PART 5 – SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that professional accountants in public practice sustainability assurance practitioners be independent when performing audit or review engagements. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

400.2 This Part applies to both audit and review engagements unless otherwise stated. In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms. “Practitioner” refers to individuals and their firms conducting sustainability assurance engagements.

Sustainability Assurance Engagement of Heightened Public Interest

400.3 This Part only applies to sustainability assurance engagements of heightened public interest where:

(a) Assurance is provided on sustainability information reported in accordance with a general purpose framework; and

(b) The sustainability information is:

   i. Publicly available to support decision-making by investors or other stakeholders; or

   ii. Required to be provided in accordance with law or regulation.

Law or regulation may also designate a sustainability assurance engagement as of being heightened public interest.

400.4 Independence standards for sustainability assurance engagements that are not of heightened public interest are set out in Part 4B Independence for Assurance Engagements Other than Audits, Reviews and Sustainability Assurance Engagements of Heightened Public Interest.

400.5 This Part deals with both reasonable assurance and limited assurance sustainability assurance engagements.

400.6 An assurance engagement may be either an attestation engagement or a direct engagement. This Part covers only attestation sustainability assurance engagements.
Matters for IESBA’s Consideration

Scope of Independence Standards

The Glossary of the Code will include the definition of a sustainability assurance engagement consistent with the definition of an assurance engagement in the extant Code, with a reference to ISSA 5000 (see Agenda Item 2-B). This definition clarifies that the Code applies only to sustainability assurance engagements designed to enhance the degree of confidence of the intended users about the sustainability information but not to certification engagements that are designed to confirm compliance with the specifications set out in relevant certification standards.

The Task Force proposes that the independence standards in Part 5 only apply to sustainability assurance engagements that are of heightened public interest where (see proposed paragraph 400.3):

- The assurance is provided on sustainability information reported in accordance with a general purpose framework, and the sustainability information is:
  - Publicly available to support decision-making by investors or other stakeholders; or
  - Required to be provided in accordance with law or regulation; or
- Law or regulation determines a sustainability assurance engagement as being heightened public interest.

The proposed changes to the Glossary of the Code includes a definition of a general purpose framework, which covers both fair presentation and compliance frameworks (see Agenda Item 2-B).

If a PA carries out any other sustainability assurance engagement not covered under Part 5, the independence standards in Part 4B apply. The Task Force will consider and propose any changes necessary to the provisions in Part 4B to address their application to sustainability assurance engagements that are not of heightened public interest. However, the Task Force does not propose that the IESBA extend the scope of Part 4B to non-PA sustainability assurance practitioners at this time. (See proposed paragraphs 400.11)

In March 2023, the Board supported that the Code's independence standards for sustainability assurance engagements (Part 5) deal with both reasonable and limited assurance engagements (see proposed paragraph 400.5).

The introduction to Part 5 also clarifies that it applies to attestation engagements (where a party other than the sustainability assurance practitioner measures or evaluates the underlying subject matter against the criteria) but not to direct engagements (where the sustainability assurance practitioner also measures or evaluates the underlying subject matter against the applicable criteria). The Glossary of the extant Code already defines these two types of assurance engagements. (See proposed paragraph 400.6.)
Do IESBA members agree with the proposed scope of the independence standards in Part 5 for sustainability assurance engagements?

**Quality Management Requirements**

400.7 Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. This Part is premised on the basis that the practitioner who is performing the engagement is a member of a firm that is subject to ISQM 1, or other professional requirements, or requirements in law or regulation, regarding the firm’s responsibility for its system of quality management, that are at least as demanding as ISQM 1.

400.84 ISQM 1 requires a firm to design implement and operate a system of quality management for audits or reviews of financial statements and sustainability assurance engagements performed by the firm. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject. ISAs and ISREs establish responsibilities for engagement leaders partners and engagement teams at the level of the engagement for audits and reviews. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ISQM 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.

**Matters for IESBA’s Consideration**

**Quality Management Systems**

Participants of the global roundtables generally agreed that it is a prerequisite for all firms of sustainability assurance practitioners, including professional accountants (PAs) and non-PAs, to have a system of quality management in place in order to comply with relevant ethical requirements. Participants also supported that these firms, regardless of whether they are accounting firms or not, be subject to ISQM 1 or quality management requirements.
that are at least as demanding, to meet stakeholders’ expectations regarding the quality of their work.

Accordingly, the Task Force proposes that Part 5 of the Code set out general provisions on the quality management requirements with which firms performing sustainability assurance engagements must comply, equivalent to the quality management requirements that apply to audit engagements. In addition, the Task Force suggests conforming changes to the definition of the firm in the Glossary of the Code so that it remains appropriate in the context of sustainability assurance engagements and covers non-PAs who are sustainability assurance practitioners.

Do IESBA members support Part 5 requiring all firms, including firms of sustainability assurance practitioners who are non-PAs, to be subject to ISQM 1, or other professional requirements, or requirements in law or regulation, regarding a firm’s responsibility for its system of quality management, that are at least as demanding as ISQM 1? (See proposed paragraphs 400.7 and 400.8)

400.95 Independence is linked to the principles of objectivity and integrity. It comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit sustainability assurance team member’s, integrity, objectivity, or professional skepticism has been compromised.

In this Part, references to an individual or firm being “independent” mean that the individual or firm has complied with the provisions of this Part.

400.106 When performing audit sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group sustainability assurance engagement audit.

400.117 This Part describes:

1 International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Audit Sustainability Assurance Team

400.128 This Part applies to all audit and sustainability assurance team members, including engagement team members.

400.139 An engagement team for an audit sustainability assurance engagement includes all leaders partners and staff in the firm who perform audit assurance procedures on the engagement, and any other individuals who perform such procedures who are from:

(a) A network firm; or

(b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit-sustainability assurance firm who performs assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.

400.140 In ISQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

400.154 An audit sustainability assurance engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor sustainability assurance firm outside a group auditor sustainability assurance firm’s network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit sustainability assurance team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships or in the application of automated tools and techniques to
analyze client data. Individuals with expertise in a [specialized area of sustainability information or assurance] who perform assurance procedures are engagement team members. These include, for example, individuals with expertise [in the measurement of sustainability information or] in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.

- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit–sustainability assurance team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor audit–sustainability assurance team members.

400.162 If the audit–sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit–sustainability assurance team members but not engagement team members.

Matters for IESBA’s Consideration

Independence Considerations for Group Sustainability Assurance Engagements

The Task Force’s proposals include application material explaining who is included in the sustainability assurance team, as defined in the Glossary in the Code.

Given that most of the sustainability assurance engagements of heightened public interest are carried out in a group reporting context, the Task Force believes it is important that Part 5 specifically address the independence of the members of the sustainability assurance team in the case of group sustainability assurance engagements, similar to group audits.

The recently approved changes to the Code relevant to group audits are based on, or in line with, the requirements of ISA 600 (Revised). However, ISA 600 (Revised) is applicable only to audits of group financial statements, and the draft ISSA 5000 does not specifically address sustainability assurance engagements carried out in a group reporting context.

Nonetheless, the Task Force believes that (a) given the likely prevalence of group sustainability assurance engagements within the scope of Part 5 as noted above, and (b) the premise that the independence standards in Part 5 will be at the same level as for audit engagements, there is a need for specific provisions in Part 5 that address the independence of firms and sustainability assurance practitioners participating in a group...
sustainability assurance engagement. (See Agenda Item 3-B.)

Do IESBA members support that Part 5 should include independence provisions for group sustainability assurance engagements?

### Public Interest Entities

400.173 Some of the requirements and application material set out in this Part are applicable only to the [audit of financial statements—sustainability assurance engagements](#) of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

400.14 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity’s primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.1815 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement [sustainability assurance engagement](#) for a public interest entity because of the significance of the public interest in the financial condition of the such entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.173 is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s financial statements [sustainability information](#) that can be used for their decision-making purposes when assessing the entity’s financial condition.

### Matters for IESBA’s Consideration

**Determination of Public Interest Entities in the Context of Sustainability Assurance Engagements**

In March 2023, the IESBA agreed that the approach to independence standards for sustainability assurance engagements should be proportionate for sustainability assurance clients that are not public interest entities (PIEs), similar to the approach for the independence standards for audits of financial statements in Part 4A.
Part 4A includes a revised PIE definition that will come into effect in December 2024. The Task Force does not believe that it is necessary to change the recently approved PIE definition in the Code for the purposes of sustainability assurance engagements. This maintains equivalency of treatment between the audit and sustainability assurance engagement of an entity that falls within the PIE definition. This avoids the situation where PIE requirements are applied in relation to the audit but not in relation to the sustainability assurance engagement for the same entity, an outcome that might be viewed as incoherent or anomalous especially in an integrated reporting context.

The Task Force therefore proposes that PIE requirements apply in Part 5 if

- The entity is a PIE for purposes of the audit of their financial statements, or
- The specific jurisdiction determines that the entity is a PIE in the context of the sustainability assurance engagement.

If a sustainability assurance client is a PIE based on any of the criteria above, the Code will require the firm to disclose that fact in the same manner as it is set out for audit engagements. (See proposed paragraph R400.25 below.)

Do IESBA members agree with the Task Force’s proposal regarding the determination of PIEs for the purposes of sustainability assurance engagements of heightened public interest?

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**Reports that Include a Restriction on Use and Distribution**

400.16 An audit or report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

**Firms Performing Both Audit and Sustainability Assurance Engagements**

400.19 Independence standards for audit and review engagements are set out in Part 4A - Independence for Audit and Review Engagements. If a firm performs both a sustainability assurance engagement of heightened public interest and an audit engagement for the same client, the provisions in the Code applicable to an audit engagement, including Part 4A, apply to the firm, a network firm and the audit team members, in addition to the provisions in this Part.

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**Matters for IESBA’s Consideration**

**Guidance for Firms Performing Both the Audit and Sustainability Assurance Engagement for the Same Client**

Based on the proposed presentation of the ethics and independence standards for sustainability assurance engagements, if a firm performs a sustainability assurance
engagement of heightened public interest, the firm needs to consider the requirements and application material in Part 5, irrespective of whether the firm is also the auditor. However, if the firm performs both engagements for the same client, the provisions in the Code applicable to an audit, including Part 4A, apply to the firm, a network firm, and the audit team members, in addition to the provisions in Part 5. (See paragraph 400.19.) (An equivalent provision would be needed in Section 400 in Part 4A.)

The fact that the firm is subject to both Parts 4A and 5 does not mean that the firm needs to apply the conceptual framework to identify, evaluate and address threats to independence in relation to each engagement.

The Task Force believes that taking into account laws and regulations of the jurisdiction, it is an operational matter for firms performing both the audit and sustainability assurance engagement to determine how to comply with the corresponding requirements in Parts 4A and 5, within their systems of quality management, without carrying out the same assessments twice. In most cases, complying with a requirement in Part 4A will achieve compliance with the corresponding requirement in Part 5, and vice versa. That said, where applicable, Part 5 will address specific situations where additional independence considerations are needed arising from the auditor also providing sustainability assurance services to the client, such as:

- The proportion of fees for services other than audit and sustainability assurance engagements to the audit or sustainability assurance fee.
- Cooling-off period if an individual has acted as an engagement leader and an audit partner for the same client.
- Provision of accounting and bookkeeping services and sustainability data and information services to audit and sustainability assurance clients.

The Task Force notes that the above approach is similar to the situation when a firm performs the audit and other assurance engagements for the same client. The extant Parts 4A and 4B set out requirements and application materials for both engagements without further specifying how the firm should apply the corresponding requirements or to whom responsibility should be assigned within the firm to manage or oversee compliance with Parts 4A and 4B with regard to both engagements.

In addition to the above approach, the Task Force suggests that the Board consider asking IESBA Staff to develop non-authoritative guidance, such as FAQs, to help firms identify and address specific issues that might arise when they perform both the audit and sustainability assurance engagement.

Does the Board agree with the Task Force’s proposals regarding firms performing both audit and sustainability assurance engagements?
Assurance Engagements other than Audit and Review Sustainability Assurance Engagements of Heightened Public Interest

400.2047 Independence standards for sustainability assurance engagements that are not of heightened public interest not audit or review engagements are set out in Part 4B – Independence for Assurance Engagements Other than Audits, and Reviews, Engagements and Sustainability Assurance Engagements that Are Not of Heightened Public Interest.

Requirements and Application Material

General

R400.2118 A firm performing an audit sustainability assurance engagement shall be independent.

R400.2219 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit sustainability assurance engagement.

Prohibition on Assuming Management Responsibilities

R400.2320 A firm or a network firm shall not assume a management responsibility for an audit sustainability assurance client.

400.230 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.230 A2 When a firm or a network firm assumes a management responsibility for an audit sustainability assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.230 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees’ work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
• Reporting to those charged with governance on behalf of management.

• Taking responsibility for:
  - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
  - Designing, implementing, monitoring or maintaining internal control.

400.230 A4 Subject to compliance with paragraph R400.241, providing advice and recommendations to assist the management of an audit sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit sustainability assurance client might create a self-review threat and is addressed in Section 600.

R400.241 When performing a professional activity for an audit sustainability assurance client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client’s management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
   (i) The objectives, nature and results of the activities; and
   (ii) The respective client and firm or network firm responsibilities.

   However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client’s purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

400.241 A1 When technology is used in performing a professional activity for an audit sustainability assurance client, the requirements in paragraphs R400.2320 and R400.2421 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

R400.22 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

(a) A publicly traded entity.
(b) An entity one of whose main functions is to take deposits from the public;

(c) An entity one of whose main functions is to provide insurance to the public;

or

(d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

400.22 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.15, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as “public interest entities” for reasons unrelated to the purpose described in paragraph 400.15, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

R400.23 In complying with the requirement in paragraph R400.22, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.22 (a) to (c).

400.23 A1 The categories set out in paragraph R400.22 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:

• Making reference to specific public markets for trading securities.
• Making reference to the local law or regulation defining banks or insurance companies.
• Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
• Setting size criteria for certain types of entities.

400.23 A2 Paragraph R400.22 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.15, taking into account factors such as those set out in paragraph 400.14. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

• Pension funds.
• Collective investment vehicles.
• Private entities with large numbers of stakeholders (other than investors).
• Not-for-profit organizations or governmental entities.
• Public utilities.
400.19 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.14 as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity.
- Whether in similar circumstances, the firm has applied independence requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.
- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity’s corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

Public Disclosure – Application of Independence Requirements for Public Interest Entities

R400.25 Subject to paragraph R400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.173 in performing an audit of the financial statements of an entity, sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R400.26 As an exception to paragraph R400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R400.27 As defined, an audit sustainability assurance client that is a publicly traded entity in accordance with paragraphs R400.22 and R400.23 includes all of its related entities. For all other entities, references to an audit sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the audit or sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.28 to 400.29 are intentionally left blank]
Period During which Independence is Required

R400.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and

(b) The period covered by the sustainability assurance report prior to the start of the engagement period. The period covered by the financial statements.

Matters for IESBA’s Consideration

Period During Which Independence is Required

Part 4A requires the auditor to be independent of the client during the period covered by the financial statements on which the firm expresses an opinion.

However, given the forward-looking nature of sustainability information, the Task Force does not believe it would be appropriate to require the firm to be independent during the entire period covered by the sustainability information. Therefore, the Task Force proposes that Part 5 requires a firm to be independent during

- The engagement period for the sustainability assurance engagement that is equivalent to the engagement period for an audit engagement (see paragraph R400.30 (a) and 400.30 A), and
- The period prior to the start of the engagement period that is covered by the sustainability assurance report (see paragraph R400.30 (b)).

Do IESBA members agree with the Task Force’s proposal regarding the period during which independence is required in the case of a sustainability assurance engagement?

400.30 A1 The engagement period starts when the engagement sustainability assurance team begins to perform the audit sustainability assurance engagement. The engagement period ends when the audit sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit sustainability assurance report.

R400.31 If an entity becomes an audit sustainability assurance client during or after the period covered by the financial statements sustainability assurance report on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the audit sustainability assurance client during or after the period covered by the financial statements sustainability assurance report but before accepting the audit sustainability assurance engagement; or

(b) Previous services provided to the audit sustainability assurance client by
threats to independence are created if a non-assurance service was provided to an audit sustainability assurance client during, or after the period covered by the sustainability assurance report covered by the financial statements, but before the engagement team begins to perform the audit sustainability assurance engagement, and the service would not be permitted during the engagement period.

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, records underlying the sustainability information, the internal controls over financial sustainability reporting, or the financial statements sustainability information on which the firm will express an opinion.

400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit-sustainability assurance work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit sustainability assurance engagement period or prior to the period covered by the financial statements sustainability assurance report on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm for which an sustainability assurance engagement has been undertaken by another firm.

Audit Sustainability Assurance Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor to provide a sustainability assurance of service to a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements sustainability information on which the firm will express an opinion unless:

(a) The provision of such service ceases before the commencement of the audit sustainability assurance engagement period;

(b) The firm takes action to address any threats to its independence; and
(c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm’s independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment to provide an auditor sustainability assurance of service to that entity include:

- The results of the service had been subject to auditing sustainability assurance procedures in the course of the audit sustainability assurance engagement of the prior year’s period’s financial statements sustainability information by a predecessor firm.

- The firm engages a professional accountant practitioner, who is not a member of the firm expressing the opinion on the financial statements sustainability information, to perform a review of the first audit sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.

- The public interest entity engages another firm outside of the network to:
  (i) Evaluate the results of the non-assurance service; or
  (ii) Re-perform the service,
  to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance to:

(a) Consider the firm’s judgments in identifying and evaluating threats;

(b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and

(c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.
Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R400.51 A network firm shall be independent of the audit-sustainability assurance clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R400.52 When associated with a larger structure of other firms and entities, a firm shall:

(a) Exercise professional judgment to determine whether a network is created by such a larger structure;

(b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and

(c) Apply such judgment consistently throughout such a larger structure.

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

(a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);

(b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);

(c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);

(d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);

(e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or

(f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described...
in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R400.53(d)).

400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a service leader partner of the firm signs an audit sustainability assurance report. (Ref: Para. R400.53(e)).

400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).

400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Service leaders Partners and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit sustainability assurance methodology or audit sustainability assurance manuals.
- Training courses and facilities. (Ref: Para. R400.53(f)).

400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
• The shared resources might be limited to common audit sustainability assurance methodology or audit sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.

• The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

R400.54 If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm’s or network’s name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

R400.60 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

(a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

(b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm’s judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat
400.70 A1 An entity might become a related entity of an audit sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R400.71 In the circumstances set out in paragraph 400.70 A1,

(a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit sustainability assurance engagement after the effective date of the merger or acquisition; and

(b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

(a) Evaluate the threat that is created by the interest or relationship; and

(b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor to provide the sustainability assurance service, the firm shall do so only if:

(a) The interest or relationship will be ended as soon as reasonably possible
but no later than six months after the effective date of the merger or acquisition;

(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit-sustainability assurance engagement or the individual responsible for the engagement quality review; and

(c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a professional accountant practitioner review the audit sustainability assurance or non-assurance work as appropriate.
- Having a professional accountant practitioner, who is not a member of the firm expressing the opinion on the financial statements sustainability information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.74 The firm might have completed a significant amount of work on the audit sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining audit assurance procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit-sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

(a) Has evaluated the level of the threat and discussed the results with those charged with governance;

(b) Complies with the requirements of paragraph R400.73(b) to (c); and

(c) Ceases to provide the auditor sustainability assurance service no later than the date that the audit-sustainability assurance report is issued.

If Objectivity Remains Compromised

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to provide the auditor sustainability assurance service.

Documentation
The firm shall document:

(a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;

(b) The transitional measures applied;

(c) The results of the discussion with those charged with governance; and

(d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Sustainability Assurance Engagements

When a Firm Identifies a Breach

If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
   (i) Comply with those requirements; and
   (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;

(c) Promptly communicate the breach in accordance with its policies and procedures to:
   (i) The engagement leaderpartner;
   (ii) The individual with operational responsibility for compliance with independence requirements;
   (iii) Other relevant personnel in the firm and, where appropriate, the network; and
   (iv) Those subject to the independence requirements in Part 54A who need to take appropriate action;

(d) Evaluate the significance of the breach and its impact on the firm’s objectivity and ability to issue an audit sustainability assurance report; and

(e) Depending on the significance of the breach, determine:
   (i) Whether to end the audit sustainability assurance engagement; or
(ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm’s objectivity would be compromised, and therefore, the firm would be unable to issue an audit sustainability assurance report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the audit sustainability assurance engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm’s objectivity and ability to issue an audit or sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit sustainability assurance engagement.
- Whether an audit sustainability assurance team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to an audit sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements, records underlying, or data comprising, the sustainability information, on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit sustainability assurance team.
- Using different individuals to conduct an additional review of the affected audit assurance work or to re-perform that work to the extent necessary.
- Recommending that the audit sustainability assurance client engage
another firm to review or re-perform the affected audit assurance work to the extent necessary.

- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, records underlying, or data comprising, the sustainability information on which the firm will express an opinion, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

(a) The significance of the breach, including its nature and duration;
(b) How the breach occurred and how it was identified;
(c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit sustainability assurance report;
(d) The conclusion that, in the firm’s professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
(e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

(a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach;
and

(b) A description of:

(i) The firm’s policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and

(ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit—sustainability assurance engagement in accordance with paragraph R400.81.

Breaches Before the Previous Audit—Sustainability Assurance Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit—sustainability assurance report, the firm shall comply with the independence provisions of Part 54A in evaluating the significance of the breach and its impact on the firm’s objectivity and its ability to issue an audit—sustainability assurance report in the current period.

R400.87 The firm shall also:

(a) Consider the impact of the breach, if any, on the firm’s objectivity in relation to any previously issued audit—sustainability assurance reports, and the possibility of withdrawing such audit reports; and

(b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

(a) The breach;

(b) The actions taken;

(c) The key decisions made;

(d) All the matters discussed with those charged with governance; and

(e) Any discussions with a professional or regulatory body or oversight authority.

R400.89 If the firm continues with the audit—sustainability assurance engagement, it shall document:

(a) The conclusion that, in the firm’s professional judgment, objectivity has not been compromised; and
(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit sustainability assurance report.