Matters for IESBA’s Consideration

**Group Sustainability Assurance Engagements**

As explained in relation to the determination of the sustainability assurance team (Agenda Item 3-A), the Task Force proposes that Part 5 addresses the independence considerations in a group sustainability assurance engagement. The proposal includes:

- Newly defined terms applicable in the context of group sustainability assurance engagements (see Agenda Item 2-B), and
- Requirements and application material equivalent to the requirements and application material in Section 405 in Part 4A applicable to group audits (see below).

However, some of the requirements in Section 405 build on the pre-existing requirements for group engagements partners in ISA 600 (Revised) that are applicable only to the audit of group financial statements. Therefore, the Task Force is proposing that the section in Part 5 include new requirements for the group sustainability engagement leader to take responsibility for:

- The component sustainability assurance firms having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group sustainability assurance engagement; and
- Confirming whether the component sustainability assurance firm understands and will comply with the relevant ethical requirements, including those related to independence, that apply to the group sustainability assurance engagement.

Do IESBA members agree with:

(a) The proposed defined terms for group sustainability assurance engagements (see Agenda Item 2-B); and

(b) The proposed requirements and application material in paragraphs R405.3 and R405.4 below?

**Introduction**

405.1 Section 400 requires a firm to be independent when performing an audit sustainability assurance engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group audit sustainability assurance engagement.

**Requirements and Application Material**

**General**

405.2.A1 ISAs apply to an audit of group financial statements. ISA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when
component auditors are involved. ISA 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in ISA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those specified in this section.

405.2 A2 A component auditor sustainability assurance firm that participates in a group audit sustainability assurance engagement might separately issue an audit assurance opinion on the financial statements sustainability information of the component audit sustainability assurance client. Depending on the circumstances, the component auditor sustainability assurance firm might need to comply with different independence requirements when performing audit assurance work for a group audit sustainability assurance engagement and separately issuing an audit assurance opinion on the financial statements sustainability information of the component audit sustainability assurance client for statutory, regulatory or other reasons.

Communication Between a Group Auditor Sustainability Assurance Firm and a Component Auditor Sustainability Assurance Firm

R405.3 ISA 600 (Revised) requires the group engagement leader partner to shall take responsibility to make a component auditor sustainability assurance firm aware of the relevant provisions in this ethical requirements Part that are applicable given the nature and the circumstances of the group audit sustainability assurance engagement. When making the component auditor sustainability assurance firm aware of the relevant ethical requirements, the group auditor sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component auditor sustainability assurance firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the group auditor sustainability assurance firm might communicate include:

- Whether the group audit sustainability assurance client is a public interest entity and the relevant ethical requirements applicable to the group audit sustainability assurance engagement.

- The related entities and other components within the group audit sustainability assurance client that are relevant to the independence considerations applicable to the component auditor sustainability assurance firm and the group audit sustainability assurance team members within, or engaged by, that firm.

- The period during which the component auditor sustainability assurance firm is required to be independent.

- Whether an audit sustainability assurance partner leader who performs work at the component for purposes of the group audit sustainability assurance engagement is a key audit sustainability assurance partner leader for the group audit sustainability assurance engagement.

R405.4 ISA 600 (Revised) also requires the group engagement partner leader to request the component auditor to communicate whether the component auditor has complied with the
relevant ethical requirements, including those related to independence, that apply to the group audit engagement shall take responsibility for confirming whether the component sustainability assurance firm understands and will comply with the relevant provisions of this Part that apply to the group sustainability assurance engagement. The group engagement leader shall also request the component sustainability assurance firm to communicate: For the purposes of this section, such a request shall include the communication of

(a) Any independence matters that require significant judgment; and

(b) In relation to those matters, the component auditor sustainability assurance firm’s conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

R405.54A1X If a matter comes to the attention of the group engagement partner leader that indicates that a threat to independence exists, ISA 220 (Revised) requires the group engagement partner leader to shall evaluate the threat and take appropriate action.

Independence Considerations Applicable to Individuals

Members of the Group Audit Sustainability Assurance Team Within, or Engaged by, a Group Auditor Sustainability Assurance Firm and Its Network Firms

R405.5 Members of the group audit sustainability assurance team within, or engaged by, the group auditor sustainability assurance firm and its network firms shall be independent of the group audit sustainability assurance client in accordance with the requirements of this Part that are applicable to the audit sustainability assurance team.

Other Members of the Group Audit Sustainability Assurance Team

R405.6 Members of the group audit sustainability assurance team within, or engaged by, a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network shall be independent of:

(a) The component audit sustainability assurance client;

(b) The entity on whose group financial statements sustainability information the group auditor sustainability assurance firm expresses an opinion; and

(a) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component audit sustainability assurance client,

in accordance with the requirements of this Part that are applicable to the audit sustainability assurance team.

R405.7 In relation to related entities or components within the group audit sustainability assurance client other than those covered in paragraph R405.6, a member of the group audit sustainability assurance team within, or engaged by, a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network shall notify the component auditor sustainability assurance firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual’s independence in the context of the group audit sustainability assurance engagement.
405.7A1 Examples of relationships or circumstances involving the individual or any of the individual’s immediate family members, as applicable, that are relevant to the individual’s consideration when complying with paragraph R405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group audit sustainability assurance client if the group audit sustainability assurance client is material to that entity (see Section 510).
- A loan or guarantee involving: (see Section 511)
  - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
  - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 520).
- An immediate family member who is: (see Section 521)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity’s accounting sustainability information records or financial statements sustainability information on which the component sustainability assurance firm will express an opinion.
- The individual serving as, or having recently served as: (see Section 522 and Section 523)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity’s accounting sustainability information records or financial statements sustainability information on which the component sustainability assurance firm will express an opinion.

R405.8 Upon receiving the notification as set out in paragraph R405.7, the component auditor sustainability assurance firm shall evaluate and address any threats to independence created by the individual’s relationship or circumstance.

Independence Considerations Applicable to a Group Auditor Sustainability Assurance Firm

R405.9 A group auditor sustainability assurance firm shall be independent of the group audit sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Auditor Sustainability Assurance Firm

R405.10 A network firm of the group auditor sustainability assurance firm shall be independent of the group audit sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.
Independence Considerations Applicable to Component Auditor Sustainability Assurance Firms outside a Group Auditor Sustainability Assurance Firm’s Network

All Group Auditor Sustainability Assurance Clients

R405.11 A component auditor-sustainability assurance firm outside the group auditor-sustainability assurance firm’s network shall:

(a) Be independent of the component auditor-sustainability assurance client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all auditor-sustainability assurance clients;

(b) Apply the relevant requirements in paragraphs R510.4 (a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements sustainability information the group auditor-sustainability assurance firm expresses an opinion; and

(c) Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements sustainability information the group auditor-sustainability assurance firm expresses an opinion.

R405.12 When a component auditor-sustainability assurance firm outside the group auditor sustainability assurance firm’s network knows, or has reason to believe, that a relationship or circumstance involving the group audit sustainability assurance client, beyond those addressed in paragraph R405.11(b) and (c), is relevant to the evaluation of the component auditor-sustainability assurance firm’s independence from the component auditor-sustainability assurance client, the component auditor-sustainability assurance firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R405.13 When a component auditor-sustainability assurance firm outside the group auditor sustainability assurance firm’s network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor-sustainability assurance firm’s network with the component auditor-sustainability assurance client or the group auditor sustainability assurance client creates a threat to the component auditor-sustainability assurance firm’s independence, the component auditor-sustainability assurance firm shall evaluate and address any such threat.

Period During which Independence is Required

405.14 A1 The references to the financial statements and the audit report sustainability information and sustainability assurance report, in paragraphs R400.30 and 400.30 A1 mean the group financial statements and the audit report on the group financial statements sustainability information and the group sustainability assurance report, respectively, when applied in this section.

Group Auditor Sustainability Assurance Clients that are Not Public Interest Entities

R405.15 When the group auditor-sustainability assurance client is not a public interest entity, a component auditor-sustainability assurance firm outside the group auditor-sustainability assurance firm’s network shall be independent of the component auditor-sustainability assurance firm’s network when it expresses an opinion on the group financial statements sustainability information and the group sustainability assurance report.
assurance client in accordance with the requirements set out in this Part that are applicable to audit sustainability assurance clients that are not public interest entities for the purposes of the group audit sustainability assurance engagement.

405.15 A1 Where a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network also performs an audit sustainability assurance engagement for a component audit sustainability assurance client that is a public interest entity for reasons other than the group audit sustainability assurance engagement, for example, a statutory audit sustainability assurance engagement, the independence requirements that are relevant to audit sustainability assurance clients that are public interest entities apply to that engagement.

Group Audit Sustainability Assurance Clients that are Public Interest Entities

Non-Assurance Services

R405.16 Subject to paragraph R405.17, when the group audit sustainability assurance client is a public interest entity, a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to provision of non-assurance services to the component audit sustainability assurance client.

405.16 A1 Where the group audit sustainability assurance client is a public interest entity, a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network is prohibited from, for example:

- Providing accounting and bookkeeping sustainability data and information services to a component audit sustainability assurance client that is not a public interest entity (see Subsection 601).

- Designing the information technology system, or an aspect of it, for a component audit sustainability assurance client that is not a public interest entity where such information technology system generates information for the component audit sustainability assurance client’s accounting sustainability records or financial statements the sustainability information on which the component sustainability assurance firm will express an opinion (see Subsection 606).

- Acting in an advocacy role for a component audit sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court (see Subsection 608).

405.16 A2 The financial sustainability information on which a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network performs audit assurance procedures is relevant to the evaluation of the self-review threat that might be created by the component auditor sustainability assurance firm’s provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor sustainability assurance firm’s audit assurance procedures are limited to a specific item such as inventory greenhouse gas emissions, the results of any non-assurance service that form part of or affect the accounting sustainability records or the financial sustainability information related to the accounting for reporting on, or the internal controls over, inventory greenhouse gas emissions, are relevant to the evaluation of the self-
review threat.

R405.17 As an exception to paragraph R405.16, a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm’s network may provide a non-assurance service that is not prohibited under Section 600 to a component audit sustainability assurance client without communicating information about the proposed non-assurance service to those charged with governance of the group audit sustainability assurance client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.21 to R600.24.

**Key Audit Sustainability Assurance Partners Leaders**

R405.18 The group engagement partner leader shall determine whether an audit sustainability assurance partner leader who performs audit assurance work at a component for purposes of the group audit sustainability assurance engagement is a key audit sustainability assurance partner leader for the group audit sustainability assurance engagement. If so, the group engagement partner leader shall:

(a) Communicate that determination to that individual; and

(b) Indicate:

(i) In the case of all group audit sustainability assurance clients, that the individual is subject to paragraph R411.4; and

(ii) In the case of group audit sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R524.6, R540.5 (c) and R540.20.

405.18 A1 A key audit sustainability assurance partner leader makes key decisions or judgments on significant matters with respect to the audit sustainability assurance engagement of the group financial statements sustainability information on which the group auditor sustainability assurance firm expresses an opinion in the group audit sustainability assurance engagement.

**Changes in Components**

*All Group Audit Group Sustainability Assurance Clients*

R405.19 When an entity that is not a related entity becomes a component within the group audit sustainability assurance client, the group auditor sustainability assurance firm shall apply paragraphs R400.71 to R400.76.

**Changes in Component Auditor Sustainability Assurance Firms**

*All Group Auditor Sustainability Assurance Clients*

405.20 A1 There might be circumstances in which the group auditor sustainability assurance firm requests another firm to perform audit assurance work as a component auditor sustainability assurance firm during or after the period covered by the group financial statements sustainability information, for example due to a client merger or acquisition. A threat to the component auditor sustainability assurance firm’s independence might be created by:

(a) Financial or business relationships of the component auditor sustainability assurance firm.
firm with the component audit sustainability assurance client during or after the period covered by the group financial statements sustainability information but before the component auditor sustainability assurance firm agrees to perform the audit assurance work; or

(b) Previous services provided to the component audit sustainability assurance client by the component auditor sustainability assurance firm.

405.20 A2 Paragraphs 400.31 A1 to A3 set out application material that is applicable for a component auditor sustainability assurance firm’s assessment of threats to independence if a non-assurance service was provided by the component auditor sustainability assurance firm to the component audit sustainability assurance client during or after the period covered by the group financial statements sustainability information, but before the component auditor sustainability assurance firm begins to perform the audit assurance work for the purposes of the group audit sustainability assurance engagement, and the service would not be permitted during the engagement period.

405.20 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor sustainability assurance firm’s assessment of threats to independence if a non-assurance service was provided by the component auditor sustainability assurance firm to the component audit sustainability assurance client prior to the period covered by the group financial statements sustainability information.

Group Audit Sustainability Assurance Clients that are Public Interest Entities

405.21 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor sustainability assurance firm agrees to perform audit assurance work for group audit sustainability assurance purposes in relation to a group audit sustainability assurance client that is a public interest entity if the component auditor sustainability assurance firm has previously provided a non-assurance service to the component audit sustainability assurance client.

405.21 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component auditor sustainability assurance firm to a component audit sustainability assurance client when the group audit sustainability assurance client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Auditor Sustainability Assurance Firm

405.22 A1 A breach of a provision of this section might occur despite a component auditor sustainability assurance firm having a system of quality management designed to address independence requirements. Paragraphs R405.23 to R405.29 are relevant to a group auditor sustainability assurance firm’s determination as to whether it would be able to use a component auditor sustainability assurance firm’s work if a breach has occurred at the component auditor sustainability assurance firm.

405.22 A2 In the case of a breach at a component auditor sustainability assurance firm within the group auditor sustainability assurance firm’s network, paragraphs R400.80 to R400.89 also apply to the group auditor sustainability assurance firm in relation to the group audit sustainability assurance engagement, as applicable.
When a Component Auditor Sustainability Assurance Firm Identifies a Breach

R405.23 If a component auditor sustainability assurance firm concludes that a breach of this section has occurred, the component auditor sustainability assurance firm shall:

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

(b) Evaluate the significance of the breach and its impact on the component auditor sustainability assurance firm’s objectivity and ability to perform audit assurance work for the purposes of the group audit sustainability assurance engagement;

(c) Depending on the significance of the breach, determine 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; and

(d) Promptly communicate in writing the breach to the group engagement partner leader, including the component auditor sustainability assurance firm’s assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.23 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor sustainability assurance firm’s evaluation of the significance and impact of the breach on the component auditor sustainability assurance firm’s objectivity and ability to issue an opinion or conclusion on the audit assurance work performed at the component for purposes of the group audit sustainability assurance engagement, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R405.24 Upon receipt of the component auditor sustainability assurance firm’s communication of the breach, the group engagement partner leader shall:

(a) Review the component auditor sustainability assurance firm’s assessment of the significance of the breach and its impact on the component auditor sustainability assurance firm’s objectivity, and any action that can be or has been taken to address the consequences of the breach;

(b) Evaluate the group auditor sustainability engagement firm’s ability to use the work of the component auditor sustainability assurance firm for the purposes of the group audit sustainability assurance engagement; and

(c) Determine the need for any further action.

R405.25 In applying paragraph R405.21, the group engagement partner leader shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor sustainability assurance firm’s objectivity is compromised, and therefore, the group auditor sustainability assurance firm is unable to use the work of the component auditor sustainability assurance firm for the purposes of the group audit sustainability assurance engagement.

405.25 A1 If the group engagement partner leader determines that the consequences of the breach has been satisfactorily addressed by the component auditor sustainability assurance firm and does not compromise the component auditor sustainability assurance firm’s objectivity, the group auditor sustainability assurance firm may continue to use the work of the component
In certain circumstances, the group engagement partner leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor sustainability assurance firm's work. Examples of such action include the group auditor sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component auditor sustainability assurance firm to perform appropriate remedial work on the affected areas.

ISA 600 (Revised) sets out that if there has been a breach by a component auditor sustainability assurance firm and the breach has not been satisfactorily addressed, the group auditor sustainability assurance firm cannot use the work of that component auditor sustainability assurance firm. In those circumstances, the group engagement partner leader might find other means to obtain the necessary audit assurance evidence on the component audit sustainability assurance client's financial sustainability information. Examples of such means include the group auditor sustainability assurance firm performing the necessary audit assurance work on the component audit sustainability assurance client's financial sustainability information or requesting another component auditor sustainability assurance firm to perform such audit assurance work.

Discussion with Those Charged with Governance of the Group Audit-Sustainability Assurance Client

With respect to breaches by a component auditor sustainability assurance firm within the group auditor sustainability assurance firm's network, paragraph R400.84 applies.

With respect to breaches by a component auditor sustainability assurance firm outside the group auditor sustainability assurance firm's network, the group auditor sustainability assurance firm shall discuss with those charged with governance of the group audit sustainability assurance client:

(a) The component auditor sustainability assurance firm’s assessment of the significance and impact of the breach on the component auditor sustainability assurance firm’s objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether

(i) The action will satisfactorily address, or has addressed, the consequences of the breach; or

(ii) The group auditor sustainability assurance firm will use other means to obtain the necessary audit assurance evidence on the component audit sustainability assurance client’s financial sustainability information.

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.

The group auditor sustainability assurance firm shall communicate in writing to those charged with governance of the group audit sustainability assurance client all matters discussed in accordance with paragraph R405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.
R405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component auditor sustainability assurance firm, the group auditor sustainability assurance firm shall not use the work performed by the component auditor sustainability assurance firm for the purposes of the group audit sustainability assurance engagement.