

10 May 2024

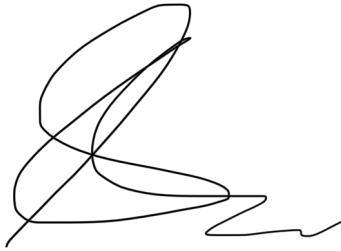
Email: KenSiong@ethicsboard.org

Dear Mr. Ken Siong

RE: SAICA SUBMISSION ON EXPOSURE DRAFT, PROPOSED INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (IESSA) AND OTHER REVISIONS TO THE CODE RELATING TO SUSTAINABILITY ASSURANCE AND REPORTING

1. The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions to IESBA on the *Exposure Draft, Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*.
2. SAICA is South Africa's pre-eminent accountancy body which is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 52 000 members who are chartered accountants [CAs(SA)] and associates [AGAs(SA)] who hold positions as chief executive officers, managing directors, board members, business owners, Chief Financial Officers, auditors, tax practitioners and leaders in their spheres of business operation.
3. SAICA adopted the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) in November 2018 as the SAICA Code of Professional Conduct (the SAICA Code), with certain additional national requirements.
4. SAICA has consulted its membership in response to the Exposure Draft. Members who provided input into the process included academics, professional accountants in public practice and professional accountants in business who have vast knowledge and experience in ethics and sustainability.
5. Following our consultations with our members, material concerns, reservations and proposals have been raised in relation to the Exposure Draft for the attention of IESBA.
6. Our comments are included in the annexures as follows:
Annexure A – Response to request for specific comments.
Annexure B – Response to request for general comments.
7. We would appreciate the opportunity to engage further and to discuss the raised issues if required. Please do not hesitate to contact Viola Sigauke at violas@saica.co.za.

Regards,



Mpho Mookapele
Chairperson: Ethics Committee



Adjunct Professor Yvette Lange
Chairperson: Sustainability Technical
Committee



Natasha Soopal
Executive: Ethics Standards
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ANNEXURE A – RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

Sustainability Assurance

Main Objectives of the IESSA

Question 1 (a)

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]

Response:

SAICA agrees that the proposals in Chapter 1 of the ED are, in principle, equivalent to the ethics and independence standards for audit engagements in the extant Code. There are certain areas that we do not believe should be the same and we have included our comments to this in the various questions below.

In addition, we recommend the following:

- The IESBA maps the differences between the two Codes to assist non-PAs.
- General guidance should be developed for Part 5 including application material; and
- Guidance should be written in “non- professional accountants (PAs)” language.

SAICA further recommends that a reference group of “non-PAs” should be established to support with the development of the guidance.

Question 1 (b)

Do you agree that the proposals in Chapter 1 of the ED are:

Profession-agnostic and framework-neutral] ?

Response:

SAICA agrees that the proposal in Chapter 1 of the ED is profession-agnostic and framework-neutral. Non-adoption by non-PAs will result in challenges in terms of both PAs and non-PAs working together.

The proposed standard is framework- neutral, however regarding profession agnosticism, it is written in a language that may be difficult for non-PAs to interpret and understand. To be properly profession agnostic, standards need to be able to be consistently interpreted and applied and then enforced. We are uncertain if this can be fully achieved given the voluntary basis of sustainability reporting and assurance.

Furthermore, we do not see a reason that the IESSA cannot be adopted and implemented by other standard-setting boards and firms performing sustainability assurance engagements from outside of the accounting profession. However, we do believe that it may take a long time for those from outside of the accounting profession to grasp the concepts such as "fundamental principles", "conceptual framework" and "professional scepticism" that professional accountants are familiar with. We therefore propose guidance as mentioned in question 1 above to allow non-PAs to have better understanding of the principles and requirements.

Question 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?

Response:

SAICA agrees that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics. Some concern around aspects of these characteristics, such as enforceability, has been highlighted as part of responses to other questions in this document. The Code will be applicable to both PAs and non-PAs however it is not yet certain if non-PAs will adopt the Code.

The IESBA has used the robust set of standards already present in the extant Code as a baseline for developing the ethics and independence requirements in the proposed Part 5 of the IESSA. By aligning with existing standards, the IESSA aims to maintain coherence with the overall body of IESBA's standards, which is essential for ensuring consistency and reliability in assurance services.

Definition of Sustainability Information

Question 3

Do you support the definition of "sustainability information" in Chapter 2 of the ED?

Response:

SAICA supports the definition however, we note that part (a) of the definition is not necessary and could be removed. Part (b) and the supporting examples should be sufficient to define "sustainability information" and enable alignment with related reporting and assurance frameworks.

Furthermore, the proposed definition of "sustainability information" is broad and SAICA recommends that additional application guidance is required as to what information is included

and what information should be excluded. There is need to keep this definition under review to ensure alignment with that of the IAASB (ISSA 5000) and the related reporting frameworks.

Scope of Proposed IESSA in Part 5

Question 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?

Response:

SAICA agrees with the proposed scope. We support the middle ground option as the broad option would go beyond the scope of the project.

To effectively safeguard the public interest, all professionals and organisations conducting sustainability assurance engagements, as well as other services provided to the same sustainability assurance clients should adhere to the same high standards of relevant ethical requirements.

Question 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?

Response:

We agree with the proposed criteria.

However, the scope must be broader, and it should include all assurance work even if it is voluntary. Ethical and independence issues are an assumed aspect of assurance engagements and scoping them out merely due to the voluntary nature of a sustainability engagement would expose a user who may rely upon such assurance. There could be possible independence and ethical issues which could influence the assurance engagement.

Careful consideration should be given to the level of ethical and independence requirements applicable to voluntary engagements, however removing it from the scope of part 5 is not in the public interest.

Structure of Part 5

Question 6

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

Response:

SAICA supports including Section 5270 in Chapter 1 of the ED.

NOCLAR

Question 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:

We support the provisions added in extant section 360 and section 5360 to the extent that it does not breach confidentiality laws, and or independence provisions under existing laws and regulations.

Although we support the communication of actual or suspected NOCLAR, we have some concerns on the proposed sections. Section 5360 places the responsibility on the sustainability assurance provider to consider non-compliance with laws and regulations recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements. The concerns are whether the sustainability assurance practitioner would have knowledge of which laws and regulations would have this impact. There are several obligations to both the external auditor and sustainability assurance practitioner with regards to NOCLAR. These obligations include reporting to management and or other bodies. It is not clear who the obligation would be with, and the current requirement seem to be that both would need to report. This could lead to inconsistencies. It might be useful to clarify who would be primarily responsible for these actions.

Question 8

Do you support expanding the scope of the extant requirement for PAIBs?

Response:

SAICA supports expanding the scope of the extant requirement for PAIBS to the extent that it does not breach confidentiality laws, and or independence provisions under existing laws and regulations. However, we have concern on the practical implementation of the paragraph.

Determination of PIEs

Question 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?

Response:

SAICA does not agree with the proposal. What is material from a sustainability perspective does not necessarily align with financial type thresholds as for the determination of PIE for purposes of the audit of financial statements, with sustainability considerations often being qualitative in nature. For example, reporting on matters of sustainability (e.g. human rights) that might not impact on financial statements may well still be in the public interest to report on given raised sensitivity around such matters (even when financial threshold is not met).

We acknowledge work on PIE definitions by IESBA to date and recommend that the IESBA should keep the definition under review and “evolve and refine” this to incorporate the sustainability assurance and reporting considerations as sustainability matures, in addition to the financial thresholds. In the meantime, this is an area where guidance (especially for non-PAs) would be essential.

Group Sustainability Assurance Engagements

Question 10 (a)

The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.

(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?

Response:

SAICA supports the IIS in Part 5 specifically addressing group sustainability assurance engagements. However, working across various jurisdictions may be a challenge and additional guidance may be required in this regard.

The difficulty of untangling the independence for group sustainability assurance engagements requirements may be difficult for non-PAs. This might lead to incidental non-compliance and might also dissuade assurance activities in unregulated environments if too stringent (should voluntary assurance activities be included in the scope).

SAICA commends the IESBA for coordinating with the (ISSA 5000) as the requirements around groups develops. This is an area where the IAASB plans to make updates / additions since their consultation period and should be kept under review by the IESBA to ensure alignment.

It is expected that the IAASB will bring in further alignment to ISA 600. This highlights that while PAs would be conversant with other standards to look to for guidance such as ISA 600, non-PAs would not have that same source of guidance readily accessible to them in terms of experience and understanding.

As the sustainability assurance landscape evolves, we advocate continuing coordination between the IAASB and the IESBA, to ensure uniformity of auditing and ethics requirements.

Question 10(b)(i)

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)?

Response:

We agree that it should be at the same level due to the qualitative characteristics of sustainability assurance engagements as well as the social relevance of sustainability information.

Question 10(b)(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?

Response:

We agree with the proposed requirements which are in line with the requirements of ISA 600 (Revised).

Question 10(b)(ii)

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:

SAICA agrees with the proposed defined terms in the context of group sustainability assurance engagements.

Using the Work of Another Practitioner

Question 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?

Response:

We agree with the proposed independence provisions.

However, due to the administration around the assurance engagement and to reduce risk, there may be entities who elect to not review the information of out-of-network firms and perform their own work only. Furthermore, sustainability assurance practitioners may not be an audit firm, and in general they may not be comfortable with these complex independence requirements. Consideration should be made to the cost associated with using the work of another practitioner as this could be expensive.

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

Question 12

Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements?

Response:

SAICA agrees with the definition of value chain however, we recommend that components should be part of value chain. The removal of the use of components is inconsistent with the use of value chain.

Question 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:

While SAICA believes independence provisions are important, we would support a lighter approach in this regard. We are concerned with the increased exposure and administrative load that the proposed independence considerations about the value chain may create.

In our view we believe that by extending the independence requirements of the Code to value chain entities related to the sustainability assurance client in the IESSA, is inconsistent with the IESBA's main objective of making the IESSA equivalent to the ethics and independence standards for audit engagements. Given the potentially large and dynamic populations of value chain entities for each sustainability assurance client, maintaining independence from these entities will be both difficult and costly.

We question the need for value chain organisations to be independent. In contrast to an audit of financial statements, the auditor is not needed to be independent of all customers, suppliers, or service providers in the operational value chain. The additional danger to independence indicated by the IESBA is questionable, given that the practitioner is already independent of the sustainability assurance client.

The proposed rules for assessing the independence of the value chain company and all its linked entities will be difficult to understand and implement, and costly with possible unintended consequences of creating barriers for entry for those that would be willing and able to take on these types of engagements in the market.

Question 14 (a)

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?

Response:

SAICA agrees that threats may be created in these circumstances.

We suggest that guidance is required in helping to determine how and when such interests or relationships with a value chain entity is relevant to the evaluation of the firm's independence from the client. There is need to clarify independence in the value chain.

Question 14(b)

(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?

Response:

SAICA supports 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.

Providing NAS to Sustainability Assurance Clients

Question 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)?

Response:

SAICA agrees with the provisions of section 5600, as there is different NAS that could result in the future which could have an impact on independence. SAICA believes that there will be challenges in trying to explain materiality as a factor. Materiality is from IFRS and IFRS for SME which best suit the financial statement audits. SAICA recommends that the IESBA provides application guidance on the definition of materiality.

Question 16(a)

Subsections 5601 to 5610 address specific types of NAS.

(a) Do you agree with the coverage of such services and the provisions in the Subsections?

Response:

SAICA agrees as it is the same as assurance.

However, we believe that the coverage of NASs under Part 4 are considered for audit services and by just changing the wordings from audit to sustainability assurance fail to directly link to the NAS that are specific to sustainability reporting. There are different types of new NASs tailored to assist clients on sustainability in the market which may not be easily mapped with the traditional types of NAS currently included in the proposed section 5600.

Question 16(b)

Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

Response:

No specific examples are provided, however as indicated in our previous response, the proposed NASs should be worded in such a way that in future one can easily map any newly developed NAS with the those to be included in the IESSA.

In addition to fees charged other than audit we recommend Section 410.11.A1 to be updated to include other “general consulting services.”

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

Question 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:

SAICA agrees with the proposed approach however there may be a risk for self-review issues, but these could be mitigated through appropriate safeguards. We do not think that confidentiality and self-review threat will be affected by fee dependency. There is a possibility of fee dependency in smaller firms. In instances where the fee is greater for sustainability services than audit there might need to be prescribed percentages for assurance services. Self-interest threats may occur as a result due to the fees creating more pressure on PIEs.

We agree with the proposed approach for long association. With regards to the fees, the concern is that sustainability assurance engagements are not like other assurance engagements. Fees can be large and the sustainability engagement will be recurring as opposed to once-off.

Other Matters

Question 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:

SAICA welcomes more illustrative guidance.

We believe that the additional guidance is sufficiently clear for ensuring high quality sustainability assurance engagements irrespective of whether they are conducted by a PA or other independent assurance service provider. We recommend that the IESBA considers providing case studies-based scenarios to give more guidance.

Question 19

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

Response:

Yes. SAICA suggest that clarification is required for some concepts such as value chain within the context of the frameworks. There is a need to provide example and more clarity on definitions of PIE components. The standard needs to be clear for non-PAs so that it is easier for them to understand and apply. There will be a need for training when working with non-PAs.

Sustainability Reporting

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

Question 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:

SAICA is concerned about the level of collaboration required to implement such standards in the case of non-PAs.

IESBA will create more value if they invest in education and training. We recommend the use of reference groups and monitoring assurance activities.

We believe that it will take time to expand the scope of the Code to all preparers of sustainability information, but we do agree that it is in the best interest of the public to go this route.

We also have concerns on enforceability, and it will also be applicable in the case of preparers of sustainability information. For this, we recommend implementation reviews and to assess the “state of play” across the various jurisdictions on a periodic basis.

Question 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:

SAICA agrees that the proposal is aligned to the public interest.

Proposed Revisions to the Extant Code**Question 22 (a)**

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]

Response:

SAICA agrees with the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4. However, we recommend that application guidance includes examples of unethical behaviour to guide PAs.

The proposed revisions to section 220, including the additional references to collecting and measuring information specifically applicable to sustainability reporting, as well as other minor changes included in the various sections of 220 is clear and adequate.

Question 22(b)

Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]

Response:

SAICA agrees that the proposed examples touching on the conduct to mislead in sustainability reporting, value chain and forward-looking information are clear and adequate.

Question 22(c)

Other proposed revisions? [See paragraph 155 of this document]

Response:

None.

Question 23

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

Response:

No.

Effective Date

Question 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:

SAICA supports the alignment of the effective dates of the final provisions with the effective date of ISSA 5000.

ANNEXURE B – RESPONSE TO REQUEST FOR GENERAL COMMENTS

SAICA engaged members from different constituencies as part of our working group to collate information in responding to the ED. The working group included members from Small and Medium Sized Entities, Regulatory Boards and Academic, amongst others. The comments included in Annexure A therefore includes the inputs from these constituencies.

It is also important to note that South Africa is a developing nation and as noted in the introduction to this submission, SAICA which is Professional Accountancy Organisation (PAO) in South Africa has adopted the IESBA Code. The comments reflected in Annexure A also reflects those of a developing nation.