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May 5, 2024

Gabriela Figueiredo Dias
Chair - IESBA (International Ethics Standards Board for Accountants)
529 Fifth Avenue
New York, NY 10017 USA

Dear IESBA Chair,

Subject: Commendation and Feedback IESBA's Groundbreaking Efforts in Sustainability Assurance Ethics Standards

I am writing to express my sincere commendation and appreciation for the exemplary efforts undertaken by yourself and your team at the International Ethics Standards Board for Accountants (IESBA) in advancing sustainability assurance ethics standards.

The recent publication of the IESBA Exposure Draft on International Ethics Standards for Sustainability Assurance (IESSA) marks a significant milestone in the field of sustainability reporting and assurance and reflects the IESBA's steadfast commitment to promoting ethical practices and integrity in sustainability assurance and reporting processes.

The comprehensive nature of these proposals demonstrates the IESBA's proactive stance in addressing the ethical challenges inherent in sustainability assurance and reporting. By providing clear guidelines and standards, the IESBA is empowering professionals to navigate complex ethical dilemmas with confidence and integrity.

Enclosed with this letter, you will find an appendix with comments and feedback on certain provisions of the Exposure Draft. These comments reflect my appreciation for the initiatives proposed by the IESBA, as well as my constructive input aimed at further enhancing the effectiveness and clarity of the standards.

Please accept my heartfelt appreciation to the IESBA for its unwavering dedication to promoting ethical behavior and accountability in sustainability assurance and reporting. The efforts undertaken by the IESBA are not only commendable but also instrumental in fostering trust, transparency, and sustainability in the global business community.

Sincere regards,

asmajanmuhammad

Asma Jan Muhammad
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APPENDIX

SUBSECTION 5111 – INTEGRITY (5111.1 A2)

Comments:

The way to observe and document such behaviors is not clearly defined. Typically, instances of standing one's ground or challenging others are documented, but they lack standardization in how these actions are reported and addressed at the appropriate level. Therefore, there is a need for standardized procedures to document and report such behaviors effectively.

PROVISIONS RELATING TO SECTION 5410 (FEES)

Background:

I have chosen to focus on the fee provisions for comment, given their significance in ensuring independence, transparency, and ethical conduct in sustainability assurance engagements. Fees are crucial because they can influence the objectivity and integrity of the auditing process, especially when they are negotiated with and paid by the audit sustainability assurance client. By providing feedback on these provisions, I am contributing to the enhancement of standards that are pivotal in maintaining trust and credibility in sustainability reporting.

Comments:

While the provisions related to fees for sustainability assurance work offer a robust framework for addressing threats to independence and ensuring transparency, there are some areas where potential improvements could be made:

- Subjectivity in Evaluation:

The evaluation of threats to independence based on factors such as fee levels, client dependency, and service linkage may involve subjective judgments. Without clear guidelines or thresholds, there is a risk of inconsistency in how firms assess and address these threats, potentially leading to varying levels of independence across engagements.

- Limited Enforcement Mechanisms:

While the guidelines outline requirements and safeguards, there may be limited enforcement mechanisms to ensure compliance. Without effective oversight or penalties for non-compliance, firms may not feel sufficiently incentivized to adhere to the provisions rigorously.

- Complexity and Interpretation:

The provisions are detailed and complex, which could lead to challenges in interpretation, especially for smaller firms or practitioners. Ambiguities in the guidelines may result in differing interpretations among stakeholders, leading to confusion and inconsistency in implementation.

- Inadequate Addressing of New Business Models:

With evolving business models and emerging trends in sustainability reporting and assurance, the provisions may not fully capture new forms of fee arrangements or client engagements. There may be a need for periodic updates to ensure relevance and effectiveness in addressing emerging threats to independence.

- Limited Consideration of External Factors:

The provisions primarily focus on internal factors within the firm and its engagements. However, external factors such as regulatory changes, market dynamics, or economic conditions could also impact fee arrangements and independence. Incorporating a broader perspective may enhance the resilience of the framework.

- Challenges in Implementation for Small Firms:

Smaller firms with limited resources may face challenges in implementing the requirements effectively. The costs associated with compliance, such as investing in quality management systems or independent reviewers, could be prohibitive for smaller practitioners, potentially creating a disparity in adherence to the provisions.

Addressing these potential shortcomings would require ongoing review and refinement of the provisions, considering feedback from stakeholders, emerging industry trends, and evolving regulatory landscapes. Additionally, providing guidance and support tailored to the needs of smaller firms could help enhance the effectiveness and accessibility of the framework.

GENERAL SUGGESTIONS:

- *Restricting Sustainability Assurance to Qualified Firms*

Sustainability assurance should be restricted to firms that meet special stringent Quality Control Review (QCR) criteria and possess a certain level of size and capacity. In essence, very small firms should be excluded from offering these services due to the critical importance of sustainability to both business and the environment. This measure would ensure that ethical standards in sustainability are upheld from the outset of the assurance process.

- *Proactive Measures for Management in Sustainability Reporting*

While standards primarily address those engaged in providing sustainability assurance services, there is a corresponding need for proactive measures from businesses' management. Certain regulations should mandate that management takes the issuance of management representations regarding data provided to sustainability auditors seriously and conscientiously. Mandatory training for business personnel involved with preparation of data required for sustainability measurement and reporting should be implemented, ideally through a certification from a recognized body, demonstrating their understanding of data maintenance, record-keeping, and the understanding of how to accurately measure the Key Performance Indicators (KPIs) related to sustainability. In other words, while the adherence requirements would significantly increase on one side, it would preclude the possibility of shortcuts in the early phase, setting the right tone for thorough ethical sustainability practices from the outset.

- *Addressing Timing Challenges in Sustainability Assurance*

The timing of required assurance poses significant challenges. I have observed in the case of public entities that auditors are often compelled to deliver audit reports within an extremely short timeframe following the close of the financial year. This tight reporting schedule can render it impractical for auditors to conduct thorough assessments diligently. Such demanding reporting timelines exert undue pressure and, at times, compromise the objectivity of the exercise. Sustainability assurance encounters similar challenges. Therefore, I suggest that, particularly in the initial years when businesses and sustainability auditors may struggle to establish a solid foundation for ethical processes and reliable data, they should be afforded adequate time to implement the necessary measures before publishing sustainability reporting data.