions by business segment (e.g., nutrition, personal care, home care). Therefore, group-level materiality applies. Nonetheless, the assurance practitioner remains cognisant of the impact any segment misstatement may have on group totals.

Table 3.3.2: Market-based assessment of materiality and performance materiality

STEP	ASSESSMENT
Benchmark selection	Use the 2024 reported Scope 2 market-based value of **0.20 Mt CO2e** as the materiality base. This reflects the actual value subject to assurance. Although Scopes 1 and 2 are jointly targeted, market-based Scope 2 is reported separately and can be assessed independently.
Materiality threshold range	Typical range: 1%–5%. Considering the operational nature of Scope 2 emissions, and double materiality under ESRS, a low threshold of 2% is selected.
Materiality threshold (2%)	2% of **0.20 Mt CO2e** = **4,000 t CO2e**.
Performance materiality (75%)	Owing to low complexity and stable measurement methods, 75% of materiality is applied = **3,000 t CO2e**.
Segment materiality	ABC plc does not report Scope 2 emissions by business segment. Therefore, group-level materiality applies.

Scope 2 – Location-based method

The assurance practitioner follows the same steps to determine the materiality for the location-based method (Table 3.3.3).

Scope 2 emissions under the location-based method amount to **1.25 Mt CO2e**.

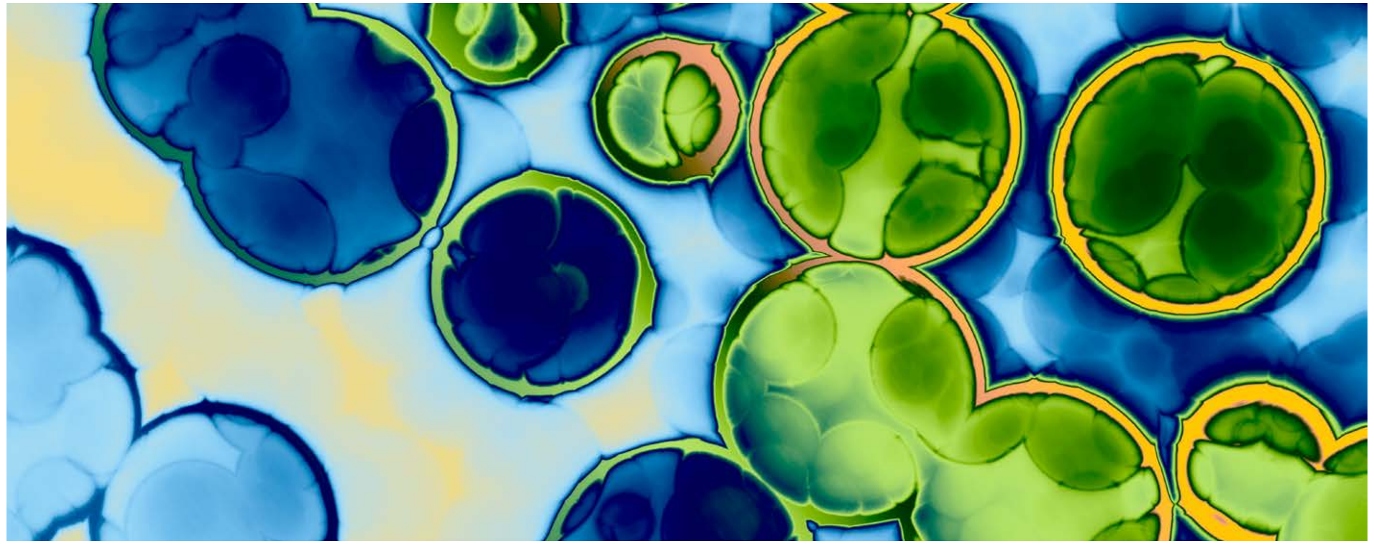
Table 3.3.3: Location-based assessment of application of factors under ISSA 5000 to Scope 2

FACTOR	HOW IT APPLIES TO SCOPE 2 LOCATION-BASED METHOD
A301 – No fixed formula	Judgement-based approach used. Emissions are large in volume and used for completeness under GHG Protocol.
A302 – Use of benchmarks	2024 reported emissions used as benchmark. No segment benchmarks disclosed.
A303 – Nature of the information	Absolute emission total based on average grid factors. Used to assess full Scope 2 impact.
A304 – Use of a range	3% selected within 1%–5% range for conservatism and because of high total emissions volume.
A305 – Double materiality	Material for impact users (climate footprint). May also be relevant for financial users concerned with energy mix or policy risk. Lower range of 2% to be used to account for double materiality.

The rationale for the ranges used in the location-based method is the same as in the market-based method. The assurance practitioner determines materiality and performance materiality for Scope 2 quantitative disclosure using the location-based method as shown in Table 3.3.4.

Table 3.3.4: Determining materiality and performance materiality for Scope 2 quantitative disclosure using the location-based method

STEP	ASSESSMENT
Benchmark selection	Use the 2024 reported Scope 2 location-based value of **1.25 Mt CO2e** as the materiality base. This reflects the actual value subject to assurance. Location-based emissions are required under GHG Protocol.
Materiality threshold range	Typical range: 1%–5%. Considering greater volume and stakeholder reliance and accounting for double materiality, a conservative threshold of 2% is selected.
Materiality threshold (2%)	2% of **1.25 Mt CO2e** = **25,000 t CO2e**.
Performance materiality (75%)	Owing to low complexity and standardised calculation method, 75% of materiality is applied = **18,750 t CO2e**.
Segment materiality	ABC plc does not report Scope 2 emissions by business segment. Therefore, group-level materiality applies.



3.4 Scope 2 GHG emissions – Qualitative Disclosures

Step 1 – Decide whether to group or assess individually

As with Scope 1 emissions, the assurance practitioner needs to consider materiality for the qualitative element of Scope 2 emissions disclosures under paragraph 98(a) of ISSA 5000 (IAASB 2024). Remember that the assurance practitioner exercises professional judgement in deciding whether to consider materiality for each qualitative disclosure separately or whether some qualitative disclosures can be grouped together for materiality purposes.

The assurance practitioner uses professional judgement to group ABC plc's Scope 2 qualitative disclosures as shown in Table 3.4.1.

Table 3.4.1: The grouping of ABC plc's Scope 2 qualitative disclosures

GROUP	DISCLOSURES INCLUDED	RATIONALE
Group A – Strategic methodology changes	1. Discontinuation of RECs in 2024, contributing to a 15% increase in recognised Scope 2 market-based emissions. 3. EACs: Use and timing (e.g., Q1 2025 for 2024 data).	Direct impact on market-based emissions; highly material to year-on-year comparability and reputational risk.
Group B – Reporting methodology principles	2. Electricity sourcing methodology based on RE100 and GHG Protocol Scope 2 guidance.	Affects understanding of how emissions are measured; moderate risk if misstated.
Group C – Operational performance indicators	4. Renewable electricity share reported as 80% (MWh basis).	Quantifies success in sourcing renewables; less sensitive to minor variances.
Group D – Assumptions in location-based reporting	5. For sites not reporting into systems, assumes non-renewable electricity use.	Relevant to location-based completeness, but lower user reliance.

Step 2 – Apply the factors in paragraph A300 (account for double materiality if applicable)

Table 3.4.2: Application of factors in paragraph A300 to the different groups

Group A – Strategic methodology changes

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Material methodological shift directly affecting reported emissions year-on-year.
User relevance and decision-usefulness	Investors, analysts and NGOs use this to assess decarbonisation integrity and comparability.
Estimation or judgement involved	Significant estimation and timing sensitivity; EAC timing influences perceived completeness.
Impact on trust or reputation	High reputational sensitivity due to perceived credibility of decarbonisation strategy.
Double materiality lens (financial and/or impact)	Material under both financial and impact lenses, especially given the increase in reported emissions.

Group B – Reporting methodology principles

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Describes principles underpinning Scope 2 emissions calculation.
User relevance and decision-usefulness	Used by ESG raters, auditors, and investors to understand methodological rigour.
Estimation or judgement involved	Moderate judgement involved in aligning with external frameworks.
Impact on trust or reputation	Supports user confidence in reporting integrity but does not directly affect values.
Double materiality lens (financial and/or impact)	Financially material only if deviated from; less critical for impact users unless misapplied.

Group C – Operational performance indicators

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Operational KPI representing decarbonisation performance.
User relevance and decision-usefulness	Used by investors and ESG analysts to gauge delivery against renewable energy goals.
Estimation or judgement involved	Based on measured consumption and reported procurement certificates.
Impact on trust or reputation	Moderate reputational impact if misstated; complements emission figures.
Double materiality lens (financial and/or impact)	Likely material from impact lens owing to connection with transition risk.

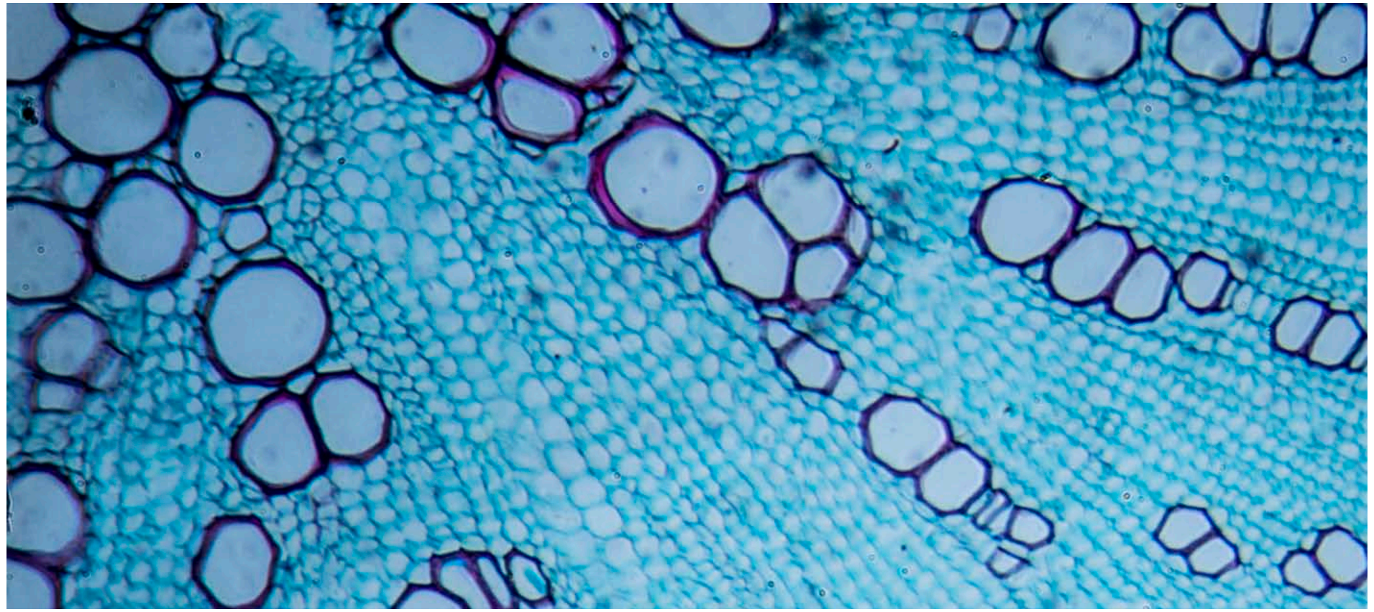
Group D – Assumptions in location-based reporting

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Describes default assumption in emissions estimation methodology.
User relevance and decision-usefulness	Mainly relevant for technical users and completeness checks.
Estimation or judgement involved	Low estimation complexity, but assumption could lead to overstatement.
Impact on trust or reputation	Reputational impact limited unless assumption leads to material overstatement.
Double materiality lens (financial and/or impact)	Not material unless significantly affecting disclosed values.

Step 3 – Conclude on materiality for group or individual disclosures

Table 3.4.3: Materiality conclusions and rationale for the different groups

GROUP	MATERIAL?	CONCLUSION AND RATIONALE
Group A – Strategic methodology changes	Yes	Directly affect reported market-based Scope 2 emissions and year-on-year comparability; critical to user trust.
Group B – Reporting methodology principles	Potentially	Provides important framing but users generally have a higher tolerance for misstatement, unless misrepresented.
Group C – Operational performance indicators	Yes	Material as a directional KPI supporting strategic progress; relevant to both investor and public audiences.
Group D – Assumptions in location-based reporting	No	Supporting methodology with limited visibility or direct user reliance.



3.5 Scope 3 GHG emissions – Quantitative disclosures

Step 1 – Select the appropriate benchmark

According to the information provided, ABC plc's total Scope 3 GHG emissions for the reporting period were **55 Mt CO2e**.

Step 2 – Consider the factors in paragraphs A301–A305

The relevant factors are set out in Table 3.5.1.

Table 3.5.1: The relevant factors in ISSA 5000 and how they apply to Scope 3

FACTOR	HOW IT APPLIES TO SCOPE 3
A301 – Nature of the matter and user needs	Scope 3 represents 99% of total emissions. Highly material to investors, civil society, regulators. Subject to intense scrutiny and relevance to SBTi, Net Zero targets, and supply chain risks.
A302 – Use of benchmarks	Benchmark selected is the total Scope 3 in-scope emissions (**55 Mt CO2e**). This is appropriate because assurance is being performed over this specific figure (excluding the out-of-scope category for consumer water heating).
A303 – Nature of the information	Scope 3 emissions are estimated, often using proxies and third-party data (e.g., spend-based models, product use assumptions). Therefore, complexity and uncertainty are high – warranting a more conservative threshold.
A304 – Use of a range	Materiality was considered within a range of 1%–5%. Owing to the complexity and impact of Scope 3, a lower point in the range (1%) is selected to ensure appropriate detection of misstatements.
A305 – Double materiality	Since ABC plc applies ESRS, both financial (risk exposure, supply chain cost) and impact (emissions across value chain, regulatory commitments) perspectives are considered. Scope 3 is material under both lenses, justifying cautious thresholds and broader assurance scope.

Step 3 – Determine a materiality threshold range

The range used typically is between 1% and 5%. The assurance practitioner needs to account for the fact that ABC plc's applicable sustainability reporting framework, ESRS, requires double materiality.

Step 4 – Select a point within the range (adjust for double materiality if applicable)

Under ISSA 5000, a lower threshold is often set to account for both financial and impact elements of double materiality. Scope 3 is material under both lenses, justifying cautious thresholds. The assurance practitioner therefore concludes that the use of 1% is appropriate in the case of Scope 3 emissions, resulting in a materiality of **0.55 Mt CO2e**.

Step 5 – Set a performance materiality range

Owing to the high complexity of Scope 3 emissions, increased indirect estimation uncertainty, supply chain modelling, and third-party assumptions and the importance to stakeholders and regulators (e.g., SBTi alignment, EU reporting), the assurance practitioner opted for the lower end of the range for performance materiality (50%). This is to address the heightened risk of undetected misstatements aggregating to a material level.

Step 6 – Determine the final performance materiality

Applying 50% to the group materiality, the performance materiality for Scope 3 amounts to **0.275 Mt CO2e**.

3.6 Scope 3 GHG emissions – Qualitative disclosures

Step 1 – Decide whether to group or assess individually

The assurance practitioner exercises professional judgement in deciding whether to consider materiality for each qualitative disclosure separately or whether some qualitative disclosures can be grouped together for materiality purposes.

The assurance practitioner groups the qualitative disclosures as shown in Table 3.6.1.

Table 3.6.1: Grouping of qualitative disclosures and its rationale

GROUP	DISCLOSURES INCLUDED	RATIONALE
Group A – Scope 3 reduction targets and commitments	1. 40% reduction target in E&I emissions by 2030 from 2020 baseline. 2. 30% reduction target in FLAG emissions by 2030. 3. Overall, Scope 3 target of 40% reduction (baseline: **40 Mt CO_2e**; target reduction = **16 Mt CO_2e**).	• These disclosures represent strategic public-facing goals, are disclosed together and read by the same audience. • They share high materiality under both financial and impact perspectives. • These are headline strategic targets, foundational to ABC plc's climate transition narrative. • They are heavily relied upon by: ∘ investors (to assess ESG alignment and risk exposure) ∘ regulators (ESRS requires forward-looking disclosure), and ∘ ESG raters (used in scoring and rankings). • They form part of ABC plc's core external commitments, especially as they are SBTi-aligned. • A misstatement here undermines overall climate credibility; thus, they share the same low tolerance for misstatement.
Group B – Decarbonisation levers and performance attribution	4. Decarbonisation lever table (% contribution from energy-efficient refrigeration systems, supplier climate partnership programme, etc.). 5. Acknowledged delivery gap (20% of reductions not yet covered by defined interventions).	• These disclosures explain how ABC plc intends to meet its targets. • Users (especially ESG analysts, auditors, and NGOs) rely on this to assess: ∘ feasibility of targets ∘ implementation maturity, and ∘ credibility of reduction claims. • The delivery gap disclosure is particularly significant – while it demonstrates transparency, it also introduces risk as users may doubt its achievability. • They serve a technical-analytical audience. • They are essential to assessing the plausibility of strategic targets. • Their materiality is tied to execution, not just ambition.
Group C – Boundary and methodology statements	6. Exclusions from Scope 3 targets (such as franchises, investments, etc.). 7. Alignment with SBTi and GHG Protocol Land Sector guidance. 8. Inclusion of product volume growth in targets.	• These disclosures clarify how ABC plc defines and scopes its targets. • While they may not directly report emissions numbers, they shape how targets are calculated and interpreted. • Users affected include technical ESG users, assurance providers, and raters evaluating alignment and completeness. • Users' tolerance for misstatement is moderate, depending on how visible and impactful the exclusions are. • They are methodological and boundary related. • They help users interpret the validity and comparability of disclosed targets. • While not always front-facing, misstatement could significantly shift interpretation of emission reductions.

Step 2 – Apply the factors in paragraph A300 (account for double materiality if applicable)

The procedure is illustrated in Table 3.6.2.

Table 3.6.2: Application of factors in ISSA 5000, paragraph A300 to materiality assessment

Group A – Scope 3 reduction targets and commitments

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Strategic, forward-looking targets central to climate positioning and Net Zero credibility.
User relevance and decision-usefulness	Used by regulators (ESRS), investors (sustainability risk) and rating agencies.
Estimation or judgement involved	Methodology and baseline choices are highly judgemental; estimation uncertainty exists.
Impact on trust or reputation	Failure to meet targets or inconsistencies in reporting may lead to reputational damage and scrutiny.
Double materiality lens (financial and/or impact)	Material under both financial and impact lenses; core to user decisions and credibility.

Group B – Decarbonisation levers and performance attribution

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Operational narrative describing how reductions will be achieved.
User relevance and decision-usefulness	Used by analysts, ESG professionals and auditors to assess feasibility.
Estimation or judgement involved	Assumptions about delivery capacity and innovation introduce estimation uncertainty.
Impact on trust or reputation	Misstatements could affect trust in achievability and future progress.
Double materiality lens (financial and/or impact)	Material under impact lens (climate outcomes); material under financial lens if performance-linked.

Group C – Boundary and methodology statements

PARAGRAPH A300 FACTOR	ASSESSMENT
Nature of the matter	Technical disclosures informing scope of targets and standards followed.
User relevance and decision-usefulness	Primarily used by technical users (ESG auditors, GHG analysts).
Estimation or judgement involved	Materiality depends on how exclusions or scope affect comparability and completeness.
Impact on trust or reputation	Medium reputational and credibility risk if misunderstood or misrepresented.
Double materiality lens (financial and/or impact)	Potentially material depending on reliance, presentation prominence, and actual impact.

Step 3 – Conclude on materiality for group or individual disclosures

The final step is for the assurance practitioner to conclude whether the disclosures are material, potentially material or immaterial, and document the rationale. This is a critical step that will determine the extent of procedures to be undertaken throughout the sustainability assurance engagement and is illustrated in Table 3.6.3.

Table 3.6.3: Determining whether the disclosures are material, potentially material or immaterial

GROUP	MATERIAL?	RATIONALE
Group A – Scope 3 reduction targets and commitments	Yes	Core strategic disclosures; highly relied upon by investors, regulators and ESG ratings providers.
Group B – Decarbonisation levers and attribution	Yes	Operational disclosures essential to credibility of strategy execution.
Group C – Boundary and methodology statements	Potentially	Dependent on how exclusions affect target comparability or user understanding.

As our case study demonstrated, considering and/or determining materiality requires professional judgement by the assurance practitioner which also requires having the necessary skills, including specific subject matter expertise. For example, in the context of this case study, this could be how GHG emissions are accounted for, estimated and reported.

We also emphasise that by nature, the use of experts is more prevalent in sustainability assurance engagements than in financial statement audits (ACCA, 2023a). Hence, in practice, sustainability assurance practitioners are likely to collaborate with the experts involved at the materiality stage, as part of the wider planning of the assurance engagement.

Furthermore, as discussed in Chapter 2 of this report, the assurance practitioner is required to document *'the factors relevant to the practitioner's consideration of materiality for qualitative disclosures in accordance with paragraph 98(a), the basis for the determination of materiality for quantitative disclosures, in accordance with paragraph 98(b); and the basis for the practitioner's determination of performance materiality in accordance with paragraph 100.'* (IAASB, 2024)

Therefore, in the context of our case study all the steps discussed above for both considering and determining materiality should be documented for Scopes 1, 2 and 3 GHGs emissions disclosures, in a way that an experienced practitioner having no previous connection with the engagement can understand the nature, timing, and extent of the procedures performed, the results obtained, and the significant judgements made.

'As our case study demonstrated, considering and/or determining materiality requires professional judgement by the assurance practitioner which also requires having the necessary skills, including specific subject matter expertise.'

In practice, sustainability assurance practitioners are likely to collaborate with the experts involved at the materiality stage, as part of the wider planning of the assurance engagement.

4. Limitations of our approach

Our research is limited to the extent that it was carried out before our members and stakeholders had practical experience with the application of ISSA 5000.

The Standard's effective date is for assurance engagements on sustainability information reported for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026. Earlier application of ISSA 5000 is permitted.

Consequently, the feedback received from our members and other stakeholders on the case study is limited to their practical experience in applying ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information, and ISAE 3410, Assurance Engagements on Greenhouse Gas Statements*, the extant standards, and the IAASB's Standards more generally, informed then by the requirements set out within ISSA 5000.

While ISSA 5000 was built upon the principles and framework of ISAE 3000 (Revised), it is still a newly developed standard designed specifically for sustainability assurance engagements, taking into consideration various developments in sustainability reporting. Firms are currently in the process of updating their internal methodologies, particularly in jurisdictions where the ISSA 5000 or a local equivalent standard has already been adopted or is in the process of being adopted.

Hence, we expect that the approach to applying the ISSA 5000 requirements, including those relating to materiality, will gradually evolve as assurance practitioners continue to familiarise themselves with the Standard.

Lastly, at the time of this publication, the draft Omnibus Directive in the European Union remains under discussion. This legislative proposal introduces a number of amendments to the Corporate Sustainability Reporting Directive (CSRD), including proposed amendments to the European Sustainability Reporting Standards (ESRS) referenced to in Chapter 1 of this report. As these proposed changes have not yet been finalised, the standards cited herein may be subject to revision (European Commission, 2025).

5. Practical considerations and recommendations

While the concept of materiality might not be new for sustainability assurance practitioners with previous audit experience, it still includes many judgemental points and nuances specific to sustainability assurance engagements.

This is because sustainability assurance engagements normally include qualitative and quantitative disclosures that are often of a different nature. For example, some may relate to sustainability information for environmental matters whereas others may relate to social or governance-related matters. Hence, as demonstrated in our case study, in practice it is common for such types of engagement to have multiple materialities.

As with all IAASB standards, ISSA 5000 is a principles-based standard and, while it provides guidance for assurance practitioners in considering and determining materiality, its application is ultimately influenced by the assurance practitioner's professional judgement. Exercising professional judgement requires having the necessary skills and knowledge, including specific subject matter expertise. For example, in the context of our case study, knowledge and skills about the various methods of how GHG emissions are accounted for, estimated and reported.

We also emphasise that by nature, the use of experts is more prevalent in sustainability assurance engagements than in financial statement audits (ACCA, 2023a). Hence, in practice sustainability assurance practitioners are likely to collaborate with the experts involved at the materiality stage, as part of the wider planning of the assurance engagement.

ISSA 5000 requires that assurance practitioners account for aggregation risk and determine performance materiality for quantitative disclosures. This is to reduce the risk of multiple undetected misstatements totalling a material misstatement. Similarly with materiality, the Standard is not prescriptive of benchmarks and what we often notice in practice is that firms incorporate accumulated experience into their methodologies.

In conclusion, we recommend that assurance practitioners recognise the importance of the materiality stage in an assurance engagement and, in particular, the various professional judgement points that are involved, ensuring that they allocate sufficient time to applying the requirements appropriately, including the documentation requirements discussed earlier in this report.

The results of the materiality stage will assist the assurance practitioner in developing the approach for obtaining evidence and when evaluating identified misstatements of the sustainability information. This includes determining the disclosures that are susceptible to a higher risk of material misstatement which, in turn, will assist the assurance practitioner in determining the extent of procedures.

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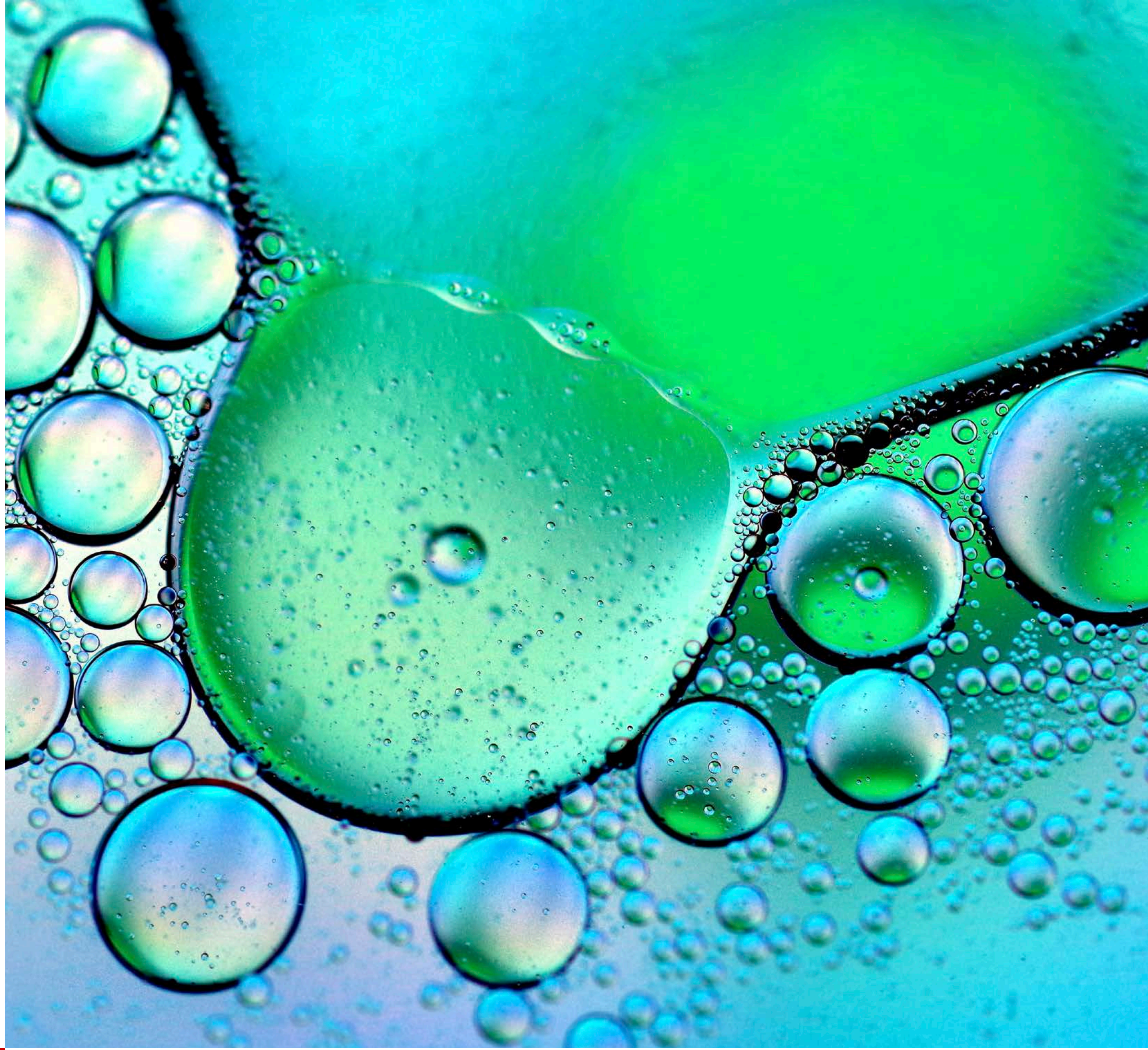

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