

10 May 2024

Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants

Dear Gabriela,

Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

Thank you for the opportunity to comment on the IESBA's Exposure Draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised, that are within our mandate.

The NZAuASB broadly supports the IESBA's proposed revisions relating to assurance over sustainability information. Given the degree of public interest in sustainability information, we agree that ethics and independence for sustainability assurance practitioners should be at the same high standard as for financial auditors.

We do have the following matters to highlight:

Profession agnostic

We commend the IESBA for working closely with the International Accreditation Forum (IAF) with the objective to develop a profession agnostic standard. The announcement of this strategic partnership is a significant first step towards achieving this goal.

We urge the IESBA to continue working with the IAF, and others, to identify gaps or inconsistencies in understanding by various professions. It is in the public interest that there is consistent application of the ethical and independence requirements.

We are concerned that the proposals may not look and feel profession agnostic. The "lift and shift" approach has largely replicated material from Part 4A. The terminology used in the exposure draft is different from terminology used by other professions. We question whether the proposals will be consistently understood by all assurance practitioners. We recommend that a comprehensive education and familiarisation effort is developed to enable consistent application by a wide range of practitioners.

Complexity of the proposals

We are concerned that the proposals are long and complex. This complexity is heightened in the sections on group sustainability assurance engagements (s5405); independence considerations relating to assurance work at, or with respect to, a value chain entity (s5407); and the sub-sections on specific non-assurance services (ss5601 – ss5610). Given the developing nature of both sustainability reporting and the associated assurance market, we recommend that these sections or sub-sections could be removed or shortened for the introduction of Part 5, proportionate to the stage of maturity of the market. These matters may be better first explored by demonstrating the principles of the Code in non-authoritative guidance. If necessary, these sections could be added or expanded in due course.

We note the misalignment of definitions and scope of these proposals with the IAASB's draft ISSA 5000. We consider this will add to complexity. We encourage the IESBA and the IAASB to continue to work closely together to minimise differences and ensure the requirements are aligned and interoperable. If it

is necessary for definitions to differ, we strongly recommend that the defined term differs, rather than using the same term to mean different things.

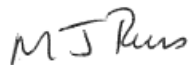
Importance of competence

We consider that the competence and independence of the assurance practitioner are of equal importance, especially for sustainability information, where the breadth of competence needed may be extensive. We encourage the IESBA to strengthen the focus on competence of the sustainability assurance practitioner in the underlying subject matter including local considerations, which may be critical to enable the exercise of professional scepticism.

We have included suggestions to address our concerns within our responses to selected questions below.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Karen.tipper@xrb.govt.nz

Yours sincerely,

A handwritten signature in black ink that reads "MJ Russ". The letters are cursive and slightly slanted.

Marje Russ

Chair - NZAuASB

Email: MRuss@tonkintaylor.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

- 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? [See paragraphs 19 and 20 of this document]
 - (b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of this document]

Response:

- (a) We strongly agree that ethical and independence requirements for assurance over sustainability information should be of the same high standard as those for financial audit engagements. It is in the public interest that sustainability assurance engagements follow the same high ethical and independence requirements as financial statements assurance.
- (b) We commend the work that the IESBA has done with the International Accreditation Forum. This strategic partnership is a significant first step towards a profession agnostic standard. However, we are concerned that the proposals may not look and feel profession agnostic. While we understand the intent behind using the same language as the current Code of Ethics, we note that the language and structure of the requirements may be unfamiliar to practitioners from non-accounting professions.

We have heard the following concerns regarding the “lift and shift” approach, that has largely replicated existing requirements from the extant Code, from practitioners from various backgrounds:

- the use of financial statements audit terminology and the lack of plain language make the requirements hard to interpret and apply for those unfamiliar with the extant Code;
- the length and complexity of the requirements might lead to inconsistent interpretations and inconsistent application;
- there could be a high cost of implementation of these proposals in smaller organisations and organisations not familiar with the extant Code, creating a barrier to participate.

We urge the IESBA to issue appropriate guidance to facilitate consistent interpretation and application of the proposals, refer to our response to question 18.

- 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]

Response:

We consider that the proposals are responsive to Public Interest Framework for:

- *Consistency*: the proposals maintain the equivalence and consistency with the extant Code.
- *Timelines*: we commend the speed of the process the IESBA has undertaken to respond to public interest needs.

We have concerns that the proposals do not meet the following qualitative characteristics:

- *Clarity and conciseness:* We have consistently heard that the proposals are long, complex, and difficult to navigate. This may not support the proper intended application nor facilitate implementation. Specific examples that we urge the IESBA to clarify include:
 - R5405.12 was highlighted as difficult to understand.
 - how to interpret “might” in the self-review threat prohibition (R5400.32),
 - when and how to apply the “reason to believe test” in relation to value chain entities (R5700.4),
 - independence of another assurance practitioner (R5406.5),
 - when NOCLAR requirements apply (R5360).
- *Implementability.* Given the breadth of possible sustainability related subject matter, it is highly likely that a range of assurance practitioners may be needed. Assurance practitioners from backgrounds other than accounting expressed their concerns that it will be disproportionately more difficult to implement the proposals for them than for those who currently apply the extant Code as their systems are not currently designed to incorporate the extant Code. We recommend that a comprehensive education and familiarisation effort is developed to enable consistent application by a wide range of practitioners.

3) Do you support the definition of “sustainability information” in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]

Response:

We support the definition included in the glossary. We consider that it is important that the definition is broader than economic, social and governance factors commonly known as ESG. We believe that there could be confusion in the market due to sustainability information being defined differently in these proposals and in ISSA 5000.

We urge the IESBA to work with the IAASB to align the definitions or to consider using a different term in these proposals such as sustainability related information to differentiate the two and highlight the different scope in each standard.

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? [See paragraphs 30 to 36 of this document]

Response:

We agree that those who provide assurance services should adhere to the same ethical standards when providing any other services to assurance clients. These ethical standards should expand across the entire assurance organisation irrespective of a firm’s legal structure and the other ethical standards that the company may have to adhere to.

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? [See paragraphs 38 to 43 of this document]

Response:

Yes. We support the criteria in paragraph 5400.3a.

- 6) Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]

Response:

Pressures to Breach the Fundamental Principles

Yes. This section might be particularly useful for assurance practitioners who are less familiar with the Code.

Other relevant sections from Part 2

In our view Section 230 – Acting with Sufficient Expertise, should be brought from Part 2 and, after adjusting it for sustainability considerations, included in Part 5.

‘Sufficient Expertise’ is especially important for assurance over reported sustainability information, as the subject matter may be broad.

We highlight the importance of having sufficient knowledge of the context of the sustainability information. This “contextual knowledge” may be engagement specific to cover both the topic and a location, for example if there are any specific environmental, social, economic or cultural matters (understanding local communities, indigenous communities, etc.). It would be important for practitioners to evaluate their expertise in relation to each engagement performed.

- 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? [See paragraphs 56 to 67 of this document]

Response:

Yes, we support the requirements. We agree communication is required from both the external auditor to the sustainability assurance practitioner and the sustainability assurance practitioner to the external auditor.

We recommend that the IESBA issue additional guidance relating to NOCLAR that covers practical timing issues, sustainability related examples and scenarios to explain how NOCLAR should be considered in relation to specific reporting frameworks and what thinking process the sustainability assurance practitioner should follow when dealing with NOCLAR.

We are concerned about the timing of the communication. As both engagements might not be undertaken at the same time, it is not clear what steps should be taken if NOCLAR has been communicated and if the other practitioner has already issued the audit/assurance report.

- 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) [See paragraph 68 of this document]

Response:

No comment as these proposals are not within the mandate of the XRB.

- 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? [See paragraphs 80 to 85 of this document]

Response:

We agree that the same determination of public interest entities (PIEs) is applied for audits and sustainability assurance engagements at this time.

As the market develops, we expect that there might be more entities that are not captured in the current PIE definition for which the public interest in the entity's sustainability impact is high and that require additional independence considerations. We encourage the IESBA to monitor the sustainability reporting developments.

- 10) The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements. [See paragraphs 86 to 92 of this document]
- (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? [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")?

Response:

We believe that group assurance engagement considerations will be important in light of upcoming regulatory regimes, including New Zealand's climate reporting, requiring reporting of sustainable information by group entities.

However, we do have concerns regarding the complexity of the proposed requirements.

Interoperability with IAASB's ISSA 5000

We note that the exposure draft of ISSA 5000 did not include group considerations but that the IAASB is working to address group considerations in finalising ISSA 5000. Given the IESBA's and IAASB's different timeframes and stages for developing group considerations, we are unable to comment on how these proposals will work together. We are concerned about the interoperability of the standards. We encourage the IAASB and IESBA to work together to address group considerations holistically. We also encourage the IESBA and the IAASB to align definitions, for example, the definition of components, to reduce complexity. We recommend this section would benefit from additional time and recommend that group considerations might better be addressed in a phase 2 of updating Part 5, developed in tandem with performance standards to be developed by the IAASB.

Complexity of the requirements

The current independence requirements for individuals on a group engagement team from a non-network component audit firm are complex. We have concerns that replicating the same

independence provisions for assurance engagements over sustainability information might result in unintended consequences:

- Concentration in the assurance market, as the provisions might discourage current network firms from using non-network assurance practitioners;
- Complexity may deter assurance practitioners from providing group sustainability assurance engagements;
- Inconsistent application due to lack of understanding of the provisions.

We urge the IESBA to consider how the requirements could be simplified or removed from the standard at this time. We encourage the IESBA to address group assurance considerations in non-authoritative guidance in the first instance. This guidance could sit alongside the Code and may be codified in due course.

Defined terms in the context of group sustainability engagement

We support all-inclusive language, for example “key sustainability assurance leader” instead of “key audit partner”.

- 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? [See paragraphs 93 to 101 of this document]

Response:

We agree with the principles however, we have identified several matters regarding how the section has been written.

More application material is needed

We found the Explanatory Memorandum (EM) useful in helping us understand the meaning of the provisions. We suggest the IESBA includes similar explanation in the application material to enable consistent application. For example:

- Another practitioner needs to also be independent from related entities to the entity on whose sustainability information assurance work is performed. This requirement is laid out more clearly in EM paragraph 98 than R5406.5.
- Another practitioner needs to apply the PIE independence requirements if the assurance client of the firm is a PIE (even when the entity assured by another practitioner is not PIE for another practitioner). This is stated more clearly in the explanation included in EM paragraph 99 than in R5406.5.
- The proposals do not clearly outline what to do if confirmation from another practitioner cannot be obtained. The explanatory memorandum para 100 states that the firm will need to consider the requirements of applicable assurance standards to determine if it can proceed to use the assurance work of that practitioner. Given that different assurance standards might be applied by different practitioners, this could lead to inconsistency regarding application of section 5406. We recommend more explanation is provided.

Alignment between the standards

“Another practitioner” is defined differently by the IAASB in proposed ISSA 5000 then by the IESBA in proposed Part 5. There is confusion as to why the use of another practitioner is included within

both the performance assurance standards and the ethical standards. We encourage the IESBA to work closely with the IAASB and:

- ensure consistency of definitions
- ensure interoperability of requirements
- clarify how the assurance performance and ethical requirements work together
- avoid unnecessary duplication.

Confirmation received from another practitioner

We support the requirement that confirmation should be received from another practitioner that they understand and apply the relevant ethical and independence requirements.

- 12) Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements? [See paragraphs 102 and 103 of this document]

Response:

Given the complexities surrounding the value chain, we believe that the sections 5407 and 5700 on value change should be removed from Part 5 at this time. Instead, we recommend that the IESBA develop non-authoritative guidance related to value chain entities that sits alongside the Code. This would enable the guidance to be developed, updated and added to overtime. Our responses to Question 12, 13 and 14 are made in this context.

If the IESBA determines it necessary to cover the value chain, we support that value chain is defined within the sustainability reporting framework applied by the assurance client because different reporting frameworks might contain different definitions. We found it useful that the examples in the IESBA value chain definition include customers and suppliers of the assurance client.

Value chains of some assurance clients might include many entities. We ask the IESBA to clarify that independence considerations would be important in relation to those value chain entities that are material for sustainability reporting purposes as opposed to all entities within the value chain. This clarification is included in the EM in paragraphs 102 and 103 but it is not clear in the definition or relevant sections in the ED.

- 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? [See paragraphs 104 to 110 of this document]

Response:

Our key concern is the length and complexity of proposed Part 5. Given the complexities, and the emerging issues surrounding the value chain, we believe that the sections 5407 and 5700 on value chain should be removed from Part 5 at this time.

Given the complex nature of, and still emerging practice to assure information from, the value chain and the different parties that could be involved in the sustainability assurance engagement, including the assurance client and group, customer, other assurance practitioner, component assurance practitioner, we recommend that the IESBA first develop non-authoritative guidance to illustrate how the principles of the Code may apply. We recommend that the IESBA develop mini case studies based on real life examples of the considerations and the threats to independence in each of the scenarios.

Although our preference is for the value chain sections to be placed into non-authoritative guidance, if the IESBA determines it necessary to include these sections in Part 5, we consider it would be clearer to merge the two sections 5407 and 5700. If a practitioner wants to look up all requirements for the value chain, it is useful for all considerations to be included in the same place.

Through our outreach, we have identified different interpretations of the proposals and where we believe further clarity is necessary either if the existing value chain proposals are retained or if they are moved to non-authoritative guidance. An example is if the assurance work on the value chain entity is performed by the sustainability assurance practitioner. There are different interpretations as to whether the:

- sustainability assurance practitioner is required to be independent from related entities of the value chain entity?; or the
- reason to believe test applies in these circumstances?

While commentary in the EM provides some answers, the requirements, as currently drafted, are not clear, and may create confusion.

Another area of confusion is whether other services can be provided to value chain entities. Sustainability assurance practitioners are concerned that providing non-assurance services for certain entities will exclude them from providing sustainability assurance services for many assurance clients. For example, one manufacturer's scope 1 GHG emissions might impact multiple entities Scope 3 GHG emissions.

Further time is needed to explore appropriate safeguards and considerations that would be both practical and establish appropriate guardrails applicable for the value chain, for example if "another sustainability assurance practitioner provides assurance over the information" would there be an appropriate safeguard to address threats resulting from NAS provided 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? [See paragraphs 111 to 114 of this document]

Response:

We agree that certain interests, relationships, or circumstances relating to a value chain entity might create threats to independence. However, our key concern is the length and complexity of proposed Part 5. Given the complexities surrounding the value chain, we believe that the sections 5407 and 5700 on value chain would benefit from additional time to develop. We recommend these sections should be removed from Part 5 at this time. We recommend that the IESBA explore the value chain considerations in non-authoritative guidance.

We consider the "reason to believe" test in section 5700 is reasonable. If the IESBA determines to finalise Part 5 inclusive of these proposals we consider that the clarity of section 5700 could be improved, by adding the following considerations:

- Material about what “reason to believe” means, the steps that should be taken, and what should be documented to prove that the practitioner/firm considered the knowledge and information they have.
- Explanation from the Explanatory Memorandum could be included directly in the section and detail that there is no expectation for an up-to date database and monitoring activities.
- The test could be more clearly linked to the circumstances included in section 5407, for example can it be applied when sustainability assurance practitioner performs work on the value chain entity or is it limited only to situations when another practitioner performs work on the value chain entity?
- An example of an objective and reasonable third party.

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)? [See paragraphs 115 and 116 of this document]

Response:

We broadly support the independence provisions for providing non-assurance services by assurance practitioners to an assurance client but recommend some further considerations as detailed below.

Self-review threat prohibition is not consistently understood

We believe that it is important to issue non-authoritative guidance to educate users of the Code not familiar with writing conventions of the IESBA to address how to interpret the self-review threat prohibition. During our outreach, we found out that the self-review threat prohibition is not well understood. The word “might” is not consistently considered as a very high bar. Some understand that the prohibition would apply only if the service actually created a self-review threat, as opposed to the consideration being a possibility of creating the threat.

There are also inconsistencies in interpreting how a self-review threat should be identified in practice. The confusion is created when IT related services are provided to the assurance client, as in many circumstances it is not obvious when the IT services might create the threat.

Transitional provision for providing non-assurance services

We are concerned that it is not clear whether the requirements apply prospectively or retrospectively.

We recommend that the IESBA should add a transitional provision to clarify that the proposals are not applicable to non-assurance services provided for services that might be currently performed by the assurance practitioners before the proposals take effect.

There may be services underway at the time the proposals become effective that are not in accordance with the proposed new independence requirements, but the practitioners who entered into those services provided them in good faith, following the independence requirements at the time. The IESBA might consider adding a similar transitional provision that was adopted when NAS related revisions to the Code were adopted.

16) Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]

(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?

Response:

We consider that the sub-sections on NAS are repetitive and include limited sustainability related services. We recommend that subsections 5601 to 5610 be removed. This will significantly reduce the length of Part 5.

We encourage the IESBA to start with a principles-based approach to NAS and that the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG) are sufficient.

We recommend that non-authoritative guidance be developed to explore application to sustainability related services and include broader issues that might create threats to independence in the sustainability context. For example:

- A service of calculating greenhouse gas emissions factors (greenhouse gas emissions factors are used for calculating greenhouse gas emissions by organisations). These factors may be developed for a third party, may be used by many reporting entities, and may be verified by other practitioners. It could be helpful to see what type of NAS category this service falls into and what threats arise or what safeguards, if any, may reduce the threat to an acceptable level.
- The inclusion of tax services section has been queried given tax is thought of as financial information and the connection or threats created are not immediately apparent. We support an example of this nature given carbon tax legislation and carbon tax preparation services. We recommend that the IESBA develop a case study of the type of tax services that might create a self-review threat to illustrate the relevance to sustainability assurance practitioners.

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)? [See paragraphs 123 to 131 of this document]

Response:

We agree that threats to the fundamental principles and to independence might arise when the sustainability assurance practitioner also audits the client’s financial statements. We agree that it is especially relevant regarding fees and long association with the client.

We support the additions to Part 4A because the considerations of fees and long association should include provision of sustainability assurance services and we agree that the same principles should be included in Part 5. However, we have specific concerns regarding the level of prescription for sustainability assurance engagements given that the regimes are still developing. We have included more about long association in question 18.

We welcome the disclosure of all fees paid to sustainability assurance practitioners but we have heard mixed views regarding proposed fee requirements in Part 5. These include:

- concerns that the section is too long and too detailed.
- concerns that fees for sustainability assurance might be much higher than audit fees,
- that fees might change or increase at some point with move from limited to reasonable assurance.

- fees might be not easily separated in cases of integrated reporting assurance.
- Concerns about where the fees should be disclosed by the assurance practitioner, if the disclosure is not required by the reporting framework.

We encourage the IESBA to be less prescriptive at this current stage and instead to emphasise threats arising from fees and how the threats can be addressed at the principles level.

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?

Response:

We found the sustainability specific examples included in the proposals appropriate. We do believe that there is a need for additional sustainability related examples.

The need for additional guidance has been identified in relation to:

- First time implementation guidance (“get started”) for those who are not applying the extant Code.
- Guidance to explain the writing convention of the Code, for example “might” in the “self-review threat prohibition”.
- Value Chain and Group Entities and associated independence considerations.
- More types of sustainability NAS services and guidance how to classify non-financial services into the independence principles of NAS identified in Part 5.
- Examples of NOCLAR that should be reported by the financial auditor to the sustainability assurance practitioner or vice-versa.

Broader matters which may be relevant to sustainability assurance practitioner’s independence

Given the nature of some sustainability matters, the threats to a sustainability assurance practitioner’s independence may not be driven by financial interests alone but may be driven by specific relationships or circumstances that a practitioner has with an entity.

For example, the sustainability assurance practitioner’s independence may be impacted by negative aspects of activities, products or services from entities (for example; exposure to pollution or community disruption caused by an entity where the practitioner resides) or positive aspects (for example: the practitioner may be a member of a community receiving some sponsorship from the entity).

We recommend that the IESBA develop mini case studies exploring threats arising from broader conflicts which may be relevant to sustainability assurance practitioners’ independence, drawing specifically from the wider range of sustainability related matters which may impact their independence.

Requirements should be further tailored to sustainability context

We consider that some parts of the requirements when “lifted and shifted” have not been sufficiently tailored for the current stage of assurance over sustainability information. It might be too early to assume that the prescription of requirements for financial audits, are appropriate at this time for sustainability.

We encourage the IESBA to consider if the prescribed rotation requirements have the right balance between competence and independence in this this emerging market, and whether these settings are appropriate for the stage of maturity or whether these settings should be developed over time.

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

Response:

Scope of Part 5

We found that the scope of Part 5 is not easily understood.

The Explanatory Memorandum (EM) paragraphs 28-44 and the diagrams in Appendix 1, provide helpful explanations about how the requirements and the glossary definition are expected to work together.

The EM helpfully clarifies that sustainability assurance engagements in the scope of the proposal do not include certification engagements. This could be included in Part 5 definitions.

We encourage the IESBA to explore ways to explain the scope of Part 5 or provide a tool to help navigate the requirements to understand the scope.

We ask the IESBA to clarify the title to highlight that the proposals apply to assurance engagements over sustainability information rather than refer to “sustainability assurance.” By referring to sustainability assurance, it may imply that the assurance is providing trust and confidence that the company is sustainable or that it covers other sustainability assurance (such as eco-labels or special purpose business to business reporting) rather than the assurance being restricted to the sustainability information reported by the company. We urge the IESBA to continue to work with the IAASB to be clear about what is included and if there are differences in scope to use different terminology to clarify the differences in scope.

Competence

We consider that competence and independence are critical to building trust and confidence within reported sustainability information and should have equal weighting and consideration in each engagement. We acknowledge that professional care and due competence is a fundamental principle in the Code, but believe that sustainability competence needs to consider and recognise the need for “contextual” awareness (e.g. location-specific environmental, social, economic and cultural issues). As this is an emerging field, it also needs to recognise that there is not one comprehensive set of existing technical or professional standards that can be relied on. We recommend that R5113.1 A2 be amended as follows:

“The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. The sustainability assurance practitioner may need to consider location-specific environmental, social, economic and cultural issues. For example, in addition to ... “

We also consider that “context” specific knowledge is fundamentally important in determining sufficient expertise for sustainability assurance engagements. See our response to question 6 for further details.

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]

Response:

No comment. The preparation of sustainability information is outside the XRB’s mandate.

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? [See paragraph 138 of this document]

Response:

No comment. The preparation of sustainability information is outside the XRB’s mandate.

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? [See paragraph 155 of this document]

Response:

No comment. The preparation of sustainability information is outside the XRB’s mandate.

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

Response:

No comment. The preparation of sustainability information is outside the XRB’s mandate.

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?

Response:

We support the alignment of the effective date with the effective date of ISSA 5000.

To aid in ensuring the standard is profession agnostic, we recommend that the IESBA:

- a) Develop transitional provisions, refer to our answer to question 15 for further details and
- b) Release a “Get Started” guide for those professions who are not familiar with the IESBA’s Code of ethics.