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International Ethics Standards Board for Accountants
529 Fifth Avenue
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Date
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Dear Sirs

Comment Letter: Proposed International Ethics Standards for Sustainability Assurance

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We welcome the opportunity to comment to the International Ethics Standards Board for Accountants (IESBA) on the proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

We would like to thank the IESBA for the considerable efforts and wide-ranging consultation process undertaken in developing the proposed revisions to the Code.

Our individual responses to the IESBA's request for comments are presented in Appendix 1. As an overarching point, we would like express caution about the lack of a published international standard on sustainability assurance, which could hinder the effectiveness of the current process of public comment on the proposed IEISSA.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Jamie Drummond', written in a cursive style.

Jamie Drummond
Head of Assurance
PKF Global

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Appendix 1

Request for specific comments

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

PKF Global Response: We agree with Questions 1a and b.

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? [See paragraph 23 of this document]

PKF Global Response: We agree with Question 2.

Definition of Sustainability Information

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

PKF Global Response: We generally support the definition of “sustainability information”, with the recommendation that the IESBA reconsiders the wording “...opportunities, risks or impacts”. While we acknowledge that this wording is consistent with many sustainability reporting frameworks we believe there is a risk that the wording “...opportunities, risks or impacts” could be overly restrictive, as it doesn’t leave the possibility that some sustainability reporting frameworks may require disclosure of sustainability information which is not based exclusively on the concepts of opportunities, risks or impacts.

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?

PKF Global Response: We agree with the proposed scope for the ethics standards in Part 5.

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?

PKF Global Response: We agree with the proposed criteria, as specified in paragraph 5400.3a.

Structure of Part 5

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

PKF Global Response: We support including Section 5270 in Chapter 1 of the ED.

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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?

PKF Global Response: We generally support the provisions in 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 are concerned that the wording in the proposed provisions may not lead to consistent practice, specifically regarding the word “consider” in the phrase the “...the [professional accountant] / [the sustainability assurance practitioner] shall consider whether to communicate...”.

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)

PKF Global Response: We support expanding the scope of the extant NOCLAR requirements for PAIBs as stipulated in R260.15 and 260.15 A1 in Chapter 3 of the ED.

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?

PKF Global Response: For sustainability assurance engagements addressed by Part 5, we agree with the proposal for the determination of a PIE, for purposes of the audit of the entity’s financial statements. However, please also refer to the second paragraph in our response to Q12 regarding the definition of value chain entities.

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?
 - 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? [See paragraph 88 of this document]
- 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”)?

PKF Global Response: Conceptually, we are in agreement with the IESBA proposal that the International Independence Standards (IIS) in Part 5 specifically address the independence considerations applicable to group sustainability assurance.

While we are in agreement with the conceptual need for this, we do not agree that the relevant terminologies relating to this matter, as proposed in the IIS (Part 5), are appropriate. This is because ED ISSA 5000 does not use the same terminologies as IIS (Part 5), to describe group sustainability assurance engagements.

In our view, the use of different terminologies between IIS (Part 5) and ED ISSA 5000 to describe group sustainability assurance engagements will lead to confusion, which will increase the risk of inconsistent application of the independence provisions in IIS (Part 5) by sustainability assurance practitioners. In our view, such a risk will be less likely to occur if the terminologies in the IIS (Part 5) and ED ISSA 5000 used for describing group sustainability assurance engagements could be aligned.

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?

PKF Global Response: In our view, there might be factors, including ethical matters, which a firm should consider in determining if it is appropriate to use the work of another practitioner that performs assurance work at the firm’s sustainability assurance client and whose work the firm is unable to direct, supervise and review. However, the current wording on this matter in Section 5406 of the IESSA does not refer to such considerations. In our view this could have the potential effect of encouraging the use, by a firm on a sustainability engagement, of another practitioner whose work the firm is unable to direct, supervise or review and without due consideration of threats to the fundamental principles in the IESSA from doing so. This scenario could lead to an over reliance by a firm on other practitioners.

By way of comparison, we note that ED ISSA 5000 addresses circumstances in which a firm might determine that the work of another practitioner is relevant to the firm’s assurance engagement. In our view, the effect of this wording in ED ISSA 5000 is that a firm would not automatically use the work of another practitioner that it is unable to direct, supervise and review. Rather, if such circumstances applied, ED ISSA 5000 stipulates matters for the firm’s consideration, relating to the relevance of the work of the other practitioner.

In our view, Section 5406 of the IESSA should incorporate matters for a firm to consider which are similar to those in the equivalent areas of ED ISSA 5000. Doing so would help reduce the risks we note above, of threats to compliance with IESSA’s fundamental principles arising from an over reliance by a firm on other practitioners whose work the firm is unable to direct, supervise or review.

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?

PKF Global Response: We recommend the definitions of key terms used in the IESSA should, as far as possible, align with definitions used, or defined, in ED ISSA 5000. While the definition of “value chain” in the IESSA is reasonably well aligned with the use of “value chain” in ED ISSA 5000, we note that the IESSA definition excludes “components” from its definition of “value chain”. In our view this could lead to confusion since ED ISSA 5000 does not define “component” and does not use the term “component” in an equivalent context to the use of the term in the IESSA.

Additionally, we encourage the IESBA to consider whether the definition of value chain entity should make explicit reference to public interest entity. Such a reference could help to clarify whether or not a value chain entity could also be classified as a public interest entity from the perspective of the sustainability assurance practitioner.

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?

PKF Global Response:. In our view, there is a significant risk that the provisions in Section 5407 will not be applied consistently by sustainability assurance practitioners

For any given sustainability assurance engagement, there may be a very high number of value chain entities that are relevant to the reporting entity’s sustainability information and which are in scope of the IESSA. Significant investment might be required, by firms or networks, to maintain sufficient, appropriate information to support ongoing compliance with the provisions in Section 5407. In practice, we believe the provisions will be difficult for a firm to administer and, in some circumstances, impractical for a firm or network to comply with, or to design and implement suitable safeguards against.

In our view, it is appropriate for the IESSA to address threats to independence created by relevant value chain entities. We encourage the IESBA to reconsider how to better address this matter, in a practical manner which appropriately recognizes the challenges that sustainability assurance practitioners might experience, when applying independence provisions across high-volume populations of value chain entities.

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 (b) 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?

PKF Global Response:. We agree with 14a).

We are generally supportive of 14b). However, we encourage the IESBA to consider if an expansion of the wording, or further guidance could be included in Section 5700 to better explain how to apply the part of R5700.4 which reads “...knows or has reason to believe”. In our view, this wording is open to interpretation and could lead to inconsistent application.

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)?

PKF Global Response:. We are supportive of the provisions in Section 5600.

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?

PKF Global Response:. We are generally in agreement with the coverage of NAS, and the provisions in subsections 5601 to 5610, except with regard to subsection 5601 on Sustainability Data and Information Services.

In our view the examples of NAS, listed in subsection 5601.3 A1, could be open to interpretation. As part of the exposure process, we encourage the IESBA to keep an open mind on whether the list and descriptions of NAS could be further refined.

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)?

PKF Global Response:. We agree with 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.

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?

PKF Global Response:. Other than our relevant comments listed elsewhere in this response, we do not have any other comments on Chapter 1.

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

PKF Global Response:. We have no matters to report on this question.

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? [See paragraphs 133 to 135 of this document]

PKF Global Response:. We have no matters to report on this question.

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?

PKF Global Response:. We generally agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework. However, we cross refer to our response to Q13 with regard to the implementability and enforceability characteristics.

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? [See paragraphs 139 to 141 of this document]
- b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]
- c) Other proposed revisions?

PKF Global Response:. We agree that the proposed revisions in Parts 1 to 3 of the extant Code in Chapter 4 of ED are clear and adequate, from a sustainability perspective.

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED? [See paragraph 155 of this document]

PKF Global Response:. We have no other matters to raise, concerning the proposals in Chapter 4 of the ED.

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?

PKF Global Response:. We are supportive of 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.