

May 10, 2024

International Ethics Standards Board for Professional Accountants (IESBA)

**Global Accountancy Profession Response to the IESBA’s Proposed International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA)**

Dear Chair, Figueiredo Dias and IESBA Board Members

I welcome the opportunity to comment on behalf of the global accountancy profession on the IEISSA Exposure Draft. We strongly support corporate reporting that includes evolving sustainability information on a consistent and comparable global basis. Our public support over recent years aligns with statements by IOSCO, the G20, and the Financial Stability Board.

We are at the start of significant transformation for the global business community and accountancy profession with respect to evolving sustainability disclosures. Standard setters, regulators and policy makers in many jurisdictions are moving with unprecedented pace to provide clear and detailed requirements for these types of disclosures, with significant impacts and changes to the governance, structure, and operating processes of all organizations. IESBA has an important role, like other standard setters, in this transformation.

As the recently appointed IFAC Chief Executive Officer, I express my support for the work and role of IESBA concerning high-quality reporting and assurance and the Board’s development of standards that can be implemented in a practical and workable manner. I believe IESBA and its sustainability-related standard-setting work will only be successful when its sustainability-related standards are shaped in context of the challenges of this transformation of the global business community and the accountancy profession, and if they recognize that market practices are evolving and maturing. This transformation places significant practical limitations on all affected, on what can be achieved, and when it can be achieved.

The actions of standard setters, regulators and policy makers must be undertaken and calibrated with the priority of being an effective positive influence of the transformation and by “bringing along relevant stakeholders” in the business community, including the accountancy profession, on this journey. Standards, regulations, or policies that are not practical, easily understandable, or sufficiently flexible for stakeholders and the accountancy profession will seriously jeopardize the shared goal of high-quality information for better decision making on sustainability matters (climate first, but not just climate)—a goal that we cannot fail to achieve.

We believe that significant parts of the Exposure Draft cannot be practically implemented by assurance practitioners. In reality, the Exposure Draft currently presents barriers to practical implementation, which will impact its subsequent adoption. Below are three key matters we urge IESBA to reconsider to enhance the practicality of implementation:

- **Application:** We urge IESBA to re-consider the practicality of implementing IEISSA for all sustainability assurance practitioners by reducing the standard’s complexity and clarifying technical language, while maintaining consistency with the existing Code, as well as by providing sufficient implementation guidance. IEISSA should also call for transparency from practitioners—conducting engagements in a jurisdiction with assurance requirements and asserting compliance with IEISSA or the Code—that a relevant regulatory body is responsible for sustainability assurance oversight and enforcement in the jurisdiction.

- **Connected Engagements:** The requirements and guidance within IESSA must not create barriers to financial statements auditors providing sustainability assurance to the same client. We believe joint provision of these services will improve quality and best serve the public interest. Clarity is also needed on the categorization of fees paid to sustainability assurance practitioners so as not to discourage connected assurance engagements.
- **Value Chain Considerations:** The proposed requirements and guidance addressing interests, relationships, or circumstances through the assured entity's value chain are likely to cause significant practical issues and should therefore be revised or removed.

It is also critical for the IESBA to continue to work closely with the IAASB on harmonizing terminology and concepts between Part 5 and ISSA 5000<sup>1</sup> as the IAASB works to finalize this new standard, incorporating comments received through the consultation process.

A harmonized, global system for reporting sustainability information will help accelerate sustainability—by providing reporting that addresses the climate crisis, by helping companies and their stakeholders measure and assess progress towards sustainability objectives, and by promoting more sustainable companies that will create long-term value for investors and society.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Yours sincerely,



Lee White,

Chief Executive Officer, IFAC

---

<sup>1</sup> IAASB Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

We have outlined our responses to the questions (in bold) below.

## **REQUEST FOR SPECIFIC COMMENTS- SUSTAINABILITY ASSURANCE**

### **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?**

The proposals in Chapter 1 of the ED are largely equivalent to the requirements for firms performing audits of financial statements in the extant Code. Significant duplication of the Code within the proposals for Part 5 ensure this, which may assist equivalence but is problematic for effectiveness.

Some areas of the Code rely on further context provided by the IAASB's ISAs. For example, ISA 600 (Revised)<sup>2</sup> provides a contextual backdrop to facilitate understanding to Section 405 Group Audits in the Code. However, proposed ISSA 5000 did not include detailed requirements and guidance for groups, which limits the effectiveness of duplicating extant requirements and guidance, even if there are revisions made to improve the context for sustainability.

Some of the requirements may also pose a challenge to creating a level playing field for PAs and non-PAs regarding equivalence with extant requirements. We note that in 5100.2b(b) sustainability assurance practitioners that are not PAs are "encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct" whereas PAs would be required to follow these other parts when conducting engagements. There are also some particular areas such as fraud or NOCLAR where it may be especially important to ensure equivalence to create a level playing field.

A further challenge to equivalence arises in R5410.21. This paragraph refers to situations where a sustainability assurance practitioner firm may stay on after a five year period and R5410.21 (a) (ii) states that "where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance (TCWG) of the sustainability assurance client that having the firm continue to provide the sustainability assurance service would be in the public interest." For PAs, there will be a designated regulatory or professional body in most cases, so they will need to gain similar concurrence from them rather than TCWG. If the IESBA believes that concurrence from TCWG is an adequate safeguard, it is not clear why this could not be applied by choice in all circumstances. If this is not an adequate safeguard, then it is not clear why it is permitted in some cases. The requirement could be amended with R5410.21 (a) (iii) being added which allows all sustainability assurance practitioners to alternatively obtain the required concurrence from TCWG. The IESBA should also consider whether revisions to Section 410 of the extant Code are required as a result of the text in R5410.21 if equivalence is desired.

Finally, obtaining an equivalent level of ethics and independence may be difficult due to sustainability reporting and assurance's early stage of development. Transitional relief may be necessary to enable compliance with specific aspects of Part 5. For example, some jurisdictions may have a limited number of experts for certain sustainability topics. Having a small number of experts could threaten an expert's objectivity. Allowing transitional relief could allow experts to establish objectivity and/or allow for the development of the expert market.

---

<sup>2</sup> ISA 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

## **(b) Profession-agnostic and framework-neutral?**

We support IESBA's mission to develop profession-agnostic and framework-neutral ethics and independence standards for sustainability assurance. As IOSCO stated, "this work will serve to support the consistency, comparability and reliability of sustainability-related information provided to the market, enhancing trust in the quality of that information."<sup>3</sup> However, we recognize this view is not supported by all our member organizations.

We believe Part 5 is technically profession-agnostic, but several significant challenges arise in the practical application of the standards. Part 5 must be developed to encourage broad adoption and harmonization in the way sustainability assurance engagements are conducted by *all* authorized practitioners. In this pursuit, it is imperative that the ethics and independence standards are genuinely profession-agnostic to allow jurisdictions that do not have the ability or predilection to limit the performance of sustainability assurance to the accountancy profession to adopt Part 5. We are concerned that the current proposed standards may be too onerous for non-accountancy professionals to apply which could dissuade some jurisdictions – particularly those that have high rates of non-accountancy sustainability assurance (e.g., Asia<sup>4</sup>) – from adopting Part 5.

Further, even if "adopted" by jurisdictions or "required" under terms of the agreement between IESBA and the International Accreditation Foundation (IAF)<sup>5</sup>, the ability of non-PAs to effectively implement, as well as the ability of regulators to effectively enforce, the provision of Part 5 to non-PAs, may lead to a two-tier ecosystem for sustainability assurance that diminishes investor and user confidence in sustainability disclosures even as reporting and assurance evolves from voluntary to mandatory regulatory practices.

In IFAC's *The State of Play: Sustainability Disclosure and Assurance 2019 – 2022 Trends & Analysis*, we found that 33% of non-PAs that provided assurance over sustainability information in 2022 cited the use of the IESBA Code or another internationally recognized ethics code or standard when using ISAE 3000 (Revised). This data suggests there is not currently widespread familiarity with the Code amongst non-PA practitioners – requiring a significant change in current non-PA practice, which may partly be due to the Code's current complexity.

We view the agreement reached between IESBA and the IAF regarding non-PA practitioners as a positive development, and we support extending required use of the Code for sustainability assurance to others too. However, this development only adds to the importance of making the requirements understandable so they can be applied consistently by both PAs and non-PAs. Further, the success of a profession-agnostic approach depends on effective oversight and enforcement in local jurisdictions; otherwise, a two-tier system of practitioners could evolve (i.e., regulated professional accountants vs. un-regulated non-professional accountant practitioners).

IFAC believes stakeholders' interests are best served by avoiding diverging ethics and independence standards as these are the foundation for high-quality and decision useful sustainability disclosure. It is also important to recognize that the adoption, implementation, and monitoring of compliance with Part 5 will be costly and will require adequate time.

---

<sup>3</sup> IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting

<sup>4</sup> IFAC, *The State of Play: Sustainability Disclosure & Assurance 2019 – 2022, Trends & Analysis*

<sup>5</sup> IAF and IESBA Join Forces to Support Growth in the Market for High-Quality Sustainability Information

As noted in our response to question 1(a), duplicating the Code requirements and guidance in Part 5 creates challenges. The pursuit of equivalence with requirements for audit engagements through this means will lead to Part 5 being seen as onerous by both PAs and non-PAs, reducing the attractiveness to adopt for those with a choice. Barriers will also be created through the language used, which is heavily biased towards the accountancy profession. This will, at best, require a long transition period for non-PAs to become familiar with, but is more likely to discourage adoption and use. Arguably, the language used may also create issues in respect of several Public Interest Framework characteristics including coherence, clarity, and conciseness for some intended users. While there are some helpful pointers within application guidance to direct users unfamiliar with use of language in the Code, more needs to be done to make adoption and implementation easier. The drafting mechanisms are different in standards designed for PAs than other professions, so there are some significant hurdles to navigate.

Finally, sustainability assurance providers may need the support of other professionals (e.g., engineers) to provide information or expertise to complete engagements. These professionals may have existing guidance within their industries or in their jurisdictions which could cause problems where there is interaction with Part 5, so this may be an area where users need specific guidance or support. Independence requirements may be one key area of difference. For instance, we note that in other developing areas of assurance, such as cyber security, AI and similar, there are organizations that both design and assess control environments for entities, so independence does not exist as a concept in the same way that it does for PAs applying the Code in assurance engagements. Guidance should also be added to help identify key elements of what may already be in place in other ethical frameworks and provide some general advice on how to manage conflicting requirements. Where there are two competing requirements, it would make sense to adopt the 'higher' of these, but in the event of directly conflicting requirements, principles-based requirements and guidance may be needed to resolve.

## **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?**

For Part 5, responsiveness to the public interest is of heightened importance due to the potential for broader applicability. Jurisdictional variation in application of the Code would not be replicated in the separable Part 5. This allows jurisdictions the ability to move forward with sustainability assurance as part of a ready to implement solution with ISSA 5000, independent of any existing Code application anomalies.

However, our response to question 1(b) raises concerns about language used within Part 5 and the inaccessibility for users – both PAs and non-PAs – creating challenges in respect of coherence, clarity and conciseness. There will also be some issues around implementability, caused by language and potentially enforceability, though the latter may be jurisdictional, depending upon whether use is mandated, and the oversight processes developed if this is the case.

### **Definition of Sustainability Information**

## **3. Do you support the definition of “sustainability information” in Chapter 2 of the ED?**

We broadly support the definition of sustainability information in Chapter 2 of the ED and recognize that it captures the global aspect of sustainability well. We identify that including references to scope determined by other authorities in subsection (b) means that the proposed definition is not definitive, however, we note the reference to information defined by law, regulation and frameworks allows for inclusion of both the

double materiality concept (e.g., required under the European Sustainability Reporting Standards) and divergence from this as may be applicable depending upon jurisdiction.

We note that the IAASB released a definition for 'sustainability information' within their exposure draft for ISSA 5000, and this could be subject to change based upon the comments received through their consultation. We strongly encourage consistency between the final IESBA and IAASB definitions, so it is presumed the definition in this ED will adopt changes that have resulted from the feedback the IAASB have received. It is important that the IESBA and the IAASB continue to work together to ensure consistency in this area.

#### **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?**

The wording in this section will cause confusion for users. Paragraph 5100.2(a) states "Sections 5100 to 5390 which set out ethics standards for sustainability assurance engagements and other professional services performed for sustainability assurance clients." This implies that sections 5100 to 5390 would be applicable for all services performed for sustainability assurance clients by both PAs and non-PAs. For PAs, this conflicts with what is presented in 5100.2b and 5400.16a.

5100.2b states "Sustainability assurance practitioners might perform professional activities and have professional and business relationships that are not covered by this Part, in which case: (a) Parts 1 to 4B of the Code apply to a practitioner who is a professional accountant." 5400.16a clarifies that for firms performing both audit and sustainability assurance engagements for the same client "the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part apply to the firm, a network firm and the audit team members." Taken together these paragraphs may suggest that where Part 5 does not apply, PAs should apply Parts 1 to 4B. However, there are two issues to adopting this approach. First, the wording of 5100.2(a) creates an implication that Part 5 would apply to all services undertaken for sustainability assurance clients so this would be inconsistent with that. Second, it is not clear exactly which other professional services would be in scope of Part 5, and which are not. The position for audit and review engagements may be clarified in 5400.16a with respect to Part 4A, but it is still not clear for PAs whether Part 5 applies only to sustainability assurance engagements, all sustainability related work or everything except audit and review engagements. Part of this confusion is borne from the wording of 5100.2(a) so we recommend this is amended to make clearer how the other parts of the Code may need to be used for PAs. 5100.2b could also be amended to clarify where Part 5 does and does not apply for PAs. These changes will assist PAs understanding of which sections apply for which services so will aid consistent application.

Non-PAs may experience similar confusion when considering the requirements of Paragraph 5100.2. This is worded in a way that implies application of the ethics element of Part 5 (5100-5390) is not always accompanied by the independence element of Part 5 (5400-5700). As we note above, 5100.2(a) states 5100-5390 apply for sustainability assurance engagements and other professional services performed for sustainability assurance clients. As such, this would be applicable in all cases, whereas 5100.2b states 5400-5700 apply for sustainability assurance engagements "within the scope of the International Independence Standards". This implies potential for sustainability assurance engagements where the

practitioner may be within the scope of the ethics standards, but not the independence standards. It is unclear whether these situations would legitimately arise, and this may need to be reworded.

Linked to the above, in the case of non-PAs, if it is possible to have a sustainability assurance engagement where the ethics standards of Part 5 applies but the independence standards do not (as it is outside of the scope of International Independence Standards), para 5100.2a indicates that Part 4B of the Code sets out the applicable independence standards. This could be taken to imply Part 4B would be applicable in such circumstances regardless of whether the sustainability assurance practitioner is a PA or not. We note paragraph 36 of the EM explains that practitioners who are not PAs are encouraged to apply Parts 1 to 4B of the Code in all situations not covered by Part 5. However, paragraph 35 in the EM states “The IESBA also agreed that the ethics standards in the new Part 5 of the Code should cover all sustainability assurance engagements irrespective of whether they are within the scope of independence standards in Part 5”.

There also appears to be unintended inconsistency in the use of the terms 'professional activities' and 'professional services'. It would make sense if the former was applied where in-house practitioners are conducting sustainability related work (e.g., PAIB staff) and the latter practitioners from firms providing services to clients. However, this is not how the definitions are used. For example, in 5100.6.A4, 'professional activities' is used in a context where 'professional services' would make more sense following that logic. If there is no intended difference, a consistent term should be used to avoid confusion.

**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?**

We agree with the proposed criteria in paragraph 5400.3a, though we note there could be some challenge for non-PAs to gain an understating of terminology such as ‘general purpose framework’ even with the availability of definitions. Terms such as ‘reasonable and limited assurance’, ‘opinion’ and ‘conclusion’ which are referred to in other areas of the related section may also be problematic.

As we note in our response to 1(a), we are also concerned that 5100.2b(b) only encourages application of the general conduct provisions of Parts 1 to 4B of the IESBA Code for sustainability assurance practitioners that are non-professional accountants. This does not create a level playing field in key areas, including but not limited to NOCLAR.

**Structure of Part 5**

**6. Do you support including Section 5270 in Chapter 1 of the ED?**

This section serves as a reminder of some important requirements, and we are supportive of its inclusion. However, as ethical codes and cultural norms vary jurisdiction to jurisdiction, these requirements may create complexity to navigate for some. Additionally, non-PAs may be subject to matters other than those common to PAs. While we have not identified any particular issues that are problematic, this is something that should be further monitored and considered in terms of practical application challenges.

## **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?**

We support the principle behind these requirements but note there may be regulatory prohibitions in some jurisdictions that would prevent two independent parties that have not directly contracted with each other sharing information about a common client. This may make communication of NOCLAR between practitioners' problematic, for example, where the sustainability assurance practitioner is different from the financial statements auditor. In some jurisdictions it may be possible to navigate this issue through wording on engagement letters, but in others regulatory changes may be needed which may be unlikely.

We appreciate the effort taken in this case to avoid creating an obligation to communicate through the word 'consider' in R5360.18a, however this approach may also be problematic. Requirements with such conditional terminology can mislead smaller practitioners into believing there are obligations to disclose confidential information where this is not necessarily the case. Larger firms are better placed to interpret such guidance and navigate the interplay between local requirements and ethical requirements in the Code. This inconsistency could be especially problematic in jurisdictions where legislation would prohibit any sharing of confidential information between independent parties. We note the application guidance in 5360.18a A1 attempts to reassure that disclosure would not be needed where contrary to law or regulation, but it would be useful to more explicitly state that disclosure should not be made where contrary to law or regulation.

Linked to the above point, within the ED, 5360.5 A2 provides examples of laws and regulations the section addresses. While these are only examples and in application guidance rather than requirements, we note the areas identified are very broad, including factors such as environmental protection, protection of human rights, public health and safety and consumer rights. These would heavily vary jurisdiction by jurisdiction; it is difficult to see how an assurance provider could be expected to be aware of all these areas. It is also not clear what the threshold for communicating known or suspected breaches would be, as some such infringements may be minor or even expected in the course of normal business (e.g., an internally acceptable level of goods developing faults that could breach consumer good acts). Further clarity in this area would be useful as the reporting of trivial matters would add little value to any assurance engagement and could take attention away from more important risks.

### **8. Do you support expanding the scope of the extant requirement for PAIBs?**

We support the extension of scope for the extant communication requirements for PAIBs in cases where this is permissible according to laws and regulations. There would be a direct relationship with the sustainability assurance provider that can be managed through wording on engagement letters. As such, this creates a lower risk of accidental breach of local laws and regulations than communication between the financial statements auditor and sustainability assurance provider. However, It would be useful for the requirement or supporting guidance to explicitly clarify that such disclosure would not be required if contrary to laws and regulations. We also note that the wording of the requirement requires the PAIB only to "determine whether disclosure..." is needed rather than clarifying that communication should then be made



and should consider relevance to both the auditor and the sustainability assurance practitioner (noting that they may be separate firms so disclosure to two different firms may sometimes be appropriate).

We raise a concern to be aware of in this area. There are jurisdictional differences in the level of due process and consideration for the type of risks mentioned, especially where issues raised are in respect of suspicions rather than evidence based. The complexities inherent within this should not be overlooked.

### **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?**

Using the audit of financial statements PIE definition for sustainability assurance engagements is appropriate at this time. The recently agreed revisions to the IESBA definition of a PIE for the audit of the entity's financial statements will soon be effective, and harmonization through the recent IAASB consultation on narrow scope amendments due to the definitions is underway. The timing is not right for re-opening this but consistency in definitions and treatments between financial statements audit and sustainability assurance is important. Where there are different providers for each of these assurance services, differences in opinion could otherwise exist that could create challenges for the other engagement.

We acknowledge that through the lens of sustainability, some entities may have conditions that the public would view as important, as factors such as human rights and modern slavery can be of significant public interest but unrelated to the financial condition of an entity. As such, the avoidance of complexity at this stage would be beneficial. We note that there are multiple references to 'heightened expectations' within the ED. The use of this terminology in a repeated way could create challenges if the definition of a PIE is not to be assessed for sustainability related factors, so IESBA should be mindful of this in its external communications.

When the financial statements auditor and sustainability assurance practitioner are not the same, a practical issue may arise in relation to the sustainability assurance practitioner being aware of the entity's PIE status. For example, the financial statements auditor may exercise professional judgment to designate an entity as a PIE, which would not be clear to the sustainability assurance practitioner in a timely manner unless communicated by the financial statements auditor, otherwise they may only become aware if the client discloses or when an audit report is issued.

### **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.**

##### **(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?**

Appropriate ethics and independence requirements over group sustainability assurance would be in the public interest and in accordance with the expectations of stakeholders such as investors.

The IAASB was of the view that it would be inappropriate for ISSA 5000, as an overarching standard, to include detailed requirements and guidance for groups. This inconsistency in approach between IESSA and ISSA 5000 needs resolution and we trust that discussions are taking place with IAASB based upon the feedback received on their exposure draft. If requirements are created in this area, they should be developed alongside ISSA 5000. This will help to minimize practical challenges.

One particular area of complexity would be around inclusion of the value chain of group entities. It would be difficult to determine where to draw the line if guidance consistent with financial statements audits was introduced in this area. While financial statements auditors would have familiarity with the underlying logic and could seek to apply thought by analogy to the situations, they are familiar with, other practitioners would not be able to do this. As such, there would be a risk of inconsistent application.

**(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)?**

We are generally supportive of consistency in this area, provided the expectation is that sustainability assurance engagements will seek to provide reasonable assurance in the near future. Until this is the case, the requirements may be seen as excessively onerous by non-PAs, which could impact adoption.

- (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?**

We have no specific objection to these proposals but note above the issues this may raise for adoption.

- (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”)?**

We note the terms in use are similar to those used for financial statements audits, so auditors should have some familiarity with these which will assist their understanding and effective use. This may not be the case for other sustainability practitioners. When similar terminology was introduced for financial statements audits in ISA 600, there were practical challenges for PAs in applying and understanding. There is a concern this may be repeated for non-PAs using the Code, and this could be compounded by ISSA 5000 not providing the same context that ISA 600 (Revised) does for auditors. Additional guidance may therefore be needed for consistent application.

### **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?**

We support the independence provisions set out in Section 5406 but note that these focus only on independence and do not consider assessing the competency of the other practitioner. Requirements and guidance for considering competency would be useful.

There may be cases when the other practitioner may not provide the information needed to confirm independence. For financial statements audits, the ISAs provide guidance for what should be done in these circumstances, but we note that ISSA 5000 does not provide such guidance. While such guidance may be best suited to the assurance standard, if it is not present therein, this omission may need to be addressed within Part 5.

### **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?**

The definition of value chain refers to the concept of materiality, so is somewhat audit-related. This may create challenges for non-PAs to understand that could in turn impact consistency of application.

**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?**

We do not support the provisions in Section 5407 and recommend these are removed.

Three options are provided for gaining assurance in relation to value chain entities within the application guidance. Performing work at the value chain entity in line with 5407.2 A1 (a) will be impractical in many cases, especially if the value chain entity transacts with a large number of other companies and may receive similar requests from their assurance providers. It would not be possible or likely for access to be allowed to complete work in such instances.

Gaining assurance from another practitioner in line with 5407.2 A1 (b) may also be challenging as those practitioners may not understand independence requirements nor be able to confirm independence in some cases. We also note that R5407.4 requires that where assurance is sought from another practitioner, that practitioner performing work at a value chain entity needs to be independent of that value chain entity, however there is no requirement for that practitioner to be independent of the sustainability assurance client for whom the work will be relied upon.

The third option in 5407.2 A1 (c) will often be required, which entails performing work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out work at that entity. Where this occurs, this section creates no requirement for members of the sustainability assurance team to be independent of the value chain entity. R5407.6 identifies only independence from the sustainability assurance client is necessary where the approach outlined in 5407.2 A1 (c) applies. However, section 5700 clarifies that threats arising from the value chain entity also need to be considered, implying

independence from the value chain entity is also required regardless of whether work is actually performed at that entity. Explicit clarity in R5407.6 that this is required would be useful as practitioners unfamiliar with the Code may otherwise miss this. Placing related requirements or guidance in different sections makes it challenging to gain a full understanding.

More generally in this area, an issue could arise around compliance with requirements considering the level of advisory work currently being completed at entities. If such entities themselves, or entities that are part of the value chain, subsequently request assurance services, this could create problems.

**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?**

We agree that these factors may create threats and that the level of these threats will generally be lower than those arising directly from a client.

**(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?**

We support the approach referred to in paragraph 113 of the EM. The “knows or has reason to believe” principle is appropriate to apply in this area considering the lower level of independence threats. We also agree this will reduce the monitoring burden on assurance providers. We support the guidance presented in section 5700, however this would be more appropriate to include accompanying Section 5407, as this may otherwise be missed by practitioners. At the very least, a cross reference to section 5700 could be made within 5407 to flag the existence of the approach that should be taken.

**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)?**

The provisions in this section replicate some of the information within Part 4a of the Code, so we reiterate our previous comment that some of the context may be lost without the other points of reference that are available to auditors in applying Section 4A. Additionally, a problem that exists in Section 600 of the extant Code has been replicated in 5600 here. The use of the word ‘might’ in a requirement paragraph is problematic and this happens on several occasions within the section, for example R5600.9 and R5600.15. The sections would be clearer if focusing on threats that ‘will’ occur, but we acknowledge the wording may intend to convey that a perceived threat rather than an actual threat may arise which then still need

resolution or action. However, there would be more appropriate ways of dealing with such instances than through this wording that can create confusion and inconsistency. It could be argued that almost any service 'might' create a threat, so wording of the requirement could effectively prohibit all NAS services.

We note again that the level of sustainability advisory work being completed at present may also create future challenges if those clients request sustainability assurance services, so potentially some transitional provisions may be needed to allow practitioners to organize their workloads without disrupting the quality of sustainability assurance.

## **16. 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?**

These subsections provide useful examples of services, and the sustainability data and information covered in 5601 is particularly useful and will help guide practitioners. Splitting these out from the generalized guidance in 5600 is also helpful and makes the examples easier to use.

### **(b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?**

There are no other NAS services that we have identified that should be specifically addressed.

## **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)?**

In IFAC's *Vision for High-Quality Assurance of Sustainability Information* we set out, based on stakeholder engagement, what we believe are best practices for high-quality assurance of sustainability information. This includes the performance of both financial statements audits and sustainability assurance by the same firm which will yield substantial benefits from increased familiarity with an entity's strategy, governance, business model, risks/opportunities, and performance—maximizing value to companies and their stakeholders. We strongly oppose any rules that would discourage firms or companies from engaging in both services. This includes overburdensome or unresolvable independence rules and classification of sustainability assurance fees as non-audit/non-assurance fees. This is a stance that is supported through activity we see.

We are concerned that paragraph 5410.11 A1 of the ED – which refers to paragraphs 410.11 A1 to 410.11 A3 in Part 4A where a firm performs both an audit engagement and a sustainability assurance engagement – creates the perception that the performance of both an audit engagement and a sustainability assurance engagement would create a self-interest threat. Paragraph 410.11 A1 states that “the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of

either the audit engagement or other services” and that “a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor’s independence.”

The ultimate goal of sustainability assurance should be to achieve reasonable assurance. It is expected that fees associated with reasonable assurance of sustainability information will be comparable to fees associated with the audit of financial information, if not greater. We believe this would create a challenge for firms applying paragraph 410.11 A1. And while paragraph 410.11 A2 specifies firms should consider “whether law or regulation mandates the services to be performed by the firm” when determining the level of threat, not all sustainability assurance will be mandatory and sustainability assurance would still be considered a threat – albeit a low-level threat. We recommend the IESBA state affirmatively that fees associated with sustainability assurance engagements are not a threat to independence and address how firms should deal with sustainability assurance fees when assessing total fees. For example, IFAC supports the EU’s decision to exclude fees paid for the assurance of sustainability reporting from the calculation of the 70% limit for non-audit services.<sup>6</sup>

Where the same practitioner is providing two assurance services (namely a financial statements audit and sustainability assurance in this case), reciprocal threats to independence do not exist. Both engagements require the practitioner to be independent under the same rules and the same Code. This is very different to when an assurance service is being provided alongside NAS services where the threats can be more significant. Concerns around fee allocations between assurance and other services are clearer, but the split between two assurance services would not be as important to safeguard independence, and this is even more the case where each assurance service provides the same level of assurance (reasonable). It may also be challenging to separate these fees, especially where some procedures in both engagements may be contemporaneous giving rise to efficiencies.

Where long association is concerned, not all jurisdictions see long association as an issue. Rotation within firms may be a more appropriate approach than requiring change of firms. Changes in provider often result in the greatest risk for assurance engagements as securing quality in an efficient way is difficult without building upon existing knowledge. This is an area where effective safeguards such as annual assessment of auditor performance with mandatory in-firm rotation can be put in place to mitigate risks.

### **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?**

We believe this additional guidance is adequate and clear other than where we have raised specific issues.

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

There are no other matters we wish to raise.

---

<sup>6</sup> Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

## **REQUEST FOR SPECIFIC COMMENTS- SUSTAINABILITY REPORTING**

### **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?**

Expanding the scope of the Code to all preparers of sustainability information will raise questions about adoption and implementation. Within the accountancy profession a mechanism for adoption and implementation has been developed over time through the efforts of PAOs and firm networks. It is not clear what mechanisms exist outside of the accountancy profession nor how developed these may be, meaning that considerable resources for education, training and other initiatives may be required to achieve consistent application by non-PAs. Without this, substantive adoption will be unlikely. Whilst we note that adoption and enforcement is not the mandate of IESBA as a standard setter, we believe lack of enforceability should be considered to maximize genuine as opposed to theoretical reach of the Code. As we have noted earlier, increasing the usability of the Code could lead to broader adoption becoming more favorable, but the language used, and similar factors could currently be a barrier. Further, efforts to extend the application of the Code to stakeholders beyond the boundaries of reasonable adoption, implementation, or enforcement will only serve to diminish the Code's global brand as a high-quality international standard that is widely respected and used around the world.

#### **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?**

The points we have raised in our response to question 20 and elsewhere in this response are also relevant to Chapter 4. We have concerns about the language used in the Code creating inaccessibility for unfamiliar users, creating challenges in respect of coherence, clarity and conciseness. There will also be some issues around implementability and potentially enforceability depending upon jurisdiction.

### **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?**

We believe these are clear and adequate.

##### **(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?**

We believe these are clear and adequate.

##### **(c) Other proposed revisions?**

We believe these are clear and adequate.

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

We note that in Part 2 and Part 3 of Chapter 4 there are references to ‘non-financial information, including sustainability’. These references to sustainability could become problematic if future revisions are made in respect of other non-financial information. To future-proof the revisions, it may be preferable to remove the reference to sustainability when referring to non-financial information.

**REQUEST FOR SPECIFIC COMMENTS- EFFECTIVE DATE**

**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?**

We understand and support the Boards intention to align the effective date of the proposed revisions with ISSA 5000. However, we believe adequate time will be needed to allow training, translation etc. if IESBA Code changes and IAASB standards are released at a similar time and become effective at the same date. The adoption and implementation of the standards will require significant time to enact, and we are concerned that the timeline is not feasible.

**REQUEST FOR GENERAL COMMENTS**

**In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:**

**(a) Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)**

A key point which was raised in the IFAC SMPAG [response](#) to the IESBA’s Proposed Strategy and Work Plan for 2024-2027 is for the IESBA to be far more sensitive to the volume and number of changes going forward as SMPs are struggling with the pace of change. Specific challenges for SMPs include updating manuals and processes, providing staff training and monitoring and control of new changes. Given the volume and complexity, we believe that effective implementation by many SMPs will lag that of larger firms.

**(b) Regulators and Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and oversight communities.**

As outlined above, PAOs are also struggling with the adoption and implementation of new and revised standards because of the pace of change to the IESBA Code. The proposals in the ED will create additional enforcement challenges for PAOs to contend with when undertaking quality reviews and professional conduct activities, as well the level of support that will be required to support education and training for PAs.

We note the Board has acknowledged concerns about the volume and frequency of changes to the Code in its published strategy and work plan for 2024-2027. While the general usage of the IESBA Code remains consistently high across IFAC member jurisdictions, in recent years the global adoption [data](#) (obtained from IFAC’s member compliance program) has indicated a decrease in jurisdictions being able to keep up to date with the latest version of the IESBA Code (fully “Adopted”). Correspondingly, there is an increase in jurisdictions continuing to use an earlier version of the IESBA Code (“Partially Adopted”). We recognize the



importance of IESBA's work on sustainability assurance and reporting, but therefore caution that further changes to the standards should be a key strategic matter for consideration.

**(c) Sustainability Assurance Practitioners Other than Professional Accountants**

We have no further comments.

**(d) Developing Nations**

We have no further comments.

**(e) Translations**

Within our responses, we have raised challenges with some terminology from the audit profession that non-PAs providing assurance may struggle with. This could have an impact on translation too. More generally, we request that the IESBA focus upon avoiding unnecessarily long sentences and implementing concise and easy to understand language, especially as the application of AI translation becomes more prevalent.

We would also recommend that IESBA start looking at developing and maintaining translation libraries. Within these, key terminology that needs to be translated in a particular way for the profession and those outside the profession who will now be using Code could be captured. These will help prioritize certain translations of such terminology and these libraries can be used regardless of whether translation occurs through traditional means or is AI generated. This takes further importance with non-PAs now exposed to wording within the Code and could create efficiencies for translation.