



10 May 2024

Mr Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York, 10017
United States of America

Re: Comments on the IESBA Exposure Draft: Proposed International Ethics Standards for Sustainability Assurance

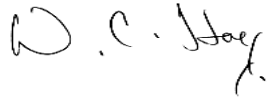
The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to provide its comments on the International Ethics Standards Board for Accountants' Exposure Draft on the proposed standards.

AFAANZ is the peak regional academic accounting and finance association and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on standard setting deliberations to the academic research literature.

The views expressed in the comments that follow are those of the undersigned Committee members and do not necessarily reflect the official position of AFAANZ. While the views expressed represent a consensus view of the Committee, they do not necessarily represent the views of each individual member.

If you have any questions on our submission, please contact either of the Committee Co-Chairs (David Hay – d.hay@auckland.ac.nz or Noel Harding – n.harding@unsw.edu.au).

Yours Sincerely,

A handwritten signature in black ink that reads "D. C. Hay". The signature is written in a cursive style with a horizontal line underneath it.

David Hay
Professor of Auditing
University of Auckland

Co-chair of the AFAANZ Auditing and Assurance Standards Committee.

Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ)

Comments on the International Ethics Standards Board for Accountants’ (IESBA’s) Exposure Draft on Proposed International Ethics Standards for Sustainability Assurance

We commend the International Ethics Standards Board for Accountants (IESBA) for this initiative. There is a need for assurance over sustainability information, and for that assurance to be provided by professional people who have the appropriate guidance on ethical issues.

There are important issues regarding the extent to which a code of ethics that is based on the existing code for accountants can be profession-agnostic. We are also concerned that IESBA has already set an effective date for the amendments to be approved and for the proposals to come into effect. We would prefer taking as much time as necessary to avoid unintended consequences.

We also recommend that where a sustainability assurance practitioner, or a senior professional accountant in business, is aware of non-compliance with laws and regulations (NOCLAR) then there should be a requirement to disclose it to multiple sustainability practitioners where these exist.

We have made comments about the disclosure of fees for sustainability services (question 17), because we consider that the mechanism for disclosure is not made clear in the exposure draft.

We provide our responses to the specific comments in the Exposure Draft below.

Main Objectives of the IESSA

1. Do you agree that the proposals in Chapter 1 of the ED are:
 - (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? *[See paragraphs 19 and 20 of this document]*
 - (b) Profession-agnostic and framework-neutral? *[See paragraphs 21 and 22 of this document]*

Response:

- (a) **Yes.**
The proposed standards are generally equivalent to the extant Code.
- (b) **No.**
There are limits to the extent to which it is profession-agnostic, largely because it is equivalent to the extant Code, which accountants are familiar with and other professions are not.

2. Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics? [See paragraph 23 of this document]

Response:

No comment.

Definition of Sustainability Information

3. Do you support the definition of “sustainability information” in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]

Response:

Yes, with comments.

In principle, we support the definition of “sustainability information” in Chapter 2 of the ED. Paragraph (a) provides a broad definition to assist in identifying which information is relevant and therefore subject to reporting requirements with para b referring to other rules and regulations that may impact the definition of “sustainability information”. In the case of paragraph (b), using IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information as one example, there is a need to ensure that the definition and language ultimately used is “future-proof” given further changes to the sustainability landscape that will occur.¹ IFRS S1 focusses on the reporting and disclosure of financial risks arising from sustainability actions and predominantly suits investors. As such, the eventual definition of “sustainability information” has to be necessarily broader to suit the informational needs of a widely varied set of stakeholders.

We also find that the non-exhaustive examples in italics below para (b) useful in assisting users in identifying the existence of “sustainability information”. We would suggest that the IESBA consider the suitability of incorporating the following matters into its deliberations around “sustainability information”:

- 1. There is no explicit requirement for reporters to report on the actual consumption of sustainability resources annually; and**
- 2. There is no explicit requirement for reporters to report whether the consumption of sustainability resources annually is sustainable.**

Scope of Proposed IESSA in Part 5

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5? [See paragraphs 30 to 36 of this document]

Response:

Yes.

¹ One such example that comes to mind are future reporting and disclosure requirements in relation to Modern Slavery.

We support the IESBA’s proposal that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients (i.e., the middle approach).

Given that the ethics standards referred to are heavily borrowed from the International Code of Ethics for Professional Accountants (including Independence Standards) issued by the Ethics Board, and apply to accountants, including those involved in the provision of assurance engagements over the financial reporting process, we refer to the literature from the financial reporting domain to support our view above. In the financial reporting domain, there are ethical rules that apply to incumbent auditors seeking to also provide non-audit services (NAS) and these rules are in place to maintain the integrity and quality of the external audit function and resulting audit opinion.

Research within the financial reporting domain indicates that, left alone, financial reporting auditors do not suffer any negative consequences when they provide NAS and there are NAS failures resulting. Such research indicates that, without regulatory intervention in the form of standards, auditors will act opportunistically for their own benefit (Friedrich and Quick 2024). Other complementary research suggests that the capital market imposes additional costs (in the forms of higher equity and debt capital costs) on companies which purchase NAS from their existing auditors, suggesting that the market views the joint provision of auditing and NAS as being detrimental (Friedrich, Quick, and Schmidt 2024).

Although there is academic literature which reports a positive association between NAS and audit quality (suggesting a knowledge spillover argument), there are also numerous other findings which report a negative association between NAS and audit quality (suggesting an economic bonding argument). It is necessary to understand that many of these findings are context-specific depending on other factors such as the strength of investor protection regimes, culture, country-level institutional environments etc. (Mustikarini and Adhariani 2022). As such, in the interest of adopting a conservative approach to the provision other services provided to the same sustainability assurance clients and literature suggesting the detrimental effects from the joint provision of auditing and NAS, it would be beneficial to develop standards which would regulate all these other services.

In summary, applying findings from the financial reporting and assurance domain to sustainability assurance engagements and adopting a careful approach, we believe that it is appropriate that ethical standards be in place and particularly apply to all other services provided to the same sustainability assurance clients.

5. The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a? [See paragraphs 38 to 43 of this document]

Response:

Yes.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]

Response:

Yes, with comments.

Section 5270 sets out that a sustainability assurance practitioner shall not allow pressure from others to result in a breach of compliance with the fundamental principles, and not place similar pressure on others. It gives examples of pressure. It suggests that a sustainability assurance practitioner should discuss the matter with the person exerting pressure, and with the practitioner's superior, and escalate the matter within the firm if necessary. The facts, communications, action considered and how the matter was addressed should be documented.

There is relevant research on the issue of pressures to breach FPs (Neesham & Azim, 2017). That study examined the ethical accountability needs of accounting professionals in Australia. The authors obtained 162 questionnaire responses and conducted 76 interviews.

The major sources of ethical conflict were pressure from the client, conflicts of interest, and pressure from employers (in that order). The respondents had considerable confidence in confidential counselling from their professional accounting bodies and from peer support on a confidential basis from accounting peers. They also commented on the need for their employer to have high ethical standards and appropriate tone from the top (Neesham & Azim, 2017).

The proposed standard already makes reference to confidential consulting with professional bodies. We believe this section (5270.3 A4) should be expanded to make it clear that a sustainability assurance practitioner can expect to be able to get confidential support from their professional body, or from other colleagues where necessary. The research also shows the importance of employer organizations having an appropriate firm culture.

We support the inclusion of section 5270 and suggest that it should be expanded.

NOCLAR

7. Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other? [See paragraphs 56 to 67 of this document]

Response:

Yes, but there is a need to extend the provisions to accommodate the potential communication of suspected or actual NOCLAR with all assurance practitioners.

We support the added provisions requiring the auditor and assurance practitioner to consider communicating actual and suspected NOCLAR with each other. Actual or suspected NOCLAR threatens the professional accountant's and sustainability assurance practitioner's compliance with the fundamental principles of integrity and professional behaviour and knowledge of such instances helps a professional accountant and sustainability assurance practitioner respond appropriately.

Research on the drivers / causes of organisational misconduct (see for example Greve et al. 2010 and Paruchuri et al. 2024 for reviews) highlight the potential for individual instances of NOCLAR to be indicative of wider issues within the organisation. Communication of actual or suspected NOCLAR to the auditor / assurance practitioner facilitates their consideration of the implications thereof on their ability to comply with the fundamental principles of integrity and professional behaviour.

We are concerned, however, that such a requirement is not being extended to other sustainability assurance practitioners. We believe that knowledge of actual or suspected NOCLAR is just as relevant for other assurance practitioners in meeting requirements with reference to the fundamental principles of integrity and professional behaviour as it is for auditors. In this regard, Bouzzine and Lueg (2023) highlights the relationship between past and future behaviour in the CSR domain. Seele and Gatti (2017) highlight potential differences in the interpretation of seemingly misleading CSR information, and Dialogic Accounting Theory (e.g., Manetti et al 2021) highlights the breadth with which corporate reporting can interact with stakeholder interests. Actual or suspected NOCLAR can have far reaching implications beyond the site of the identified instance. Being aware of actual or suspected NOCLAR assists all sustainability assurance practitioners address idiosyncratic implications for their ethical conduct. We encourage the IESBA to extend paragraph R5360.18a to require consideration of whether to communicate actual or suspected NOCLAR to other sustainability practitioners.

While we acknowledge IESBA’s reasons for not extending the requirements to other sustainability assurance practitioners (as outlined in paragraph 60 of the Explanatory Memorandum), we are of the view that the infrequency with which a company may engage more than one sustainability assurance practitioner is insufficient justification for not addressing that circumstance. Enquiries with academic colleagues investigating the sustainability assurance market reveals that there are instances, albeit rare, of companies engaging multiple sustainability assurers. Moreover, as the breadth of sustainability information being reported on expands, and assurance is demanded / required on that information, the required subject matter expertise may mean that instances of multiple assurance practitioners will become more common. We believe it to be in the public interest for assurance practitioners to consider whether to communicate actual or suspected NOCLAR with other sustainability assurance practitioners of the client.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) [See paragraph 68 of this document]

Response:

Yes, but there is a need to extend the provisions to accommodate the potential communication of actual or suspected NOCLAR to all assurance practitioners.

In response to Question 7, we note research highlighting the interrelated / interconnected nature of actual or suspected NOCLAR across the entire organisation (e.g., Greve et al. 2010; Paruchuri et al. 2024; Bouzzine and Lueg 2023; Seele and Gatti 2017; Manetti et al. 2021). It is important for the organisation’s external auditor or sustainability assurance practitioner performing a sustainability assurance engagement to be aware of actual or suspected NOCLAR so as to facilitate their compliance with the fundamental principles of integrity and professional behaviour. We believe, therefore,

that it is appropriate for the senior professional accountant in business to consider if disclosure of suspected or actual NOCLAR is required to the employing organisation's external auditor or sustainability assurance practitioner.

Proposed paragraph R260.15, however, seems to envisage a single sustainability assurance practitioner, and as we note in our response to Question 7, while this is the most common situation, instances of more than one sustainability assurance practitioner do occur and may become more common in the future. We encourage the IESBA to acknowledge the potential need for the senior professional accountant to consider disclosure to multiple sustainability assurance practitioner(s) rather than a single practitioner (within the confines and considerations outlined in this Section).

We further note that proposed paragraph R3560.33 envisages a single sustainability assurance practitioner in that it only requires consideration of the need for the sustainability assurance practitioner to communicate actual or suspected NOCLAR with the client's external auditor. Enquiries with academic colleagues investigating the sustainability assurance market reveals that instances of multiple sustainability assurance practitioners are rare but do arise. Given the increased breadth of this Section (i.e., to sustainability assurance engagements not within the scope of the International Independence Standards), we believe that the likelihood of this occurring would be higher. We encourage the IESBA to extend proposed paragraph R5360.33 to require the practitioner to consider the need for communication to any other of the client's sustainability assurance practitioners (if any).

Determination of PIEs

9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements? [See paragraphs 80 to 85 of this document]

Response:

Yes with comments.

We agree that the guidelines that establish classification of an entity as a PIE for financial statements audits are also applicable here. We recommend recognizing the difference between an entity being a PIE for purposes of financial statement audits and the actual CSR disclosure itself being of public interest. Drawing upon legitimacy theories (Duff, 2017), the public interest implications of the CSR disclosure in themselves need to be considered separately (Sheehy, 2015) from the notion of an entity itself being deemed a PIE for financial statement audits. An entity that is deemed to be a PIE for financial statement audit may not have CSR activities (and related disclosures) that are of public interest (see: Huang, 2021). Drawing upon signalling theory, if an entity is deemed a PIE, then their CSR disclosures are of public interest to the extent that it informs investors' interpretation of financial disclosures as well (Huang 2022).

While we support the proposal we observe that some entities which have a substantial effect on the environment but that are small financially are not included.

Group Sustainability Assurance Engagements

10. The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements. [See paragraphs 86 to 92 of this document]
- (a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?
 - (b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:
 - (i) Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?
 - (ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement? [*See paragraph 88 of this document*]
 - (iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?

Response:

General comment:

- (a) **Yes with comments.**

We support including group engagements. Otherwise, artificial corporate structures can reduce the effectiveness of reporting and assurance.

Dialogic accounting theory (Manetti et al. 2021) suggests that financial and non-financial aspects of the annual report are interpreted collectively by interested stakeholders. In other words, there is an intersection of information contained in financial statements with the information contained in statements that contain CSR disclosures. From an assurance standpoint, the auditor is responsible for the entire audit: the financial and non-financial information, the work that is completed by them and the work that is completed by an "other" which, although may fall outside the audit team itself, still becomes an integral part of the financial statement audit whether directly or indirectly. In other words, auditors are fully accountable for the entire audit, including the work of others, and the impact this may have on stakeholders (Dillard et al., 2019; Yates, 2019). Drawing upon the implications of the revised ISA 600 (see: Coram et al. 2021), some of the recommendations made by AFAANZ are potentially useful to IESBA. In particular,

we recommend that auditors are ultimately responsible for the conclusions drawn from the work of others, which in a group setting includes the work of component auditors, and in the case of IESBA, it would also include the work of sustainability practitioners. Further, the responsibility of the auditor should not be diminished due to the work being completed by an "other" that falls outside of the group engagement, as the auditor is fully responsible for the group audit opinion.

(b) As a result, we agree that independence requirements should also apply to a group and with the proposed provisions, requirements and terms.

Using the Work of Another Practitioner

11. Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former's direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406? [See paragraphs 93 to 101 of this document]

Response:

Yes, but there is a need to clarify the distinction between 'assurance work' and 'work used in an assurance engagement'.

We concur with the proposed independence provisions set out in Section 5406. Independence is a fundamental component of audit (and assurance) quality (e.g., DeAngelo 1981). The quality of an assurance engagement, and the ability of sustainability assurance practitioners to comply with the fundamental principles of ethics depends as much on the work that the assurance practitioner relies on as it does on the assurance practitioner's work undertaken themselves.

We are, however, concerned with the lack of clarity between proposed Section 5406 and proposed Section 5390. Specifically, we are concerned with the distinction between 'assurance work' when independence is the standard required in Section 5406 and 'work used in an assurance engagement' when objectivity is the standard required in Section 5390. Although 'Another Practitioner' is defined, assurance work is not defined. Independence is a complex construct (e.g., Gramling et al. 2010; Tepalagul and Lin 2015; Church et al 2015) and it is likely to be even more complex when considered in light of the range of different expertise and relationships with the client (e.g., Boritz et al. 2020). Where possible, potential confusion should be minimised.

We encourage the IESBA to clearly distinguish between what is meant by 'assurance work' and 'work used in an assurance engagement' so as to identify any unintended consequences or difficulties in applying the new provisions (e.g., can an assurance practitioner clearly specify when work contributes to an assurance engagement as either assurance work or work used in an assurance engagement?). At a minimum, we believe that it would be appropriate for the IESBA to define 'assurance work'. We further note that the term 'assurance work' appears in Section 900, and any clarity of the term should also be consistent with intentions of that Section.

We further refer the IESBA to our response to the ‘Using the Work of an External Expert’ Exposure Draft where we raise concerns as to the purpose of additional rigour in Paragraph R390.8 in terms of assessing objectivity.

Assurance at, or With Respect to, a Value Chain Entity

12. Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements? [See paragraphs 102 and 103 of this document]

Response:
Yes, with comments.

We agree with “value chain” as a reporting concept and accept that its definition can vary across existing reporting frameworks. However, we have reservations about the proposed definition allowing scope for firms and/or sustainability assurance practitioners to decide what is the “applicable reporting framework” in the context of sustainability assurance engagements. We would consequently expect the reporting of value chain sustainability information in accordance with the self-interests of reporters (which may be unsuitable to the informational needs to stakeholders).

Currently, the proposed definition does not help assess the applicability of the definition. According to IFRS S1, “A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity’s operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates”. The term “value chain entity” used in the ED is somewhat consistent with the GHG (Greenhouse Gas) Protocol, which defines “value chain” as “all the activities that are associated with the operations of the reporting company, both upstream and downstream including the use of sold products by consumers and the end-of-life treatment of sold products after consumer use”. The current ED indicates that the value chain entity may consist of suppliers or customers. However, in the upstream value chain, there will likely also be direct and indirect suppliers, defined as Tier 1 and Tier 2 suppliers in the GHG Protocol. Tier 1 suppliers are companies that provide or sell products directly to the reporting company, while Tier 2 suppliers are the ones that provide or sell products directly to the reporting company's Tier 1 supplier. For instance, in the case of reporting modern slavery, a company's Tier 1 supplier may not include child labour. However, the Tier 2 supplier potentially could have child labour involved in the supply chain resulting in child labour to the reporting company. Given the nature and complexities among value chain entities, greater consideration is required when defining all the potential entities comprising the value chain.

13. Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity? [See paragraphs 104 to 110 of this document]

Response:
Yes, with comments.

If the firm performs the assurance work at a value chain entity, R5407.3 (EM para 108) requires that the firm and the member of the sustainability team be independent of the value chain entity, the sustainability assurance client and its relevant related entities. Part of sustainability information can be within the reporting boundary of both the value chain entity and the sustainability assurance client. It suggests such overlapping information is related to at least two clients when the firm performs the assurance work at a value chain entity. Even though the firm is independent on each of the sustainability assurance client and relevant value chain entities, the firm may be exposed to greater self-interest threats and greater pressures to support clients' preferences (Church et al. 2015) and exercise reduced professional skepticism (Hurtt et al. 2013) especially when the sustainability assurance client and relevant value chain entity have similar preferences of reporting.

There is also a concern with high fee dependency from the sustainability assurance client and its value chain entities as a whole. When sustainability information of a value chain entity is within the reported boundary of the sustainability assurance client, independence can be threatened when a large proportion of assurance income is associated with clients in the same value chain because it provides the firm with greater economic incentives to accept clients' (including the sustainability assurance clients' and value chain entities) preferences in order to retain the clients (Hay 2017; Church et al. 2015). We suggest the firm assess the independence of the value chain of a sustainability assurance client as a whole when (1) they perform the assurance work at the value chain entity and (2) the sustainability information of the value chain entity is within the reporting boundary of the sustainability assurance.

We support the provisions in Section 5407 addressing the independence when a firm uses the work of a sustainability assurance practitioner at a value chain entity and when a firm does not carry out assurance work at the value chain entity. We suggest extending the R5407.4 and R5407.6 to make it clear that the firm shall comply with Section 5700 in addition to those provisions in Section 5407.

14. Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:

- (a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?
- (b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide? [*See paragraphs 111 to 114 of this document*]

Response:

- (a) Yes.

We agree that certain interests, relationships or circumstances between the firm and a value chain entity might create threats to the firm's independence.

(b) Yes with comments.

The “knows or has reason to believe” principle in Section 5700 may lead to an assumption of no threat to independence of a value chain entity in the first place and if they are aware of their interests, relationships or circumstances associated with the value chain entity, only then does the firm expend effort to identify, evaluate and address potential threats of independence of a value chain entity. If auditors assume no material misstatement of an account in the first place and conduct tests only after they are aware of threats, they are more likely to fail to detect material misstatements (Chen and Leitch 1999).

We suggest Part 5 provides guidance on how firms can proactively identify the threat to the firm’s independence of a value chain entity and ensure that threats are at an acceptable level. For example, the firm shall determine whether any threat to independence in accordance with Part 4 (R400.31) and shall document conclusions with relevant supporting discussions (R400.60). We believe this approach is better than the “knows or has reason to believe” principle and thereby alleviate the concerns that the firm does not exercise sufficient efforts to identify the threat to independence of a value chain entity. Such threats include conflicts of interests, family and personal relationships, employment, long association and financial interests.

Providing NAS to Sustainability Assurance Clients

15. The International Independence Standards in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)? [See paragraphs 115 and 116 of this document]

Response:

Agree.

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]

- (a) Do you agree with the coverage of such services and the provisions in the Subsections?
- (b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

Response:

(a) We agree.

(b) We do not propose further services to be added to the list,

Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client

17. Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client's financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)? [See paragraphs 123 to 131 of this document]

Response:

Yes, with comments.

The proposed approach is that fees for sustainability services should be disclosed by the firm (i.e., the sustainability assurance practitioner) in addition to audit fees (EM Para 125). The firm should also consider applying safeguards regarding the proportion of non-audit to audit fees (Para 125). The EM also states that the auditor might conclude that the level of threats is at an acceptable level, even when the sustainability assurance service generates a large proportion of fees relative to the audit fees.

We agree that fees should be disclosed, that safeguards need to be taken into account, and that a cap on fees is not appropriate. More details and supporting references are provided below. However, we have reservations. Specifically, it is not clear what form the disclosure of fees is intended to take. Is it expected that each practitioner should publish a report providing this information for each client? Or is the reporting intended to be for each firm as a whole? How are these reports to be made available? In the latest transparency reports published by Big 4 firms in Australia, none of them have separately disclosed revenue received from sustainability assurance or reported their revenue at a client level. The sustainability assurance revenue can be aggregated into the amount of revenue from "other assurance and non-audit services to audit clients". More guidance and regulations are required with respect to disclosures of sustainability assurance fees.

It is also important to clarify in the standards how sustainability assurance fees should be disclosed in clients' financial statements when a firm provides both financial statement audits and sustainability assurance for the same client. Based on observations from 2012-2016, fees arising from sustainability assurance can be disclosed in either NAS or audit-related services fees in the client's financial statements (Lu, Simnett & Zhou 2023). It was also found that clients are less likely to obtain sustainability assurance from their incumbent financial statement auditor when the NAS fee ratio is high. However, this impact does not hold with the audit-related fees ratio (Lu, Simnett & Zhou 2023). This result implies that the disclosure category of sustainability assurance fees affects the perception of independence of auditors and/or sustainability assurance providers.

The literature lends support for the joint provision of sustainability assurance by incumbent auditors. More than half of sustainability assurance engagements in Australia are obtained from the same firms that provide financial statement audits (Ruiz-Barbadillo & Martínez-Ferrero 2021; Simnett et al. 2024). This joint provision is associated with metrics suggesting better quality of financial statement audits (Maso et al. 2020; Lu, Simnett & Zhou 2023) and sustainability assurance (Ruiz-Barbadillo & Martínez-Ferrero 2020). The archival evidence supports the clients can benefit from the joint provision

because of the knowledge spillover between the sustainability assurance team and audit engagement team (Al-Shaer 2020; Maso et al. 2020; Lu, Simnett & Zhou 2023).

Regarding circumstances where there is a large proportion of sustainability assurance fees relative to audit fees, Lu, Simnett & Zhou (2023) find that clients are aware of the perceived independence concerns and that these deter them from obtaining sustainability assurance from incumbent auditors when they have a higher proportion of non-audit services fees, including sustainability assurance fees, to audit fees. When sustainability assurance fees are included in non-audit services (NAS) fees, auditors' independence has been assessed by the assurance providers or their clients by considering the proportion of NAS fees to audit fees in accordance with Section 410 of the Code. Given the positive impacts of the joint provision found in the literature (Maso et al. 2020; Lu, Simnett & Zhou 2023), it is reasonable not to set up an additional fee cap when auditors provide sustainability assurance.

However, more evidence is needed to support the proposed amendment in para 127 of the EM that “[i]n circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level”. This amendment may reduce the perceived independence concerns with regard to NAS fees, and it is important that these are taken into account.

Under paragraphs R410.15 and R410.16 in Section 410, assurance providers are required to consider the proportion of total fees received from an audit client, to consider fee dependence and avoid fees being more than 15% of the total revenue of the assurance provider. When auditors provide sustainability assurance to their audit clients, they need to include sustainability assurance fees as a part of the total fees received from an audit client when assessing their fee dependence. Lu, Simnett & Zhou (2023) report that when auditors provide sustainability assurance to an audit client, higher fee dependency arises primarily from sustainability assurance fees. The requirement implies that the fee dependency assessment required in Section 410 is more stringent for the audit firms that provide both audits and sustainability assurance to the same clients, relative to those who provide audits only, as they are more likely to reach the threshold by considering audit fee, sustainability assurance fee and other fees. However, we are not aware of any research examining the validity of the 15 percent threshold beyond what has been discussed in Hay (2017), which noted that dependence, and whether the restriction to 15 percent was the appropriate level, had not been examined by research.

Other Matters

- 18. Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

Response:

No comment

19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

Response:

No comment

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information? [See paragraphs 133 to 135 of this document]

Response:

Yes.

We acknowledge that there are difficulties in the developing profession-agnostic ethics standards for sustainability reporting, due to the lack of enforceability of such standards on non-PAs. We also agree with the proposed IESBA approach to in time extend the impact of the Code beyond the accountancy profession. This is largely due to the threat that “greenwashing” poses to the relevance of sustainability reports. There is a growing literature on “greenwashing” and the effects it has on sustainability reporting (Vollero (2023), Pendse et al (2023), Moodaley and Telukdarie (2023), Pendse et al (2023) and Free et al (2024)). The lack of profession-agnostic ethics standards for sustainability reporting, from the users of the sustainability reports point, also places more importance on the assurance of sustainability reports and the ethics standards for sustainability assurance. Hence in time and once the proposed International Ethics Standards for Sustainability Assurance Standards are in place the development of profession-agnostic ethics standards for sustainability reporting is advisable. Such ethical standards should be reporting framework neutral to ensure the wide applicability. In the meantime, the Ethics Considerations in Sustainability Reporting Including Guidance to Address Concerns About Greenwashing, issued by IESBA in 2022, is a great resource for preparers of sustainability reports when preparing sustainability information, especially in reference to Fundamental Principles of the Code, identification and management of threats.

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics? [See paragraph 138 of this document]

Response:

Yes.

We agree that the proposals in Chapter 4 containing the proposed sustainability reporting-related revisions to parts 1 and 3 of the Code are responsive to the public interest and provide for coherence with the overall body of IESBA’s standards as well as the relevance, clarity, and conciseness of the standards as applicable to sustainability reporting leading to maintaining integrity of parts 1 and 3 and the overall Code implementability and enforceability.

Proposed Revisions to the Extant Code

22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:

- (a) Proposed revisions to Section 220? *[See paragraphs 139 to 141 of this document]*
- (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? *[See paragraphs 143 to 153 of this document]*
- (c) Other proposed revisions? *[See paragraph 155 of this document]*

Response:

No comment.

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

Response:

No.

24. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

Response:

No.

We would prefer that the IESBA allows as much time as needed to develop a standard that meets the needs of users and the profession, rather than being committed to a deadline. There is a risk that the standard will lead to unintended consequences, or that it will need to be revised prematurely if it is developed too quickly.

References

- Al-Shaer, H. 2020, 'Sustainability reporting quality and post-audit financial reporting quality: Empirical evidence from the UK', *Business Strategy and the Environment*, vol. 29, no. 6, pp. 2355-73.
- Boritz, J. E., Kochetova, N. V., Robinson, L. A., & Wong, C. (2020). Auditors' and specialists' views about the use of specialists during an audit. *Behavioral Research in Accounting*, 32(2), 15-40.
- Boussine, Y.D. and Lueg, R. (2023). CSR, moral licensing and organizational misconduct: A conceptual review. *Organization Management Journal* Vol. 20 No.2, pp. 63-74.
- Chen, Y., and R. A. Leitch, 1999, An Analysis of the Relative Power Characteristics of Analytical Procedures, *Auditing: A Journal of Practice & Theory* 18, 35-69.
- Church, B.K., Jenkins, J.G., McCracken, S.A., Roush, P.B. and Stanley, J.D. (2015). Auditor independence in fact: Research regulatory, and practice implications drawn from experimental and archival research. *Accounting Horizons* Vol.29 No.1, pp.217-238.
- Coram, P. J., Harding, N., Hay, D. C., Khan, J., & Prasad, A. (2021). Comments of the AFAANZ Auditing and Assurance Standards Committee on Proposed International Standard on Auditing 600 (ED 600). *Accounting & Finance*, 61(4), 5879-5890.
- DeAngelo, L.E. (1981). Auditor independence, 'low balling, and disclosure regulation. *Journal of Accounting and Economics* Vol.3 No.2, pp113-127.
- Dillard, J., & Vinnari, E. (2019). Critical dialogical accountability: From accounting-based accountability to accountability-based accounting. *Critical Perspectives on Accounting*, 62, 16-38.
- Duff, A. (2017). Corporate social responsibility as a legitimacy maintenance strategy in the professional accountancy firm. *The British Accounting Review*, 49(6), 513-531.
- Free, C., Jones, S. and Tremblay, M.-S. (2024), "Greenwashing and sustainability assurance: a review and call for future research", *Journal of Accounting Literature*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/JAL-11-2023-0201>
- Friedrich, C., and R. Quick, 2024, Do non-audit service failures impair auditor reputation? An analysis of KPMG advisory service scandals in Germany, *Critical Perspectives on Accounting* 98, 102550.
- Friedrich, C., R. Quick, and F. Schmidt, 2024, Auditor-provided non-audit services and perceived auditquality: Evidence from the cost of equity and debt capital, *International Journal of Auditing* 28, 388-407.
- Gramling, A.A., Jenkins, J.G. and Taylor, M.H. (2010). Policy and research implications of evolving independence rules for public company auditors. *Accounting Horizons* Vol.24 No. 4, pp.547-566.
- Green, W., and S. Taylor, 2013, Factors that influence perceptions of greenhouse gas assurance provider quality, *International Journal of Auditing* 17, 288-307.
- Green, W., S. Taylor, and J. Wu, 2017, Determinants of greenhouse gas assurance provider choice, *Meditari Accountancy Research* 25, 114-135.

Greve, H.R., Palmer, D. and Pozner, J.E. (2010). Organizations gone wild: The causes, processes, and consequences of organizational misconduct. *Academy of Management Annals* Vol.4, No.1, pp.53-107

Hay, D.C. (2017) 'Audit Fee Research on Issues Related to Ethics', *Current Issues in Auditing*, 11(2), pp. A1–A22. Available at: <https://doi.org/10.2308/ciia-51897>.

Huang, D. Z. (2021). Environmental, social and governance (ESG) activity and firm performance: A review and consolidation. *Accounting & finance*, 61(1), 335-360.

Huang, D. Z. X. (2022). Environmental, social and governance factors and assessing firm value: valuation, signalling and stakeholder perspectives. *Accounting & Finance*, 62, 1983-2010.

Hurt, R. K., H. Brown-Liburd, C. E. Earley, and G. Krishnamoorthy, 2013, Research on Auditor Professional Skepticism: Literature Synthesis and Opportunities for Future Research, *Auditing: A Journal of Practice & Theory* 32, 45-97.

Lu, M., Simnett, R. & Zhou, S. 2023, 'Using the same provider for financial statement audit and assurance of extended external reports: Choices and consequences', *AUDITING: A Journal of Practice & Theory*, vol. 42, no. 1, pp. 125–54.

Manetti, G., Bellucci, M., Oliva, S. (2021). Unpacking dialogic accounting: A systematic literature review and research agenda. *Accounting, Auditing & Accountability Journal* Vol.34 No.9, pp.250-283.

Maso, L.D., Lobo, G.J., Mazzi, F. & Paugam, L. 2020, 'Implications of the Joint Provision of CSR Assurance and Financial Audit for Auditors' Assessment of Going-Concern Risk', *Contemporary Accounting Research*, vol. 37, no. 2, pp. 1248-89.

Minutti-Meza, M. (2021). The art of conversation: The expanded audit report. *Accounting and Business Research*, 51(5), 548-581.

Moodaley, W. and Telukdarie, A. (2023) Greenwashing, Sustainability Reporting, and Artificial Intelligence: A Systematic Literature Review. *Sustainability* 2023, 15(2), 1481; <https://doi.org/10.3390/su15021481>

Mustikarini, A., and D. Adhariani, 2022, In auditor we trust: 44 years of research on the auditor-client relationship and future research directions, *Meditari Accountancy Research* 30, 267-292.

Neesham, C. and Azim, M.I. (2017) *Building Ethical Capability for Accounting Professionals*. Melbourne. Available at: https://researchbank.swinburne.edu.au/file/4992c92b-f3fe-41a6-a0b3-6ae0ffa7cdfa/1/2017-neesham-building_ethical_capability.pdf.

Paruchuri, S., Hoempler, E.A., Cowen, A.P., Cannella, A.A. and Nahm, P.I. (2024). Governance failure and governance under failure: Reviewing the role of directors in organizational misconduct. *Journal of Management* In press.

Pendse, M.K., Nerlekar, V.S. and Darda, P. (2023), "A comprehensive look at Greenwashing from 1996 to 2021: a bibliometric analysis", *Journal of Indian Business Research*, Vol. 15 No. 1, pp. 157-186. <https://doi.org/10.1108/JIBR-04-2022-0115>

Ruiz-Barbadillo, E. & Martínez-Ferrero, J. 2020, 'Empirical analysis of the effect of the joint provision of audit and sustainability assurance services on assurance quality', *Journal of Cleaner Production*, vol. 266, p. 121943.

Ruiz-Barbadillo, E. & Martínez-Ferrero, J. 2021, 'The choice of incumbent financial auditors to provide sustainability assurance and audit services from a legitimacy perspective', *Sustainability Accounting, Management and Policy Journal*, vol. 13, no. 2, pp. 459-93.

Simnett, R., Tan, Y.H., You, J. & Zhou, S. 2024, 'Australian listed companies' preparedness for mandatory reporting and assurance of climate-related disclosures', Working paper.

Seele, P. and Gatti, L. (2017). Greenwashing revisited: In search of a typology and accusation-based definition incorporating legitimacy strategies. *Business Strategy and the Environment* Vol. 26 No.2, pp239-252.

Seele, P., & Gatti, L. (2017). Greenwashing revisited: In search of a typology and accusation-based definition incorporating legitimacy strategies. *Business Strategy and the Environment*, 26(2), 239-252.

Sheehy, B. (2015). Defining CSR: Problems and solutions. *Journal of business ethics*, 131, 625-648.

Tepalagul, N and Lin, L. (2015). Auditor independence and audit quality: A literature review. *Journal of Accounting, Auditing and Finance* Vol.30 No.1, pp.101-121.

Vollero, A. (2022), "Understanding Greenwashing", *Greenwashing*, Emerald Publishing Limited, Leeds, pp. 1-20. <https://doi.org/10.1108/978-1-80117-966-920221001>

Wilson, A. (2021). 'The art of conversation: the expanded audit report'—a practitioner view. *Accounting and Business Research*, 51(5), 582-584.

Yates, D. (2020). Critical Dialogical Accountability: From Accounting-based Accountability to Accountability-based Accounting: Dillard, J. and Vinnari, E. *Critical Perspectives on Accounting*, 2018, 62, pp. 16–38. *Social and Environmental Accountability Journal*, 40(1), 99-100.