PART 5 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100 – COMPLYING WITH PART 5 – THE CODE

Introduction

100.1 It is of public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in assurance engagements of sustainability information. High-quality ethics and independence standards alongside other reporting and assurance standards will help investors, customers, employees and other users of sustainability information to confidently rely on such information in their decision-making.

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.2 This Part sets out /Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

(a) Ethics standards for sustainability assurance engagements of heightened public interest and other engagements performed by sustainability assurance practitioners for the same sustainability assurance clients; and

(b) Independence standards for sustainability assurance engagements of heightened public interest in accordance with paragraph […] of business acumen; and

(c) Application of expertise on technical and other matters; and

(d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.2A If the sustainability assurance practitioner is:

(a) A professional accountant, Parts 1 to 4B continue to apply;

(b) Not a professional accountant, the practitioner is encouraged to adopt high standards of ethical behavior in all situations not covered by this Part, including when facing:

(i) Conflicts of interest when performing engagements for other clients;

(ii) Pressure from colleagues or others to breach the fundamental principles.
(iii) Suspected fraud or non-compliance with laws and regulations by management of the firm.

Adopting high standards of ethical behavior in general contributes to the credibility, public trust and confidence underpinning sustainability assurance engagements.

100.3 This Part The Code sets out high quality standards of ethical behavior expected of sustainability assurance practitioners professional accountants for:

(a) Adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for sustainability assurance practitioners professional accountants in particular sectors or jurisdictions,

(b) Use by firms in developing their ethics and independence policies.

100.4 This Part The Code establishes five fundamental principles to be complied with by all sustainability assurance practitioners professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. This Part of the Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that sustainability assurance practitioners accountants might encounter, whether in business or in public practice.

Requirements and Application Material

100.5 A1 The requirements in this Part of the Code, designated with the letter “R,” impose obligations.

100.5 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of this Part of the Code. In particular, the application material is intended to help a sustainability assurance practitioner professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of this Part of the Code, including application of the conceptual framework.

R100.6 A sustainability assurance practitioner professional accountant shall comply with this Part of the Code.

100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of this Part of the Code enable sustainability assurance practitioners professional accountants to meet their responsibility to act in the public interest when providing sustainability assurance.

100.6 A2 Complying with this Part of the Code includes giving appropriate regard to the aim and intent of the specific requirements.

100.6 A3 Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which a sustainability assurance practitioner professional accountant believes that complying with a requirement or requirements in this Part of the Code might not be in the public interest when providing sustainability assurance.

Commented [LL2]: Note for IESBA: At the IESBA September 2023 meeting, WS2 will present the full set of draft standards for the Board’s consideration which will, amongst other matters, include conforming amendments to extant Parts 1 and 3 of the Code, such as explaining how Part 5 fits with the rest of the Code in extant paragraphs 120.3 A1 and 300.2.
assurance or would lead to a disproportionate outcome. In those circumstances, the practitioner accountant is encouraged to consult with an appropriate body such as a professional or regulatory body.

100.6 A4 In acting in the public interest, a sustainability assurance practitioner professional accountant considers not only the preferences or requirements of an individual sustainability assurance client or employing organization, but also the interests of other stakeholders when performing providing sustainability assurance professional activities.

R100.7 If there are circumstances where laws or regulations preclude a sustainability assurance practitioner professional accountant from complying with certain provisions in this Part of the Code, those laws and regulations prevail, and the practitioner accountant shall comply with all other provisions in this Part of the Code.

100.7 A1 The principle of professional behavior requires a sustainability assurance practitioner professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in this Part of the Code. Practitioners accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

Breaches of Part 5 of the Code

R100.8 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of independence requirements under this Part. A sustainability assurance practitioner professional accountant who identifies a breach of any other provision in this Part of the Code shall evaluate the significance of the breach and its impact on the practitioner accountant’s ability to comply with the fundamental principles. The practitioner accountant shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.
SECTION 110
THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for sustainability assurance practitioners professional accountants:

(a) Integrity – to be straightforward and honest in all professional and business relationships.

(b) Objectivity – to exercise professional or business judgment without being compromised by:
   (i) Bias;
   (ii) Conflict of interest; or
   (iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

(c) Professional Competence and Due Care – to:
   (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
   (ii) Act diligently and in accordance with applicable technical and professional standards.

(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.

(e) Professional Behavior – to:
   (i) Comply with relevant laws and regulations;
   (ii) Behave in a manner consistent with the profession’s responsibility to act in the public interest in providing sustainability assurance all professional activities and business relationships; and
   (iii) Avoid any conduct that the sustainability assurance practitioner professional accountant knows or should know might affect the credibility of sustainability assurance engagements discredit the profession.

R110.2 A sustainability assurance practitioner professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a sustainability assurance practitioner professional accountant. The conceptual framework establishes the approach which as practitioner professional accountant is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material in this Part related to each of the fundamental principles.

110.2 A2 A sustainability assurance practitioner professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or
more other fundamental principles. In such a situation, the practitioner accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the practitioner accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The sustainability assurance practitioner professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 A sustainability assurance practitioner professional accountant shall comply with the principle of integrity, which requires a practitioner accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

111.1 A2 Acting appropriately involves:

(a) Standing one’s ground when confronted by dilemmas and difficult situations; or
(b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

R111.2 A sustainability assurance practitioner professional accountant shall not knowingly be associated with reports, returns, communications or other information where the practitioner accountant believes that the information:

(a) Contains a materially false or misleading statement;
(b) Contains statements or information provided recklessly; or
(c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If a sustainability assurance practitioner professional accountant provides a modified report in respect of such a report, return, communication or other information, the practitioner accountant is not in breach of paragraph R111.2.

R111.3 When a sustainability assurance practitioner professional accountant becomes aware of having been associated with information described in paragraph R111.2, the practitioner accountant shall take steps to be disassociated from that information.
SUBSECTION 112 – OBJECTIVITY

R112.1 A sustainability assurance practitioner professional accountant shall comply with the principle of objectivity, which requires as practitioner accountants to exercise professional or business judgment without being compromised by:

(a) Bias;

(b) Conflict of interest; or

(c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

R112.2 A sustainability assurance practitioner professional accountant shall not undertake an engagement for a sustainability assurance client professional activity if a circumstance or relationship unduly influences the practitioner accountant’s professional judgment regarding that activity’s engagement.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 A sustainability assurance practitioner professional accountant shall comply with the principle of professional competence and due care, which requires as practitioner accountants to:

(a) Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence involves the exercise of sound judgment in applying professional knowledge and skill when undertaking engagement professional activities.

113.1 A2 The knowledge and skills necessary for an engagement professional activity vary depending on the nature of the engagement activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the engagement professional activity, interpersonal, communication and organizational skills facilitate the practitioner accountant’s interaction with entities and individuals with whom the practitioner accountant interacts.

113.1 A3 Maintaining professional competence requires a sustainability assurance practitioner professional accountant to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the engagement professional activities undertaken by the practitioner accountant. Continuing professional development enables as practitioner accountant to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, a sustainability assurance practitioner professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the practitioner accountant’s authority have appropriate training and supervision.
Where appropriate, a sustainability assurance practitioner professional accountant shall make sustainability assurance clients, the employing organization, or other users of the outputs of the practitioner’s engagement accountant’s professional activities aware of the limitations inherent in the engagement activities and explain the implications of those limitations.

SUBSECTION 114 – CONFIDENTIALITY

A sustainability assurance practitioner professional accountant shall comply with the principle of confidentiality, which requires a practitioner accountant to respect the confidentiality of information acquired in the course of professional and business relationships. A practitioner accountant shall:

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

(b) Maintain confidentiality of information within the firm or employing organization;

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization; and

(d) Take reasonable steps to ensure that personnel under the practitioner accountant’s control, and individuals from whom advice and assistance are obtained, comply with the practitioner accountant’s duty of confidentiality.

R114.2 Subject to paragraph R114.3, a sustainability assurance practitioner professional accountant shall not:

(a) Disclose confidential information acquired in the course of professional and business relationships;

(b) Use confidential information acquired in the course of professional and business relationships for the advantage of the accountant practitioner, the firm, the employing organization or a third party;

(c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and

(d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

R114.3 As an exception to paragraph R114.2, a sustainability assurance practitioner professional accountant may disclose or use confidential information where:

(a) There is a legal or professional duty or right to do so; or
(b) This is authorized by the client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the sustainability assurance practitioner’s professional accountant’s client or employing organization to the practitioner accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where sustainability assurance practitioners professional accountants might be required or have the duty or right to disclose confidential information:

(a) Disclosure is required by law or regulation, for example:
   (i) Production of documents or other provision of evidence in the course of legal proceedings; or
   (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(b) There is a professional duty or use right to disclose, when not prohibited by law or regulation:
   (i) To comply with the quality review of a professional body; [TBC with SRG whether the reference to “quality review” is clear, assuming that this provision is not inapplicable to non-PAs]
   (ii) To respond to an inquiry or investigation by a professional or regulatory body;
   (iii) To protect the professional interests of a sustainability assurance practitioner professional accountant in legal proceedings; or
   (iv) To comply with technical and professional standards, including ethics requirements.

114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

• Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization authorizes the disclosure or use of information by the sustainability assurance practitioner professional accountant.

• Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
  o Unsubstantiated facts.
  o Incomplete information.
  o Unsubstantiated conclusions.

• The proposed means of communicating, the information.

• Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
• Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

114.3 A3 The circumstances in which a firm or employing organization seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorization of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

• The nature of the information to be used or disclosed.
• The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
• The individual or entity who will undertake the activity for which the information is to be used or disclosed.
• Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R114.4 A sustainability assurance practitioner professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the practitioner accountant and a sustainability assurance client or employing organization. When changing employment or acquiring a new sustainability assurance client, the practitioner accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A sustainability assurance practitioner professional accountant shall comply with the principle of professional behavior, which requires a practitioner accountant to:

(a) Comply with relevant laws and regulations;

(b) Behave in a manner consistent with the profession’s responsibility to acting in the public interest in providing sustainability assurance all professional activities and business relationships; and

(c) Avoid any conduct that the practitioner accountant knows or should know might affect public trust in sustainability assurance discredit the profession.

A sustainability assurance practitioner professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair public trust in sustainability assurance the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might affect public trust in sustainability assurance discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude to have such effects adversely affect the good reputation of the profession.
When undertaking marketing or promotional activities, a sustainability assurance practitioner professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the practitioner accountant, or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

If a sustainability assurance practitioner professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the practitioner accountant is encouraged to consult with the relevant professional body.
SECTION 120
THE CONCEPTUAL FRAMEWORK

Introduction

120.1 The circumstances in which sustainability assurance practitioners professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist practitioners in complying with the fundamental principles and meeting their responsibility to acting in the public interest when providing sustainability assurance. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by this Part of the Code.

120.2 The conceptual framework specifies an approach for a sustainability assurance practitioner professional accountant to:
(a) Identify threats to compliance with the fundamental principles;
(b) Evaluate the threats identified; and
(c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

R120.3 The sustainability assurance practitioner professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

R120.4 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant’s relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to those circumstances.
R120.5 When applying the conceptual framework, the sustainability assurance practitioner professional accountant shall:

(a) Have an inquiring mind;
(b) Exercise professional judgment; and
(c) Use the reasonable and informed third party test described in paragraph 120.5 A9.

Having an Inquiring Mind

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

(a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the engagement professional activity being undertaken; and
(b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the sustainability assurance practitioner professional accountant might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the practitioner accountant.
- There is an inconsistency between the known facts and circumstances and the practitioner accountant's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

Paragraph R120.5 requires all sustainability assurance practitioners professional accountants to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all accountants regardless of the professional activity undertaken. Under auditing, review and other sustainability assurance standards, including those issued by the IAASB, practitioners may also be required to exercise professional skepticism, which includes a critical assessment of evidence.

Exercising Professional Judgment

120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular engagements professional activities, and the interests and relationships involved.

120.5 A5 Professional judgment is required when the sustainability assurance practitioner professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions
are appropriate in the circumstances. In making this determination, the practitioner’s expertise and experience are sufficient to reach a conclusion. 

- The practitioner’s expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The practitioner’s own preconception or bias might be affecting the practitioner’s exercise of professional judgment.

120.5 A6 The circumstances in which sustainability assurance practitioners carry out engagements vary considerably in their range and complexity. The professional judgment exercised by sustainability assurance practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

120.5 A7 Managing complexity involves:

- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the practitioner has made. (Ref: Para. R120.5 to 120.5 A3, and R120.9 to 120.9 A2)

120.5 A8 Managing complexity might also involve:

- Analyzing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyze relevant data to inform the practitioner’s judgment.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

120.5 A9 The reasonable and informed third party test is a consideration by the practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the practitioner knows, or could reasonably be expected to know, at the time the conclusions are made.

Identifying Threats

120.6 The sustainability assurance practitioner shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any business activities, interests and relationships that might compromise compliance with the
fundamental principles, is a prerequisite to the sustainability assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the practitioner’s profession, legislation, regulation, or the firm or the employing organization that can enhance the practitioneraccountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

(a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner’s professional accountant’s judgment or behavior;

(b) Self-review threat – the threat that a sustainability assurance practitioner professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the practitioneraccountant or by another individual within the practitioner’s accountant’s firm or employing organization, on which the practitioner accountant will rely when forming a judgment as part of performing a current engagement activity;

(c) Advocacy threat – the threat that a sustainability assurance practitioner professional accountant will promote a client’s or employing organization’s position to the point that the practitioner accountant’s objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a sustainability assurance practitioner professional accountant will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that a sustainability assurance practitioner professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the practitioner accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R120.7 When the sustainability assurance practitioner professional accountant identifies a threat to compliance with the fundamental principles, the practitioner accountant shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

120.7 A1 An acceptable level is a level at which a sustainability assurance practitioner professional accountant using the reasonable and informed third party test would likely conclude that the practitioner accountant complies with the fundamental principles.
Factors Relevant in Evaluating the Level of Threats

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the sustainability assurance practitioner’s professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the practitioner’s profession.
- Effective complaint systems which enable the sustainability assurance practitioner professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the sustainability assurance practitioner professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the practitioner accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the engagement professional activity assists the practitioner professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

(a) Impact the level of a threat; or

(b) Affect the practitioner’s accountant’s conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the sustainability assurance practitioner professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the sustainability assurance practitioner professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the practitioner accountant shall address the threats by eliminating them or reducing them to an acceptable level. The practitioner accountant shall do so by:

(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;

(b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(c) Declining or ending the specific engagement professional activity.

Actions to Eliminate Threats
120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific engagement. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the sustainability assurance practitioner professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgments Made and Overall Conclusions Reached

R120.11 The sustainability assurance practitioner professional accountant shall form an overall conclusion about whether the actions that the practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the practitioner shall:

(a) Review any significant judgments made or conclusions reached; and
(b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one’s own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
Selective perception, which is a tendency for a person’s expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organizational Culture

120.13 A1 The effective application of the conceptual framework by a sustainability assurance practitioner professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in this Part of the Code is promoted through the internal culture of the practitioner’s organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

(a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;

(b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;

(c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers, and

(d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 Sustainability assurance practitioners professional accountants are expected to:

(a) Encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and

(b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioners, or the firm or the employing organization has a professional or business relationship.

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, sustainability assurance or other assurance or related services engagements. [Placeholder: TBD in collaboration with IAASB]

Independence

120.15 A1 Sustainability assurance practitioners professional accountants in public practice are required by this Part to be independent when performing sustainability audits, reviews, or other assurance engagements of heightened
public interest. Independence is linked to the fundamental 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 its sustainability audit assurance team member’s integrity, objectivity or professional skepticism has been compromised.

120.15 A2 This Part on International Independence Standards sets out requirements and application material on how to apply the conceptual framework to maintain independence when performing sustainability audits, reviews, or other assurance engagements of heightened public interest. Sustainability assurance practitioners and firms are required to comply with these requirements in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of sustainability audits, reviews and other assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures. [Placeholder - TBD in collaboration with IAASB]

Professional Skepticism

120.16 A1 Under sustainability auditing, review and other assurance standards, including those issued by the IAASB, sustainability assurance practitioners in public practice are required to exercise professional skepticism when planning and performing sustainability audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.16 A2 In sustainability assurance engagements of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- **Integrity** requires the sustainability assurance practitioner professional accountant to be straightforward and honest. For example, the practitioner accountants complies with the principle of integrity by:
  - Being straightforward and honest when raising concerns about a position taken by a sustainability assurance client.
  - Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially
false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.

- Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:
  - Standing one’s ground when confronted by dilemmas and difficult situations; or
  - Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the practitioner accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- **Objectivity** requires the sustainability assurance practitioner professional accountant to exercise professional or business judgment without being compromised by:
  - Bias;
  - Conflict of interest; or
  - Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

For example, the practitioner accountant complies with the principle of objectivity by:
  - Recognizing circumstances or relationships such as familiarity with the sustainability assurance client, that might compromise the practitioner accountant’s professional or business judgment; and
  - Considering the impact of such circumstances and relationships on the practitioner accountant’s judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client’s sustainability information financial statements.

In doing so, the practitioner accountant behaves in a manner that contributes to the exercise of professional skepticism.

- **Professional competence and due care** requires the sustainability assurance practitioner professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the practitioner accountant complies with the principle of professional competence and due care by:
  - Applying knowledge that is relevant to a particular sustainability assurance client’s industry and business activities in order to properly identify risks of material misstatement;
  - Designing and performing appropriate assurance audit procedures; and
  - Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.
In doing so, the practitioner behaves in a manner that contributes to the exercise of professional skepticism.