Sustainability
Independence Considerations

Workstream 1 (WS1) Update

Mark Babington, IESBA Member and Workstream Chair

IESBA Meeting
13 March 2023
Consider and provide input regarding:

- Determination and proposed definition of
  - Sustainability assurance engagement
  - Sustainability assurance team
  - Sustainability assurance client

- Independence considerations applicable to sustainability assurance engagements
  - Relationship with sustainability assurance client
  - Provision of non-assurance services by sustainability assurance practitioner
Activities

• WS1 had one in-person meeting in January
  – Joint meetings between WS1 and WS2

• Subsequent virtual meetings to finalize documents for Roundtables and March IESBA and CAG meetings

• Coordination with:
  – Use of Experts Task Force
  – IAASB Staff and Sustainability Task Force
Sustainability Assurance Engagement

“An engagement in which a sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information.”

* Terms to be defined in the Glossary

- Proposed definition is in line with
  - The Code’s ‘assurance engagement’ definition
  - IAASB’s proposal in draft ISSA 500

- Sustainability assurance engagements cover a wide range of assurance engagements irrespective of
  - Intended users of sustainability assurance report
  - Sustainability information reported by the client

Is it necessary for sustainability assurance providers to apply the provisions equivalent to Part 4A to all sustainability assurance engagements? *(see next slide)*
Scope of Standard for Sustainability Assurance

- Informed by research into landscape of sustainability assurance engagements, WS1 proposes that new ethics and independence standards apply to engagements of heightened public interest, where
  
  a. The assurance is provided on sustainability information reported in accordance with a general-purpose reporting framework; and
  
  b. The sustainability information is widely available to the public and other stakeholders, or the information is specifically used for decision-making

- The new standard would specify its scope in the introduction
- With respect to other engagements, PAs should apply the provisions for other assurance engagements in Part 4B
  - IESBA might consider revisiting this scope in due course
Do IESBA members agree with the proposals regarding the:

• Definition of sustainability assurance engagement in the context of the Code,

• Proposed scope for ethics and independence standards for sustainability assurance engagements?
Sustainability Assurance Team

Sustainability assurance team would include

1. Engagement team of sustainability assurance engagements
   - Excluding external experts

2. Others within, or engaged by, the sustainability assurance practitioner or firm who can directly influence the outcome of the sustainability assurance engagement
   - For example, internal experts/specialist or EQR

3. Other individuals within the sustainability assurance provider’s network who can directly influence the outcome of the sustainability assurance engagement
The extant Code’s definition of engagement team would be applicable to sustainability assurance engagements.

All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.
(a) All members of the engagement team for the sustainability assurance engagement;

(b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the sustainability assurance engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.
• Draft ISSA 5000 will address involvement of other practitioners in assurance work who are not engagement team members
  – Coordination between IAASB and IESBA staff regarding independence considerations in case of relying on/involving other sustainability assurance practitioners

• IAASB is not intending to specifically address sustainability assurance in group reporting context in ISSA 5000
  – Recent changes to the Code addressing the independence considerations in a group context apply only for audit of group financial statements, in line with ISA 600 (Revised)

• The proposed definition of sustainability assurance team could also be applicable and might serve as a basis for independence considerations in group reporting context
Determination of the sustainability assurance client is proposed to follow the concept of audit client

- “An entity in respect of which the sustainability assurance practitioner conducts a sustainability engagement”
- The client would include all related entities if it is a publicly traded entity

Extant Code's Part 4A sets out different regimes for PIE and non-PIE clients

- Should the new independence standards for sustainability assurance follow the same approach?
An entity in respect of which a firm conducts a sustainability assurance engagement. When the client is a publicly traded entity, in accordance with paragraphs [R400.27] and [R400.28], sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph [R400.27].)
• Do IESBA members agree with the proposals regarding the determination of:
  – Sustainability assurance team, and
  – Sustainability assurance client?

• Should IESBA develop provisions to address independence considerations in group context now or wait until IAASB addresses group sustainability assurance engagements?
Independence Considerations

• Sustainability assurance providers range from very large global operations down to relatively small single country operators
  – The large, multidisciplinary operators provide a wide range of other consultancy services

• IESBA’s standard will require “sustainability assurance practitioners” or “firms” and their “network firms” to be independent of the “sustainability assurance client”
  – Categories of threats (in para 120.6 A3) can also be applied to sustainability assurance engagements performed by sustainability assurance providers who are non-PAs

• WS1 considered whether
  – The threats to fundamental principles and independence in Part 4A can also be applied to equivalent scenarios in context of sustainability assurance
  – There are any other scenarios the new independence standard for sustainability assurance engagements need to address
Independence Considerations
Terminology

• Some terminology used in Part 4A is specific for accounting firms and audit of the financial statements
  – Whether this terminology and principles are fit-for-purpose for profession-agnostic ethics and independence standards for all sustainability assurance providers?
    o Question for Roundtable participants
• IESBA is seeking feedback whether the standards should include more neutral terms, for example
  – Using “engagement leader” instead of “engagement partner”
  – Using the term “firm” in the context of non-PA sustainability assurance providers
  – Determination of network in the context of non-PAs
Independence Considerations
Interests and Relationships

• Relationships addressed in Part 4A in the context of audit clients could also create threats to independence in the context of sustainability assurance engagements and sustainability assurance clients.

• First-time implementation of new standards by non-PA assurance providers could result in breaches from day one
  – For example, fee cap from one client or provisions on partner rotation

• It could risk voluntary adoption of the new standard

• WS1 recommends that IESBA consider potential ways to help first-time implementation
  – For example, guidance for non-PAs addressing their specific challenges while applying the Code

• Regulators and others responsible for oversight and enforcement may need to consider transitional issues in relation to implementation
Independence Considerations
Provision of Non-Assurance Services

• The current prohibitions regarding non-assurance services in Section 400 and 600 could also apply in the context of sustainability assurance engagements
  – For example, prohibition from assuming management responsibilities and “self-review threat” prohibition

• Services and prohibitions in S600 need to be reviewed in the context of sustainability assurance engagement
  – Whether any sustainability-specific matters need to be addressed

• WS1 is seeking input on whether sustainability assurance practitioners provide any other services for their clients
  – For example, management of sustainability data and information
  – As an underlying principle, S 600 already requires the application of conceptual framework in case of new and emerging services
Independence Considerations
Auditors Performing Sustainability Assurance

• Some regulators may require, or sustainability assurance clients may want the financial statement auditor to also provide assurance on the client’s sustainability information

• WS1 will consider whether there are potential threats to independence when an auditor also performs sustainability assurance
  – Question for RT participants
  – It may also result in revisions to current standard for auditors of financial statements
Do IESBA members agree with the proposed approach for independence considerations applicable to sustainability assurance engagements?