

**Note to IESBA Members**

This document includes the *draft international independence standards for sustainability assurance engagements* for IESBA members' first read.

For ease of comparison

- The changes from the *2024 version of Part 4A of the Code* are in mark up; and
- The most recent proposed amendments since the June 2023 IESBA meeting are highlighted in yellow.

The grey boxes in the paper provide explanations for the most recent changes and the matters for IESBA's consideration in relation to the relevant subsections/titles.

***For the introduction in Part 5***

100.X This Part sets out ethics (including independence) standards that are applicable when a firm undertakes a sustainability assurance engagement. In a sustainability assurance engagement, the sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information.

100.X Sustainability information might include comprehensive disclosures about many different topics or aspects of topics as required by the sustainability reporting framework or by law or regulation, or that the entity chooses to present in accordance with other criteria. Alternatively, the sustainability information presented by an entity might be limited to certain matters, such as metrics, targets or key performance indicators.

100.X The criteria used for the reporting of sustainability information on which the sustainability assurance practitioner expresses an opinion might be framework criteria, entity-developed criteria or a combination of those. Framework criteria might be embodied in law or regulation or issued by authorized or recognized bodies that follow a transparent due process.

100.X Depending on the criteria used, the sustainability information might be prepared on a single entity or group basis, and might include information for other entities in the reporting entity's value chain.

100.X Sustainability information might be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, or presented as part of the management report or management commentary), or in an integrated report.

### Matters for IESBA's Consideration

WS1 proposes adding introductory material to the section equivalent to Section 100 in Part 5 that would explain at the beginning of Part 5 the characteristics of a sustainability assurance engagement.

The introductory paragraphs will help users of the Code better understand the context and the scope of the ethics and independence standards and the specific facts and circumstances the standards address. These paragraphs are consistent with the introductory paragraphs and application material in ISSA 5000.

## 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~~ sustainability assurance engagements.
- 400.2 [Left blank intentionally] ~~This Part applies to both audit and review engagements unless otherwise stated. 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.~~ —
- 400.3 In this Part, the term “~~professional accountant~~” refers to ~~individual professional accountants in public practice and their firms.~~ “sustainability assurance practitioner” refers to individuals and their firms conducting sustainability assurance engagements. —

#### Scope of the International Independence Standards in This Part

400.3a The International Independence Standards in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:

(a) Is reported in accordance with a general purpose framework; and

(b) —

i. Is required to be provided in accordance with law or regulation; or

ii. Is publicly disclosed to support decision-making by investors or other stakeholders.

400.3b Law or regulation might also require the application of this Part to sustainability assurance engagements other than those described in paragraph 400.3a.

400.3c This Part applies to both reasonable assurance and limited assurance sustainability assurance engagements.

400.3d An assurance engagement might be either an attestation engagement or a direct engagement. This Part covers only sustainability assurance engagements that are attestation engagements.

400.3e Part 4B of the Code sets out International Independence Standards for other sustainability assurance engagements that are not within the scope of this Part. These include, for example:

- A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported solely in accordance with:
  - A framework designed to meet the information needs of specified users;
  - or
  - Entity-developed criteria;
- A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

#### **Matters for IESBA's Consideration**

Based on the comments received from IESBA members in June 2023, WS1 proposes some clarification to the scope of Part 5. WS1 does not suggest any changes to its previous approach that the independence standards in Part 5, as a first step, focus on sustainability assurance engagements where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a general-purpose framework, and is publicly disclosed to support decision-making by investors or other stakeholders.

Part 5 will explain that the extant independence standards in Part 4B apply to other sustainability assurance engagements. It will also provide examples of such engagements.

#### Quality Management

400.3f 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 practitioner who is performing the engagement being 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.

400.3g Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management, are at least as demanding as ISQM 1 when they address the

requirements of ISQM 1 and impose obligations on the firm to achieve the objective of ISQM 1.

### Matters for IESBA's Consideration

IESBA members and stakeholders asked how a firm can determine if quality management requirements based on national laws or regulations or professional standards are at least as demanding as ISQM 1.

Responding to these questions, WS1 is proposing guidance that explains what a firm needs to consider when making such a judgment. The proposed approach is in line with paragraph A56 of ED-ISSA 5000.

400.4 ISQM 1 requires a firm to design, implement and operate a system of quality management for ~~audits or reviews of financial statements~~ 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-ISSAs~~ establish responsibilities for engagement leaders partners and engagement teams at the level of the engagement for ~~audits and reviews~~ sustainability assurance ~~respectively~~. 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 practitioner~~ remains responsible for compliance with any provisions that apply to that ~~accountant's practitioner's~~ activities, interests or relationships.

400.5 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.

400.6 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~~.

400.7 The International Independence Standards in this Part describes:

- (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**

400.8 The International Independence Standards in this Part ~~applies~~ apply to all ~~audit~~ and ~~sustainability assurance~~ team members, including engagement team members.

400.9 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 within or outside the firm’s network.

~~(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.~~

400.10 [Left blank intentionally] ~~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.~~

400.10a If the firm intends to use the work of another sustainability assurance practitioner and the firm is able to direct, supervise and review the practitioner’s work, that

practitioner is a member of the engagement team. For example, an individual from a component 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.

400.11

Sustainability assurance engagements might be performed on a wide range of sustainability matters that require specialized skills and knowledge beyond those possessed by the engagement team. An ~~audit~~ sustainability assurance engagement might therefore involve experts within, or engaged by, the firm, a network firm, or a component ~~auditor~~ sustainability assurance firm outside a group auditor 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 reporting or assurance who perform assurance procedures are engagement team members. These include, for example, individuals with expertise [in the measurement of specific sustainability matters 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. [Ref.: reference to paragraphs on use of external experts in Section 300]

400.12

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**

Similar to the independence standards for audit engagements, in addition to the definitions

in the Glossary, Part 5 will provide further guidance with examples to help with the determination of an engagement team and sustainability assurance team.

In line with ISQM 1, the extant Part 4A for audit engagements includes a reference to service providers, who are individuals outside the firm and are members of the engagement team if they perform audit procedures on the engagement. Although ISQM 1 also applies to sustainability assurance engagements, WS1 proposes simplified guidance in Part 5 that only refers to other practitioners who are members of the engagement team.

### Involvement of Another Practitioner in a Sustainability Assurance Engagement

400.12a Although a sustainability assurance client's sustainability information and financial statements might relate to the same reporting entity, the reporting boundary for sustainability information might differ from that for purposes of preparing the financial statements. For example, the reporting boundary might include activities, operations, relationships or resources up and down the entity's value chain.

400.12b There might be other practitioners who perform assurance work related to the engagement whose work the firm might be unable to direct, supervise or review. For example, another practitioner might already have completed their engagement, or that practitioner might be unable to cooperate with the firm because there are restrictions on access to information or people due to law, regulation or other conditions.

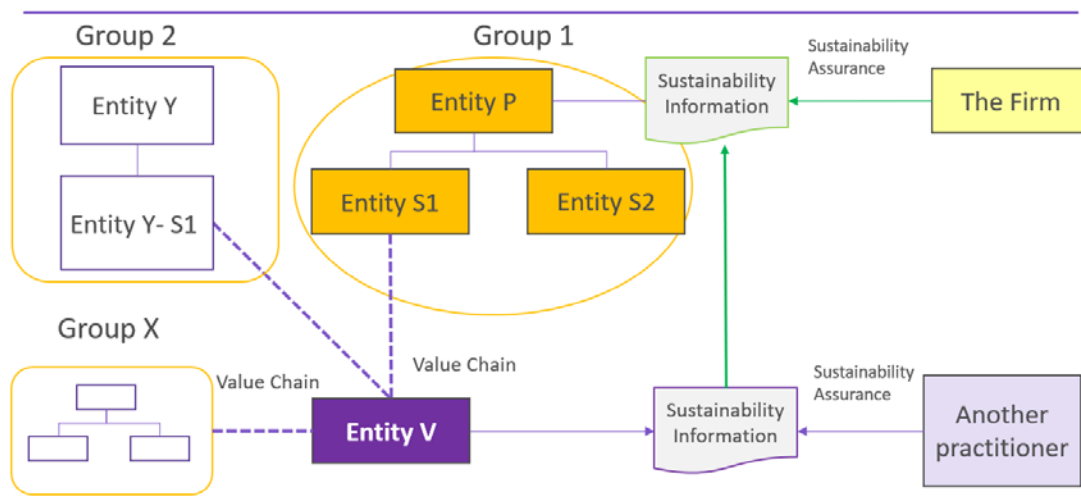
400.12c When another practitioner performs assurance work related to the engagement and the firm is unable to direct, supervise and review that work, that practitioner is not a member of the engagement team. Section 406 sets out specific requirements and application material when a firm uses the work of such a practitioner.

### **Matters for IESBA's Consideration**

The application material also recognizes that the sustainability reporting framework might require the entity to include sustainability information about other entities that are outside the entity's organizational boundary, for example, suppliers in the entity's value chain.

In determining the assurance work to be carried out in relation to the sustainability information of such an entity within the reporting boundary of the client, the firm may decide to use or rely on the work of another practitioner (who might already have carried out assurance work at that entity), despite the firm not being able to direct, supervise and review the work of that practitioner.

The diagram below shows the involvement of another practitioner in the sustainability assurance engagement (their work may also be relevant to the sustainability information of many other groups for which Entity V is in the value chain):



WS1 proposes the following definition for another practitioner in the Glossary:

*“An individual who performs assurance work relevant to a sustainability assurance engagement, and who is not under the direction, supervision and review of the sustainability assurance practitioner.*

*The individual is not a member of the engagement team.*

*In Part 5, the term “another practitioner” refers to individual practitioners and their firms.”*

Since that practitioner is not part of the engagement team or the sustainability assurance team, the requirements and application material in the independence standards in Part 5 do not apply directly to them.

This approach is in line with IAASB’s proposed ISSA 5000, which also sets out requirements and application material for firms when they use the work of another practitioner for the assurance engagement.

## Public Interest Entities

400.13 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 that are determined to be public interest entities in accordance with paragraph R400.22 in Part 4A for the purposes of the audit of their financial statements, ~~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 ~~[Left blank intentionally] 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.~~

400.15 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 an entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.13 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**

WS1 has proposed guidance for the determination of a public interest entity (PIE) in the context of sustainability assurance engagements. The changes clarify that the firm needs to apply the PIE provisions in Part 5 if the client is a PIE for the audit of its financial statements as determined in Paragraph R400.22 in Part 4A. Accordingly, the firm must consider the more explicit definitions established by law, regulation, or professional standards for the PIE categories in the Glossary of the Code.

However, if the auditor of the financial statements decides to use the PIE provisions for the audit engagement voluntarily (see paragraph 400.24 A1), the firm or the sustainability assurance practitioner is not required to also apply the PIE provisions for the sustainability assurance engagement.

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

400.16 ~~[Left blank intentionally] 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

~~400.16a 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 and an audit or review engagement for the same client, the provisions in the Code applicable to audit and review engagements, including Part 4A, apply to the firm, a network firm and the audit team members, in addition to the provisions in this Part.~~

### Assurance Engagements other than Audit and Review Engagements

~~400.17 [Left blank intentionally] Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagement*.~~

## Requirements and Application Material

### General

~~R400.18 A firm performing an audit sustainability assurance engagement shall be independent.~~

~~R400.19 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

~~R400.20 A firm or a network firm shall not assume a management responsibility for an audit sustainability assurance client.~~

~~400.20 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.~~

~~400.20 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.~~

~~400.20 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, for example, setting sustainable policies and goals.~~

- Designing or implementing software to collect or produce sustainability data for the client, its suppliers or customers.
- Reporting on environmental credits or offsets.
- 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:
  - Developing criteria used by the client for reporting sustainability information.
  - ~~The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. The preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework, including selecting material issues.~~
  - Designing, implementing, monitoring or maintaining internal control.
  - Supply chain management.
  - Resource allocation for sustainability initiatives.
- Controlling or managing bank accounts or investments.

400.20 A4 Subject to compliance with paragraph R400.21, 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.

**R400.21** 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.

400.21 A1 When technology is used in performing a professional activity for an ~~audit~~ sustainability assurance client, the requirements in paragraphs R400.20 and R400.21 apply regardless of the nature or extent of such use of the technology.

#### Matters for IESBA's Consideration

WS1 asked for input from Sustainability Reference Group members to specific examples of management activities in relation to sustainability services.

#### Public Interest Entities

**R400.22** ~~[Left blank intentionally] 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 ~~[Left blank intentionally] 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** ~~[Left blank intentionally] 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

~~[Left blank intentionally] 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

~~[Left blank intentionally] 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.~~

400.24 A1

~~[Left blank intentionally] 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 400.13 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~~ 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.~~

400.30 A1 The engagement period starts when the engagement 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 the firm or a network firm.

400.31 A1 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 a 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 perform a sustainability assurance engagement for 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 a ~~as 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.

**[Paragraphs 400.41 to 400.49 are intentionally left blank]**

**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 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.

- ~~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 Sustainability Assurance 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~~ sustainability assurance engagement, 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~~ sustainability assurance practitioner review the ~~audit~~ sustainability assurance or non-assurance work as appropriate.
- Having a ~~professional accountant~~ sustainability assurance 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~~ ~~be 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 ~~be~~ **perform the auditor sustainability assurance engagement.**

*Documentation*

**R400.76** 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*

**R400.80** 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.

## **PART 5 – SECTION 405**

### **GROUP AUDITS SUSTAINABILITY ASSURANCE ENGAGEMENTS**

#### **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.~~ Some entities might be required to prepare group sustainability information and have an assurance report issued on such information. The firm might consider using the work of a component sustainability assurance firm for the purpose of a group sustainability assurance engagement. This section sets out the independence provisions that are applicable to a component sustainability assurance firm and members of the group sustainability assurance team.

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.

405.2 A3 In the case of a group sustainability assurance engagement, the group engagement leader remains ultimately accountable for compliance with the relevant requirements and takes overall responsibility for the engagement. In

doing so, the group engagement leader needs to be sufficiently and appropriately involved throughout the group sustainability assurance engagement, including in the work of a component sustainability assurance firm.

405.2 A4 A group sustainability assurance firm might consider using the work of another practitioner in circumstances where the group sustainability assurance firm is not able to direct, supervise and review that practitioner's work. In such circumstances, Section 406 applies.

#### Matters for IESBA's Consideration

The new proposed general paragraphs under this section are intended to explain that the requirements and application material below apply to component sustainability assurance firms, whose work the group sustainability assurance firm can direct, supervise and review.

The new section 406 will address the independence considerations applicable when a group sustainability assurance firm uses the work of another practitioner who is not an engagement team member, and therefore not subject to the group sustainability assurance firm's direction, supervision and review (e.g. a practitioner undertaking assurance work in relation to an entity in the group's value chain but outside the group's organizational boundary).

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

**R405.3** ~~ISA 600 (Revised) requires that~~ The group engagement leader partner shall take responsibility to make a component ~~auditor-sustainability assurance firm~~ aware of the relevant requirements and application material 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 t~~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.

R405.54 A1X 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 data or 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 data or 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 ~~Audit~~ 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 ~~audit~~ sustainability assurance client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all ~~audit~~ 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 ~~audit 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 ~~audit sustainability assurance~~ client or the group ~~audit 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 ~~Audit Sustainability Assurance~~ Clients that are Not Public Interest Entities*

- R405.15** When the group ~~audit 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 ~~audit sustainability 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 ~~Audit~~ 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 assurance report**, 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 with the component ~~audit sustainability assurance~~ client during or after the period covered by the group ~~financial statements~~

sustainability assurance report 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 assurance report, 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 assurance report.

#### *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~~;
- I 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 ~~auditor-sustainability assurance~~ firm for the group ~~audit-sustainability assurance engagement~~. 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.

405.25 A2 ~~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*

405.26 A1 With respect to breaches by a component ~~auditor-sustainability assurance~~ firm within the group ~~auditor-sustainability assurance~~ firm's network, paragraph R400.84 applies.

**R405.27** 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.

**R405.28** 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.

## **PART 5 – SECTION 406**

### **ANOTHER PRACTITIONER INVOLVED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT**

#### **Matters for IESBA's Consideration**

As explained in relation to the proposed changes to Section 400 above, WS1 proposes that the independence standards address circumstances where the firm uses the work of another practitioner who is not an engagement team member (and therefore not subject to direction, supervision and review by the firm).

The firm might consider using the work of such a practitioner when the reporting framework requires the entity to include information in its sustainability report (sustainability information) about entities within the value chain/supply chain (entities within the reporting boundary). If such value chain entities are a large distance away from the client's organizational boundary, the firm or individuals within the engagement team might not be able to obtain evidence and carry out assurance procedures at that entity.

Other circumstances where the using the work of such a practitioner might arise include where the client chooses to engage another practitioner in relation to certain sustainability information and that practitioner is not under the direction supervision and review of the firm.

As the other practitioner carries out sustainability assurance work, the impact of their work on the outcome of the engagement and the firm's responsibilities in using their work is different compared with other individuals who might be involved in the engagement such as external experts or data providers.

#### **Independence Considerations Applicable to Another Practitioner**

IAASB's draft ISSA 5000 requires a sustainability assurance practitioner who plans to use the work of another practitioner to:

- Evaluate whether that practitioner is independent and has the necessary competence and capabilities for the practitioner's purposes;
- When evaluating that practitioner's independence, inquire of the other practitioner about threats to compliance with relevant ethical requirements, including those related to independence.

In line with the draft ISSA 5000, WS1 proposes that the independence standards in Part 5 require the firm to evaluate the independence of another practitioner. However, WS1 recognizes that the practitioner whose work the firm intends to use is not under the firm's direction and supervision; therefore, the firm cannot directly require that practitioner or their firm to comply with the Code's provisions. In some instances, that practitioner might have already completed their assurance work and might not have been subject to Part 5 of the Code.

Accordingly, WS1 proposes that instead of imposing requirements directly on another

practitioner, the Code requires the firm intending to use the work of that practitioner to communicate with them and obtain confirmation on whether that other practitioner and its firm have complied with the Code's provisions in Part 5.

#### *Independence from a Value Chain Entity*

WS1 believes that given the circumstances and the nature of the assurance work performed, for the firm to be able to use the work of the other practitioner, the other practitioner and their firm need to be independent of *the entity within the reporting boundary on whose sustainability information that practitioner expresses an opinion (Entity V in the diagram below)*. If the firm cannot confirm that the practitioner and their firm are independent from the value chain entity in accordance with the Code's provisions, the firm cannot use the work of that practitioner and needs to find other means to obtain assurance on the sustainability information of the value chain entity.

(As set out in the definition of "another practitioner" in the Glossary, the reference to another practitioner covers both the practitioner and the practitioner's firm.)

#### *Independence from the Sustainability Assurance Client*

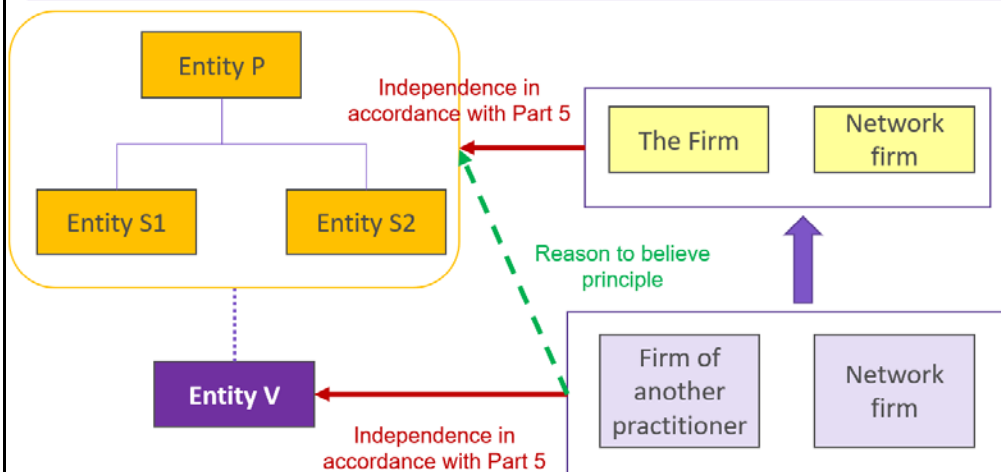
WS1 also discussed whether it is necessary for another practitioner and their firm to be independent of the *parent entity and all the other entities within the sustainability assurance client (Entity P and Entities S1 and S2 below)*. WS1 considered that the entity within the value chain (Entity V) might also be relevant to the sustainability reporting of many other entities or groups. The other practitioner who performs sustainability assurance work at that value chain entity might have little or no information about those other entities and groups in the respective value chains. Therefore, requiring that practitioner to monitor and maintain a database on all entities within all the possible value chains to be independent of those entities would not be proportionate or practicable. Such requirements could also unduly limit the firm's ability to use the work of other practitioners. WS1 believes that such a limitation would not be in the public interest.

WS1 believes that any relationship with the sustainability assurance client and its value chain could only adversely impair the other practitioner's, or their firm's, independence of the sustainability assurance client if that practitioner or their firm knew, or had reason to believe, that the entity is in the value chain of the sustainability assurance client and had a relationship or interest that could compromise their independence.

Therefore, the proposal in Section 406 requires the firm to request the other practitioner and their firm to use the "reason to believe principle" and notify the firm about any relationship the other practitioner is aware of with the sustainability assurance client that could create a threat to the other practitioner's, or their firm's, independence for the purpose of the sustainability assurance engagement.



Upon this notification, the firm needs to evaluate the level of the threat and address it if the threat is not at an acceptable level. If the firm cannot reduce the threat to an acceptable level, the firm cannot use the work of that practitioner.



## Introduction

406.1 Section 400 requires a firm to be independent when performing a 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 a firm uses the work of another practitioner who is not part of the engagement team.

## Requirements and Application Material

### General

406.2 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. Examples of such circumstances include where the client chooses to engage another practitioner in relation to certain sustainability information, or where another practitioner has been or will be engaged by a value chain entity within the client's reporting boundary. In such circumstances, the firm might consider using the work of that other practitioner for the purposes of the firm's sustainability assurance engagement. If the firm is able to direct, supervise and review the other practitioner's work, the other practitioner will be a member of the engagement team and Section 405 applies. If the firm is not able to direct, supervise and review the other practitioner's work, the other practitioner will not

be a member of the engagement team and this Section applies

**406.2 A2** As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in the section below to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and the sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

### **Communication Between the Firm and Another Practitioner**

**R406.3** If the firm determines to use the work of another practitioner for purposes of the sustainability assurance engagement, the engagement leader shall take responsibility to make that practitioner aware of the relevant requirements and application material in this Part that are applicable given the nature and the circumstances of the sustainability assurance engagement. When making another practitioner aware of the relevant provisions in this Part, the firm shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions.

**406.3 A1** Examples of matters the firm might communicate include:

- Whether the group sustainability assurance client is a public interest entity and the relevant requirements applicable to the group sustainability assurance engagement.
- The related entities within the sustainability assurance client that are relevant to the independence considerations applicable to the other practitioner.
- The period during which independence is required.

**R406.4** If the firm intends to use the work of another practitioner, the engagement leader shall take responsibility for confirming whether that practitioner understands and will comply with the relevant provisions of this Part.

### **Independence Considerations When the Firm Intends to Use the Work of Another Practitioner**

**R406.5** If the firm intends to use the work of another practitioner, the firm shall obtain confirmation that:

- (a) The other practitioner is independent of the entity on whose sustainability information the other practitioner expresses an opinion in accordance with the requirements of this Part that are applicable to a member of the sustainability assurance team and a firm with respect to the sustainability assurance client; and

(b) Any network firms of the other practitioner are independent of the entity on whose sustainability information the other practitioner expresses an opinion in accordance with the requirements of this Part that are applicable to a network firm with respect to the sustainability assurance client.

406.5 A1 If the firm intends to use the work of another practitioner and the sustainability assurance engagement completed by the other practitioner does not meet criteria set out in paragraph 400.3a, the firm is still required to obtain confirmation that the other practitioner and their firm are independent in accordance with the provisions in this Part.

R406.6 In relation to entities within the sustainability assurance client other than those covered in paragraph R406.5, the firm shall request the other practitioner to notify the firm about any relationship or circumstance that the other practitioner knows, or has reason to believe, is relevant to the evaluation of the other practitioner's independence from the entity on whose sustainability information the other practitioner expresses an opinion.

406.6 A1 Examples of relationships or circumstances involving another practitioner or any of that practitioner's immediate family members, as applicable, that are relevant to the consideration set out in paragraph R405.6 include:

- A direct or material indirect financial interest in an entity that has control over the sustainability assurance client if the 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.
  - 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.
  - An employee in a position to exert significant influence over the preparation of an entity's sustainability data or records or sustainability information on which the other practitioner 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

- o An employee in a position to exert significant influence over the preparation of an entity's sustainability data or records or sustainability information on which the other practitioner will express an opinion.

- Agreement to provide a non-assurance service to a sustainability assurance client that is prohibited in this Part (see Section 600 and its Subsections)

**R406.7** Upon receiving the notification as set out in paragraph R406.6, the firm shall evaluate and address any threats to independence created by any relationships or circumstances involving the other practitioner, their firm or any network firm.

**406.7 A1** If the firm cannot address the threats created by any relationships or circumstances involving the other practitioner, their firm or any network firm, the firm cannot use the work of the other practitioner.

**406.8 A1** If the firm cannot obtain confirmation about another practitioner's independence in accordance with this Section, the firm cannot use the work of that practitioner.

## **PART 5-SECTION 410**

### **FEES**

#### **Introduction**

- 410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to ~~audit~~ sustainability assurance clients.

#### **Requirements and Application Material**

##### **General**

- 410.3 A1 **Fees for professional services** are usually negotiated with and paid by an ~~audit~~ sustainability assurance client and might create threats to independence. This practice is generally recognized and accepted by intended users of ~~financial statements~~ sustainability information.
- 410.3 A2 When the ~~audit~~ sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for ~~audit~~ sustainability assurance clients that are public interest entities.
- 410.3 A3 For the purposes of this section, ~~audit fees comprise fees or other types of remuneration for an audit or review of financial statements.~~ sustainability assurance fees comprise fees or other types of remuneration for a sustainability assurance engagement. ~~Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))~~
- 410.3 A4** If the firm also performs the audit engagement for the same client, the separation of audit fees and fees for the sustainability assurance engagement depends on the agreement between the firm and the client. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply in addition to the relevant provisions in Part 4A.

### Matters for IESBA's Consideration

Responding to comments from IESBA members, the proposed new paragraph provides guidance for firms carrying out both the audit and the sustainability assurance engagement to determine the fees for sustainability assurance engagement and whether such fees are separate from audit fees.

#### *Fees Paid by ~~an Audit~~ Sustainability Assurance Client*

- 410.4 A1 When fees are negotiated with and paid by ~~an audit~~ sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts ~~an audit~~ sustainability assurance engagement, or any other engagement for ~~an audit~~ sustainability assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the ~~audit~~ sustainability assurance engagement.
- 410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for ~~an audit~~ sustainability assurance engagement, or any other engagement, are paid by the ~~audit~~ sustainability assurance client include:
- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
  - Any linkage between fees for the ~~audit~~ sustainability assurance engagement and those for services other than ~~audit~~ sustainability assurance and the relative size of both elements.
  - The extent of any dependency between the level of the fee for, and the outcome of, the service.
  - Whether the fee is for services to be provided by the firm or a network firm.
  - The level of the fee in the context of the service to be provided by the firm or a network firm.
  - The operating structure and the compensation arrangements of the firm and network firms.
  - The significance of the client, or a third party referring the client, to the firm, network firm, ~~partner~~ engagement leader or office.
  - The nature of the client, for example whether the client is a public interest entity.
  - The relationship of the client to the related entities to which the services

other than ~~audit sustainability assurance~~ are provided, for example when the related entity is a sister entity.

- The involvement of those charged with governance in appointing the ~~auditor~~ firm providing the sustainability assurance service and agreeing fees, and the apparent emphasis they and client management place on the quality of the ~~audit sustainability assurance engagement~~ and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's ~~audit sustainability assurance~~ work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed and implemented by the firm in accordance with quality management standards issued by the IAASB) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

### **Level of ~~Audit Sustainability Assurance Fees~~**

410.5 A1 Determining the fees to be charged to an ~~audit sustainability assurance~~ client, whether for ~~audit sustainability assurance~~ or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the ~~audit sustainability assurance~~ fee paid by the ~~audit sustainability assurance~~ client include:

- The firm's commercial rationale for the ~~audit sustainability assurance~~ fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the ~~audit sustainability assurance~~ fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the ~~audit sustainability assurance~~ engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the ~~audit~~

sustainability assurance engagement review the work performed.

*Impact of Other Services Provided to an ~~Audit~~ Sustainability Assurance Client*

- R410.6** Subject to paragraph R410.7, a firm shall not allow the ~~audit~~ sustainability assurance fee to be influenced by the provision of services other than ~~audit~~ sustainability assurance to an ~~audit~~ sustainability assurance client by the firm or a network firm.
- 410.6 A1 The ~~audit~~ sustainability assurance fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an ~~audit~~ sustainability assurance client is not an appropriate consideration in determining the ~~audit~~ sustainability assurance fee.
- R410.7** As an exception to paragraph R410.6, when determining the ~~audit~~ sustainability assurance fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than ~~audit~~ sustainability assurance to an ~~audit~~ sustainability assurance client.

**Contingent Fees**

- 410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.
- R410.9** A firm shall not charge directly or indirectly a contingent fee for an ~~audit~~ sustainability assurance engagement.
- R410.10** A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an ~~audit~~ sustainability assurance client, if:
- (a) The fee is charged by the firm expressing the opinion on the ~~financial statements~~ sustainability information and the fee is material or expected to be material to that firm;
  - (b) The fee is charged by a network firm that participates in a significant part of the ~~audit~~ sustainability assurance engagement and the fee is material or expected to be material to that firm; or
  - (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the ~~audit of a material amount in the financial statements~~ assurance of material information in the sustainability information on which the firm will express an opinion.
- 410.10 A1 Paragraphs R410.9 and R410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with an ~~audit~~ sustainability assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an ~~audit~~ sustainability assurance client, it might still impact the level of the self-interest threat.



410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the ~~financial statements~~ sustainability information on which the firm will express an opinion.

410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

#### **Total Fees – Proportion of Fees for Services Other than ~~Audit~~ Sustainability Assurance to ~~Audit~~ Sustainability Assurance Fee**

410.11 A1 Where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform an audit engagement for the client, paragraphs 410.11 A2 to A4 apply.

410.11 A2<sup>4</sup> The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an ~~audit~~ sustainability assurance client is generated by providing services other than ~~audit-sustainability assurance~~ to the client, due to concerns about the potential loss of either the ~~audit-sustainability assurance~~ engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the ~~non-audit non-sustainability assurance~~ relationship, which might create a threat to the ~~auditor's sustainability assurance provider's~~ independence.

410.11 A3<sup>2</sup> Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than ~~audit-sustainability assurance~~ to the ~~audit-sustainability assurance~~ fee.
- The length of time during which a large proportion of fees for services other than ~~audit-sustainability assurance~~ to the ~~audit-sustainability assurance~~ fee has existed.

- The nature, scope and purposes of the services other than ~~audit sustainability assurance~~, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services to be performed by the firm.

410.11 A~~43~~<sup>43</sup> Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the ~~audit sustainability assurance engagement~~ or the service other than ~~audit sustainability assurance~~ review the relevant ~~audit sustainability assurance~~ work.
- Reducing the extent of services other than ~~audit sustainability assurance~~ provided to the ~~audit sustainability assurance~~ client.

#### **Total Fees – Overdue Fees**

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an ~~audit sustainability assurance~~ client for the ~~audit sustainability assurance engagement~~ or services other than ~~audit sustainability assurance~~ are overdue during the period of the ~~audit sustainability assurance~~ engagement.

410.12 A2 It is generally expected that the firm will obtain payment of such fees before the ~~audit sustainability assurance~~ report is issued.

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the ~~audit sustainability assurance~~ client to pay the overdue fees.

410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the ~~audit sustainability assurance engagement~~ review the ~~audit sustainability assurance~~ work.

**R410.13** When a significant part of the fees due from an ~~audit sustainability assurance~~ client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in section 511 are applicable; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the

audit-sustainability assurance engagement.

**Total Fees – Fee Dependency**

*All ~~Audit~~ Sustainability Assurance Clients*

- 410.14 A1 When the total fees generated from an audit-sustainability assurance client by the firm expressing the audit-sustainability assurance opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from audit-sustainability assurance and other services from that client impact the level of the self-interest threat and create an intimidation threat.
- 410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
  - Whether the firm is expected to diversify such that any dependence on the audit-sustainability assurance client is reduced.
- 410.14 A4 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who is not a member of the firm review the audit-sustainability assurance work.
  - Reducing the extent of services other than audit-sustainability assurance provided to the audit-sustainability assurance client.
  - Increasing the client base of the firm to reduce dependence on the client.
  - Increasing the extent of services provided to other clients.
- 410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from an audit-sustainability assurance client represent a large proportion of the revenue of one partner-engagement leader or one office of the firm.
- 410.14 A6 Factors that are relevant in evaluating the level of such threats include:
- The qualitative and quantitative significance of the audit-sustainability assurance client to the partner-engagement leader or office.
  - The extent to which the compensation of the partner-engagement leader, or the partners-leaders in the office, is dependent upon the fees generated from the client.
- 410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:
- Having an appropriate reviewer who was not involved in the audit-sustainability assurance engagement review the audit-sustainability

assurance work.

- Ensuring that the compensation of the partner engagement leader is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit sustainability assurance provided by the partner engagement leader or office to the audit sustainability assurance client.
- Increasing the client base of the partner engagement leader or the office to reduce dependence on the client.
- Increasing the extent of services provided by the partner engagement leader or the office to other clients.

#### Audit Sustainability Assurance Clients that are Not Public Interest Entities

**R410.15** When for each of five consecutive years total fees from an audit sustainability assurance client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit assurance opinion being issued on the fifth year's financial statements sustainability information, have a professional accountant sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements sustainability information, review the fifth year's audit sustainability assurance work; or
- (b) After the audit assurance opinion on the fifth year's financial statements sustainability information has been issued, and before the audit assurance opinion is issued on the sixth year's financial statements sustainability information, have a professional accountant sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements sustainability information, or a professional body review the fifth year's audit sustainability assurance work.

**R410.16** If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

**R410.17** When two or more firms are engaged to conduct an audit sustainability assurance engagement with respect to ~~of~~ the client's financial statements sustainability information, the involvement of the other firm in the audit sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

- (a) The circumstances addressed by paragraph R410.15 apply to only one of the firms expressing the audit assurance opinion; and

- (b) Each firm performs sufficient work to take full individual responsibility for the audit-assurance opinion.

Audit Sustainability Assurance Clients that are Public Interest Entities

**R410.18** When for each of two consecutive years the total fees from an audit sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit-assurance opinion being issued on the second year's financial statements sustainability information, a review, consistent with the objective of an engagement quality review, performed by a professional accountant sustainability assurance practitioner who is not a member of the firm expressing the opinion on the financial statements sustainability information ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

**R410.19** When two or more firms are engaged to conduct an audit sustainability assurance engagement with respect to of the client's financial statements sustainability information, the involvement of the other firm in the audit sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R410.18, if:

- (a) The circumstances addressed by paragraph R410.18 apply to only one of the firms expressing the audit-assurance opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit-assurance opinion.

**R410.20** Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the firm shall cease to be the auditor sustainability assurance provider after the audit-assurance opinion for the fifth year is issued.

**R410.21** As an exception to paragraph R410.20, the firm may continue to be the auditor sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

(a) (i) Where there is a designated regulatory or professional body in the relevant jurisdiction, the firm consults with that body a regulatory or professional body in the relevant jurisdiction and it that body concurs that having the firm continue to provide the as the auditor sustainability assurance service would be in the public interest; or and

(ii) Where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance of the sustainability assurance client that having the firm continue to provide the sustainability assurance service would be in the public interest; and.

- (b) Before the audit-assurance opinion on the sixth and any subsequent year's financial statements sustainability information is issued, the firm engages

a ~~professional accountant~~ sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the ~~financial statements~~ sustainability information, to perform a pre-issuance review.

- 410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the ~~audit~~ sustainability assurance engagement, having regard to the nature and location of the client's business.

#### **Matters for IESBA's Consideration**

The independence standards for audit engagements allow for an exception to the requirement for a firm to cease to be the auditor if a certain level of fee dependency on an audit client continues for more than five years. The independence standards in Part 4A require that the firm obtain concurrence from a regulatory or professional body in its jurisdiction that continuing the engagement is in the public interest.

However, in some jurisdictions, unlike for audits of financial statements, sustainability assurance is not a regulated market yet, and there are no designated regulatory and professional bodies for sustainability assurance practitioners. In these jurisdictions, if simply following the same approach as for audit, sustainability assurance practitioners would not be able to continue the engagement given the absence of a designated regulatory or professional body, even if it were in the public interest for the firm to continue the engagement (for example, if there are no other assurance providers available with the necessary skills and experience.)

Therefore, to allow for the possibility that there is no designated regulatory or professional body yet, WS1 proposes that the firm consult with TCWG and obtain their concurrence that continuing the engagement would be in the public interest.

#### **Transparency of Information Regarding Fees for ~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities**

##### *Communication About Fee-related Information with Those Charged with Governance*

- 410.22 A1 Communication by the firm of fee-related information (for both ~~audit~~ sustainability assurance and services other than ~~audit~~ sustainability assurance) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of ~~audit~~ sustainability assurance work and impact on the ~~audit~~ sustainability assurance fee.

##### ~~Fees for the Audit of the Financial Statements~~ Sustainability Assurance Engagement

- R410.23** Subject to paragraph R410.24, the firm shall communicate in a timely manner with those charged with governance of an ~~audit~~ sustainability assurance client

that is a public interest entity:

- (a) Fees paid or payable to the firm or network firms for the ~~audit of the financial statements on which the firm expresses an opinion~~ sustainability assurance engagement; and
- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the ~~audit of the financial statements on which the firm expresses an opinion~~ sustainability assurance engagement to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
  - The scale, complexity and geographic spread of the ~~audit~~ sustainability assurance client's operations.
  - The time spent or expected to be spent commensurate with the scope and complexity of the ~~audit~~ sustainability assurance engagement.
  - The cost of other resources utilized or expended in performing the ~~audit~~ sustainability assurance engagement.
  - The quality of record keeping and processes for ~~financial statements~~ sustainability information preparation.
- Adjustments to the fees quoted or charged during the period of the ~~audit~~ sustainability assurance engagement, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the ~~audit~~ sustainability assurance engagement that impacted the fees.

410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

**R410.24** As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group ~~financial statements~~ sustainability information prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on ~~those group financial statements~~ that group sustainability information.

Fees for Other Services

**R410.25** Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an ~~audit~~ sustainability assurance client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the ~~financial statements~~ sustainability assurance report ~~on which the firm expresses an opinion~~. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the ~~financial statements~~ sustainability information on which the firm will express an opinion; and
- (b) As set out in paragraph 410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than ~~audit~~ sustainability assurance relative to the ~~audit~~ sustainability assurance fee:
- (i) Whether such threats are at an acceptable level; and
- (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the ~~audit of the financial statements~~ on which the firm expresses an opinion sustainability assurance engagement.

**R410.26** The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entities over which the ~~audit~~ sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm



or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the ~~audit~~ sustainability assurance client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

**R410.27** As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity's sustainability information is consolidated into group ~~financial statements~~ sustainability information prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on ~~these~~ that group ~~financial statements~~ sustainability information.

#### Fee Dependency

**R410.28** Where the total fees from an ~~audit~~ sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- (c) Any proposal to continue as the auditor sustainability assurance engagement under paragraph R410.21.

#### Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the ~~audits~~ assurance of sustainability information of disclosed by public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the ~~audit~~ sustainability assurance client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

**R410.30** If laws and regulations do not require an ~~audit~~ sustainability assurance client to

disclose ~~audit-sustainability assurance fees~~, fees for services other than ~~audit sustainability assurance~~ paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an ~~audit-sustainability assurance~~ client that is a public interest entity:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for ~~audit-sustainability assurance~~ and services other than ~~audit sustainability assurance~~.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

**R410.31** After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the ~~audit-sustainability assurance~~ client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the ~~audit of the financial statements on which the firm expresses an opinion~~ sustainability assurance engagement;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the ~~financial statements~~ sustainability assurance report ~~which the firm expresses an opinion~~. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control ~~that are where the sustainability information of those entities is~~ consolidated in the ~~financial statements~~ sustainability information on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the ~~audit-sustainability assurance~~ client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the ~~audit~~

sustainability assurance client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the ~~auditor's~~ sustainability assurance report.

**R410.32** As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- (a) A parent entity that also prepares ~~group financial statements~~ sustainability information provided that the firm or a network firm expresses an opinion on the ~~group financial statements~~ sustainability information; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
  - (i) ~~The That~~ entity's sustainability information is consolidated into ~~group financial statements~~ sustainability information prepared by that other public interest entity; and
  - (ii) The firm or a network firm expresses an opinion on ~~these that~~ group financial statements sustainability information.

### *Considerations for Review Clients*

**R410.33** ~~[Intentionally left blank] This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to these requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.~~

## **PART 5 - SECTION 411**

### **COMPENSATION AND EVALUATION POLICIES**

#### **Introduction**

- 411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 411.3 A1 When an ~~audit~~ sustainability assurance team member for a particular ~~audit~~ sustainability assurance client is evaluated on or compensated for selling non-assurance services to that ~~audit~~ sustainability assurance client, the level of the self-interest threat will depend on:
- What proportion of the compensation or evaluation is based on the sale of such services;
  - The role of the individual on the ~~audit~~ sustainability assurance team; and
  - Whether the sale of such non-assurance services influences promotion decisions.
- 411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
  - Removing that individual from the ~~audit~~ sustainability assurance team.
- 411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the ~~audit~~ sustainability assurance team member.
- R411.4** A firm shall not evaluate or compensate a key ~~audit~~ sustainability assurance ~~partner leader~~ based on that ~~partner's leader's~~ success in selling non-assurance services to the ~~partner's leader's~~ audit sustainability assurance client. This requirement does not preclude normal profit-sharing arrangements between ~~partners~~ leaders of a firm.

## **PART 5 - SECTION 420**

### **GIFTS AND HOSPITALITY**

#### **Introduction**

- 420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 420.2 Accepting gifts and hospitality from an ~~audit~~ or sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirement and Application Material**

- R420.3** A firm, network firm or an ~~audit~~ sustainability assurance team member shall not accept gifts and hospitality from an ~~audit~~ sustainability assurance client, unless the value is trivial and inconsequential.
- 420.3 A1 Where a firm, network firm or ~~audit~~ sustainability assurance team member is offering or accepting an inducement to or from an ~~audit~~ sustainability assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.
- 420.3 A2 The requirements set out in **Section 340** relating to offering or accepting inducements do not allow a firm, network firm or ~~audit~~ sustainability assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

## **PART 5 - SECTION 430**

### **ACTUAL OR THREATENED LITIGATION**

#### **Introduction**

- 430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 430.2 When litigation with an ~~audit~~ sustainability assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

#### **Application Material**

##### **General**

- 430.3 A1 The relationship between client management and ~~audit~~ sustainability assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an ~~audit~~ sustainability assurance client and the firm, a network firm or an ~~audit~~ sustainability assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
  - Whether the litigation relates to a prior ~~audit~~ sustainability assurance engagement.
- 430.3 A3 If the litigation involves an ~~audit~~ sustainability assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the ~~audit~~ sustainability assurance team.
- 430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

### Matters for IESBA’s Consideration – Sections 510, 511, 520 and 600

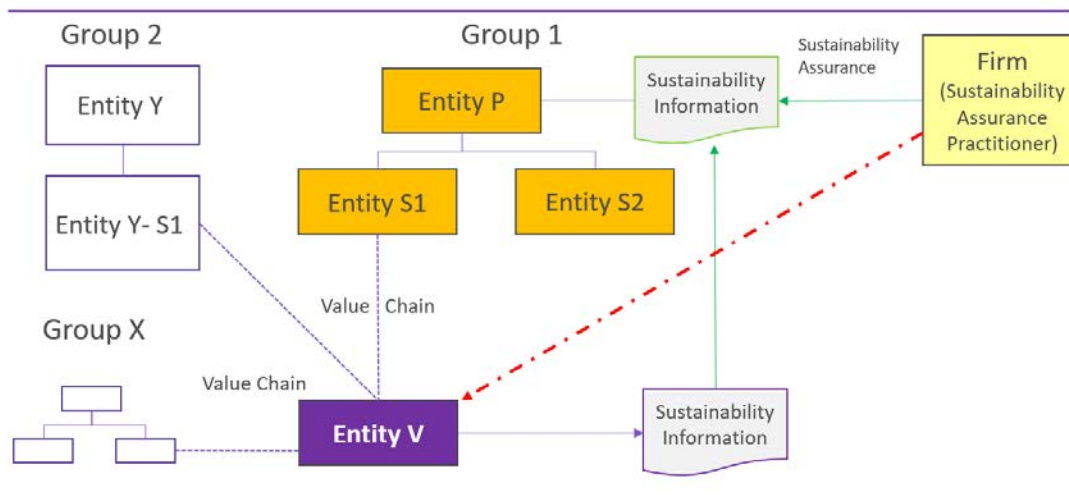
A sustainability reporting framework might require the reporting entity to include in its sustainability information specific sustainability information relating to entities outside the reporting entity’s organizational boundary.

To assist the determination of the entities within the reporting boundary, WS1 proposes the following definition of reporting boundary in the Glossary:

*“Activities, operations, relationships or resources to be included in an entity’s sustainability information in accordance with the applicable reporting framework.”*

This definition is in line with proposed ISSA 5000.

The sustainability information from an entity (*Entity V below*) within the reporting boundary of the sustainability assurance client (*Entity P below*) could form part of the sustainability information on which the firm expresses an opinion. In such cases, if the firm or the sustainability assurance team has an interest in or relationship with, or the firm provides non-assurance services to, that value chain entity, this could create a self-interest or self-review threat that the firm would need to address.



Since entities within the reporting boundary are not necessarily part of the sustainability assurance client (as proposed to be defined), it would be disproportionate to require firms to monitor all interests, relationships and non-assurance services, and maintain an up-to date database, concerning the value chain of the client. WS1 proposes that firms and sustainability assurance team members use the “reason to believe principle” with respect to identifying such threats, and evaluate and address the threats in accordance with the conceptual framework. Specifically, WS1 believes that certain financial interests (including loans and guarantees) and business relationships with, and provision of non-assurance services to, an entity within the reporting boundary of the client (that is outside the organizational boundary) might create threats to independence.

See relevant changes to Sections 510, 511, 520 and paragraphs 600.6a and 600.27a below.

## **PART 5 - SECTION 510**

### **FINANCIAL INTERESTS**

#### **Introduction**

- 510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 510.2 Holding a financial interest in an ~~audit sustainability assurance client~~ or an entity within the reporting boundary of the client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an ~~audit sustainability assurance client~~ or an entity within the client’s reporting boundary include:
- The role of the individual holding the financial interest.
  - Whether the financial interest is direct or indirect.
  - The materiality of the financial interest.

##### **Financial Interests in a Sustainability Assurance Client Held by the Firm, a Network Firm, ~~Audit Sustainability Assurance~~ Team Members and Others**

- R510.4** Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the ~~audit sustainability assurance client~~ shall not be held by:
- (a) The firm or a network firm;
  - (b) An ~~audit sustainability assurance~~ team member, or any of that individual’s immediate family;
  - (c) Any other ~~partner leader~~ in the office in which an engagement ~~partner leader~~ practices in connection with the ~~audit sustainability assurance~~



engagement, or any of that other ~~partner's leader's~~ immediate family; or

- (d) Any other ~~partner leader~~ or managerial employee who provides ~~non-audit~~ services other than sustainability assurance to the ~~audit sustainability assurance~~ client, except for any whose involvement is minimal, or any of that individual's immediate family.

510.4 A1 The office in which the engagement ~~partner leader~~ practices in connection with an ~~audit sustainability assurance~~ engagement is not necessarily the office to which that ~~partner engagement leader~~ is assigned. When the engagement ~~partner leader~~ is located in a different office from that of the other ~~audit sustainability assurance~~ team members, professional judgment is needed to determine the office in which the ~~partner engagement leader~~ practices in connection with the engagement.

**R510.5** As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an ~~audit sustainability assurance~~ client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

### **Financial Interests in an Entity Controlling an Audit Sustainability Assurance Client**

**R510.6** When an entity has a controlling interest in an ~~audit sustainability assurance~~ client and the client is material to the entity, neither the firm, nor a network firm, nor an ~~audit sustainability assurance~~ team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

### **Financial Interests in a Sustainability Assurance Client Held as Trustee**

**R510.7** Paragraph R510.4 shall also apply to a financial interest in an ~~audit sustainability assurance~~ client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the ~~audit sustainability assurance~~ team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the ~~audit sustainability assurance~~ client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the ~~audit sustainability assurance~~ client; and

- (d) None of the following can significantly influence any investment decision involving a financial interest in the ~~audit sustainability assurance~~ client: the trustee, the ~~audit sustainability assurance~~ team member or any of that individual's immediate family, the firm or a network firm.

### Financial Interests in Common with the ~~Audit Sustainability Assurance~~ Client

- R510.8**
- (a) A firm, or a network firm, or an ~~audit sustainability assurance~~ team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an ~~audit sustainability assurance~~ client also has a financial interest in that entity, unless:
    - (i) The financial interests are immaterial to the firm, the network firm, the ~~audit sustainability assurance~~ team member and that individual's immediate family member and the ~~audit sustainability assurance~~ client, as applicable; or
    - (ii) The ~~audit sustainability assurance~~ client cannot exercise significant influence over the entity.
  - (b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an ~~audit sustainability assurance~~ team member, the individual or that individual's immediate family member shall either:
    - (i) Dispose of the interest; or
    - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

### Financial Interests in a Sustainability Assurance Client Received Unintentionally

- R510.9**
- If a firm, a network firm or a ~~partner-leader~~ or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an ~~audit sustainability assurance~~ client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:
- (a) If the interest is received by the firm or a network firm, or an ~~audit sustainability assurance~~ team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
  - (b)
    - (i) If the interest is received by an individual who is not an ~~audit sustainability assurance~~ team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
    - (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

## **Financial Interest in an Entity Within the Reporting Boundary**

**510.9a A1** A self-interest threat might be created if a firm or a sustainability assurance team member knows or has a reason to believe that the firm, a network firm or a member of the sustainability assurance team, as applicable, holds a material financial interest in an entity outside the sustainability assurance client but within the client's reporting boundary, and the sustainability information on which the firm expresses an opinion includes sustainability information relating to that entity.

**510.9a A2** Examples of actions that might eliminate such a self-interest threat include:

- Removing the sustainability assurance team member with the financial interest from the sustainability assurance team.
- Having an appropriate reviewer review the relevant assurance work.

## **Financial Interests – Other Circumstances**

### *Immediate Family*

**510.10 A1** A self-interest, familiarity, or intimidation threat might be created if an ~~audit~~ sustainability assurance team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the ~~audit~~ sustainability assurance client is also known to have a financial interest in that entity.

**510.10 A2** Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the ~~audit~~ sustainability assurance team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

**510.10 A3** An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the ~~audit~~ sustainability assurance team member with the financial interest from the ~~audit~~ sustainability assurance team.

**510.10 A4** An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the ~~audit~~ sustainability assurance team member.

### *Close Family*

**510.10 A5** A self-interest threat might be created if an ~~audit~~ sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the ~~audit~~ sustainability assurance client.

**510.10 A6** Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the ~~audit sustainability assurance~~ team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the ~~audit sustainability assurance~~ team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the ~~audit sustainability assurance~~ team member.

#### *Other Individuals*

510.10 A9 A self-interest threat might be created if an ~~audit sustainability assurance~~ team member knows that a financial interest in the ~~audit sustainability assurance~~ client is held by individuals such as:

- ~~Partners leaders~~ and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
- Individuals with a close personal relationship with an ~~audit sustainability assurance~~ team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm's organizational, operating and reporting structure.
- The nature of the relationship between the individual and the ~~audit sustainability assurance~~ team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the ~~audit sustainability assurance~~ team member with the personal relationship from the ~~audit sustainability assurance~~ team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the ~~audit sustainability assurance~~ team member from any significant decision-making concerning the ~~audit sustainability assurance~~ engagement.
- Having an appropriate reviewer review the work of the ~~audit sustainability assurance~~ team member.

#### *Retirement Benefit Plan of a Firm or Network Firm*

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an ~~audit~~ sustainability assurance client.

## **PART 5 - SECTION 511**

### **LOANS AND GUARANTEES**

#### **Introduction**

- 511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 511.2 A loan or a guarantee of a loan with an ~~audit~~ sustainability assurance client or an entity within the reporting boundary of the client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

##### **Loans and Guarantees with an ~~Audit~~ Sustainability Assurance Client**

- R511.4** A firm, a network firm, an ~~audit~~ sustainability assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to a sustainability assurance ~~audit~~ client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
  - (b) The client.

##### **Loans and Guarantees with an ~~Audit~~ Sustainability Assurance Client that is a Bank or Similar Institution**

- R511.5** A firm, a network firm, an ~~audit~~ sustainability assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from an ~~audit~~ sustainability assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 511.5 A2 Even if a firm or network firm receives a loan from an ~~audit~~ sustainability assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the ~~audit~~ sustainability assurance client or firm receiving the loan.
- 511.5 A3 An example of an action that might be a safeguard to address such a self-interest

threat is having the work reviewed by an appropriate reviewer, who is not an ~~audit~~ sustainability assurance team member, from a network firm that is not a beneficiary of the loan.

#### *Deposits or Brokerage Accounts*

**R511.6** A firm, a network firm, an ~~audit~~ sustainability assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an ~~audit~~ sustainability assurance client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

#### **Loans and Guarantees with an ~~Audit~~ Sustainability Assurance Client that is Not a Bank or Similar Institution**

**R511.7** A firm, a network firm, an ~~audit~~ sustainability assurance team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an ~~audit~~ sustainability assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

#### **Loans and Guarantees with an Entity Within the Reporting Boundary**

**511.8 A1** A self-interest threat might be created if a firm or a sustainability assurance team member knows or has a reason to believe that the firm, a network firm or a member of the sustainability assurance team, as applicable, makes or guarantees a loan to, or receives a loan or guarantee from an entity outside the sustainability assurance client but within the client's reporting boundary, and sustainability information on which the firm expresses an opinion includes sustainability information relating to that entity,

unless

- The entity is a bank or similar institution and the loan or guarantee is made under normal lending procedures, terms and conditions.
- The entity is not a bank or similar institution and the loan or the guarantee is immaterial to that entity and the firm, the network firm, or the member of the sustainability assurance team, as applicable.

**511.8 A2** Examples of actions that might eliminate such a self-interest threat include:

- Removing the sustainability assurance team member who makes or receives the loan or guarantee from the sustainability assurance team.
- Having an appropriate reviewer review the relevant assurance work.

## **PART 5 - SECTION 520**

### **BUSINESS RELATIONSHIPS**

#### **Introduction**

- 520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 520.2 **A close business relationship with an ~~audit sustainability assurance client~~, or its management or an entity within the reporting boundary of the client** might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
  - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
  - Arrangements under which the firm or a network firm sells, resells, distributes or markets the client’s products or services, or the client sells, resells, distributes or markets the firm’s or a network firm’s products or services.
  - Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.
- 520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

##### **Firm, Network Firm, ~~Audit Sustainability Assurance~~ Team Member or Immediate Family Business Relationships with a Sustainability Assurance Client**

- R520.4** A firm, a network firm or an ~~audit sustainability assurance~~ team member shall not have a close business relationship with an ~~audit sustainability assurance~~ client or



its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the ~~audit sustainability assurance~~ team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the ~~audit sustainability assurance~~ client or its management and the immediate family of an ~~audit sustainability assurance~~ team member.

### Common Interests in Closely-Held Entities

**R520.5** A firm, a network firm, an ~~audit sustainability assurance~~ team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an ~~audit sustainability assurance~~ client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

### Buying Goods or Services

520.6 A1 The purchase of goods and services, including the licensing of technology, from an ~~audit sustainability assurance~~ client by a firm, a network firm, an ~~audit sustainability assurance~~ team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the ~~audit sustainability assurance~~ team.

### Providing, Selling, Reselling or Licensing Technology

520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To an ~~audit sustainability assurance~~ client; or
- (b) To an entity that provides services using such technology to ~~audit sustainability assurance~~ clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 600 apply.

### Business Relationships with an Entity Within the Reporting Boundary

520.8 A1 A self-interest threat might be created if a firm or a sustainability assurance team member knows or has a reason to believe that the firm, a network firm or a

member of the sustainability assurance team, as applicable, has a close business relationship with an entity outside the sustainability assurance client but within the client's reporting boundary, and the sustainability information on which the firm expresses an opinion includes sustainability information relating to that entity, unless any financial interest is immaterial and the business relationship is insignificant to that entity and the firm, the network firm or the sustainability assurance team member, as applicable.

520.8 A2 Examples of actions that might eliminate such a self-interest threat include:

- Removing the sustainability assurance team member with the business relationship from the sustainability assurance team.
- Having an appropriate reviewer review the relevant assurance work.

## **PART 5 — SECTION 521**

### **FAMILY AND PERSONAL RELATIONSHIPS**

#### **Introduction**

- 521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an ~~audit~~ sustainability assurance team member and a director or officer or, depending on their role, certain employees of the ~~audit~~ sustainability assurance client.
- 521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the ~~audit~~ sustainability assurance team.
  - The role of the family member or other individual within the client, and the closeness of the relationship.

##### **Immediate Family of an ~~Audit~~ Sustainability Assurance Team Member**

- 521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an ~~audit~~ sustainability assurance team member is an employee in a position to exert significant influence over the client's ~~financial position, financial performance or cash flows~~ sustainability information on which the firm will express an opinion.
- 521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the ~~audit~~ sustainability assurance team member.
- 521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the ~~audit~~ sustainability assurance team.
- 521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the ~~audit~~ sustainability assurance team so that the ~~audit~~ sustainability assurance team member does not deal with matters that are within the responsibility of the immediate family member.

**R521.5** An individual shall not participate as an ~~audit~~ sustainability assurance team member when any of that individual's immediate family:

- (a) Is a director or officer of the ~~audit~~ sustainability assurance client;
- (b) Is an employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information~~accounting records or the financial statements~~ on which the firm will express an opinion; or
- (c) Was in such position during any period covered by the engagement or the ~~financial statements~~ sustainability information on which the firm will express an opinion.

#### **Close Family of an ~~Audit~~ Sustainability Assurance Team Member**

521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an ~~audit~~ sustainability assurance team member is:

- (a) A director or officer of the ~~audit~~ sustainability assurance client; or
- (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information~~accounting records or the financial statements~~ on which the firm will express an opinion.

521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the ~~audit~~ sustainability assurance team member and the close family member.
- The position held by the close family member.
- The role of the ~~audit~~ sustainability assurance team member.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the ~~audit~~ sustainability assurance team.

521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the ~~audit~~ sustainability assurance team so that the ~~audit~~ sustainability assurance team member does not deal with matters that are within the responsibility of the close family member.

#### **Other Close Relationships of an ~~Audit~~ Sustainability Assurance Team Member**

**R521.7** An ~~audit~~ sustainability assurance team member shall consult in accordance with firm policies and procedures if the ~~audit~~ sustainability assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

- (a) A director or officer of the ~~audit~~ sustainability assurance client; or
- (b) An employee in a position to exert significant influence over the preparation

of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the audit sustainability assurance team member.
- The position the individual holds with the client.
- The role of the audit sustainability assurance team member.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit sustainability assurance team.

521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit sustainability assurance team so that the audit sustainability assurance team member does not deal with matters that are within the responsibility of the individual with whom the audit sustainability assurance team member has a close relationship.

#### **Relationships of ~~Partners~~ Leaders and Employees of the Firm**

**R521.8** ~~Partners~~ Leaders and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A partner leader or employee of the firm or network firm who is not an audit sustainability assurance team member; and
- (b) A director or officer of the audit sustainability assurance client or an employee of the audit sustainability assurance client in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the partner leader or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner leader or employee of the firm with the audit sustainability assurance team.
- The position of the partner leader or employee within the firm.
- The position the individual holds with the client.

521.8 A2 Examples of actions that might be safeguards to address such self-interest,

familiarity or intimidation threats include:

- Structuring the ~~partner's~~ leader's or employee's responsibilities to reduce any potential influence over the ~~audit~~ sustainability assurance engagement.
- Having an appropriate reviewer review the relevant ~~audit~~ sustainability assurance work performed.

## **PART 5 - SECTION 522**

### **RECENT SERVICE WITH AN AUDIT SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 522.2 If an ~~audit sustainability assurance~~ team member has recently served as a director or officer, or employee of the ~~audit sustainability assurance~~ client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Service During Period Covered by the Audit Sustainability Assurance Report**

**R522.3** The ~~audit sustainability assurance~~ team shall not include an individual who, during the period covered by the ~~audit sustainability assurance~~ report:

- (a) Had served as a director or officer of the ~~audit sustainability assurance~~ client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

##### **Service Prior to Period Covered by the Audit Sustainability Assurance Report**

522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the ~~audit sustainability assurance~~ report, an ~~audit sustainability assurance~~ team member:

- (a) Had served as a director or officer of the ~~audit sustainability assurance~~ client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or financial statements on which the firm will express an opinion.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current ~~audit sustainability assurance~~ engagement.

522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.

- The role of the ~~audit~~-sustainability assurance team member.

522.4 A3

An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the ~~audit~~-sustainability assurance team member.



## **PART 5 - SECTION 523**

### **SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 523.2 Serving as a director or officer of an ~~audit~~ sustainability assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Service as Director or Officer**

- R523.3** A ~~partner leader~~ or employee of the firm or a network firm shall not serve as a director or officer of an ~~audit~~ sustainability assurance client of the firm.

##### **Service as Company Secretary**

- R523.4** A ~~partner leader~~ or employee of the firm or a network firm shall not serve as Company Secretary for an ~~audit~~ sustainability assurance client of the firm, unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
  - (b) Management makes all relevant decisions; and
  - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if an ~~partner leader~~ or employee of the firm or a network firm serves as Company Secretary for an ~~audit~~ sustainability assurance client. (More information on providing non-assurance services to an ~~audit~~ sustainability assurance client is set out in Section 600, *Provision of Non-assurance Services to an ~~Audit~~ Sustainability Assurance Client*.)

## **Part 5 - SECTION 524**

### **EMPLOYMENT WITH AN AUDIT SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 524.2 Employment relationships with an audit sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **All Audit Sustainability Assurance Clients**

- 524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit sustainability assurance team member or partner leader of the firm or a network firm:
- A director or officer of the audit sustainability assurance client.
  - An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

##### *Former Partner Leader or Audit Sustainability Assurance Team Member Restrictions*

- R524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:
- (a) A former partner leader who has joined an audit sustainability assurance client of the firm; or
  - (b) A former audit sustainability assurance team member who has joined the audit sustainability assurance client, if either has joined the audit sustainability assurance client as:
    - (i) A director or officer; or
    - (ii) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;

- (b) Any amount owed to the individual is not material to the firm or the network firm; and
- (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former ~~partner leader~~ of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an ~~audit sustainability assurance~~ client of the firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the ~~audit sustainability assurance~~ team.
- The length of time since the individual was an ~~audit sustainability assurance~~ team member or ~~partner leader~~ of the firm or network firm.
- The former position of the individual within the ~~audit sustainability assurance~~ team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the ~~plan for the audit sustainability assurance engagement plan~~.
- Assigning to the ~~audit sustainability assurance~~ team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former ~~audit sustainability assurance~~ team member.

#### *Audit Sustainability Assurance Team Members Entering Employment with a Client*

**R524.5** A firm or network firm shall have policies and procedures that require ~~audit sustainability assurance~~ team members to notify the firm or network firm when entering employment negotiations with an ~~audit sustainability assurance~~ client.

524.5 A1 A self-interest threat is created when an ~~audit sustainability assurance~~ team member participates in the ~~audit sustainability assurance~~ engagement while knowing that the ~~audit sustainability assurance~~ team member will, or might, join the client at some time in the future.

524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the ~~audit sustainability assurance~~ team.

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made

by that individual while on the team.

~~Audit Sustainability Assurance Clients that are Public Interest Entities~~

~~Key Audit Sustainability Assurance Partners Leaders~~

**R524.6** Subject to paragraph R524.8, if an individual who was a key ~~audit sustainability assurance partner leader~~ with respect to an ~~audit sustainability assurance client~~ that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion,

independence is compromised unless, subsequent to the individual ceasing to be a key ~~audit sustainability assurance partner leader~~:

- (i) The ~~audit sustainability assurance client~~ has issued ~~audited financial statements assured sustainability information~~ covering a period of not less than twelve months; and
- (ii) The individual was not ~~an audit a sustainability assurance team member with respect to the audit assurance of those financial statements that sustainability information.~~

~~Senior or Managing Partner (Chief Executive or Equivalent) of the Firm~~

**R524.7** Subject to paragraph R524.8, if an individual who was the ~~Senior or Managing Partner (Chief Executive or equivalent)~~ of the firm joins an ~~audit sustainability assurance client~~ that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion,

independence is compromised, unless twelve months have passed since the individual was the ~~Senior or Managing Partner (Chief Executive or equivalent)~~ of the firm.

Business Combinations

**R524.8** As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former ~~partner key sustainability assurance leader or Chief Executive~~ from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined

arrangements and any amount owed to the ~~partner~~-key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;

- (c) The former ~~partner~~-key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former ~~partner's~~-key sustainability assurance leader's or Chief Executive's position held with the ~~audit~~-sustainability assurance client with those charged with governance.

## **Part 5 - SECTION 525**

### **TEMPORARY PERSONNEL ASSIGNMENTS**

#### **Introduction**

- 525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 525.2 The loan of personnel to an ~~audit~~ sustainability assurance client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an ~~audit~~ sustainability assurance client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
  - Not including the loaned personnel as an ~~audit~~ sustainability assurance team member might address a familiarity or advocacy threat.
  - Not giving the loaned personnel ~~audit~~ sustainability assurance responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an ~~audit~~ sustainability assurance client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R525.4** A firm or network firm shall not loan personnel to an ~~audit~~ sustainability assurance client unless the firm or network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
  - (b) Such personnel will not assume management responsibilities and the ~~audit~~ sustainability assurance client will be responsible for directing and supervising the activities of the personnel;
  - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
  - (d) Such personnel will not undertake or be involved in services ~~professional services~~ that the firm or network firm is prohibited from performing by the

Code.

## Part 5 – SECTION 540

### **LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER-LEADER ROTATION) WITH AN AUDIT- SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 540.2 When an individual is involved in an ~~audit~~ sustainability assurance engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **All ~~Audit~~ Sustainability Assurance Clients**

- 540.3 A1 Although an understanding of an ~~audit~~ sustainability assurance client and its environment is fundamental to ~~audit~~ assurance quality, a familiarity threat might be created as a result of an individual's long association as an ~~audit~~ sustainability assurance team member with:
- (a) The ~~audit~~ sustainability assurance client and its operations;
  - (b) The ~~audit~~ sustainability assurance client's senior management; or
  - (c) The ~~sustainability information financial statements~~ on which the firm will express an opinion or the financial ~~or non-financial~~ information which forms the basis of the ~~sustainability information financial statements~~.
- 540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
    - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
    - How long the individual has been an engagement team member, and the nature of the roles performed.
    - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.



- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the ~~audit sustainability assurance engagement~~, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the ~~audit sustainability assurance~~ client:

- The nature or complexity of the client's ~~accounting and financial sustainability~~ reporting issues and whether they have changed
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an ~~audit sustainability assurance~~ engagement over a long period of time would be rotating the individual off the ~~audit sustainability assurance~~ team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the ~~audit sustainability assurance~~ team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an ~~audit sustainability assurance~~ team member review the work of the individual.
- Performing regular independent internal, or commissioning external, quality reviews of the engagement.

**R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the ~~audit sustainability assurance~~ team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the ~~audit sustainability~~

assurance engagement;

- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the ~~audit~~ sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

**R540.4a** Where a firm performs both the audit of the financial statements and the sustainability assurance engagement for a sustainability assurance client and the firm determines that the level of threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall, in addition to paragraph R540.4, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

### **Matters for IESBA's Consideration**

At its June 2023 meeting, the IESBA agreed that if the firm performs both the audit and the sustainability assurance engagement, when evaluating and addressing the threats created by the long association of firm personnel with that client, the firm needs to consider the combined effect of the two engagements.

This approach requires changes to:

- The calculation of the time-on period for partner rotation in the case of PIE clients (as presented in June below); and
- The guidance on evaluating and addressing the threats arising from long association in the context of a non-PIE client (in paragraph R540.4a above).

### *Audit Sustainability Assurance Clients that are Public Interest Entities*

**R540.5** Subject to paragraphs R540.7 to R540.9, in respect of an ~~audit~~ sustainability assurance engagement of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period):

- (a) The engagement ~~leader-partner~~;
- (b) The individual appointed as responsible for performing the engagement quality review; ~~or~~
- (c) Any other key ~~audit-sustainability assurance partner-leader role~~; ~~or~~
- (d) A key audit partner.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

**R540.6** In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (ed) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement ~~partner-leader~~ for four years followed by three years off can only act thereafter as a key ~~audit-sustainability assurance partner-leader~~ on the same ~~audit-sustainability assurance~~ engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

**R540.7** As an exception to paragraph R540.5, key ~~audit-sustainability assurance partners-leaders~~ whose continuity is especially important to ~~audit-assurance~~ quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key ~~audit-sustainability assurance partner-leader~~ as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key ~~sustainability assurance audit partner-leader~~ may remain in that role on the ~~audit-sustainability assurance~~ team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement ~~partner leader~~. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

**R540.8** If an ~~audit-sustainability assurance~~ client becomes a public interest entity, a firm shall take into account the length of time an individual has served the ~~audit-sustainability assurance~~ client as a key ~~sustainability assurance audit partner-leader or key audit partner~~ before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the ~~audit-sustainability assurance~~ client as a key ~~sustainability assurance audit partner-leader or key audit partner~~ for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity as a key sustainability assurance

leader before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit sustainability assurance client as a key sustainability assurance ~~audit partner~~ leader or key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity as a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

**R540.9** When a firm has only a few people with the necessary knowledge and experience to serve as a key sustainability assurance ~~audit partner~~ leader on the audit sustainability assurance engagement of a public interest entity, rotation of key sustainability assurance ~~audit partners~~ leaders might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner leader rotation in such circumstances, an individual may remain a key sustainability assurance ~~audit partner~~ leader for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key sustainability assurance ~~audit partner~~ leader may be exempted from rotation or a regular independent external review.

#### Other Considerations Relating to the Time-on Period

**R540.10** In evaluating the threats created by an individual's long association with an audit sustainability assurance engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit sustainability assurance engagement prior to the individual becoming a key sustainability assurance ~~audit partner~~ leader.

540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key sustainability assurance ~~audit partner~~ leader to continue in that role even though the length of time served as a key sustainability assurance ~~audit partner~~ leader is less than seven years.

#### Cooling-off Period

**R540.11** If the individual acted as the engagement partner leader for seven cumulative years, the cooling-off period shall be five consecutive years.

**R540.12** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

**R540.13** If the individual has acted as a key audit partner sustainability assurance leader other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.13 A1 The partner leader rotation requirements in this section are distinct from, and do

not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement ~~partner leader~~ can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner or key sustainability assurance ~~audit partner leader~~ roles

**R540.14** If the individual acted in a combination of key audit partner or key sustainability assurance ~~audit partner leader~~ roles and served as the engagement partner or engagement leader for four or more cumulative years, the cooling-off period shall be five consecutive years.

**R540.15** Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner or key sustainability assurance ~~audit partner leader~~ roles and served as the key audit partner or key sustainability assurance ~~audit partner leader~~ responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

**R540.16** If an individual has acted in a combination of engagement partner or engagement leader and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner or engagement leader for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R540.17** If the individual acted in any combination of key sustainability assurance ~~audit partner leader~~ roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

**R540.18** In determining the number of years that an individual has been a key sustainability assurance ~~audit partner leader~~ as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit-sustainability assurance ~~partner leader~~ on that engagement at a prior firm.

**R540.19** [Left blank intentionally]

Restrictions on Activities During the Cooling-off Period

**R540.20** For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit-sustainability assurance engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the ~~audit~~

sustainability assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the ~~audit~~ sustainability assurance engagement);

- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the ~~audit~~ sustainability assurance client, or overseeing the relationship of the firm or a network firm with the ~~audit~~ sustainability assurance client; or
- (d) Undertake any other role or activity not referred to above with respect to the ~~audit~~ sustainability assurance client, including the provision of non-assurance services, that would result in the individual:
  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) Exerting direct influence on the outcome of the ~~audit~~ sustainability assurance engagement.

540.20 A1 The provisions of paragraph R540.19 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the ~~Senior or Managing Partner~~ (Chief Executive or equivalent).

## **PART 5 - Section 600**

### **PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 600.2 Firms and network firms might provide a range of non-assurance services to their ~~audit sustainability assurance~~ clients, consistent with their skills and expertise. Providing non-assurance services to ~~audit sustainability assurance~~ clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to ~~audit sustainability assurance~~ clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to ~~audit sustainability assurance~~ clients and indicate the types of threats that might be created as a result.
- 600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an ~~audit sustainability assurance~~ client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 600.5 New business practices, **the developing sustainability landscape**, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an ~~audit sustainability assurance~~ client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.
- 600.6 The requirements and application material in this section apply where a firm or a network firm:
- (a) Uses technology to provide a non-assurance service to an ~~audit sustainability assurance~~ client; or
  - (b) Provides, sells, resells or licenses technology resulting in the provision of a non- assurance service by the firm or a network firm:
    - (i) To an ~~audit sustainability assurance~~ client; or
    - (ii) To an entity that provides services using such technology to ~~audit sustainability assurance~~ clients of the firm or network firm.

600.6a Depending on the reporting framework used, the sustainability information on which the firm expresses an opinion might also include sustainability information relating to an entity that is not a sustainability assurance client but is part of the client's reporting boundary. A firm or network firm might provide non-assurance services to such an entity. This section also sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to such an entity.

## Requirements and Application Material

### General

#### *Non-Assurance Services Provisions in Laws or Regulations*

600.7 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to ~~audit~~ sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

#### *Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service*

600.8 A1 When a firm or a network firm provides a non-assurance service to an ~~audit~~ sustainability assurance client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.21 have been complied with.

#### *Accepting an Engagement to Provide a Non-Assurance Service*

**R600.9** Before a firm or a network firm accepts an engagement to provide a non-assurance service to an ~~audit~~ sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

#### *Identifying and Evaluating Threats*

##### All ~~Audit~~ Sustainability Assurance Clients

600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an ~~audit~~ sustainability assurance client is set out in paragraph 120.6 A3.

600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.



- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.20 to R400.21).
- Whether the outcome of the service will affect the accounting records underlying the sustainability information or matters reflected in the sustainability information financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements sustainability information.
  - The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - ~~Accounting records or financial statements on which the firm will express an opinion.~~ Records underlying the sustainability information or the sustainability information on which the firm will express an opinion.
  - Internal controls over ~~financial reporting~~ sustainability reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the ~~audit~~ sustainability assurance engagement.
- The fee relating to the provision of the non-assurance service.

600.10 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

#### Materiality in relation to sustainability information

600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an ~~audit~~ sustainability assurance client. Subsections 601 to 610 refer to materiality in relation to an ~~audit~~ sustainability assurance

client's ~~financial statements~~ sustainability information on which the firm will express an opinion. The concept of materiality in relation to ~~an audit~~ is addressed in ISA 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements* sustainability assurance engagement is addressed in the relevant reporting and assurance frameworks. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the ~~financial sustainability~~ information needs of users. The applicable reporting and assurance frameworks might include principles or guidance to assist the sustainability assurance client in identifying information that might be material to users.

#### Matters for IESBA's Consideration

Since the independence standards in Part 5 are applicable irrespective of the sustainability assurance or reporting frameworks/ standards used by the reporting entity or the firm, the determination of materiality, and whether it is single or double materiality, will depend on these applicable frameworks/ standards (for example, materiality in CSRD or in the standards of ISSB).

Therefore, WS1 proposes that the general paragraph on materiality in Part 5 includes reference not only to IAASB's assurance standards but also to all frameworks/ standards that could be the basis of the sustainability assurance engagements within the scope of Part 5.

600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to an ~~audit~~ sustainability assurance client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the ~~financial statements~~ sustainability information on which the firm will express an opinion.

#### Providing advice and recommendations

600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.154. Where the ~~audit~~ sustainability assurance client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the ~~audit~~ sustainability assurance client is a public interest entity, paragraphs R600.17 and R600.18 apply.

#### Multiple non-assurance services provided to the same ~~audit~~ sustainability assurance client

**R600.13** When a firm or a network firm provides multiple non-assurance services to an ~~audit~~ sustainability assurance client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such

services creates or impacts threats to independence.

600.13 A1 In addition to paragraph 600.10 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to an ~~audit~~ sustainability assurance client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the ~~audit~~ sustainability assurance client.

600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

#### Self-review threats

600.14 A1 When a firm or a network firm provides a non-assurance service to an ~~audit~~ sustainability assurance client, there might be a risk of the firm ~~auditing~~ carrying out assurance procedures on its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the ~~audit~~ sustainability assurance team will rely when forming a judgment as part of an ~~audit~~ sustainability assurance engagement.

**R600.15** Before providing a non-assurance service to an ~~audit~~ sustainability assurance client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the ~~accounting~~ records underlying the sustainability information, the internal controls over sustainability reporting ~~financial reporting~~, or the sustainability information financial statements on which the firm will express an opinion; and
- (b) In the course of ~~the performing assurance work on the sustainability information audit of these financial statements~~ on which the firm will express an opinion, the ~~sustainability assurance~~ audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

#### Audit Sustainability Assurance Clients that are Public Interest Entities

600.16 A1 When the ~~audit~~ sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed

third party test used to evaluate a self-review threat created by providing a non-assurance service to an ~~audit sustainability assurance~~ client that is a public interest entity.

600.16 A2 Where the provision of a non-assurance service to an ~~audit sustainability assurance~~ client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

#### Self-review threats

**R600.17** A firm or a network firm shall not provide a non-assurance service to an ~~audit sustainability assurance~~ client that is a public interest entity if the provision of that service might create a self-review threat in relation to the ~~audit of the financial statements~~ performance of assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 600.14 A1 and R600.15).

#### Providing advice and recommendations

**R600.18** As an exception to paragraph R600.17, a firm or a network firm may provide advice and recommendations to an ~~audit sustainability assurance~~ client that is a public interest entity in relation to information or matters arising in the course of an ~~audit sustainability assurance engagement~~ provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R400.20 and R400.21); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

600.18A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an sustainability assurance engagement audit include:

- Advising on sustainability accounting and financial reporting standards or policies and sustainability information financial statement disclosure requirements.
- Advising on the appropriateness of sustainability information financial and accounting control and the methods used in determining or establishing the sustainability information to be reported ~~stated amounts in the financial statements and related disclosures~~.
- Proposing an adjustment to sustainability information ~~adjusting journal entries~~ arising from the sustainability assurance engagement audit findings.
- Discussing findings on internal controls over sustainability financial reporting and processes and recommending improvements.

- ~~Discussing how to resolve account reconciliation problems.~~
- Advising on compliance with group sustainability reporting accounting policies.

### *Addressing Threats*

#### All ~~Audit~~ Sustainability Assurance Clients

- 600.19 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.
- 600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to an ~~audit~~ sustainability assurance client vary depending on the facts and circumstances of the ~~audit~~ sustainability assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.
- 600.19 A3 Examples of actions that might be safeguards to address such threats include:
- Using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.
  - Having an appropriate reviewer who was not involved in providing the service review the ~~audit~~ sustainability assurance work or service performed.
  - Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).
- 600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an ~~audit~~ sustainability assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:
- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
  - (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
  - (c) End the ~~audit~~ sustainability assurance engagement.

### *Communication with Those Charged With Governance Regarding Non-Assurance Services*

#### All ~~Audit~~ Sustainability Assurance Clients

- 600.20 A1 Paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

#### Audit Sustainability Assurance Clients that are Public Interest Entities

- 600.21 A1 Paragraphs R600.22 to R600.24 require a firm to communicate with those

charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that ~~audits the financial statements~~ assures the sustainability information of that public interest entity.

600.21 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R600.22 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

**R600.22** Before a firm that ~~audits the financial statements~~ undertakes assurance work on the sustainability information of a public interest entity, or a network firm accepts an engagement to provide a non-assurance service to:

- (A)** That public interest entity;
- (B)** Any entity that controls, directly or indirectly, that public interest entity; or
- (C)** Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a)** Inform those charged with governance of the public interest entity that the

firm has determined that the provision of the service:

- (i) Is not prohibited; and
- (ii) Will not create a threat to the firm's independence ~~as auditor in performing the sustainability assurance engagement for of~~ the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

600.22 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

**R600.23** A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.22 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence ~~as auditor in providing the sustainability assurance service to of~~ the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
- (b) The provision of that service.

**R600.24** As an exception to paragraphs R600.22 and R600.23, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

- (a) The firm provides such information as it is able without breaching its legal or professional obligations;

- (b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (c) Those charged with governance do not disagree with the firm's conclusion in (b).

**R600.25** The firm or the network firm, having taken into account any matters raised by those charged with governance of the ~~audit sustainability assurance~~ client that is a public interest entity or by the entity referred to in paragraph R600.22 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the ~~audit sustainability assurance~~ engagement if:

- (a) The firm or the network firm is not permitted to provide any information to those charged with governance of the ~~audit sustainability assurance~~ client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or
- (b) Those charged with governance of an ~~audit sustainability assurance~~ client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

*~~Audit Sustainability Assurance Client that Later Becomes a Public Interest Entity~~*

**R600.26** A non-assurance service provided, either currently or previously, by a firm or a network firm to an ~~audit sustainability assurance~~ client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to ~~audit sustainability assurance~~ clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for ~~audit sustainability assurance~~ clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

600.26 A1 Examples of actions that the firm might recommend to the ~~audit sustainability assurance~~ client include engaging another firm to:

- Review or re-perform the affected ~~audit sustainability assurance~~ work to the extent necessary.



- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

#### *Considerations for Certain Related Entities*

**R600.27** This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to ~~audit~~ sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R400.15, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose sustainability information financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client, provided that all of the following conditions are met:
  - (i) The firm or a network firm does not express an opinion on the ~~financial statements~~ sustainability information of the related entity;
  - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose ~~financial statements~~ sustainability information the firm will express an opinion;
  - (iii) The services do not create a self-review threat; and
  - (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

#### *Non-Assurance Services Provided to Entities Within the Client's Reporting Boundary*

**600.27a A1** A self-review threat might be created if a firm or a network firm knows or has reason to believe that a non-assurance service provided to an entity outside the sustainability assurance client but within the client's reporting boundary affects the sustainability information on which the firm expresses an opinion.

**600.27a A2** An example of an action that might be a safeguard to address the self-review threat is having an appropriate reviewer, who was not involved in providing the non-assurance service, review the relevant sustainability assurance work or the non-assurance service performed.

#### *Documentation*

**600.28 A1** Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the ~~financial statements~~ sustainability information on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the ~~audit~~ sustainability assurance client, including whether the results of the service will be subject to ~~audit~~ sustainability assurance procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.22, the steps taken to comply with paragraphs R600.22 to R600.24.

## **Part 5 — SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SUSTAINABILITY DATA AND INFORMATION SERVICES**

### **Introduction**

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing ~~accounting and bookkeeping services~~ sustainability data and information services for the preparation or maintenance of sustainability data, records or information to an ~~audit~~ sustainability assurance client.

### **Requirements and Application Material**

#### **General**

601.2 A1 Management is responsible for the preparation and ~~fair~~ presentation of the ~~financial statements~~ sustainability information in accordance with the ~~applicable financial~~ applicable sustainability reporting framework. These responsibilities include:

- Determining ~~accounting—sustainability~~ reporting policies and the ~~accounting—reporting~~ treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing ~~the occurrence of a transaction~~ the occurrence

of a transaction, event or other matter included in the sustainability information. Examples include:

~~• Purchase orders.~~

~~• Payroll time records.~~

~~• Customer orders.~~

- Originating or changing ~~journal~~ sustainability data entries or records.
- Determining or approving ~~the account~~ sustainability information classifications of transactions.

### Description of Service

601.3 A1 ~~Accounting and bookkeeping~~ Sustainability data and information services comprise a broad range of services including:

- Preparing ~~accounting sustainability data records or financial statements~~ sustainability information that is reported.
- Recording data transactions, events or other matters included in the sustainability information.
- ~~• Providing payroll services.~~
- Resolving account sustainability information inaccuracies reconciliation problems.
- Converting existing financial statements sustainability information from one financial sustainability reporting framework to another.
- Accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion.

### Potential Threats Arising from the Provision of ~~Accounting and Bookkeeping Sustainability Data and Information Services~~

#### *All Audit Sustainability Assurance Clients*

601.4 A1 Providing sustainability data and information ~~accounting and bookkeeping services to an~~ audit sustainability assurance client creates a self-review threat when there is a risk that the results of the services will affect the accounting sustainability data or information records or the ~~financial statements~~ sustainability information on which the firm will express an opinion.

#### *Audit Sustainability Assurance Clients that are Not Public Interest Entities*

**R601.5** A firm or a network firm shall not provide to an audit sustainability assurance client that is not a public interest entity accounting and bookkeeping sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion, including preparing financial statements on which the firm will express an opinion or financial information

~~which forms the basis of such financial statements, unless:~~

- (a)** The services are of a routine or mechanical nature; and
- (b)** The firm addresses any threats that are not at an acceptable level.

#### Matters for IESBA's Consideration

The proposed changes clarify that the independence standards in Part 5 only intend to prohibit firms from providing sustainability data and information services to the sustainability assurance client if that service might be relevant to the sustainability information on which the firm expresses an opinion.

If the firm expresses an assurance conclusion only in relation to certain sustainability matters, for example, climate-related issues, and the firm also provided sustainability information services in relation to reporting on other matters (for example, DEI) that is not in the scope of the sustainability assurance engagement, the provision of such a service does not create a self-review threat.

Although the provision of sustainability data and information services in relation to sustainability information that is not subject to sustainability assurance is not prohibited under subsection 601, the firm still needs to evaluate and address any other threats created by the provision of the service to the client.

- 601.5 A1 ~~Sustainability data and information~~ Accounting and bookkeeping services that are routine or mechanical:
- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
  - (b) Require little or no professional judgment.
- 601.5 A2 ~~Accounting and bookkeeping~~ Sustainability data and information services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgment of the firm or network firm.
- 601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:
- Preparing payroll calculations or reports based on client- or third party-originated data for approval and payment by the client.
  - Recording recurring transactions for data which amounts are easily determinable from source documents ~~or originating data~~, such as a utility bill where the client has determined or approved the appropriate account classification.

- ~~Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.~~
- Posting transactions data coded by the client or received from third parties to the general ledger sustainability information records.
- ~~Posting client approved entries to the trial balance.~~
- Preparing financial statements sustainability information to be reported based on information in the client-approved trial balance records and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to ~~audit sustainability assurance~~ clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.16 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

#### Matters for IESBA's Consideration

WS1 proposes that the application material include a reference not only to services in relation to the data of the client, but also to third parties within the value chain of the client.

- 601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing sustainability data and information accounting and bookkeeping services of a routine or mechanical nature to an ~~audit sustainability assurance~~ client that is not a public interest entity include:
- Using professionals who are not ~~audit sustainability assurance~~ team members to perform the service.
  - Having an appropriate reviewer who was not involved in providing the service review the ~~audit sustainability assurance~~ work or service performed.

#### *~~Audit Sustainability Assurance~~ Clients that are Public Interest Entities*

- R601.6** A firm or a network firm shall not provide sustainability data and information accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion to an ~~audit sustainability assurance~~ client that is a public interest entity.

#### Matters for IESBA's Consideration

See explanation to paragraph R601.5.

- R601.7** As an exception to paragraph R601.6, a firm or a network firm may prepare

statutory ~~financial statements~~ sustainability information for a related entity of a public interest entity ~~audit~~ sustainability assurance client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- (a) The ~~audit~~ sustainability assurance report on the group ~~financial statements~~ sustainability information of the public interest entity has been issued;
- (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
- (c) The firm or network firm does not prepare the ~~accounting records~~ underlying the statutory ~~financial statements~~ sustainability information of the related entity and ~~those financial statements that sustainability information is~~ are based on client approved information; and
- (d) The statutory ~~financial statements~~ sustainability information of the related entity will not form the basis of future group ~~financial statements~~ sustainability information of that public interest entity.

## **PART 5 — SUBSECTION 602 – ADMINISTRATIVE SERVICES**

### **Introduction**

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

### **Application Material**

#### **Description of Service**

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising an ~~audit~~ sustainability assurance client of those dates.

#### **Potential Threats Arising from the Provision of Administrative Services**

##### *All ~~Audit~~ Sustainability Assurance Clients*

602.3 A1 Providing administrative services to an ~~audit~~ sustainability assurance client does not usually create a threat when such services are clerical in nature and require little to no professional judgment.

## **PART 5 – SUBSECTION 603 – VALUATION, FORECASTING AND SIMILAR SERVICES**

### **Matters for IESBA’s Consideration**

The Sustainability Reference Group members were asked as part of their review of Section 600 whether there were other services that should be addressed in the sub-sections. They suggested “estimation services” and also services relating to “forecasting” of information.

Subsequent review of services offered by sustainability assurance practitioners did not identify any that were specifically promoted as being of that nature but some services were identified that included estimation or forecasting elements (e.g. a service that included estimating the amount of hazardous substances produced by manufacturing process). WS 1 discussed how these might be best addressed and concluded that given the similarity in nature, it would be most appropriate to include them within the scope of sub-section 603 in addition to “valuation” services.

A separate presentation was considered, but it was felt inappropriate given the overlap in the nature of the services and, further, due to the current numbering system would have been presented at the end of Section 600 rather than adjacent to sub-section 603, which could have been confusing.

The proposed update of sub-section 603 makes clear that the values produced by these services can be non-monetary.

### **Introduction**

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing valuation, forecasting or similar services to an audit sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

603.2 A1 A valuation, forecasting or similar service ~~comprises~~ includes the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity. For such services, the values might be non-monetary, for example, forecasting estimates of materials reserves or the amounts of hazardous substances produced by a manufacturing process.

603.2 A2 If a firm or a network firm is requested to perform a valuation, forecasting or similar service to assist an audit sustainability assurance client with its tax reporting obligations or for tax planning purposes and the results of the valuation

~~service~~ have no effect on the ~~accounting records~~ underlying the sustainability information or the financial statements, ~~sustainability information on which the firm will express an opinion other than through accounting entries related to tax~~, the requirements and application material set out in paragraphs 604.17 A1 to 604.19 A1, relating to such services, apply.

### **Potential Threats Arising from the Provision of Valuation, Forecasting or Similar Services**

#### *All ~~Audit~~ Sustainability Assurance Clients*

603.3 A1 Providing a valuation, forecasting or similar service to an ~~audit client~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information –on which the firm will express an opinion. Such a service might also create an advocacy threat.

603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation, forecasting or similar services to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:

- The use and purpose of the ~~valuation~~ results of the service or its inclusion in a report.
- Whether the ~~valuation report~~ results of the service will be made public.
- The extent to which the ~~valuation~~ service methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the ~~valuation~~ service methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for ~~valuations~~ the service involving standard or established methodologies.
- Whether the ~~valuation~~ service will have a material effect on the ~~financial statements~~ sustainability information.
- The extent of the disclosures related to the ~~valuation~~ item covered by the service in the ~~financial statements~~ sustainability information.
- The volatility of the ~~amounts~~ values involved as a result of dependence on future events.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R603.5 applies.

#### *~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities*

603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation, forecasting or similar service to an ~~audit~~ sustainability assurance client that is not a public interest entity include:



- Using professionals who are not ~~audit-sustainability assurance~~ team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit-sustainability assurance~~ work or service performed might address a self-review threat.

**R603.4** A firm or a network firm shall not provide a **valuation, forecasting or similar** service to an ~~audit-sustainability assurance~~ client that is not a public interest entity if:

- (a) The ~~valuation-item covered by the service~~ involves a significant degree of subjectivity; and
- (b) The ~~valuation-service~~ will have a material effect on the financial statements sustainability information on which the firm will express an opinion.

603.4 A1 Certain **valuations, forecasts and similar information** do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation, forecasting or similar service performed by two or more parties are not likely to be materially different.]

#### Audit-Sustainability Assurance Clients that are Public Interest Entities

##### Self-review Threats

**R603.5** A firm or a network firm shall not provide a **valuation, forecasting or similar service** to an ~~audit-sustainability assurance~~ client that is a public interest entity if the provision of ~~such valuation-the~~ service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

##### Advocacy Threats

603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a **valuation, forecasting or similar service** to an ~~audit-sustainability assurance~~ client that is a public interest entity is using professionals who are not ~~audit-sustainability assurance~~ team members to perform the service.

## **PART 5 — SUBSECTION 604 – TAX SERVICES**

### **Introduction**

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a tax service to an ~~audit-sustainability assurance~~ client.

## Requirements and Application Material

### Description of Service

- 604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:
- Tax return preparation.
  - Tax calculations for the purpose of preparing accounting entries.
  - Tax advisory services.
  - Tax planning services.
  - Tax services involving valuations.
  - Assistance in the resolution of tax disputes.
- 604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.

### Potential Threats Arising from the Provision of Tax Services

- 604.3 A1 Providing tax services to an ~~audit~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.
- 604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:
- The particular characteristics of the engagement.
  - The level of tax expertise of the client's employees.
  - The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
  - The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

### ~~All Audit~~ Sustainability Assurance Clients

- R604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to an ~~audit~~ sustainability assurance client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable

tax law or regulation that is likely to prevail.

- 604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

## A. Tax Return Preparation

### Description of Service

- 604.5 A1 Tax return preparation services include:
- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
  - Advising on the tax return treatment of past transactions.
  - Responding on behalf of the ~~audit~~ sustainability assurance client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

### Potential Threats Arising from the Provision of Tax Return Preparation Services

#### *All ~~Audit~~ Sustainability Assurance Clients*

- 604.6 A1 Providing tax return preparation services does not usually create a threat because:
- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
  - (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

## B. Tax Calculations for the Purpose of Preparing Accounting Entries or Sustainability Information

### Description of Service

- 604.7 A1 Tax calculation services involves the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the sustainability assurance ~~audit~~ client. In some cases those services might also affect the sustainability information of the client.

### Potential Threats Arising from the Provision of Tax Calculation Services

*All ~~Audit~~ Sustainability Assurance Clients*

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an ~~audit~~ sustainability assurance client for the purpose of preparing accounting entries that support such balances creates a self-review threat where the results of those calculations affect the sustainability information.

*~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities*

604.9 A1 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for an ~~audit~~ sustainability assurance client is whether the calculation might have a material effect on the ~~financial statements~~ sustainability information on which the firm will express an opinion.

604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the ~~audit~~ sustainability assurance client is not a public interest entity include:

- Using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit~~ sustainability assurance work or service performed.

*~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities*

**R604.10** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an ~~audit~~ sustainability assurance client that is a public interest entity if the results of the services will affect the sustainability information on which the firm will express an opinion. (Ref: Para. R600.14 and R600.16).

## C. Tax Advisory and Tax Planning Services

### Description of Service

604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the ~~audit~~ sustainability assurance client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

### Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

*All ~~Audit~~ Sustainability Assurance Clients*

604.12 A1 Providing tax advisory and tax planning services to an ~~audit~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

- 604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:
- (a) Are supported by a tax authority or other precedent;
  - (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
  - (c) Have a basis in tax law that the firm is confident is likely to prevail.

604.12 A3 In addition to paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to ~~audit~~ sustainability assurance clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the ~~financial statements~~ sustainability information on which the firm will express an opinion.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the ~~financial statements~~ sustainability information on which the firm will express an opinion.
- The extent to which the outcome of the tax advice might have a material effect on the ~~financial statements~~ sustainability information on which the firm will express an opinion.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R604.15 applies.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

**R604.13** A firm or a network firm shall not provide tax advisory and tax planning services to an ~~audit~~ sustainability assurance client when:

- (a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the ~~financial statements~~ sustainability information on which the firm will express an opinion; and
- (b) The ~~audit~~ sustainability assurance team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant ~~financial reporting framework~~ sustainability reporting framework.

*~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities*

604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to an ~~audit~~ sustainability assurance client that is not a public interest entity include:

- Using professionals who are not ~~audit~~-sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the ~~audit~~-sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

#### ~~Audit~~-Sustainability Assurance Clients that are Public Interest Entities

##### Self-review Threats

**R604.15** A firm or a network firm shall not provide tax advisory and tax planning services to an ~~audit~~-sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.12 A2).

##### Advocacy Threats

604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to an ~~audit~~-sustainability assurance client that is a public interest entity include:

- Using professionals who are not ~~audit~~-sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

## D. Tax Services Involving Valuations

### Description of Service

604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

### Potential Threats Arising from the Provision of Tax Services involving Valuations

#### ~~All Audit~~-Sustainability Assurance Clients

604.17 A1 Providing a valuation for tax purposes to an ~~audit~~-sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the ~~accounting records or the financial statements~~-records underlying the sustainability information or the sustainability information on which the firm

will express an opinion. Such a service might also create an advocacy threat.

604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an ~~audit~~ sustainability assurance client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

- (a) Have no effect on the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
- (b) Affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

604.17 A3 Performing a valuation for tax purposes for an ~~audit~~ sustainability assurance client will not create a self-review threat if:

- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
- (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

*~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities*

604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an ~~audit~~ sustainability assurance client that is not a public interest entity where the result of the valuation only affects the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion **through accounting entries adjustments** related to tax. This would not usually create threats if the effect on the ~~financial statements~~ sustainability information is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the ~~financial statements~~ sustainability information **on which the firm expresses an opinion**, in addition to paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an ~~audit~~ sustainability assurance client that is not a public interest entity, and evaluating the level of such threats:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.

- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address such threats for an ~~audit~~ sustainability assurance client that is not a public interest entity include:

- Using professionals who are not ~~audit~~ sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit~~ sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

#### *~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities*

##### Self-review Threats

**R604.19** A firm or a network firm shall not perform a valuation for tax purposes for an ~~audit~~ sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.17 A3).

##### Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an ~~audit~~ sustainability assurance client that is a public interest entity include:

- Using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

## **E. Assistance in the Resolution of Tax Disputes**

### **Description of Service**

604.20 A1 A non-assurance service to provide assistance to an ~~audit~~ sustainability assurance client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

### **Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes**

#### *All ~~Audit~~ Sustainability Assurance Clients*

604.21 A1 Providing assistance in the resolution of a tax dispute to an ~~audit~~ sustainability



assurance client might create a self-review threat when there is a risk that the results of the service will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information – on which the firm will express an opinion. Such a service might also create an advocacy threat.

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting an ~~audit~~ sustainability assurance client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the ~~financial statements~~ sustainability information on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R604.24 applies.

#### *Audit-Sustainability Assurance Clients that are Not Public Interest Entities*

604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an ~~audit~~ sustainability assurance client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not ~~audit~~ sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit~~ sustainability assurance work or the service performed might address a self-review threat.

#### *Audit-Sustainability Assurance Clients that are Public Interest Entities*

##### Self-review Threats

**R604.24** A firm or a network firm shall not provide assistance in the resolution of tax disputes to an ~~audit~~ sustainability assurance client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R600.14 and R600.16).

##### Advocacy Threats

604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an ~~audit~~ sustainability assurance client that is a public interest entity is using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.

## **Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court**

### *~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities*

**R604.25** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an ~~audit~~ sustainability assurance client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the ~~audit~~ sustainability assurance client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the ~~financial statements~~ sustainability information on which the firm will express an opinion.

### *~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities*

**R604.26** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an ~~audit~~ sustainability assurance client that is a public interest entity if the services involve acting as an advocate for the ~~audit~~ sustainability assurance client before a tribunal or court.

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

## **PART 5 — SUBSECTION 605 – INTERNAL AUDIT SERVICES**

### **Introduction**

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to an ~~audit~~ sustainability assurance client.

## **Requirements and Application Material**

### **Description of Service**

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the ~~audit~~ sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
  - Reviewing the means used to identify, measure, classify and report that financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. ~~As t~~They might involve matters that are operational in nature, ~~they do not necessarily relate to matters~~ that will be subject to consideration in relation to the ~~audit of the financial statements~~ assurance of sustainability information.

### **Risk of Assuming Management Responsibility When Providing an Internal Audit Service**

**R605.3** Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an ~~audit~~ sustainability assurance client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
  - (i) Be responsible at all times for internal audit activities; and
  - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation

process; and

- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

### Potential Threats Arising from the Provision of Internal Audit Services

#### ~~All Audit~~ Sustainability Assurance Clients

605.4 A1 Providing internal audit services to an ~~audit~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the services impact the ~~audit of the financial statements~~ assurance of the sustainability information on which the firm will express an opinion.

605.4 A2 When a firm uses the work of an internal audit function in an ~~audit~~ sustainability assurance engagement, assurance standards used in sustainability assurance engagements ordinarily ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an ~~audit~~ sustainability assurance client, the results of those services might be used in conducting the external ~~audit~~ assurance of sustainability information. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the ~~audit~~ sustainability assurance

engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

#### **Matters for IESBA's Considerations**

As the standards in Part 5 are framework neutral, they are applicable irrespective of the sustainable assurance standards used by the firm. This assurance framework could be IAASB's ISSA 5000 or any other assurance framework or standards.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an ~~audit~~ sustainability assurance client, and evaluating the level of such a threat include:

- The materiality of the related sustainability information.~~financial statements amounts.~~
- The risk of misstatement of the assertions related to that sustainability information.~~those financial statement amounts.~~
- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R605.6 applies.

#### *~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities*

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an ~~audit~~ sustainability assurance client that is not a public interest entity is using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.

#### *~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities*

**R605.6** A firm or a network firm shall not provide internal audit services to an ~~audit~~ sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over sustainability reporting.~~financial reporting.~~
- Sustainability information.~~Financial accounting~~ systems that generate information for the client's ~~accounting~~ records underlying the sustainability

~~information or the sustainability informationer financial statements~~ on which the firm will express an opinion.

- Amounts or disclosures that relate to the ~~financial statements~~ sustainability information on which the firm will express an opinion.

## **PART 5 – SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES**

### **Introduction**

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an ~~audit~~ sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

606.2 A2 The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over ~~financial~~ sustainability reporting; or
- (c) Generate information that affects the ~~accounting records or financial statements,~~ sustainability information records or sustainability information reported, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the ~~audit sustainability assurance client's accounting records or the internal control over financial reporting or financial statements,~~ records underlying the sustainability information or the internal control over sustainability reporting.

#### **Risk of Assuming Management Responsibility When Providing an IT Systems Service**

**R606.3** Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an ~~audit~~ sustainability assurance client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;
- (c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and
- (d) The client is responsible for operating the IT system and for the data it generates and uses.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the ~~audit~~-sustainability assurance client. Such services include:
  - Acting as the only access to a financial or non-financial information system of the ~~audit~~-sustainability assurance client.
  - Taking custody of or storing the ~~audit~~-sustainability assurance client's data or records such that the ~~audit~~-sustainability assurance client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the ~~audit~~-sustainability assurance client's data or records.
- Operates, maintains, or monitors the ~~audit~~-sustainability assurance client's IT systems, network or website.

606.3 A2 The collection, receipt, transmission and retention of data provided by an ~~audit~~-sustainability assurance client in the course of an ~~audit~~-sustainability assurance engagement or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

### Potential Threats Arising from the Provision of IT Systems Services

#### All ~~Audit~~-Sustainability Assurance Clients

606.4 A1 Providing IT systems services to an ~~audit~~-sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the ~~audit of the financial statements~~-assurance of the sustainability information on which the firm will express an opinion.

606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an ~~audit~~-sustainability assurance client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's ~~accounting~~ sustainability information records, internal controls over ~~financial~~ sustainability reporting or ~~financial statements~~ sustainability information on which the firm will express an opinion.
- The degree of reliance that will be placed on the particular IT systems as part of the ~~audit~~ sustainability assurance engagement.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect an ~~audit~~ sustainability assurance client's ~~accounting~~ sustainability information records or system of internal control over ~~financial~~ sustainability reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting an ~~audit~~ sustainability assurance client's IT systems, including network and software applications.
- Implementing sustainability information management systems or sustainability~~accounting or financial~~ information reporting software, whether or not it was developed by the firm or a network firm.

#### Audit-Sustainability Assurance Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an ~~audit~~ sustainability assurance client that is not a public interest entity is using professionals who are not ~~audit-sustainability assurance~~ team members to perform the service.

#### Audit-Sustainability Assurance Clients that are Public Interest Entities

**R606.6** A firm or a network firm shall not provide IT systems services to an ~~audit~~ sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R600.14 and R600.16).

## **PART 5 – SUBSECTION 607 – LITIGATION SUPPORT SERVICES**

### **Introduction**

607. 1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a



litigation support service to an ~~audit~~ sustainability assurance client.

## Requirements and Application Material

### Description of Service

607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

### Potential Threats Arising from the Provision of Litigation Support Services

#### ~~All Audit~~ Sustainability Assurance Clients

607.3 A1 Providing litigation support services to an ~~audit~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the ~~financial statements~~ sustainability information on which the firm will express an opinion.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R607.6 applies.

607.4 A2 If a firm or a network firm provides a litigation support service to an ~~audit~~ sustainability assurance client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the ~~financial statements~~ sustainability information on which the firm will express an opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

#### ~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities

607.5 A1 An example of an action that might be a safeguard to address a self-review or

advocacy threat created by providing a litigation support service to an ~~audit~~ sustainability assurance client that is not a public interest entity is using a professional who was not an ~~audit~~ sustainability assurance team member to perform the service.

#### ~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities

##### Self-review Threats

**R607.6** A firm or a network firm shall not provide litigation support services to an ~~audit~~ sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the ~~financial statements~~ sustainability information on which the firm will express an opinion.

##### Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to an ~~audit~~ sustainability assurance client that is a public interest entity is using a professional who was not an ~~audit~~ sustainability assurance team member to perform the service.

#### Acting as a Witness

##### ~~All Audit~~ Sustainability Assurance Clients

607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
- (b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves an ~~audit~~ sustainability assurance client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

607.7 A3 The advocacy threat created when acting as an expert witness on behalf of an ~~audit~~ sustainability assurance client is at an acceptable level if a firm or a network firm is:

- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
- (b) Engaged to advise or act as an expert witness in relation to a class action

(or an equivalent group representative action) provided that:

- (i) The firm's ~~audit-sustainability assurance~~ clients constitute less than 20% of the members of the class or group (in number and in value);
- (ii) No ~~audit-sustainability assurance~~ client is designated to lead the class or group; and
- (iii) No ~~audit-sustainability assurance~~ client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

#### *~~Audit-Sustainability Assurance Clients that are Not Public Interest Entities~~*

607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for an ~~an audit- sustainability assurance~~ client that is not a public interest entity is using a professional to perform the service who is not, and has not been, an ~~audit sustainability assurance~~ team member.

#### *~~Audit-Sustainability Assurance Clients that are Public Interest Entities~~*

**R607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for an ~~an audit- sustainability assurance~~ client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 607.7 A3 apply.

## **PART 5 – SUBSECTION 608 – LEGAL SERVICES**

### **Introduction**

608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a legal service to an ~~an audit- sustainability assurance~~ client.

### **Requirements and Application Material**

#### **Description of Service**

608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

- Providing legal advice.

- Acting as general counsel.
- Acting in an advocacy role.

## Potential Threats Arising from Providing Legal Services

### ~~All Audit~~ Sustainability Assurance Clients

608.3 A1 Providing legal services to an ~~audit~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

## A. Providing Legal Advice

### Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to ~~audit~~ sustainability assurance clients, such as:

- Contract support.
- Supporting an ~~audit~~ sustainability assurance client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an ~~audit~~ sustainability assurance client's internal legal department.
- Legal due diligence and restructuring.

## Potential Threats Arising from Providing Legal Advice

### ~~All Audit~~ Sustainability Assurance Clients

608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's ~~financial statements~~ sustainability information reported.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R608.7 applies.

608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit ~~for the purpose of recording a provision in the client's financial statements~~ that will be

disclosed in the sustainability information on which the firm will express an opinion.

- Interpreting provisions in contracts that might ~~give rise to liabilities reflected in the client's financial statements~~ affect information disclosed in the sustainability information on which the firm will express an opinion.

608.5 A3 Negotiating on behalf of an ~~audit~~ sustainability assurance client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

#### Audit-Sustainability Assurance Clients that are Not Public Interest Entities

608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an ~~audit~~ sustainability assurance client that is not a public interest entity include:

- Using professionals who are not ~~audit-sustainability assurance~~ team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit-sustainability assurance~~ work or the service performed might address a self-review threat.

#### Audit-Sustainability Assurance Clients that are Public Interest Entities

##### Self-review Threats

**R608.7** A firm or a network firm shall not provide legal advice to an ~~audit~~ sustainability assurance client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

##### Advocacy Threats

608.8 A1 The considerations in paragraphs 608.5 A1 and 608.5 A3 to 608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an ~~audit~~ sustainability assurance client that is a public interest entity.

## B. Acting as General Counsel

### All Audit-Sustainability Assurance Clients

**R608.9** An engagement leader ~~partner~~ or employee of the firm or the network firm shall not serve as General Counsel of an ~~audit~~ sustainability assurance client.

608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

## C. Acting in an Advocacy Role

## Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

### ~~Audit~~ Sustainability Assurance Clients that are Not Public Interest Entities

**R608.10** A firm or a network firm shall not act in an advocacy role for an ~~audit~~ sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts involved are material to the ~~financial statements~~ sustainability information on which the firm will express an opinion.

608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an ~~audit~~ sustainability assurance client that is not a public interest entity include:

- Using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit~~ sustainability assurance work or the service performed.

### ~~Audit~~ Sustainability Assurance Clients that are Public Interest Entities

**R608.11** A firm or a network firm shall not act in an advocacy role for an ~~audit~~ sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

## **PART 5 — SUBSECTION 609 – RECRUITING SERVICES**

### Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to an ~~audit~~ sustainability assurance client.

### Requirements and Application Material

#### Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.

- Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

### **Risk of Assuming Management Responsibility When Providing a Recruiting Service**

**R609.3** Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an ~~audit~~ sustainability assurance client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
  - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
  - Determining employment terms and negotiating details, such as salary, hours and other compensation.

### **Potential Threats Arising from Providing Recruiting Services**

#### *All ~~Audit~~ Sustainability Assurance Clients*

609.4 A1 Providing recruiting services to an ~~audit~~ sustainability assurance client might create a self-interest, familiarity or intimidation threat.

609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for ~~financial accountingsustainability reporting~~, administrative or control positions.

609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not ~~audit~~ sustainability assurance team members to perform the service.

#### Recruiting Services that are Prohibited

**R609.5** When providing recruiting services to an ~~audit~~ sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.

**R609.6** A firm or a network firm shall not provide a recruiting service to an ~~audit~~ sustainability assurance client if the service relates to:

- (a) Searching for or seeking out candidates;
- (b) Undertaking reference checks of prospective candidates;
- (c) Recommending the person to be appointed; or
- (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate,

with respect to the following positions:

- (i) A director or officer of the entity; or
- (ii) A member of senior management in a position to exert significant influence over the preparation of the client's ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information –on which the firm will express an opinion.

## **PART 5 — SUBSECTION 610 – CORPORATE FINANCE SERVICES**

### **Introduction**

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an ~~audit~~ sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

610.2 A1 Examples of corporate finance services include:

- Assisting an ~~audit~~ sustainability assurance client in developing corporate strategies.
- Identifying possible targets for the ~~audit~~ sustainability assurance client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.



- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.
- **Due diligence with respect to sustainability information.**

## Potential Threats Arising from the Provision of Corporate Finance Services

### *All ~~Audit~~ Sustainability Assurance Clients*

610.3 A1 Providing corporate finance services to an ~~audit~~ sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the ~~accounting records or the financial statements~~ records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to an ~~audit~~ sustainability assurance client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the ~~financial statements~~ sustainability information on which the firm will express an opinion.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the ~~financial statements~~ sustainability information on which the firm will express an opinion.
  - The outcome of the corporate finance service might have a material effect on the ~~financial statements~~ sustainability information on which the firm will express an opinion.

When a self-review threat for an ~~audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R610.8 applies.

### Corporate Finance Services that are Prohibited

**R610.5** A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the ~~audit~~ sustainability assurance client or providing advice on investment in such shares, debt or other financial instruments.

**R610.6** A firm or a network firm shall not provide advice in relation to corporate finance services to an ~~audit~~ sustainability assurance client where:

- (a) The effectiveness of such advice depends on a particular ~~accounting treatment~~ method of measurement or presentation in the ~~financial~~

~~statements—sustainability information~~ on which the firm will express an opinion; and

- (b) The ~~audit—sustainability assurance~~ team has doubt as to the appropriateness of the related ~~accounting—treatment~~method of measurement or presentation under the relevant financial or sustainability reporting framework.

*~~Audit—Sustainability Assurance Clients that are Not Public Interest Entities~~*

610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to an ~~audit—sustainability assurance~~ client that is not a public interest entity include:

- Using professionals who are not ~~audit—sustainability assurance~~ team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the ~~audit—sustainability assurance~~ work or service performed might address a self-review threat.

*~~Audit—Sustainability Assurance Clients that are Public Interest Entities~~*

Self-review Threats

**R610.8** A firm or a network firm shall not provide corporate finance services to an ~~audit—sustainability assurance~~ client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an ~~audit—sustainability assurance~~ client that is a public interest entity is using professionals who are not ~~audit—sustainability assurance~~ team members to perform the service.