

Emerging Issues and Outreach Committee (EIOC) Update

Recommendations for Way Forward for ESG and EIOC

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IESBA Meeting

March 14, 2022

1. To note relevant ESG-related developments since Sept 2021
2. To consider:
 - Recommendations and determine a way forward to advance the IESBA's ESG-related initiatives
 - Potential topics for EIOC consideration in 2022



Recap: What is ESG?



Environmental

Conservation of the natural world

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity



Social

Consideration of people & relationships

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards



Governance

Standards for running a company

- Board composition
- [Audit committee](#) structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

Stakeholders use different terms to describe non-financial reporting



Recap of September 2021 ESG Session

- In September 2021, IESBA members received:
 - Presentation on joint study by IFAC and AICPA-CIMA on the *State of Play* in Sustainability Assurance
 - Update from EIOC on ESG developments and related ethical considerations
- Discussion topics included:
 - Role of professional accountants in ESG
 - Applicability of the Code to ESG reporting and assurance thereon
 - Ethics and independence issues identified in relation to reporting and assuring ESG information

Key Takeaways

1. IESBA should **consider and respond to ESG-related ethics (and independence) issues** raised by IOSCO and others (e.g., “greenwashing”; risk of over relying on work of others)
2. IESBA should participate in global debates and **highlight and champion existing ethics and independence provisions** that are already relevant to ESG reporting and assurance

ESG-related Developments since September 2021

- Establishment of International Sustainability Standards Board (Nov 2021)
 - Expected to be fully operational by June 2022
- IOSCO hosts roundtable on audit and assurance of sustainability disclosures (Feb 2022)
- IOSCO issues 3 reports with specific recommendations and outcomes of fact finding
- IFAC issues its [Vision for High-Quality Assurance of Sustainability Information](#) (Dec 2021)
- Institute of Internal Auditors issues White Paper
 - [Prioritizing ESG – Exploring Internal Audit's Role as a Critical Collaborator](#) ([Feb 2022](#))
- IESBA-NSS Meeting (Oct 2021)

Highlights of October 2021 NSS Discussion



Key Learnings from NSS Discussion

- Sustainability is a key focus area for NSS strategies and work plans
- There is a strong call for action to *fight against greenwashing*
- Support for ISSB launch, but desire to also have sustainability standard boards
- Need national-level guidance to help in the application of the current assurance framework (ISAE 3000) when providing assurance on ESG information



“Green washing usually refers to practices aimed **to mislead investors** or give them **false impression** about how well an investment is aligned with its sustainability goals” (IOSCO)

EIOC Insights To-date

- Investors want more transparency about ESG, especially in relation to climate
 - Innovations in technology are making it easier to compile and publicly share non-financial/ ESG data
- Non-PAs have a significant role in preparing ESG-related disclosures (and assuring them), but do not always have the necessary expertise and experience
 - Lack of consistent framework to guide ESG-related work
 - Not required to comply with Code of Ethics and therefore are not bound to fundamental principles
 - Do not have a responsibility to prioritize the public interest
 - May not be as experienced/skilled as PAs in exercising judgments, professional skepticism (or having an inquiring mind)
- Lots of momentum at jurisdictional/national level, including in the EU and the US
- Global regulators, policy makers and standard setters are also fully engaged
 - ESG assurance is prominently featured in IAASB's recently approved [2022-2023 Strategy Work Plan](#)
 - IPSASB is developing a consultation paper

Role for IESBA

- IESBA has an important role → **Be the global champion for ethics (including independence)**
 - IESBA should be proactive without overstepping roles and responsibilities of regulators, ISSB or IAASB
 - Emphasize the importance of ethics in ensuring confidence in the reliability of non-financial information
 - Showcase relevant aspects of the Code, and undertake fact finding to inform future standard setting
- Important that IESBA understand the nature of ESG-related activities PAIBs and PAPPs perform to better identify/address most pressing ethics and independence related issues
 - Engage in further dialogue with IOSCO to better understand regulatory concerns



EIOC's ESG-related Recommendations

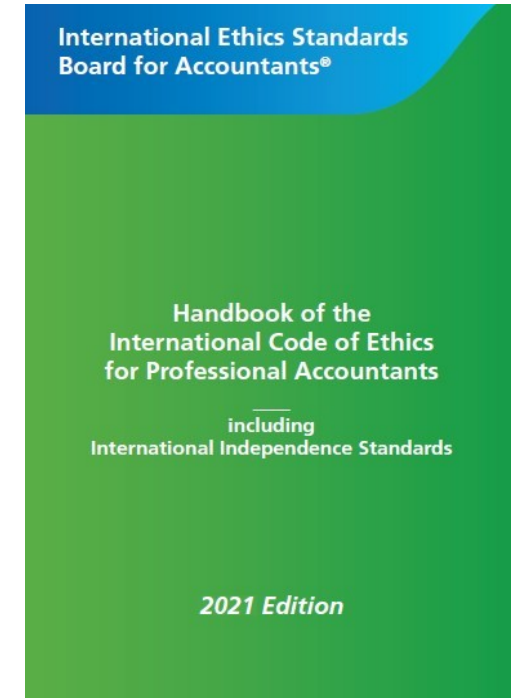
Establish a **Working Group** to progress ESG, thereby allowing EIOC to continue its work as per [Terms of Reference](#)

Direct mandate of the newly formed **ESG Working Group** to include:

- A. **Fact finding** to better understand ESG landscape and to inform future standard setting
 - IESBA's **Strategy Survey** will prominently feature questions about prioritizing ESG
- B. Inform development of **Staff Guidance** to highlight the applicability of the Code to ESG
 - Demonstrate the obvious: reliable ESG information depends on high-quality, **global ethics standards**

Expanding the Scope of the Code?

- Explore through global dialogue the criteria for applying the IESBA Code
 - Should the Code apply to non-PAs who perform ESG engagements? Or should it continue to apply to PAs only?
 - Should the Code apply to specific types of services (e.g., ESG-related assurance services)?
- EIOC believes that this is a significant undertaking; will have longer term implications not just for ESG
 - Will impact multiple workstreams and required coordination and outreach efforts could potentially slow down ESG-related work
 - Consider having this work done by a separate group (e.g., Planning Committee)



Proposed ESG Timeline



**Staff Guidance to
highlight and
explain applicability
of the Code**

ASAP



**ESG Fact-finding
and development of
final report**

Q2 2023



**Standard Setting
Project – **Review**
Code from ESG lens**

After 2023

Staff Guidance and Awareness Raising



Staff Guidance

- Some principles and sections in the Code are relevant to address ESG issues and it is important that these are highlighted
 - Respond timely to “greenwashing”: protecting stakeholders against fraudulent or misleading ESG information
 - Emphasize the need for appropriate skills and expertise to prepare and assure ESG information (e.g., measuring carbon footprints)
- Issuing Staff Guidance alone will not be enough; global PR/communication plan is needed to promote awareness of the Code
 - Targeted outreach, especially with TCWG, regulators and other standards setters
 - Partner with IAASB, IPSASB (and IFAC) to disseminate ESG-related ethics and independence guidance
- IESBA members, especially ESG Working Group members, should be visibly proactive in advocating the relevance of ethics

Proposed Topics for Staff Guidance

**Consider material in
appendix**

*Staff guidance to include
ESG-specific examples
that will resonate with
readers*

1. Fighting Green-washing, including
 - Compliance with fundamental principles, exercising professional skepticism and having an inquiring mind in the ESG space
 - Preparation and Presentation of ESG Information
 - Use of Discretion in Using Professional Judgment
2. Address Risks of Over Relying on Work of Others, especially Experts
 - Emphasize the importance of having sufficient ESG-related skills and expertise
3. Respond to Concerns about Independence and Conflict of Interest in ESG-related assurance engagements, including
 - Providing a specific ESG-related NAS to an audit client
 - Providing assurance on ESG disclosures to an audit Client

Fact Finding



**Fact-
finding**

- Important to understand the nature of ESG-related service and the landscape in the ESG market e.g.,
 - What are the most pressing ethics and independence related questions being asked by firms, regulators and others?
 - What ESG-related services are PAs providing?
 - What professional activities are non-PAs performing in relation to ESG?
- Multi-stakeholder engagement needed to identify issues and to develop a coordinated way forward
 - Critical to continue dialogue with regulators (e.g., IOSCO)
 - Better understand investors' (and other users') ESG needs
 - Important to liaise and progress ESG leadership discussions with other standards setters (ISSB, IAASB, NSS) and global policy makers; as well as ESG service providers (firms, preparers, ESG experts/ non-PAs)
- Insights from fact-finding will help delineate the scope, and direct the focus of future ESG project

ESG-related Review of the Code



Review Code from ESG Lens

- IESBA's 2024-2027 Strategy and Work Plan survey will include questions to help the Board determine ESG prioritization and topics to consider
- EIOC members believe that a careful review of the Code from an ESG perspective is needed to identify potential areas for enhancement
 - Although Code applies to non-financial information (e.g., ESG), such provisions are not specific; Code was primarily developed for PAs and firms who undertake professional activities and services relating to financial information
 - Certain proposals in the Technology ED might help address ESG-related issues
- The IESBA Code should expressly deal with ESG so that it continues to be viewed as relevant and “fit for purpose”, but there is a need for balance
 - Determine the right level of ESG-specific material for inclusion in the Code (specificity should not undermine the Code's principles-based nature and building blocks architecture)
 - Consider whether Code should have a separate non-financial/ESG section (will be affected by ongoing debates about the need for integrated financial and non-financial thinking and reporting)

Potential Topics to Consider in Future ESG Project

**Consider revision as
part of 2024-2027 SWP**

- Some concepts and terminology used in the Code do not contemplate the provision of activities relating to non-financial information
 - E.g., Definition for professional activity is focused on accountancy related skills
- Address known questions about the need for specificity in the International Independence Standards
 - Should Part 4B include specific requirements for network firms?
 - Should Part 4B have differential assurance independence standards for PIEs (similar to Part 4A of the Code)?
 - Should auditors of f/s be permitted to also assure ESG disclosures?
 - Should auditors of f/s be involved in assisting in the preparation of ESG disclosures? Should they be allowed to advise audit clients in helping in the development or customization of ESG-related IT systems?

- IESBA members are asked for comments and observations on the EIOC's perspectives on ESG-related matters.
- Do IESBA Members agree with EIOC's recommendation regarding:
 - Establishing a new ESG WG, and
 - The mandate for the newly formed ESG WG?





Way forward to progress EIOC's mandate



Way Forward for EIOC

- Potential topics – other than ESG - that EIOC might consider / explore in 2022

A. Emerging Issues

- Issues arising from unwinding COVID-19 measures, including government support
- Respond to ethics and independence challenges arising from remote/hybrid work and lack of face-to-face engagement
- Consider ethics and independence-related matters arising from the impact of high inflation

B. Outreach Activities

- Determine new and more effective ways to reach stakeholder groups other than accountants; Agree to best approach for engaging with developing jurisdictions (i.e., non-G20 countries)



2022

IESBA members are asked for
views on the potential topics for
EIOC's consideration in 2022





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Appendix

- Code's Provisions relevant to ESG Matters –



Relevant Topics in Code that Apply to ESG

ISAE 3000 is premised on the basis that **assurance engagement team is subject to the IESBA Ethics Code** (or other professional requirements, law or regulation, that are at least as demanding)

Fundamental Ethics Principles for professional accountants:

Act with **INTEGRITY** – even when facing pressure to do otherwise

Uphold **OBJECTIVITY** – without being compromised by bias, conflict of interest or undue influence of others or technology

Maintain **PROFESSIONAL COMPETENCE** required to exercise sound judgments and **DUE CARE**

Respect **CONFIDENTIALITY** of information – but consider circumstances in the light of the public interest

Demonstrate **PROFESSIONAL BEHAVIOR** – the profession's responsibility is to act in the public interest in all professional activities and business relationships.

Part 4B of the Ethics Code provide principles-based **independence standards for ESG assurance engagements**. The Code is also relevant to the **preparation and presentation of ESG disclosures**:

Pressure

Use of discretion in preparing or presenting information

Addressing information that is or might be misleading

Acting with sufficient expertise

Conflicts of Interest

Non-compliance with laws and regulations

Inquiring mind/ Professional skepticism

Using the Work of an Expert

Fighting Greenwashing

Section
110

- Concerns about practices aim to mislead investors or give them false impression about how well an investment is aligned with its sustainability goals

Compliance with the Code's FP of Integrity

- Require PAs to be straightforward and honest in all professional and business relationships
- Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise, or when doing so might create adverse personal or organizational consequences
- Prohibit PAs from being associated with reports, returns, communications or other information where the PA believes that the information:
 - Contains a materially false or misleading statement;
 - Contains statements or information provided recklessly; or
 - Omits or obscures required information where such omission or obscurity would be misleading.

Fighting Greenwashing (2)

Sections
120, 220
and 270

- Requirement for exercise **professional skepticism and having an inquiry mind**
- Requirements regarding **preparation and presentation of information**:
 - When preparing or presenting information, PAs must:
 - Prepare and present the information in accordance with the relevant reporting framework, where applicable
 - Prepare or present the information in a manner that is not intended to mislead or influence the outcome
 - Represent the facts accurately and completely in all material aspect
 - Describe clearly the true nature of business transactions
 - If PA knows or has reason to believe that the information is misleading, the PA must take appropriate actions to seek to resolve the matter
 - If the misleading information involve non-compliance with laws and regulation, the Code's NOCLAR provisions will apply
- Prohibition on **allowing pressure from others** to result in a breach of FPs; Placing pressure on others that would lead them to breach FPs is also prohibited

Using Discretion in Making Professional Judgments

Section
220

- Lack of standards to prepare and present ESG information might require PAs to use discretion regarding several matters, e.g., materiality and classification of ESG factors
- Prohibition on exercising discretion in preparing and presenting information with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately
- When performing professional activities, especially those that do not require compliance with a relevant reporting framework, PAs must exercise professional judgment to identify and consider:
 - The purpose for which the information is to be used;
 - The context within which it is given; and
 - The audience to whom it is addressed

Relying on the Work of Others, including Experts

Sections
220 and
320

- Concerns about over reliance on ESG data/experts or technology products
 - Questions about whether existing guidance on “use of experts” is sufficient
 - IESBA’s Technology Exposure Draft provides technology-specific guidance
- Before relying on the work of other individuals in preparing and presenting information, PAs must consider specific factors to determine what steps to take to fulfill such responsibilities
- When a PA intends to use the work of an expert, the PA shall determine whether the use is warranted
- IESBA’s Technology ED is proposing enhancements to the examples of factors that a PA needs to consider in **determining whether reliance on work of others or technology is reasonable**

Having Sufficient ESG Skills and Expertise

Sections
110 and
230

- Concerns about whether PA possesses the relevant skills and expertise to report, or provide assurance on ESG information (e.g., measuring carbon footprints)
 - Especially when there is connectivity between ESG information and the financial statements
- **Compliance with the Code's FP of professional competence and due** requires PAs to:
 - Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation
 - Stay up to date on relevant technical, professional, business and [technology-related](#) developments
 - Act with sufficient expertise when performing professional activities
- Inform clients or other users of PA's services or activities of the limitations inherent in the services or activities
- PAs **shall not intentionally mislead** employing organization as to the level of expertise or experience possessed

Objectivity and Conflicts of Interest

Sections
110, 210,
310

- No generally accepted and applicable framework for preparing and reporting on ESG information
 - Concerns about undue reliance on ESG experts or technology, and potential conflicts of interest
- **Compliance with the Code's FP of objectivity** require PAs to exercise professional or business judgment without being compromised by:
 - Bias; Conflict of interest; or Undue influence of, or undue reliance on, individuals, organizations, [technology](#) or other factors
- Conscious and unconscious bias affect the exercise of professional judgement when applying the conceptual framework; Code provides examples of such bias
- Code prohibit PAs from:
 1. Undertaking a professional activity if a circumstance or relationship unduly influences the PA's professional judgment
 2. Allowing a conflict of interest to compromise professional or business judgment
- RITP test is available to PAs in evaluating and addressing conflicts of interest

Independence Considerations

Parts 4A
and 4B

- Questions about whether and which independence provisions apply
 - No explicit mention of ESG in extant Code; but relevant independence provisions apply
 - Revised NAS provisions will become effective in December 2022
 - Part 4A apply when a firm provides an ESG-related service to their audit client
 - Before accepting a NAS engagement (including ESG-related services), firm must identify, evaluate and address the threats to independence
 - In the case of PIE audit clients, TCWG must pre-approve NAS engagement
 - Prohibition on assuming management responsibility for audit client and on providing NAS that might create a self-review threat to PIE audit clients
 - No fee cap; but firms must evaluate and address threats created when large proportion of fees to an audit client generated from provision of non-audit services
 - Revised Part 4B and IAASB's ISAE 3000 apply to ESG assurance engagements

ESG Assurance Engagements and Audit Clients

Sections
600 and
410

- Can a firm also provide an ESG assurance engagement for its audit client?
- No specific provisions on this topic in the Code
- Separate independence standards apply for the **audit engagement** and for the **ESG-related assurance engagement** (i.e., Parts 4A and 4B)
 - Firm must comply with applicable independence standards
- Important that firm consider and apply the Code's NAS & Fee-related provisions
 - Must continue to maintain independence of the audit client
 - Must not assume a management responsibility
 - Watch out for self-review and self-interest threats
- Effective Dec 2022, the following will also apply:
 - Prohibition on providing NAS that might create a self-review threat (for PIEs)
 - Requirement to evaluate and address the threats created by large proportion of fees received for services other than audit (including assurance services) from an audit client (for all)
 - Specific fee disclosures, including to the public (for PIEs)

Providing NAS to an Assurance Client

Sections
900 and
950

- Can a firm provide other types of services (e.g., IT-related services) to its ESG assurance client?
- Expectations about a firm's independence is heightened when the results of an assurance engagement will be made public; or provided to an oversight authority/ regulator
- No explicit mention of ESG in extant Code; however, provisions in Sections 900 and 950 apply
 - NAS-related amendments to Part 4B will become effective in December 2022
- No fee-related requirements; no requirements to communicate with TCWG
- IESBA's Technology ED:
 - Provides an explicit ESG mention in the Code; and
 - Highlights examples of IT systems services that might create a self-review threat in relation to the subject matter information (i.e., *Designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls*)