10 May 2024

The Chairperson
International Ethics Standards Board for Accountants
529 5th Avenue
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New York 10017
USA

Sent electronically through the IESBA Website (www.iesba.org)

RE: PAFA'S RESPONSE TO THE IESBA'S PROPOSED *INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)* (IESSA) AND OTHER REVISIONS TO THE CODE RELATING TO SUSTAINABILITY ASSURANCE AND REPORTING

PREFACE

The Pan-African Federation of Accountants ("PAFA", "we" and "our") welcomes the IESBA's Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Related to Sustainability Assurance and Reporting Exposure Draft (the ED)., and the opportunity to comment thereon.

PAFA represents Africa's professional accountants, and our objective is to accelerate the development and strengthen the voice of the accountancy profession within the continent and worldwide. In its unique regional capacity to work with Professional Accountancy Organisations and present a unified position for the profession, PAFA hereby presents its responses to the Exposure Draft.

We detail our responses to specific questions in the appendix to the letter below. We hope that our comments will positively contribute to the IESBA future's deliberations. Should you have further concerns regarding our comments, please do not hesitate PAFA Director: Technical Excellence Ms Lebogang Senne on lebogangs@pafa.org.za

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:

Equivalent to the ethics and independence standards for audit engagements in the extant Code?

The proposals outlined in Chapter 1 of the ED closely mirror the existing requirements found in the Code for firms conducting audits of financial statements. This alignment is primarily achieved through significant duplication of content from the Code within the proposed Part 5, which aims to ensure equivalence but poses challenges for effectiveness.

Certain aspects of the Code draw upon additional context provided by the IAASB's ISAs. For instance, ISA 600 (Revised) offers valuable contextual insights for understanding Section 405 Group Audits in the Code. However, the proposed ISSA 5000 lacks detailed requirements and guidance for group audits, thereby limiting the effectiveness of replicating existing requirements and guidance, even with proposed revisions aimed at enhancing sustainability context.

ISSA 5000 serves as a comprehensive standard covering both reasonable and limited assurance, with tailored requirements and application material for each. Thus, recognizing the need for IESBA to formulate ethics and independence standards suited to reasonable assurance engagements is understandable. Nonetheless, the landscape of assurance for sustainability is evolving at varying rates across jurisdictions, with some yet to mandate assurance and others requiring only limited assurance. Equating sustainability assurance to audit engagements would be pertinent only where reasonable assurance is sought, necessitating further exploration of the approach to accommodate the nascent nature of developments and the diverse nuances of sustainability assurance engagements.

Profession-agnostic and framework-neutral?

We support IESBA’s efforts to develop ethics and independence standards for sustainability assurance that are profession agnostic and framework neutral. Echoing IOSCO's sentiment, this initiative promises to bolster the consistency, comparability, and reliability of sustainability-related information disseminated to the market, thereby enhancing trust in its quality.

While we acknowledge that Part 5 is technically designed to be profession-agnostic, we believe that there is a potential for challenges in application. We are concerned that the current draft standards might prove overly burdensome for non-accountancy professionals to navigate, potentially deterring certain jurisdictions—especially those with a significant presence of non-accountancy sustainability assurance—from embracing Part 5. The inability of non-accountancy entities to grasp and adhere to Part 5, or to inconsistently or inadequately implement the standard, could precipitate a bifurcated assurance framework. We firmly believe that stakeholders' interests are best served by maintaining cohesive ethics and independence standards, which serve as bedrocks for delivering high-quality and decision-worthy sustainability disclosures. Moreover, it's crucial to acknowledge that adopting, implementing, and ensuring compliance with Part 5 will entail substantial costs and necessitate ample time for effective execution.

It is therefore imperative that Part 5 is tailored to foster widespread acceptance and uniformity in the execution of sustainability assurance engagements by all accredited professionals, thereby enabling jurisdictions without the capacity or inclination to confine sustainability assurance to the accountancy profession to embrace Part 5.

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?

In considering whether the proposals in Chapter 1 of the ED are responsive to the public interest, particularly in light of the qualitative characteristics outlined in the Public Interest Framework, we emphasize the heightened significance of responsiveness due to the potential broader applicability of Part 5. Unlike the Code, which may exhibit jurisdictional variations in application, Part 5 stands as a distinct framework, allowing jurisdictions to seamlessly adopt sustainability assurance through ISSA 5000, free from existing anomalies in Code application.

Regarding question 1(b), our response underscores concerns regarding the language used within Part 5 and its accessibility to users. These issues pose challenges in terms of coherence, clarity, and brevity, which are essential qualitative characteristics for serving the public interest. Additionally, there may be implementation hurdles arising from language nuances and potential enforceability issues, particularly dependent on jurisdictional mandates and the development of oversight mechanisms if required. Thus, while the proposals in Chapter 1 demonstrate an intent to address the public interest, further refinement may be necessary to fully align with the qualitative characteristics outlined in the Public Interest Framework.

Definition of Sustainability Information

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

We support the definition of 'sustainability information' in Chapter 2 of the ED. It effectively encompasses global sustainability concerns and allows for flexibility by referencing information defined by law, regulation, and frameworks, accommodating both the double materiality concept and jurisdictional variations.

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?

While we agree on the spirit of the proposal, we are concerned that the wording in this section may cause confusion. Paragraph 5100.2(a) suggests that sections 5100 to 5390 would apply to all services for sustainability assurance clients by both PAs and non-PAs, which conflicts with what is presented in 5100.2b and 5400.16a.5100.2b indicates that Parts 1 to 4B of the Code apply to PAs when Part 5 does not cover certain professional activities. However, it's unclear which other services fall under Part 5's scope. Non-PAs may also face confusion with Paragraph 5100.2, as it implies that ethics standards may apply without accompanying independence standards. This raises questions about when independence standards are necessary.

There's inconsistency in using 'professional activities' and 'professional services', which could lead to confusion. Considering Part 5's restrictions on providing other services, it's unclear why non-PAs would opt to apply the Code, especially in sustainability assurance where reasonable assurance engagements may not be prevalent.

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. However, there may be challenges for non-PAs in understanding terms like 'general purpose framework', despite available definitions. Additionally, terms like 'reasonable and limited assurance', 'opinion', and 'conclusion', referenced elsewhere, may also pose difficulties.

Structure of Part 5

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

We acknowledge the importance of Section 5270 as a reminder of key requirements and support its inclusion. However, given the variations in ethical codes and cultural norms across jurisdictions, these requirements may pose navigational challenges for some. While we haven't identified specific issues of concern, it's important to monitor and consider potential 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 underlying principle of the provisions introduced in extant Section 360 and Section 5360 for the communication of (actual or suspected) NOCLAR between auditors and sustainability assurance practitioners. However, it's important to note that regulatory constraints in certain jurisdictions may prohibit independent parties, who haven't directly contracted with each other, from sharing information about a mutual client. This regulatory landscape could potentially hinder communication of NOCLAR between practitioners, particularly when the sustainability assurance practitioner differs from the financial statement auditor.

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

We support the proposed expansion of the scope for communication requirements for PAIBs. Given the direct relationship between PAIBs and the sustainability assurance provider, this extension can be effectively managed through clear wording in engagement letters, minimizing the risk of inadvertently breaching local laws and regulations compared to communication between financial statement auditors and sustainability assurance providers.

It is, however, crucial to remain mindful of potential challenges in this area. Jurisdictional variations in due process and risk considerations, particularly when addressing suspicions rather than evidence-based concerns, may complicate matters. These complexities necessitate careful consideration to ensure effective implementation.

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?

We agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements. The recently agreed revisions to the IESBA definition of a PIE for financial statement audits are soon to take effect, with harmonization efforts underway through the IAASB consultation on narrow scope amendments to definitions. Given this ongoing process, it's prudent to maintain consistency in definitions and treatments across financial statement audits and sustainability assurance. Discordant interpretations between providers of these assurance services could otherwise pose challenges for both engagements.

It's worth acknowledging that from a sustainability standpoint, certain entities may possess attributes considered vital by the public, such as human rights and modern slavery issues, which may not directly impact the entity's financial condition. While there may be a future need to revisit this approach, avoiding unnecessary complexity at this stage is advisable. Notably, the repeated use of 'heightened expectations' in the ED could pose challenges if the PIE definition does not incorporate sustainability-related factors. Therefore, IESBA should exercise caution in its external communications regarding this terminology.

In instances where the financial statement auditor and sustainability assurance practitioner differ, practical challenges may arise concerning the latter's awareness of the entity's PIE status. For instance, the financial statement auditor's designation of an entity as a PIE could remain unclear to the sustainability assurance practitioner unless explicitly communicated, potentially leading to delayed awareness unless disclosed by the client or upon issuance of an audit report.

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.

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?

We support the inclusion of specific ethics and independence standards in Part 5 for group sustainability assurance engagements as it aligns with the public interest and meets stakeholders' expectations, particularly investors. However, one notable complexity arises concerning the inclusion of the value chain of group entities. Determining the boundaries in this regard presents a challenge, especially if guidance akin to that in financial statement audits were introduced. While financial statement auditors may apply their expertise to navigate this issue, other practitioners lack this familiarity, raising the risk of inconsistent application.

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)?**

Yes, we support the idea of aligning the independence provisions for group sustainability assurance engagements with those applicable to group audit engagements, as outlined in Section 5405. However, it's important to consider the practical implications, especially for non-Practitioner Accountants (non-PAs), who may find the requirements overly burdensome until sustainability assurance engagements evolve to provide reasonable assurance.

(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?

Yes, we agree with the proposed requirements.

(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")?

While we agree with the proposal recognizing that these terms are similar to those used in financial statement audits and therefore may aid auditors in their understanding and application, other sustainability practitioners may not have the same level of familiarity with these terms. When similar terminology was introduced for financial statement audits in ISA 600, auditors encountered practical challenges in application and understanding. There's a concern that this may repeat for non-Practitioner Accountants (non-PAs) using the Code, especially considering that ISSA 5000 does not provide the same contextual guidance as ISA 600 (Revised) does for auditors. Additional guidance may be necessary to ensure consistent application of these terms.

Using the Work of Another Practitioner

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

Yes, we agree with the proposed independence provisions set out in Section 5406. However, it's important to note that these provisions solely address independence considerations and do not include assessments of the competency of the other practitioner. Therefore, we believe that incorporating requirements and guidance for evaluating competency would be beneficial.

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?

In principle, we support the proposed definition of "value chain" in the context of sustainability assurance engagements. However, it's worth noting that the definition references the concept of materiality, which is somewhat audit-related. This connection may pose challenges for non-Practitioner Accountants (non-PAs) to grasp, potentially impacting the consistency of its 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 inclusion of all three provisions outlined in Section 5407 due to several challenges identified. Firstly, conducting assurance work directly at the value chain entity, as suggested in option (a), may prove impractical in many instances, especially when the entity engages with numerous other companies. Secondly, relying on another practitioner for assurance, as proposed in option (b), could be hindered by other practitioners' potential lack of understanding regarding independence requirements. Additionally, while the requirement for independence of practitioners conducting work at value chain entities is addressed in the provision, there is no corresponding requirement for independence from the sustainability assurance client relying on the work.

The third option, involving work on sustainability information provided by the sustainability assurance client without direct engagement with the value chain entity, may be the most feasible. However, the absence of a requirement for members of the sustainability assurance team to be independent of the value chain entity raises concerns. Although independence from the sustainability assurance client is specified, there is no explicit requirement for independence from the value chain entity itself, despite indications elsewhere suggesting its consideration.

Furthermore, the scattering of related requirements and guidance across different sections complicates comprehension and application. Additionally, compliance with these requirements may be challenged by the prevalence of advisory work within entities, especially if these entities or others within the value chain subsequently seek assurance services. Overall, these challenges lead us to oppose the inclusion of all three provisions in Section 5407.

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

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.

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 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.

<u>Providing NAS to Sustainability Assurance Clients</u>

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)?

We agree with the provisions.

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?

Yes, we 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?

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)?

We do not agree with the proposed approach. Our concern lies with the current methodology for evaluating independence, which is primarily outlined in Part 4. While Part 4 delineates various facts and circumstances that may create threats to independence, it predominantly focuses on distinguishing between audit and non-audit services, including sustainability assurance engagements. However, it fails to provide adequate guidance on how to apply the conceptual framework when other assurance services may potentially create threats to auditor independence or vice versa. We believe that comprehensive guidance is necessary to address threats to auditor independence arising from the provision of various assurance services, enabling a thorough consideration of all services provided by the firm or network firm from both an auditor and sustainability assurance practitioner perspective.

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.

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 encompass all preparers of sustainability information raises important considerations regarding adoption and implementation. While mechanisms for adoption and implementation have been established within the accountancy profession through the efforts of PAOs and firm networks, it is unclear what mechanisms exist outside of this realm and how developed they are. This uncertainty suggests that significant resources for education, training, and other initiatives may be necessary to ensure consistent application by non-PAs. Without such efforts, widespread adoption is unlikely. Although addressing this issue may not be within IESBA's purview as a standard setter, it's crucial for maximizing the Code's genuine, rather than theoretical, reach. As previously mentioned, enhancing the usability of the Code could make broader adoption more feasible, but current language and other factors may present barriers to this goal.

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?

As already articulated elsewhere in our response, we are concerned that the language used in the Code may render it inaccessible to unfamiliar users, leading to challenges regarding coherence, clarity, and conciseness. Additionally, there may arise issues pertaining to implementability and potentially enforceability, which could vary depending on 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 have no further comments

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 appreciate the intention to align the effective date with ISSA 5000. However, sufficient time must be allocated for training, translation, and other preparatory activities, particularly if both the IESBA Code changes and IAASB standards are released simultaneously and take effect concurrently. Implementing these standards will necessitate a significant amount of time, and we are concerned that the proposed timeline may not be realistic.

Furthermore, if additional time is required to enhance the profession-agnostic functionality and usability of Part 5 of the Code, it would be preferable to prioritize this over aligning the final pronouncement date with ISSA 5000.

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)

We are concerned that many SMPs may struggle to effectively implement Part 5.

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

(c) Sustainability Assurance Practitioners Other than Professional Accountants

We have no further comments.

(d) Developing Nations

We have no further comments.

(e) Translations
In our responses, we've highlighted challenges with certain terminology commonly used in the audit profession, which may pose difficulties for non-PAs providing assurance and could also complicate translation efforts. Additionally, we urge the IESBA to prioritize clear and concise language to enhance understanding.

We suggest that the IESBA consider establishing and maintaining translation libraries. These libraries would include key terminology that requires specific translation for both the profession and nonprofessionals now utilizing the Code. Prioritizing translations of such terms within these libraries, whether through traditional methods or AI-generated translation, could streamline the translation process. This becomes particularly important with non-PAs encountering Code terminology and could lead to increased translation efficiency.