

IESBA-IAASB Sustainability Assurance Coordination

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IAASB: Josephine Jackson, IAASB Vice Chair and SATF Chair
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Objective of Session

- To obtain IESBA members' directional input on key strategic issues in the Sustainability ED related to:

1. Coordination with IAASB

- Matters that will be subject to joint IESBA-IAASB Chairs' coordination meeting in July 2024
 - Definitions of Sustainability Information and Matters
 - Group Sustainability Assurance Engagements
 - Components
 - Relevant Ethical Requirements and Quality Management
 - Another Practitioner and Use of Term "Work"

2. Other Matters

- Scope of IIS in Part 5
- Non-Assurance Services
- Communication SAP-Auditor under NOCLAR

TF's proposals are subject to full analysis of comment letters

IESBA's directional input will inform TF's proposed responses to comment letters



Matters for Coordination



Definition of Sustainability Information



IAASB Update: Definitions of Sustainability Information and Sustainability Matters

Highlights from comments on ED-5000

- Confusion about the inclusion of “cultural” and “economic” matters in the definition of sustainability matters
- Support for including “governance” as one of the core elements of the definition of sustainability matters (i.e. reverting to ‘E,S & G’)
- Support for the clarity of the relationship between the terms

IAASB March 2024 Meeting

- Sustainability matters – supported targeted revisions, including deletion of “economic” and “cultural” and revert to ESG
- Separation of impacts on the entity from the entity’s impacts on environment, society and economy.
- Preference to retain detailed wording in definition, rather than move to guidance.

IAASB to Consider at June 2024 Meeting

- Sustainability information: Reinstate “Information about sustainability matters” – to return to core principles (USM)
- Sustainability matters: Inclusion of “depending on the criteria”.

IAASB Definitions of Sustainability Information and Sustainability Matters – June 2024

Sustainability information

[Proposed ISSA 5000, Para.17(uu)]

Information about sustainability matters. Sustainability information results from measuring or evaluating sustainability matters against the criteria.

For purposes of the ISSAs:

- (i) Sustainability information that is the subject of the assurance engagement is the equivalent of “subject matter information” in other IAASB assurance standards.
- (ii) When the assurance engagement does not cover the entirety of the sustainability information reported by the entity, the term “sustainability information” is to be read as the information that is subject to assurance.

Sustainability Matters

[Proposed ISSA 5000, Para.17(vv)]

Environmental, social and governance matters. Depending on the criteria, sustainability matters address:

- (i) **The impacts on the entity’s strategy, business model or performance;**
- (ii) **The impacts of the entity's activities, products and services on the environment, society, and economy; or**
- (iii) **The entity’s sustainability policies, plans, goals or targets.**

For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards.

IESBA Definition of Sustainability Information – ED

Sustainability
information

ED proposal

- (a) Information about the opportunities, risks or impacts of:
- (i) Economic, environmental, social, governance or other sustainability factors on an entity's activities, services or products; or
 - (ii) An entity's activities, services or products on the economy, the environment or the public; or
- (b) Information defined by law, regulation or the relevant reporting or assurance framework as “sustainability information” or equivalent terms or descriptions.

Sustainability information includes information that may be:

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.*
- *Described in an entity's policies, plans, goals, commitments or representations.*

IESBA Definition of Sustainability Information

Overall comment: maintain coordination with IAASB

Other Comments:

- General support for ED proposal, with some suggestions
 - E.g., swapping letters (a) and (b) of ED proposal
 - E.g., using different terms if IESBA and IAASB are using different definitions (to avoid confusion/inconsistent application)
- No support because it is too broad
- Suggestion to adhere to IAASB definitions
 - WS2 explored two options involving creating a new definition of sustainability matters & aligning wording with IAASB's definitions

IESBA Definition of Sustainability Information

WS2 preliminary proposal: Retain ED proposal subject to adjustments (*see next slide*)

- Appropriate alignment with ISSA 5000 definition achieved – “*the relevant (...) assurance framework*” in para (b) already covers ISSA 5000
 - Possibility of adding AM explicitly saying that ISSA 5000 definitions are encompassed in IESBA definition (*see next slide*)
- Since alignment is achieved in substance, reasons for retaining and not adopting ISSA 5000 construct / definitions:
 - Framework neutrality of IESSA is foundational
 - IESBA’s draft definition uses simple, profession-agnostic language & encompasses all realities that ISSA 5000 describes in four definitions
 - IESBA covers reporting & assurance vs ISSA 5000 covers assurance only

IESBA Definition of Sustainability Information

Sustainability
information

*Preliminary
draft post-
ED
proposal*

(~~b~~ a) Information defined by law, regulation or the relevant reporting or assurance framework as “sustainability information” or equivalent terms or descriptions; ~~or~~

(a ~~b~~) Information about the opportunities, risks or impacts of:

- (i) Economic, environmental, social, governance or other sustainability factors on an entity’s activities, services or products; or
- (ii) An entity’s activities, services or products on the economy, the environment or the public; ~~or~~

[Wording of new (b) to be revised after full read of comment letters & coordination with IAASB]

An example of sustainability information for the purposes of the Code is “sustainability information” as defined in ISSA 5000.

Sustainability information includes information that may be:

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity’s past or expected performance over the short, medium or long term.*
- *Described in an entity’s policies, plans, goals, commitments or representations.*

Matter for IESBA Consideration

Do IESBA members support
WS2's preliminary proposal?





Group Sustainability Assurance Engagements



IAASB Update: Group Sustainability Assurance Engagements

Highlights from comments on ED-5000

- Some support for the principles-based requirements, noting they are sufficient in a global baseline standard for group sustainability assurance engagements
- Some respondents considered ED-5000 did not sufficiently address issues around group/consolidated reporting and assurance
- Additional guidance for groups is needed
- There was however recognition and support for the development of a separate ISSA for group sustainability assurance engagements in the future

IAASB March 2024 Meeting

- Supported:
 - Introducing group definitions.
 - Requirements for:
 - Overall strategy and engagement plan
 - Communications
 - Entity's aggregation process
- Clarify components and component practitioners in a diagram

IAASB to Consider at June 2024 Meeting

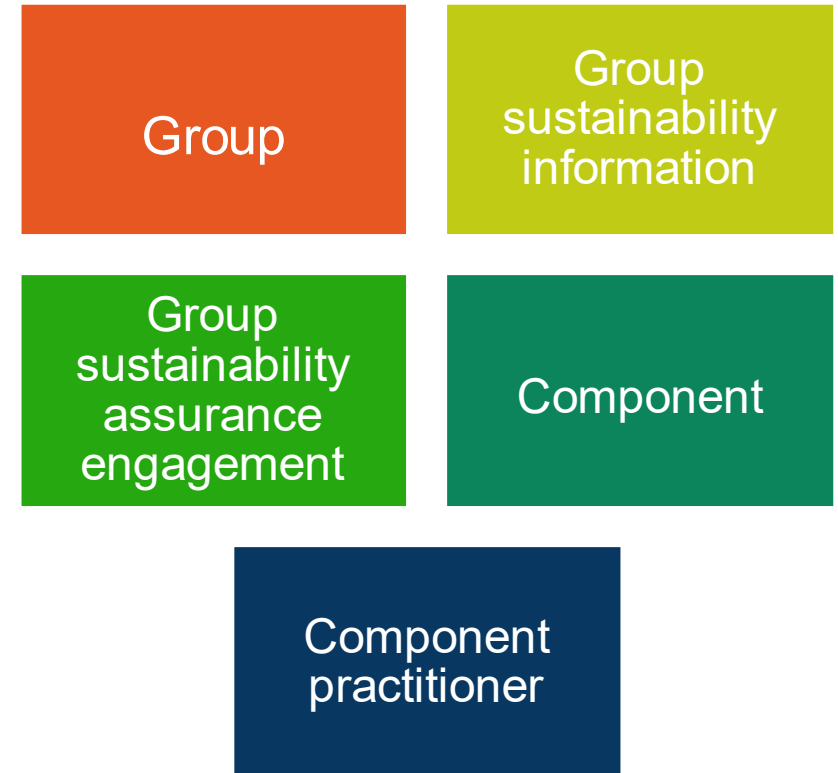
- Use defined group terms in requirements and application material
- Application material added to clarify defined terms

Group Sustainability Assurance Engagements – IESBA ED

- At outreach events during ED comment period, stakeholders supported including specific independence considerations for group sustainability assurance engagements
 - Some comments and concerns regarding need for coordination between IESBA and IAASB and alignment of their standards
 - Some questions or concerns regarding potential implementation challenges for non-PAs
- ED explicitly asked for input regarding addressing group sustainability assurance engagements
 - Respondents to the ED raised comments regarding alignment between proposed ISSA 5000 and IESSA
 - Request for further coordination with IAASB in this regard

Group Sustainability Assurance Engagements – IESBA ED

- Responding to comments received during public consultation on ED-ISSA 5000, IAASB is proposing to include requirements and definitions in ISSA 5000 to more explicitly address group sustainability assurance engagements (SAEs)
 - Requirement to develop the overall strategy and engagement plan for group sustainability engagement in line with ISA 600 (Revised)
 - Definitions relevant to group SAEs



Matters for IESBA Consideration

- IESBA members' views are sought on whether the proposed changes to ISSA 5000 address the comments/concerns regarding alignment and coordination
- Subject to full analysis of the ED comment letters, do IESBA members agree that the IESSA should continue to include specific provisions addressing group sustainability assurance engagements?





Determination of Components



IAASB: Determination of Components

Highlights from comments on ED-5000

- Calls for additional requirements and guidance on group engagements.

IAASB March 2024 Meeting

- Supported: New definitions of “component” and “component practitioner”
- Acknowledge: Components are within the reporting boundary but may be within or outside of the reporting entity’s operational control

IAASB to Consider at June 2024 Meeting

- Introduction of terms “group component” for entities within the reporting entity’s operational control and “value chain component” for entities outside the reporting entity’s operational control

IESBA: Determination of Components

- Post-exposure ISSA 5000 and IESSA ED both include a definition of component
 - The ED of IESSA explicitly excludes value chain (VC) entities from components
 - Proposed definition of component in post-exposure ISSA 5000 includes all entities, business units or combination thereof within the reporting boundary
 - For ease of reference, describes “group components” as those in the operational boundary and “value chain components” outside of the operational boundary.
 - Assurance work may be performed by a component practitioner (engagement team member) or engagement team may use work of another practitioner (not engagement team member)

Proposed Component Definition in ISSA 5000 post-exposure (June 2024)

An entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the practitioner for purposes of planning and performing the sustainability assurance engagement

IESBA: Determination of Components



- No misalignment between IESSA ED and post-exposure ISSA 5000 regarding the proposed independence considerations
 - Different approach to the determination of components for assurance work
- Comments and suggestions from stakeholders regarding further alignment between the definitions relevant to group SAEs in ISSA 5000 and IESSA
 - WS1 considered potential ways to align definitions of “component” within the two standards without changing the approach to independence considerations in the ED with respect to VC entities

Potential Changes to Determination of Components in IESSA

- Component would include both “group components” and “value chain components” in line with post-exposure ISSA 5000
 - As a result, group sustainability assurance client definition would include VC components
 - Section 5405 on groups would address independence of:
 - Component firm (engagement team members) with respect to VC component when engagement team carries out the assurance work
 - Group firm with respect to VC component, depending on whether the engagement team performs the assurance work, or the firm uses the work of another practitioner
- Subject to full review of the comments, no proposed changes to independence considerations in the ED relevant to VC entities
→ proposed changes to structure only

Component

An entity, business unit, function or business activity, or some combination thereof, determined by the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement. ~~This excludes entities within the value chain.~~

Proposals in IESBA Sustainability ED

Independence Considerations for
Group and Component Firms and
Engagement Team Members
(who are under direction,
supervision and review)

Section 5405

Assurance Work at
**Group Sustainability
Assurance Client**

Independence Considerations
When the Firm Uses the Work
of Another Practitioner (who is
not under direction, supervision
and review)

Section 5406

Assurance Work at
**Sustainability
Assurance Client
(Group or Standalone)**

Independence Considerations for
Engagement Team Members and
Another Practitioner (irrespective of
direction, supervision and review)

Section 5407 and
5700

Assurance Work at, or
with respect to, a
Value Chain Entity

IESBA: Potential New Structure

Independence Considerations for
Group and Component Firms
and Engagement Team Members
(who are under direction,
supervision and review)

Restructured Section
5405

Assurance Work at
Group Sustainability
Assurance Client
(including value chain
components)

Independence Considerations
When the Firm Uses the Work
of Another Practitioner (who is
not under direction, supervision
and review)

Restructured
Section 5406

Assurance Work at
Group Sustainability
Assurance Client
(including value chain
components)

- Subject to full analysis of comments, no changes to proposed independence principles in the ED
- Alignment between ISSA 5000 and IESSA regarding the definition and approach
- Responding to comments from public consultation regarding perceived complexity

Matters for IESBA Consideration

On a preliminary basis, do IESBA members support:

1. Proposed changes to the determination of components in the context of sustainability assurance engagements?
2. Proposed restructuring of provisions applicable when the firm uses the work of another practitioner who performs work at a group component or a VC component?

WS1 will discuss the full analysis of comments and proposed changes regarding the independence considerations with respect to VC entities at its July 2024 meeting



Additional Coordination Matters



IAASB Update: Relevant Ethical Requirements and Quality Management

Highlights from comments on ED-5000

- Overall strong support for robust ethical and QM requirements
- Suggestions included: require compliance with ISQM 1 and the IESBA Code only, establish minimum baseline requirements, or endorse alternative requirements as being at least as demanding
- Further guidance is needed for “at least as demanding” but important to highlight key decision makers are regulators or other relevant authority such as NSS

IAASB March 2024 Meeting

- Supported:
 - Clarification of “at least as demanding” and key role of regulators and standard setters.
 - Transparency in the assurance report of RER
 - Explicit “three pathway” hierarchy for QM
 - Documentation of firm/practitioner determination

IAASB to Consider at June 2024 Meeting

- Hierarchy for determining “at least as demanding” RER to mirror QM:
 - IESBA Code
 - Appropriate authority determination
 - Only if above not relevant: firm determination
- Further AM on “at least as demanding”

IAASB Update: Another Practitioner and Use of Term “Work”

Highlights from comments on ED-5000

- Overall support for the requirements to evaluate the work of others.
- Calls for a definition of “another practitioner” and examples to distinguish between a practitioner’s external expert versus another practitioner.
- Practical challenges in complying with the requirements for using the work of another practitioner, especially at value chain entities, and requests for clarifications on expected work effort.

IAASB March 2024 Meeting

- Supported:
 - New definition of another practitioner, that initially included “assurance work.”
 - Approach to obtaining evidence from using such work depends on whether sufficiently appropriately involved.
 - Conditional requirement re: “one-to-many” reports

IAASB to Consider at June 2024 Meeting

- “Assurance work” references replaced with “work” conducted by another practitioner to be consistent with other IAASB standards and recognise other work might be conducted (e.g., AUP).
- The work may not be within an assurance engagement as defined in the IAASB standards.



IESBA: Other Matters



Scope of IIS in Part 5



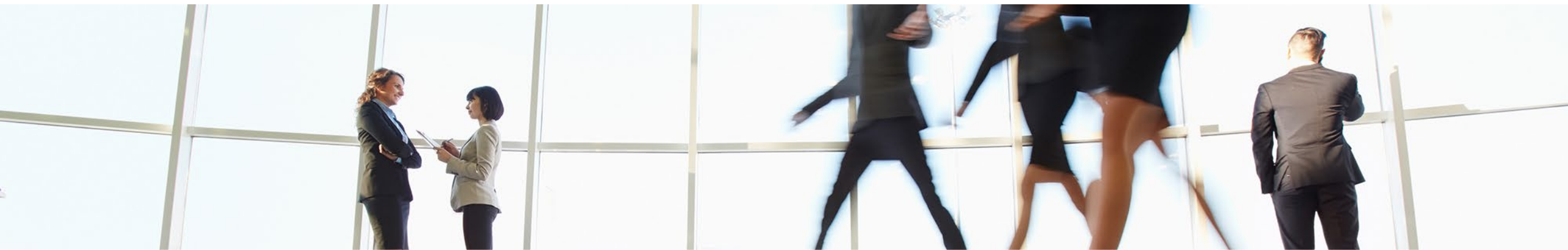
IOSCO's Comment on Scope of IIS in Part 5

- IOSCO supports Part 5 to apply to SAEs that have the same level of public interest as audits of financial statements
 - Proposal to extend scope of IIS in Part 5
 - Any assurance engagement over sustainability information required to be provided in accordance with law or regulation should be subject to the IIS, not only information reported in accordance with a general-purpose framework
- No significant concerns regarding the proposed scope of the IIS in Part 5 from others
 - a) Reported in accordance with a general-purpose framework; **and/or**
 - b) Required to be provided in accordance with law or regulation; **and/or**
 - c) Publicly disclosed to support decision-making by investors or other stakeholders.

Matters for IESBA Consideration

IESBA members' views are sought on IOSCO's comment regarding the scope of IIS in Part 5?





Non-Assurance Services



List of Specific NAS

- Some comments and suggestions regarding complexity of NAS provisions
 - Questions whether practitioners typically provide these services
 - Comments that Subsections 5601 to 5610 are long and complex
- WS1 believes that Part 4A and Part 5 of the Code should focus on the same types of services to ensure equivalence
 - A different list of services could create perceptions that certain services are permitted for sustainability assurance clients (e.g., tax services)
- Majority of commentators to ED supported equivalence between subsections 601 to 610 and 5601 to 5610
 - A few comments regarding the description/appropriateness of the service in the context of SAEs

Might a potential response to comments be to include additional guidance in Section 5600 to explain that Subsections 5601 to 5610 only apply if the firm provides the relevant NAS to the client that might impact the sustainability information?

Matters for IESBA Consideration

Do IESBA members support keeping the detailed NAS provisions in Part 5 to maintain equivalence with Part 4A, subject to any refinements proposed by ED respondents?





Communication SAP-Auditor under NOCLAR



Key takeaways based on a sample of comment letters

Communication SAP-Auditor under NOCLAR

General support for ED proposal of requiring SAP/Auditor to **consider communicating** with each other

Other Views: #1

E.g. IOSCO

- Suggestion to change into **requirement to communicate**:
 - Subject to the entity's permission, preferably in writing
 - Mere consideration to communicate might lead to inconsistent interpretation

Communication SAP-Auditor under NOCLAR

Other Views: #2

- **Support for the requirement for the SAP to consider communication but not for the reciprocal requirement regarding the auditor**
 - The new requirement for the auditor might pose a risk of inappropriate confidentiality breaches, especially since SAPs may not have the same professional obligations or oversight as auditors

Communication SAP-Auditor under NOCLAR

Other Views: #3/4

- **No support** for reciprocal requirement **when SAP and auditor are not within the same firm or network firm**
- **No support at all**

Alternative 1: Turn requirements into AM and add new factors for consideration, e.g. (a) indicate when communication might be appropriate, (b) confidentiality requirements applicable to the practitioner

Alternative 2: Have the auditor confirm with management and/or TCWG that management or TCWG have communicated or will communicate NOCLAR to SAP/auditor

Communication SAP-Auditor under NOCLAR

Possible avenue in light of respondents' feedback:

Turn the requirement to consider communication into **requirement to communicate** *when* SAP and auditor belong to same firm

Unless prohibited by L&R

According to firm procedures



Keep requirement to consider communication *when* SAP and auditor belong to same network firm or different firm / network firm

Retain list of factors for consideration

- Responds (in part) to regulatory request to strengthen the requirement
- Approach aligned with extant Code (see R360.31 vs R360.32 & R360.33)

Communication SAP-Auditor under NOCLAR

Practical challenges with ED proposal:

- Risk of inconsistent reporting to management/TCWG or inconsistent determination of whether to disclose to appropriate authority if SAP/auditor in different firms/network firms
 - [WS2 preliminary proposal](#): Add AM stating that the purpose of the communication is also for SAP and auditor to agree on who is primarily responsible for the NOCLAR-related actions (if necessary) going forward

Communication SAP-Auditor under NOCLAR

NOCLAR in the value chain:

- Suggestion to extend NOCLAR provisions in Part 5 to value chain actors *when* this is relevant for the purpose of ultimately assessing the compliance of the value chain-related disclosure of the entity with applicable sustainability reporting requirements
 - **WS2 preliminary proposal:** Retain proposed scope of NOCLAR which excludes value chain entities, because:
 - “*When this is relevant*” determination is difficult
 - VCE addressed in proposed para 5360.7 A3 (b)
 - Benefits of a phased approach

Matter for IESBA Consideration

Do IESBA members support WS2's possible avenue and preliminary proposals?





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