

Ref: KLB/TN/RV

09 May 2024

Dear Chair,

EXPOSURE DRAFT – PROPOSED INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

We appreciate the opportunity to provide comment to the International Ethics Standards Board for Accountants on the Exposure Draft – Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (the “Exposure Draft”).

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms, and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We acknowledge the International Ethics Standards Board for Accountants’ efforts to facilitate greater consultation in the standard setting process. We agree with many of the proposed amendments and ideas in the Exposure Draft, however, we believe there are some areas of concern with the introduction of assurance over climate and other sustainability information in particular regarding potential overreach in applying ethical and independence requirements throughout a value chain and how this will work in practice. The reporting for sustainability is constantly evolving and it may be that some of the items in the proposal will be unworkable from a practical perspective.

Our detailed responses to the questions contained in the Exposure Draft are attached to this letter, and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either myself or Tim Nesbitt, Director – Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au) or Ronnie Vogt Director – Audit & Accounting Technical (03 8610 5118 or ronnie.vogt@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely,



K L BYRNE

Partner



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NETWORK MEMBER

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Overall Questions from Exposure Draft – Proposed International Ethics Standards for Sustainability Assurance (including Independence Standards)

<p>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?</p>
<p>Yes. We agree that the proposal is equivalent and professionally agnostic and framework neutral. However given the extensiveness of the Code, we are unsure whether non-professional accountants providing sustainability assurance will be able to easily and effectively understand and apply the requirements within the Code.</p>
<p>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?</p>
<p>Yes. The proposals are broadly responsive to the public interest. We highlight that a 250 page document does not particularly meet the “conciseness” characteristic. Refer to question 1 for our comments relating to practical application for non-professional accountants.</p>
<p>Definition of Sustainability information 3. Do you support the definition of “sustainability information” in Chapter 2 of the ED?</p>
<p>Yes. The definition is sufficiently broad to encompass foreseeable “sustainability information”.</p>
<p>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?)</p>
<p>Yes, we agree with the proposed scope. The proposed ethics standards are an extension of similar standards for the provision of assurance services by professional accountants.</p>
<p>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?</p>
<p>5400.3a, addresses when the assurance practitioner expresses an opinion, but in some cases only a conclusion is required for limited assurance as opposed to reasonable assurance. Suggest that the paragraph be amended to say opinion or conclusion, and or that paragraph 5400.3c be moved to be the first paragraph in this sub-section (thus it would become 5400.3a) as reference to “opinion” includes both reasonable and limited assurance throughout the whole of Part 5, not just in para 5400.3a</p>
<p>Structure of Part 5</p>
<p>6. Do you support including section 5270 in Chapter 1 of the ED?</p>
<p>Yes, we support this inclusion.</p>
<p>NOCLAR</p>
<p>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 5369 (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?</p>
<p>Yes, we support the added provisions.</p>
<p>8. Do you support expanding the scope of the extant requirements for PAIBs (Professional Accountants In Business)?</p>
<p>Yes, we support expanding the scope for PAIBs.</p>
<p>Determination of PIEs</p>
<p>9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purpose of the audit of the entity’s financial statements?</p>
<p>Yes, we agree with this proposal as otherwise there will be different definitions/terminology used which will add further complexity and potential misunderstanding.</p>

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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 applicable to 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 engagement 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 engagements?

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”)?

Except for the points included below, we concur with the proposal as it is consistent with the concept and requirements of a group audit.

There may be challenges to practical implementation where jurisdictions have differential requirements as to who provides the assurance on the sustainability information in one jurisdiction (such as the requirement for the financial statement auditor to provide the sustainability information assurance) which may not be permitted in another jurisdiction. This could become burdensome and result in duplication of effort as a different practitioner may be required to provide assurance over the same sustainability information.

For clarity and guidance purposes we recommend the explanatory memorandum appendix 3 diagram be included within the Code.

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 in principle. However, we note the practical application of this has yet to be tested.

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 “value chain” concept is still unclear, and as such we believe it would be inappropriate and premature to extend independence generically to entities within a value chain. It is currently unclear which entities might be in a value chain at the inception of a sustainability engagement. Thus, assurance providers could be commencing in good faith and then resigning due to independence issues.

Any extension of independence beyond the directly contracted assurance client is overly complex and potentially unworkable. With the interconnectivity of businesses in industries it may be almost impossible to comply with the independence requirements for value chain entities, especially in scenarios where the sustainability assurance has to be provided by the financial statement auditor.

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?

Refer to our response to Question 12.

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<p>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:</p> <p>a) Do you agree that certain interests, relationships or circumstance 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?</p> <p>b) If yes to 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?</p>
<p>Refer to our response to Question 12.</p>
<p>Providing NAS to Sustainability Assurance Clients</p> <p>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)?</p>
<p>In principle yes, subject to our response to Question 12.</p>
<p>16. Subsections 5601 to 5610 address specific types of NAS.</p> <p>A) do you agree with the coverage of such services and the provisions in the subsections?</p> <p>B) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?</p>
<p>Yes, we agree with the coverage. At this point in time, we don’t have any other NAS that Part 5 should specifically address.</p>
<p>Independence Matters arising when a firm performs both audit and sustainability assurance engagements for the same client</p> <p>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)?</p>
<p>Not applicable in our jurisdiction. There is currently a requirement in Australia that the financial statement auditor provide the sustainability assurance.</p>
<p>Other matters</p> <p>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 improvements do you have?</p>
<p>We raise the questions of whether non-professional accountants would be clear on what the “informed third party” test actually means, as well as how this test would be interpreted as a professional accountant.</p>
<p>19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?</p>
<p>No other matters to raise at this time. However, as there has been no practical testing of this it is not clear as to the nature or extent of issues that may eventuate.</p>
<p>Sustainability Reporting</p> <p>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?</p>
<p>No further comments at this time.</p>
<p>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?</p>

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We have concerns about the broad range of users of sustainability information (in particular) and how a professional accountant can appropriately consider their needs and relative considerations of materiality. Therefore, whilst we acknowledge the importance of ethics and support the proposals in principle, the requirements may have unintended consequences with their breadth of application and consideration.

Also, refer to our response to Question 2.

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?
 - B) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?
 - C) Other proposed revisions?

In principle yes. However, given there is little sustainability reporting presently it is difficult to anticipate any practical issues which may arise.

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

No other matters to note.

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.

Yes. However, we believe the timing of application needs to be considered for non-professional accountants who will require sufficient time to assess and determine whether an alternate code (if they use one) is as stringent, and/or to understand the obligations of the proposed Code.