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International Federation of Accountants

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KICPA's Comments on IESBA's Exposure Draft on IESSA

Dear Ken Siong,

We, at the Korean Institute of Certified Public Accountants (KICPA), strongly support the International Ethics Standards Board for Accountants (IESBA) for its commitment to developing high-quality professional ethics standards to raise the bar for ethical conduct expected from professional accountants and to serve the public interest. We are also very pleased to have opportunity to provide our comments on IESBA Exposure Draft, "IESSA". Please see below for our comments on the ED.

A. Request General Comments

The KICPA agrees with the IESBA's proposed development principles and approach to maintain the equivalence to the audits of financial statements, considering market expectation for the credibility of sustainability information. We also agree with the IESSA's proposed structure to include a separate new Part 5 in the Code considering the Code's scalability and clarity. The KICPA generally supports the proposed ED.

B. Request for Specific Comments

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

The KICPA agrees with the above description.

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?.

The KICPA agrees with the above description.

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

The KICPA understands that the IAASB has considered defining the sustainability information focusing on ESG (Environmental, Social and Governance) information, the key focus area for market stakeholders, since the release of the ISSA 5000 ED. The KICPA proposes that the definition of sustainability information in the Code should be aligned with the ISSA 5000.

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 Code applies to all engagements and activities performed by PAs. Considering that the sustainability assurance practitioner who is not a PA is also expected to adhere to the high standards of ethical behavior, the appropriate scope for the ethics standards in Part

5 should cover at least other services provided to the sustainability assurance client by such non-PA assurance practitioners.

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?

The KICPA believes that the appropriate scope of the International Independence Standards in Part 5 is to apply them only to the sustainability assurance engagement where the sustainability information is reported in accordance with a general-purpose reporting framework and required to be publicly disclosed in accordance with laws or regulations, considering the level of public interest involved.

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

The KICPA supports the IESBA's views that there is no significant difference between sustainability assurance engagements and audits of financial statements in terms of the nature of ethical issues to address and application of the conceptual framework. In this regard, the KICPA agrees with the proposed structure to maintain equivalent standards to Part 1~ 4A.

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?

The KICPA supports the proposals. However, they may face practical challenges arising

from communicating NOCLAR to other assurance practitioner (or auditor) outside the client who is neither the client's management nor those charged with governance, including a sharp increase in the need to make strict decisions about potential breach of laws and regulations. Considering such challenges, the KICPA respectfully requests the IESBA to provide specific and practical guidance to help determine whether or not to communicate NOCLAR.

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)?

The KICPA supports the proposed expansion of the scope.

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?

The KICPA agrees with the proposal in the ED, because using a different definition may create confusion, resulting in the cost outweighing the benefits.

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?
- (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?
- (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”)??

The KICPA supports the IESBA’s views that the IIS in the IESSA should specifically address the requirements applicable to group sustainability assurance engagements, because there should be clear independence requirements applicable to the context of group assurance engagement.

We believe that, in the context of group sustainability assurance engagement, the level of independence expected by the information user from the firm and assurance engagement team members performing assurance work at group and components would be same as the level of independence expected in the context of audits of group financial statements.

The only difference is the information that the firm will express an opinion on; financial statements vs. sustainability information. In this regard, the KICPA supports the proposed independence requirements applicable to group sustainability assurance engagements.

However, it is desirable to define the group and component first in accordance with the applicable standards on assurance engagement and to apply the independence standards in a consistent manner with such definitions. However, the ISSA 5000 ED sets forth the

matters specific to another assurance practitioners only, without providing any separate definitions for group or component assurance practitioners, or requirements specific to the context of group assurance engagement.

Against this backdrop, practitioners may face practical challenges in compliance if independence requirements on group sustainability assurance engagement are provided by the Code. The KICPA hopes that such practical challenges can be additionally considered as part of the finalization of the proposed revision to the Code. Please see the additional related comments in the answer for question 11 in the below.

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?

Independence requirements applicable to component sustainability assurance practitioners prescribed in Section 5405 are stricter than those applicable to another practitioners set forth in Section 5406. In this light, there should be a clear distinction between the component sustainability assurance practitioner and another practitioner. However, the ISSA 5000 ED, the standard on sustainability assurance, provides requirements only for another practitioners, without providing requirements for component assurance practitioners. And, considering the nature of sustainability information, it may not be practically possible to clearly distinguish the component assurance practitioner (outside the network) from another practitioner. In this situation, it may be challenging to comply with different independence requirements applicable to the component assurance practitioner and another practitioner in the Code.

We hope that the IESBA additionally considers these practical challenges as part of the

finalization of the proposed revision to the Code. If the IESBA decides to maintain the current ED requirements as they currently are in the final version of the Code, we hope that a non-authoritative guidance will provide examples covering diverse scenarios to mitigate practical complexities in distinguishing the component auditor from another practitioner.

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

The KICPA supports the proposed definition.

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?

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?

Questions 13~14

Considering the practical confusions and complexities caused by the difference between

the ISSA 5000 and the IESSA, the KICPA proposes that the IESSA requirements for another practitioners and practitioners performing assurance work at a value chain entity (VCE) should be aligned with the ISSA 5000.

- The ISSA 5000 consistently applies to the practitioner performing assurance work at a value chain entity the same requirements and application materials relevant to another practitioner, without distinguishing another practitioner from the practitioner performing assurance work at a VCE based on their location in terms of the organizational boundary.
- In addition, the practitioner can't direct, supervise or review the work of another practitioner under the ISSA 5000. If the practitioner can direct, supervise or review the work of another practitioner, another practitioner shall be defined as a member of the engagement team, thus subject to all independence requirements under the Code. However, under the IESSA, any practitioner who separately performs the assurance work at a VCE falls within the scope of Section 5407 irrespective of whether the firm is able to direct, supervise or review the work of that practitioner. Therefore, it is interpreted that the practitioner performing the assurance work at a VCE shall be subject to the limited independence requirements under Section 5407 (required to be independent of a value chain entity only) even when the firm directs, supervises or reviews the work of that practitioner. This may result in discrepancy in the scope of independence requirements between these two standards.

The KICPA also hopes for enhanced clarity of the standards to enable the reader to have a clear understanding about how to differentiate between component practitioner, another practitioner and practitioner performing assurance work at a value chain entity and resultant differences in terms of independence considerations. It is hard to understand the differences intended by the standards unless referring to the diagram provided in the appendix 2 of the Explanatory Memorandum of the ED. Therefore, we

hope that a non-authoritative guidance will provide examples covering diverse scenarios.

The KICPA also support the views that the firm should pay attention to the fact that threats might be created to independence of the assurance client by interests, relationships or circumstances with a value chain entity, if the firm expresses an opinion on the client's overall sustainability information containing the sustainability information of the value chain entity. In this regard, it is deemed appropriate for the firm to take the "knows or has reason to believe" approach as this approach encourages the firm to pay attention to independence, while reducing the associated practical burden.

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

Questions 15~16

The KICPA supports using the provisions equivalent to the audits of financial statements in Section 5600, because it is appropriate to evaluate and address the threat to independence that can be created by NAS, in the same manner as the audits of financial statements.

We generally agree with the specific types of NAS provided in the subsections. In particular, if a PA is the sustainability assurance practitioner, he or she may provide all

types of NAS covered by the extant Code to the assurance client. In this regard, the KICPA supports that the proposed IESSA provisions relevant to NAS should include most of the NAS types covered by the extant Part 4A. However, the KICPA proposes that the IESBA should consider excluding the services that are less likely to create the self-review threat in sustainability information (e.g. tax service), from the NAS sub-types covered in the sub-sections. (Please see the EU Corporate Sustainability Reporting Directive (“CSRD”). The CSRD excludes the tax and payroll services (not allowed to be provided by the auditor of financial statements) from the banned NAS.

In addition, the KICPA proposes that, from the perspective of Part 4A, the IESBA should review whether the auditor of financial statements (who doesn’t perform sustainability assurance services) can provide sustainability data and information services including the preparation of sustainability report to the audit client, although this topic is not in the scope of the proposed revision to the Code.

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)?

The IESBA’s proposed approach is to develop independence standards for sustainability assurance engagements that are equivalent to those applicable to the audits of financial statements. However, when a PA performs both an audit of financial statements and a sustainability assurance engagement for the same client, the proposed approach described in the above is not consistent with the requirement ((ED paragraph 5410.11 A1) to evaluate the threat to the auditor’s independence, by considering the proportion of fees for services other than audit (including

sustainability assurance services) relative to audit fees. This provision may send a wrong signal to stakeholders that the public interest is less important in sustainability assurance than in audits of financial statements. Therefore, the KICPA proposes that the IESBA should provide a guideline to exclude the fees for sustainability assurance engagement from the fees for services other than audit in order to evaluate the threat to independence in applying Paragraphs 410.11 A1~410.11 A3 under Part 4A, if the firm provides both the audit and sustainability assurance services to a client (Please see the EU Directive 2022/2464. Fees for sustainability assurance service is not added to the fees for services other than audit, for the purpose of restricting the proportion of non-audit service fees relative to audit service fees in accordance with Audit Regulation (Regulation No 537/2014)).

18. 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?
19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

Questions 18 ~ 19

The KICPA supports the ED with no other matter to raise.

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?
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?
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,
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including:

- (a) Proposed revisions to Section 220?
- (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?
- (c) Other proposed revisions?

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

Questions 20 ~ 23

The KICPA supports the ED with no other matter to raise.

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?

The KICPA supports the IESBA's proposal.

We hope that you find our comments useful for the IESBA's project aimed to improve the Code's aspects concerning IESSA. Please contact us at dyou@kicpa.kr for any further question regarding our comments.

Thank you.
