

# Agenda Item 5-A (Updated-Approved)

## Approved Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards)

– Mark-Up from 2024 Version of International Code of Ethics for Professional Accountants (including International Independence Standards) –

### PART ~~51~~ –

## INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

### SECTION ~~5100~~

## COMPLYING WITH PART 5THE CODE

### Introduction

#### General

5100.1 It is of public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. High-quality ethics and independence standards alongside other reporting and assurance standards will help investors, customers, employees and other users of sustainability information to confidently rely on such information in their decision-making. A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

5100.1a Sustainability assurance practitioners are expected to have relevant knowledge, skills and experience to perform sustainability assurance engagements and have appropriate training to ensure their assurance skills are continually up to date with relevant developments.

5100.2 This Part sets out ethics (including independence) standards for sustainability assurance practitioners and comprises Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

- (a) Sections 5100 to 5390 which set out ethics standards for sustainability assurance engagements and other professional services performed for

~~sustainability assurance clients~~Adherence to ethical principles and professional standards; and

- (b) Sections 5400 to 5700 which set out independence standards for sustainability assurance engagements that are within the scope of the *International Independence Standards* in this Part as set out in paragraphs 5400.3a and 5400.3b. ~~Use of business acumen;~~

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

~~(d) Exercise of professional judgment.~~

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

5100.2a When a sustainability assurance practitioner performs a sustainability assurance engagement that is not within the scope of the *International Independence Standards* in this Part, Part 4B of the Code sets out the applicable independence standards.

5100.2b Sustainability assurance practitioners might perform professional activities and have professional and business relationships that are not covered by this Part, in which case:

(a) Parts 1 to 4B of the Code apply to a practitioner who is a professional accountant.

(b) A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance. This includes circumstances where the practitioner:

(i) Prepares or presents financial or non-financial, including sustainability, information for a client, the firm or others.

(ii) Faces conflicts of interest when providing professional services to entities that are not sustainability assurance clients.

(iii) Is offered an inducement by a supplier of the firm or by entities that are not sustainability assurance clients.

(iv) Encounters suspected fraud or other non-compliance with laws and regulations by management, those charged with governance or other individuals at the firm.

(v) Is asked by an entity that is not an existing sustainability assurance client to provide a second opinion on the preparation of sustainability information or the application of other standards or principles to specific circumstances.

(vi) Provides tax planning services to entities that are not sustainability assurance clients.

5100.3 ~~This PartThe Code~~ sets out high quality standards of ethical behavior expected of sustainability assurance practitioners ~~professional accountants~~ for:

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

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

5100.4 ~~This PartThe Code~~ establishes five fundamental principles to be complied with by all sustainability assurance practitioners~~professional accountants~~. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, ~~for audits and other assurance engagements,~~ threats to independence. ~~This PartCode~~ also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that sustainability assurance practitioners ~~accountants~~ might encounter, ~~whether in business or in public practice.~~

### **Sustainability Information Subject to Assurance**

5100.4a 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 an 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.

5100.4b 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 both. Framework criteria might be embodied in law or regulation or issued by authorized or recognized bodies that follow a transparent due process.

5100.4c Depending on the criteria used, the sustainability information might be prepared on a single entity or group basis, and might include information from other entities in the reporting entity's value chain.

5100.4d 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.

## Requirements and Application Material

- 5100.5 A1** The requirements in this Part~~the Code~~, designated with the letter “R,” impose obligations.
- 5100.5 A2** Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of this Part~~the Code~~. In particular, the application material is intended to help a sustainability assurance practitioner~~professional accountant~~ to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of this Part~~the Code~~, including application of the conceptual framework.
- R5100.6** A sustainability assurance practitioner~~professional accountant~~ shall comply with this Part~~the Code~~.
- 5100.6 A1** Upholding the fundamental principles and compliance with the specific requirements of this Part~~the Code~~ enable sustainability assurance practitioners~~professional accountants~~ to ~~meet their responsibility to~~ act in the public interest when providing sustainability assurance.
- 5100.6 A2** Complying with this Part~~the Code~~ includes giving appropriate regard to the aim and intent of the specific requirements.
- 5100.6 A3** ~~Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest.~~ There might be unusual or exceptional circumstances in which a sustainability assurance practitioner~~accountant~~ believes that complying with a requirement or requirements in this Part~~of the Code~~ might not be in the public interest when providing sustainability assurance or would lead to a disproportionate outcome. In those circumstances, the practitioner~~accountant~~ is encouraged to consult with an appropriate body such as a professional or regulatory body.
- 5100.6 A4** In acting in the public interest, a sustainability assurance practitioner~~professional accountant~~ considers not only the preferences or requirements of an individual sustainability assurance ~~client or employing organization~~, but also the interests of other stakeholders when performing professional activities for sustainability assurance clients.
- R5100.7** If there are circumstances where laws or regulations preclude a sustainability assurance practitioner~~professional accountant~~ from complying with certain provisions~~parts in this~~ of Part~~the Code~~, those laws and regulations prevail, and the practitioner~~accountant~~ shall comply with all other provisions~~parts in this~~ of Part~~the Code~~.
- 5100.7 A1** The principle of professional behavior requires a sustainability assurance practitioner~~professional accountant~~ to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set

out in ~~this Part~~~~the Code~~. ~~Practitioners~~~~Accountants~~ in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

#### Breaches of ~~Part 5~~~~the Code~~

**R~~5~~100.8** Paragraphs R~~5~~400.80 to R~~5~~400.89 and ~~5405.22 A1 to R5405.29~~ ~~R900.50 to R900.55~~—address a breach of independence requirements in this Part~~International—Independence—Standards~~. A sustainability assurance practitioner~~professional accountant~~ who identifies a breach of any other provision in this Part~~of the Code~~ shall evaluate the significance of the breach and its impact on the practitioner's~~accountant's~~ ability to comply with the fundamental principles. The practitioner~~accountant~~ shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

**5100.8 A1** Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

## SECTION 5110 THE FUNDAMENTAL PRINCIPLES

### General

5110.1 A1 There are five fundamental principles of ethics for sustainability assurance practitioners~~professional accountants~~:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to exercise professional or business judgment without being compromised by:
  - (i) Bias;
  - (ii) Conflict of interest; or
  - (iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.
- (c) Professional Competence and Due Care – to:
  - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a sustainability assurance client ~~or employing organization~~ receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to:
  - (i) Comply with relevant laws and regulations;
  - (ii) Behave in a manner consistent with ~~the profession's responsibility to~~ acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
  - (iii) Avoid any conduct that the sustainability assurance practitioner~~professional accountant~~ knows or should know might affect public trust in sustainability information that is subject to assurance~~discredit the profession~~.

R5110.2 A sustainability assurance practitioner~~professional accountant~~ shall comply with each of the fundamental principles.

5110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a sustainability assurance practitioner~~professional accountant~~. The conceptual

framework establishes the approach which a ~~practitioner~~ accountant is required to apply in complying with those fundamental principles. Subsections ~~5111~~ to ~~5115~~ set out requirements and application material in this Part related to each of the fundamental principles.

~~5110.2 A2~~ A sustainability assurance practitioner ~~professional accountant~~ might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the ~~practitioner~~ accountant might consider consulting, on an anonymous basis if necessary, with:

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

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

~~5110.2 A3~~ The sustainability assurance practitioner ~~professional accountant~~ is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

## SUBSECTION ~~5111~~ – INTEGRITY

~~R5111.1~~ A sustainability assurance practitioner ~~professional accountant~~ shall comply with the principle of integrity, which requires a ~~practitioner~~ accountant to be straightforward and honest in all professional and business relationships.

~~5111.1 A1~~ Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

~~5111.1 A2~~ Acting appropriately involves:

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

~~R5111.2~~ A sustainability assurance practitioner ~~professional accountant~~ shall not knowingly be associated with reports, returns, communications or other information where the ~~practitioner~~ accountant believes that the information:

- (a) Contains a materially false or misleading statement;

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

**5111.2 A1** If a sustainability assurance practitioner~~professional accountant~~ provides a modified report in respect of such a report, return, communication or other information, the practitioner~~accountant~~ is not in breach of paragraph **R5111.2**.

**R5111.3** When a sustainability assurance practitioner~~professional accountant~~ becomes aware of having been associated with information described in **paragraph R5111.2**, the practitioner~~accountant~~ shall take steps to be disassociated from that information.

## **SUBSECTION 5112 – OBJECTIVITY**

**R5112.1** A sustainability assurance practitioner~~professional accountant~~ shall comply with the principle of objectivity, which requires an practitioner~~accountant~~ to exercise professional or business judgment without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

**R5112.2** A sustainability assurance practitioner~~professional accountant~~ shall not undertake a professional activity for a sustainability assurance client if a circumstance or relationship unduly influences the practitioner's~~accountant's~~ professional judgment regarding that activity.

## **SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE**

**R5113.1** A sustainability assurance practitioner~~professional accountant~~ shall comply with the principle of professional competence and due care, which requires an practitioner~~accountant~~ to:

- (a) Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client ~~or employing organization~~ receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

**5113.1 A1** Serving sustainability assurance clients ~~and employing organizations~~ with professional competence involves the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

**5113.1 A2** The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity,



interpersonal, communication and organizational skills facilitate the ~~practitioner's professional accountant's~~ interaction with entities and individuals with whom the ~~practitioner accountant~~ interacts.

**5113.1 A3** Maintaining professional competence requires a sustainability assurance practitioner ~~professional accountant~~ to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the ~~practitioner accountant~~. Continuing professional development enables an ~~practitioner accountant~~ to develop and maintain the capabilities to perform competently within the professional environment.

**5113.1 A4** Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

**R5113.2** In complying with the principle of professional competence and due care, a sustainability assurance practitioner ~~professional accountant~~ shall take reasonable steps to ensure that those working in a professional capacity under the ~~practitioner's accountant's~~ authority have appropriate training and supervision.

**R5113.3** Where appropriate, a sustainability assurance practitioner ~~professional accountant~~ shall make sustainability assurance clients, ~~the employing organization,~~ or other users of the ~~practitioner's accountant's~~ professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

## SUBSECTION **5114 – CONFIDENTIALITY**

**R5114.1** A sustainability assurance practitioner ~~professional accountant~~ shall comply with the principle of confidentiality, which requires an ~~practitioner accountant~~ to respect the confidentiality of information acquired in the course of professional and business relationships. An ~~practitioner accountant~~ shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm ~~or employing organization~~;
- (c) Maintain confidentiality of information disclosed by a prospective sustainability assurance client ~~or employing organization~~; and
- (d) Take reasonable steps to ensure that personnel under the ~~practitioner's accountant's~~ control, and individuals from whom advice and assistance are obtained, comply with the ~~practitioner's accountant's~~ duty of confidentiality.

**5114.1 A1** Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the sustainability assurance

~~practitioner professional accountant~~ taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

**R5114.2** Subject to paragraph R5114.3, a sustainability assurance practitioner ~~professional accountant~~ shall not:

- (a) Disclose confidential information acquired in the course of professional and business relationships;
- (b) Use confidential information acquired in the course of professional and business relationships for the advantage of the ~~accountant~~practitioner, the firm, ~~the employing organization~~ or a third party;
- (c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and
- (d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

**R5114.3** As an exception to paragraph R5114.2, a sustainability assurance practitioner ~~professional accountant~~ may disclose or use confidential information where:

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

**5114.3 A1** Confidentiality serves the public interest because it facilitates the free flow of information from the ~~sustainability assurance professional accountant's client or employing organization~~ to the sustainability assurance practitioner~~accountant~~ in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where sustainability assurance practitioners ~~professional accountants~~ might be required or have the duty or right to disclose confidential information:

- (a) Disclosure is required by law or regulation, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:
  - (i) To comply with the quality review, practice assessment or equivalent monitoring activity of a professional body;

- (ii) To respond to an inquiry or investigation by a professional or regulatory body;
- (iii) To protect the professional interests of a practitioner ~~professional accountant~~ in legal proceedings; or
- (iv) To comply with technical and professional standards, including ethics requirements.

5114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the sustainability assurance client ~~or employing organization~~ authorizes the disclosure or use of information by the sustainability assurance practitioner ~~professional accountant~~.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

5114.3 A3 The circumstances in which a firm ~~or employing organization~~ seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorization of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.

- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

**R5114.4** A ~~sustainability assurance practitioner professional accountant~~ shall continue to comply with the principle of confidentiality even after the end of the relationship between the ~~practitioner accountant~~ and a sustainability assurance client ~~or employing organization~~. When ~~changing employment or~~ acquiring a new sustainability assurance client, the ~~practitioner accountant~~ is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

## SUBSECTION **5115** – PROFESSIONAL BEHAVIOR

**R5115.1** A ~~sustainability assurance practitioner professional accountant~~ shall comply with the principle of professional behavior, which requires a ~~practitioner accountant~~ to:

- (a) Comply with relevant laws and regulations;
- (b) Behave in a manner consistent with ~~the profession's responsibility to acting~~ in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
- (c) Avoid any conduct that the ~~practitioner accountant~~ knows or should know might affect public trust in sustainability information that is subject to assurance ~~discredit the profession~~.

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

**5115.1 A1** Conduct that might affect public trust in sustainability information that is subject to assurance ~~discredit the profession~~ includes conduct that a reasonable and informed third party would be likely to conclude to have such effect ~~adversely affects the good reputation of the profession~~.

**R5115.2** When undertaking marketing or promotional activities, a sustainability assurance practitioner professional accountant shall not bring the profession into disrepute. A ~~professional accountant~~ shall be honest and truthful and shall not make:

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the ~~practitioner accountant~~; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

**5115.2 A1** If a sustainability assurance practitioner professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the

practitioner~~accountant~~ is encouraged to consult with an appropriate body, for example the relevant professional body.

## SECTION 5120 THE CONCEPTUAL FRAMEWORK

### Introduction

- 5120.1 The circumstances in which sustainability assurance practitioners ~~professional accountants~~ operate might create threats to compliance with the fundamental principles. Section 5120 sets out requirements and application material, including a conceptual framework, to assist practitioners~~accountants~~ in complying with the fundamental principles and meeting their responsibility to acting in the public interest when performing sustainability assurance engagements. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter practitioners~~accountants~~ from concluding that a situation is permitted solely because that situation is not specifically prohibited by this Part~~the Code~~.
- 5120.2 The conceptual framework specifies an approach for a sustainability assurance practitioner ~~professional accountant~~ to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

### Requirements and Application Material

#### General

- R5120.3 The sustainability assurance practitioner ~~professional accountant~~ shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 5110.
- 120.3 A1 ~~[Paragraph 5120.3 A1 is intentionally left blank]~~ ~~Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:~~
- ~~(a) Part 2 – Professional Accountants in Business; and~~
  - ~~(b) Part 3 – Professional Accountants in Public Practice; and~~
  - ~~(c) International Independence Standards, as follows:~~
    - ~~(i) Part 4A – Independence for Audit and Review Engagements; and~~
    - ~~(ii) Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.~~
- R120.4 ~~[Paragraph R5120.4 is intentionally left blank]~~ ~~When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant~~

~~in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.~~

**R5120.5** When applying the conceptual framework, the sustainability assurance practitioner ~~professional accountant~~ shall:

- (a) Have an inquiring mind;
- (b) Exercise professional judgment; and
- (c) Use the reasonable and informed third party test described in **paragraph 5120.5 A9**.

#### *Having an Inquiring Mind*

**5120.5 A1** An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

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

**5120.5 A2** When considering the source, relevance and sufficiency of information obtained, the sustainability assurance practitioner ~~professional accountant~~ might consider, among other matters, whether:

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

**5120.5 A3** Paragraph **R5120.5** requires all sustainability assurance practitioners ~~professional accountants~~ to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all practitioners ~~accountants~~ regardless of the professional activity undertaken. Under ~~auditing, review and~~

~~othersustainability~~ assurance standards, including those issued by the IAASB, ~~practitionersaccountants~~ are also required to exercise professional skepticism, which includes a critical assessment of evidence.

### *Exercising Professional Judgment*

5120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

5120.5 A5 Professional judgment is required when the ~~sustainability assurance practitioner professional-accountant~~ applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the ~~practitioneraccountant~~ might consider matters such as whether:

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

5120.5 A6 The circumstances in which ~~sustainability assurance practitioners professional accountants~~ carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgment exercised by ~~practitioners accountants~~ might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

5120.5 A7 Managing complexity involves:

- Making the firm ~~or employing organization~~ and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R5113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the ~~sustainability assurance practitioneraccountant~~ has made. (Ref: Para. R5120.5 to 5120.5 A3, and R5120.9 to 5120.9 A2)

5120.5 A8 Managing complexity might also involve:

- Analyzing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyze relevant data to inform the ~~sustainability assurance practitioner's professional-accountant's~~ judgment.



- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

#### *Reasonable and Informed Third Party*

**5120.5 A9** The reasonable and informed third party test is a consideration by the sustainability assurance practitioner ~~professional accountant~~ about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the practitioner ~~accountant~~ knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an sustainability assurance practitioner ~~accountant~~, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the practitioner's ~~accountant's~~ conclusions in an impartial manner.

#### **Identifying Threats**

**R5120.6** The sustainability assurance practitioner ~~professional accountant~~ shall identify threats to compliance with the fundamental principles.

**5120.6 A1** An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the sustainability assurance practitioner's ~~professional accountant's~~ identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the practitioner's profession, legislation, regulation, or the firm, ~~or the employing organization~~ that can enhance the practitioner ~~accountant~~ acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph **5120.8 A2** includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

**5120.6 A2** Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

**5120.6 A3** Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner's ~~professional accountant's~~ judgment or behavior;
- (b) Self-review threat – the threat that a sustainability assurance practitioner ~~professional accountant~~ will not appropriately evaluate the results of a previous judgment made, or an activity performed by the practitioner ~~accountant~~ or by another individual within the practitioner's

~~accountant's firm or employing organization~~, on which the ~~practitioner accountant~~ will rely when forming a judgment as part of performing a current activity;

- (c) Advocacy threat – the threat that a sustainability assurance practitioner ~~professional accountant~~ will promote a sustainability assurance client's ~~or employing organization's~~ position to the point that the practitioner's ~~accountant's~~ objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a sustainability assurance client, ~~or employing organization~~, a sustainability assurance practitioner ~~professional accountant~~ will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a sustainability assurance practitioner ~~professional accountant~~ will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the practitioner accountant.

**5120.6 A4** A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

### Evaluating Threats

**R5120.7** When the sustainability assurance practitioner ~~professional accountant~~ identifies a threat to compliance with the fundamental principles, the practitioner accountant shall evaluate whether such a threat is at an acceptable level.

#### *Acceptable Level*

**5120.7 A1** An acceptable level is a level at which a sustainability assurance practitioner ~~professional accountant~~ using the reasonable and informed third party test would likely conclude that the practitioner accountant complies with the fundamental principles.

#### *Factors Relevant in Evaluating the Level of Threats*

**5120.8 A1** The consideration of qualitative as well as quantitative factors is relevant in the sustainability assurance practitioner's ~~professional accountant's~~ evaluation of threats, as is the combined effect of multiple threats, if applicable.

**5120.8 A2** The existence of conditions, policies and procedures described in **paragraph 5120.6 A1** might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements ~~for the profession~~.

- Effective complaint systems which enable the sustainability assurance practitioner ~~professional accountant~~ and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

#### *Consideration of New Information or Changes in Facts and Circumstances*

**R5120.9** If the sustainability assurance practitioner ~~professional accountant~~ becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the ~~practitioner~~ accountant shall re-evaluate and address that threat accordingly.

**5120.9 A1** Remaining alert throughout the professional activity assists the sustainability assurance practitioner ~~professional accountant~~ in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the practitioner's ~~accountant's~~ conclusions about whether safeguards applied continue to be appropriate to address identified threats.

**5120.9 A2** If new information results in the identification of a new threat, the sustainability assurance practitioner ~~professional accountant~~ is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R5120.7 and R5120.10).

#### **Addressing Threats**

**R5120.10** If the sustainability assurance practitioner ~~professional accountant~~ determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the ~~practitioner~~ accountant shall address the threats by eliminating them or reducing them to an acceptable level. The ~~practitioner~~ accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

#### *Actions to Eliminate Threats*

**5120.10 A1** Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

## Safeguards

**5120.10 A2** Safeguards are actions, individually or in combination, that the sustainability assurance practitioner ~~professional accountant~~ takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

## Consideration of Significant Judgments Made and Overall Conclusions Reached

**R5120.11** The sustainability assurance practitioner ~~professional accountant~~ shall form an overall conclusion about whether the actions that the ~~practitioner~~ accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the ~~practitioner~~ accountant shall:

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

## Other Considerations when Applying the Conceptual Framework

### Bias

**5120.12 A1** Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

**5120.12 A2** Examples of potential bias to be aware of when exercising professional judgment include:

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

- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

5120.12 A3 Actions that might mitigate the effect of bias include:

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

#### Firm Organizational Culture

5120.13 A1 The effective application of the conceptual framework by a sustainability assurance practitioner ~~professional accountant~~ is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in this Part ~~the Code~~ is promoted through the internal culture of the firm ~~accountant's organization~~.

5120.13 A2 The promotion of an ethical culture within a firm ~~organization~~ is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the firm ~~organization~~;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The firm ~~organization~~ adheres to ethical values in its dealings with third parties.

5120.13 A3 Sustainability assurance practitioners ~~Professional accountants~~ are expected to:

- (a) Encourage and promote an ethics-based culture in their firm ~~organization~~, taking into account their position and seniority; and
- (b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioners ~~accountants~~, or the firm ~~or the employing organization~~ has a professional or business relationship.

## Considerations for ~~Sustainability Audits, Reviews, Other Assurance and Related Services Engagements~~

### Additional Consideration for Firm Culture

5120.14 A1 ~~Quality management standards, such as ISQM 1, might address sets-out requirements and application material relating to~~ firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for ~~audits or reviews of financial statements, sustainability assurance or other assurance or related services engagements.~~

### *Independence*

5120.15 A1 ~~Sustainability assurance practitioners~~ Professional accountants in public practice are required by ~~Sections 5400 to 5700 and Part 4B, as applicable, International Independence Standards~~ to be independent when performing ~~sustainability audits, reviews, or other~~ assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or a ~~sustainability audit or~~ assurance team member's integrity, objectivity or professional skepticism has been compromised.

5120.15 A2 ~~Sections 5400 to 5700 and Part 4B International Independence Standards~~ set out requirements and application material on how to apply the conceptual framework to maintain independence when performing ~~sustainability audits, reviews or other~~ assurance engagements. ~~Sustainability assurance practitioners~~ Professional accountants and firms are required to comply with these ~~requirements and application material standards~~ in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 5120.6 A3 are also the categories of threats to compliance with independence requirements.

5120.15 A3 Conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of ~~sustainability audits, reviews and other~~ assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

### Professional Skepticism

5120.16 A1 Under ~~sustainability auditing, review and other~~ assurance standards, including those issued by the IAASB, ~~sustainability assurance practitioners professional accountants in public practice~~ are required to exercise professional skepticism when planning and performing ~~sustainability audits, reviews and other~~ assurance engagements. Professional skepticism and the fundamental principles that are described in Section 5110 are inter-related concepts.

5120.16 A2 In ~~a~~ sustainability assurance engagement that is within the scope of the International Independence Standards in this Part~~audit of financial statements~~, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the ~~sustainability assurance practitioner professional accountant~~ to be straightforward and honest. For example, the ~~practitioner accountant~~ complies with the principle of integrity by:
  - Being straightforward and honest when raising concerns about a position taken by a sustainability assurance client.
  - Pursuing inquiries about inconsistent information and seeking further ~~audit~~ evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
  - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:
    - (a) Standing one's ground when confronted by dilemmas and difficult situations; or
    - (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the ~~practitioner accountant~~ demonstrates the critical assessment of ~~audit~~ evidence that contributes to the exercise of professional skepticism.
- *Objectivity* requires the ~~sustainability assurance practitioner professional accountant~~ to exercise professional or business judgment without being compromised by:
  - (a) Bias;
  - (b) Conflict of interest; or

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

For example, the ~~practitioner~~ ~~accountant~~ complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the sustainability assurance client, that might compromise the ~~practitioner's~~ ~~accountant's~~ professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the ~~practitioner's~~ ~~accountant's~~ judgment when evaluating the sufficiency and appropriateness of ~~audit~~ evidence related to a matter material to the client's sustainability information ~~financial statements~~.

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

- *Professional competence and due care* requires the sustainability assurance ~~practitioner~~ ~~professional~~ ~~accountant~~ to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the ~~practitioner~~ ~~accountant~~ complies with the principle of professional competence and due care by:

- (a) Applying knowledge that is relevant to a particular sustainability assurance client's industry and business activities in order to properly identify risks of material misstatement;
- (b) Designing and performing appropriate assurance ~~audit~~ procedures; and
- (c) Applying relevant knowledge when critically assessing whether ~~audit~~ evidence is sufficient and appropriate in the circumstances.

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



## SECTION 5270

### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

#### Introduction

5270.1 ~~Sustainability assurance practitioners~~ ~~Professional accountants~~ are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5270.2 Pressure exerted on, or by, a ~~sustainability assurance practitioner~~ ~~professional accountant~~ might create an intimidation or other 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 in such circumstances.

#### Requirements and Application Material

##### General

R5270.3 A ~~sustainability assurance practitioner~~ ~~professional accountant~~ shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- (b) Place pressure on others that the ~~practitioner~~ ~~accountant~~ knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

5270.3 A1 A ~~sustainability assurance practitioner~~ ~~professional accountant~~ might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity for a sustainability assurance client. Pressure might be explicit or implicit and might come from:

- Within the ~~firm~~ ~~employing organization~~, for example, from a colleague or superior.
- An external individual or organization such as the sustainability assurance client or a vendor, customer or lender of the firm.
- Internal or external targets and expectations.

5270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a ~~counterparty~~ ~~vendor~~ to a transaction involving a sustainability assurance client ~~the professional accountant's employing organization~~ to select the family member over ~~another counterparties~~ ~~prospective vendor~~.

See also [Section 25310](#), *Conflicts of Interest*.

• ~~Pressure to influence preparation or presentation of information:~~

- ~~○ Pressure to report misleading financial results to meet investor, analyst or lender expectations.~~
- ~~○ Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.~~
- ~~○ Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.~~
- ~~○ Pressure from superiors to approve or process expenditures that are not legitimate business expenses.~~
- ~~○ Pressure to suppress internal audit reports containing adverse findings.~~

~~See also Section 220, *Preparation and Presentation of Information*.~~

• Pressure to act without sufficient expertise or due care:

- Pressure from superiors to inappropriately reduce the extent of work performed.
- Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
- Pressure from a sustainability assurance client not to enquire about strategy-related assumptions used in the forward-looking information prepared by the client and subject to assurance procedures.

~~See also Section 230, *Acting with Sufficient Expertise*.~~

• ~~Pressure related to financial interests:~~

- ~~○ Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.~~

~~See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.~~

• Pressure related to inducements:

- ~~○ Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.~~
- Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from

potential or existing sustainability assurance clients~~vendors in a bidding process.~~

See also Section 250 5340, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - Pressure to overlook potential breaches of environmental or safety regulations applicable to a sustainability assurance client~~structure a transaction to evade tax.~~

See also Section 5360260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees
  - Pressure exerted by a superior or a colleague of a sustainability assurance practitioner ~~professional accountant on another professional accountant~~ to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 5330, *Fees and Other Types of Remuneration*

5270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organization~~firm~~ including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that personnel~~employees~~ will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization~~firm~~ has established, such as ethics or human resources policies that address pressure.

5270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the sustainability assurance practitioner~~professional accountant~~ to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the practitioner~~accountant~~'s superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the ~~firm~~employing organization, including when appropriate, explaining any consequential risks to the firm~~organization~~, for example with:
  - Higher levels of management.
  - Internal or external auditors.
  - Those charged with governance.
- Disclosing the matter in line with the ~~firm~~employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
  - A colleague, superior, human resources personnel, or another sustainability assurance practitioner~~professional accountant~~;
  - Relevant professional or regulatory bodies or industry associations; or
  - Legal counsel.

5270.3 A5 An example of an action that might eliminate threats created by pressure is the sustainability assurance practitioner~~professional accountant~~'s request for a restructure of, or segregation of, certain responsibilities and duties relating to the professional services performed for a sustainability assurance client so that the practitioner~~accountant~~ is no longer involved with the individual or entity exerting the pressure.

## Documentation

5270.4 A1 The sustainability assurance practitioner~~professional accountant~~ is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

## **PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 5300**

### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

#### **Introduction**

5300.1 This Part of the Code Sections 5300 to 5390 sets out requirements and application material for sustainability assurance practitioners professional accountants in public practice when applying the conceptual framework set out in Section 5120. They do it does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by practitioners professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires sustainability assurance practitioners professional accountants in public practice to be alert for such facts and circumstances.

300.2 [Paragraph 5300.2 is intentionally left blank] The requirements and application material that apply to professional accountants in public practice are set out in:

- Part 3 – Professional Accountants in Public Practice, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
- International Independence Standards as follows:
  - Part 4A – Independence for Audit and Review Engagements, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
  - Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit or review engagements.

300.3 [Paragraph 5300.3 is intentionally left blank] In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

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

##### **General**

R5300.4 A sustainability assurance practitioner professional accountant shall comply with the fundamental principles set out in Section 5110 and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to compliance with the fundamental principles.

~~R300.5 — [Paragraph R5300.5 is intentionally left blank] When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.~~

~~300.5 A1 — [Paragraph 5300.5 A1 is intentionally left blank] Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:~~

- ~~• Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.~~
- ~~• Preparing or presenting financial information for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.~~
- ~~• Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.~~
- ~~• Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.~~

5300.5 A2 The more senior the position of a sustainability assurance practitioner~~professional accountant~~, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, ~~practitioners~~accountants are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the ~~practitioner~~accountant or the firm has a professional or business relationship in accordance with paragraph 5120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

(Ref: Paras. 5120.13 A1 to 5120.13 A3).

## Identifying Threats

5300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 5120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a sustainability assurance practitioner professional accountant when undertaking a professional service for a sustainability assurance client:

### (a) Self-interest Threats

- A sustainability assurance practitioner professional accountant having a direct financial interest in a sustainability assurance client.
- A sustainability assurance practitioner professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A sustainability assurance practitioner professional accountant having a close business relationship with a sustainability assurance client.
- A professional accountant having access to confidential information that might be used for personal gain. A sustainability assurance practitioner having incentives linked to the outcome of a sustainability assurance engagement.
- A sustainability assurance practitioner professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's-practitioner's firm.

### (b) Self-review Threats

- A sustainability assurance practitioner professional accountant issuing an assurance report on the effectiveness of the operation of financial systems that generate sustainability information after designing or implementing the systems.
- A sustainability assurance practitioner professional accountant having prepared contributed to the preparation of the original data used to generate records information that is are the subject to procedures in matter of the sustainability assurance engagement.
- A sustainability assurance practitioner having provided sustainability-related services other than sustainability assurance engagements for an entity in a sustainability assurance client's value chain, the outcome of which is subject to procedures in the sustainability assurance engagement for the client.

- A sustainability assurance practitioner having provided a valuation or forecasting service the outcome of which is subject to procedures in the sustainability assurance engagement for the sustainability assurance client.

(c) Advocacy Threats

- A sustainability assurance practitioner ~~professional accountant~~ promoting the interests of ~~or shares in~~, a sustainability assurance client.
- A sustainability assurance practitioner ~~professional accountant~~ acting as an advocate on behalf of a sustainability assurance client in litigation or disputes with third parties.
- A sustainability assurance practitioner ~~professional accountant~~ lobbying in favor of legislation on behalf of a sustainability assurance client.
- A sustainability assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a sustainability assurance client.

(d) Familiarity Threats

- A sustainability assurance practitioner ~~professional accountant~~ having a close or immediate family member who is a director or officer of the sustainability assurance client.
- A director or officer of the sustainability assurance client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement ~~leader~~partner.
- An sustainability assurance ~~audit~~ team member having a long association with the ~~audit~~ sustainability assurance client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A sustainability assurance practitioner ~~professional accountant~~ being threatened with dismissal from a professional service performed for a sustainability assurance client engagement or the firm because of a disagreement about a professional matter.
- A sustainability assurance practitioner ~~professional accountant~~ feeling pressured to agree with the judgment of a sustainability assurance client because the client has more expertise on the matter in question.



- A sustainability assurance practitioner ~~professional accountant~~ being informed that a planned promotion will not occur unless the ~~practitioner~~accountant agrees with an inappropriate sustainability-related analysis or conclusion~~accounting treatment~~.
- A sustainability assurance practitioner ~~professional accountant~~ having accepted a significant gift from a sustainability assurance client and being threatened that acceptance of this gift will be made public.

### Identifying Threats Associated with the Use of Technology

**5300.6 A2** The following are examples of facts and circumstances relating to the use of technology that might create threats for a sustainability assurance practitioner ~~professional accountant~~ when undertaking a professional activity for a sustainability assurance client:

- Self-interest Threats
    - The data available might not be sufficient for the effective use of the technology.
    - The technology might not be appropriate for the purpose for which it is to be used.
    - The ~~practitioner~~accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- (Ref: ~~Para. 230.2~~)-
- Self-review Threats
    - The technology was designed or developed using the knowledge, expertise or judgment of the ~~practitioner~~accountant or firm.

### Evaluating Threats

**5300.7 A1** The conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- (a) The sustainability assurance client and its operating environment; and
- (b) The firm and its operating environment.

**5300.7 A2** The sustainability assurance practitioner's ~~professional accountant's~~ evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

*The Sustainability Assurance Client and its Operating Environment*

5300.7 A3 The sustainability assurance practitioner's professional accountant's evaluation of the level of a threat might be impacted by whether the sustainability assurance client is:

- (a) ~~An audit client and whether the audit client is a~~ public interest entity;
- (b) An ~~assurance client that is not an~~ audit client; or
- (c) A non-assurance client.

For example, providing a non-assurance service to a ~~n~~ audit-sustainability assurance client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the sustainability assurance engagement~~audit~~.

5300.7 A4 The corporate governance structure, including the leadership of a sustainability assurance client, might promote compliance with the fundamental principles. Accordingly, a sustainability assurance practitioner's professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

5300.7 A4a The sustainability assurance practitioner's evaluation of the level of a threat to compliance with the fundamental principles might be impacted by the quantitative and qualitative characteristics of a sustainability assurance client's value chain. For example, a threat to compliance with the principle of professional competence and due care might be created if the sustainability information that is subject to assurance comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

*The Firm and its Operating Environment*

5300.7 A5 A sustainability assurance practitioner's professional accountant's evaluation of the level of a threat might be impacted by the work environment within the practitioner's~~accountant's~~ firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that sustainability assurance team members will act in the public interest when providing sustainability assurance.

- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single sustainability assurance client.
- The engagement leaderpartner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a sustainability assurance client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

5300.7 A6 The sustainability assurance practitioner's ~~professional accountant's~~ evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the practitioner's~~accountant's~~ firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

#### *Consideration of New Information or Changes in Facts and Circumstances*

5300.7 A7 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the sustainability assurance practitioner's~~professional accountant's~~ conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the sustainability assurance practitioner ~~professional accountant~~ re-evaluate and address the threats accordingly. (Ref: Paras. R5120.9 and R5120.10).

5300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.

- When the sustainability assurance client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the sustainability assurance practitioner professional accountant is jointly engaged by ~~two a sustainability assurance clients~~ and another client and a dispute emerges between the two clients.
- When there is a change in the sustainability assurance practitioner's professional accountant's personal or immediate family relationships.

### Addressing Threats

5300.8 A1 Paragraphs ~~R5120.10~~ to 5120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

### Examples of Safeguards

5300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different ~~leaders~~partners and teams with separate reporting lines for the provision of non-assurance services to ~~a~~ sustainability assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

5300.8 A3 The remaining sections of this Part 3 ~~and International Independence Standards~~ describe certain threats that might arise during the course of performing professional services for sustainability assurance clients and include examples of actions that might address threats.

### Appropriate Reviewer

5300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work

performed or service provided to a sustainability assurance client. Such an individual might be a sustainability assurance practitioner~~professional accountant~~.

## Communicating with Those Charged with Governance

**R5300.9** When communicating with those charged with governance in accordance with ~~this Part~~the Code, a sustainability assurance practitioner~~professional accountant~~ shall determine the appropriate individual(s) within the sustainability assurance client's~~entity's~~ governance structure with whom to communicate. If the practitioner~~accountant~~ communicates with a subgroup of those charged with governance, the practitioner~~accountant~~ shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

**5300.9 A1** In determining with whom to communicate, a sustainability assurance practitioner~~professional accountant~~ might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

**5300.9 A2** Examples of a subgroup of those charged with governance include an audit committee or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

**R5300.10** If a sustainability assurance practitioner~~professional accountant~~ communicates with individuals who have management responsibilities as well as governance responsibilities, the practitioner~~accountant~~ shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the practitioner~~accountant~~ would otherwise communicate.

**5300.10 A1** In some circumstances, all of those charged with governance are involved in managing the sustainability assurance client~~entity~~, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the sustainability assurance practitioner~~professional accountant~~ has satisfied the requirement to communicate with those charged with governance.

## SECTION 5310 CONFLICTS OF INTEREST

### Introduction

- 5310.1 ~~Sustainability assurance practitioners~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) A ~~sustainability assurance practitioner~~ professional accountant provides a professional service related to a particular matter for ~~a two or more sustainability assurance clients and another client~~ whose interests with respect to that matter are in conflict; or
  - (b) The interests of a ~~sustainability assurance practitioner~~ professional accountant with respect to a particular matter and the interests of the ~~sustainability assurance~~ client for whom the ~~practitioner~~ accountant provides a professional service related to that matter are in conflict.
- 5310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a ~~sustainability assurance practitioner~~ professional accountant performs ~~provides an audit, review or other sustainability assurance engagement~~ service, independence is also required in accordance with this Part or Part 4B, as applicable ~~International Independence Standards~~.

### Requirements and Application Material

#### General

- R**5310.4 A ~~sustainability assurance practitioner~~ professional accountant shall not allow a conflict of interest to compromise professional or business judgment.
- 5310.4 A1 Examples of circumstances that might create a conflict of interest include:
- Providing a transaction advisory service to a client seeking to acquire an ~~an~~ sustainability assurance client, where the firm has obtained confidential information during the course of the ~~audit~~ sustainability assurance engagement that might be relevant to the transaction.
  - Providing advice to ~~at two sustainability assurance clients and another client~~ at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
  - ~~Providing services to a seller and a buyer in relation to the same transaction.~~

- ~~Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.~~
- Representing ~~two a sustainability assurance clients and another client~~ in the same matter who are in a legal dispute with each other, ~~such as during divorce proceedings, or the dissolution of a partnership.~~
- ~~In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.~~
- Advising a sustainability assurance client to invest in a business in which, for example, the spouse of the professional accountant/practitioner has a financial interest.
- Providing strategic advice to a sustainability assurance client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a sustainability assurance client on acquiring a business which the firm is also interested in acquiring.
- Advising a sustainability assurance client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

## Conflict Identification

### General

**R5310.5** Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner ~~professional accountant~~ shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The service and its implication for relevant parties.

**5310.5 A1** An effective conflict identification process assists a sustainability assurance practitioner ~~professional accountant~~ when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the practitioner ~~accountant~~ being able to address threats created by the conflict of interest.

**5310.5 A2** An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

**5310.5 A3** More information on client acceptance is set out in **Section 5320, Professional Appointments**.

#### *Changes in Circumstances*

**R5310.6** A sustainability assurance practitioner ~~professional accountant~~ shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

**5310.6 A1** The nature of services, interests and relationships might change during the engagement. This is particularly true when a sustainability assurance practitioner ~~professional accountant~~ is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the practitioner~~accountant~~ initially might not be involved in a dispute.

#### *Network Firms*

**R5310.7** If the firm is a member of a network, a sustainability assurance practitioner ~~professional accountant~~ shall consider conflicts of interest that the practitioner~~accountant~~ has reason to believe might exist or arise due to interests and relationships of a network firm.

**5310.7 A1** Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

#### **Threats Created by Conflicts of Interest**

**5310.8 A1** In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

**5310.8 A2** Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for ~~two or more a sustainability assurance~~ clients ~~and another client~~ whose



interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and leaders~~partners~~ of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

5310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

## Disclosure and Consent

### General

**R5310.9** A sustainability assurance practitioner ~~professional accountant~~ shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

5310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

5310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the sustainability assurance practitioner ~~professional accountant~~ does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, an practitioner~~accountant~~ might make general disclosure in the standard terms and conditions for the engagement.

- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the sustainability assurance practitioner ~~professional accountant~~ has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

5310.9 A3 It is generally necessary:

- (a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and
- (b) To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.

5310.9 A4 If such disclosure or consent is not in writing, the sustainability assurance practitioner ~~professional accountant~~ is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

#### *When Explicit Consent is Refused*

**R5310.10** If a sustainability assurance practitioner ~~professional accountant~~ has determined that explicit consent is necessary in accordance with paragraph R5310.9 and the sustainability assurance client has refused to provide consent, the ~~practitioner~~ ~~accountant~~ shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

## **Confidentiality**

### *General*

**R5310.11** A sustainability assurance practitioner ~~professional accountant~~ shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

5310.11 A1 Subsection 5114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

*When Disclosure to Obtain Consent would Breach Confidentiality*

**R5310.12** When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for ~~one~~ a sustainability assurance client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the teams serving the ~~two sustainability assurance client and the other~~ clients; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

**5310.12 A1** A breach of confidentiality might arise, for example, when seeking consent to perform:

- A transaction-related service for a sustainability assurance client in a hostile takeover of another client of the firm.
- A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for a sustainability assurance ~~another~~ client who might be involved in the fraud.

**Documentation**

**R5310.13** In the circumstances set out in ~~paragraph R5310.12~~, the sustainability assurance practitioner ~~professional accountant~~ shall document:

- (a) The nature of the circumstances, including the role that the ~~practitioner~~ accountant is to undertake;
- (b) The specific measures in place to prevent disclosure of information between the teams serving the ~~two sustainability assurance client and the other~~ clients; and
- (c) Why it is appropriate to accept or continue the engagement.

## SECTION 5320 PROFESSIONAL APPOINTMENTS

### Introduction

- 5320.1 Sustainability assurance practitioners ~~Professional accountants~~ are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5320.2 Acceptance of a new sustainability assurance client relationship or changes in an existing engagement might create a 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 in such circumstances.

### Requirements and Application Material

#### Client and Engagement Acceptance

##### General

- 5320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the sustainability assurance client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.
- 5320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance and business activities.
  - The sustainability assurance client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 5320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 5320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
    - The nature of the sustainability assurance client's business;
    - The complexity of its operations;
    - The quantitative and qualitative characteristics of the sustainability assurance client's value chain;

- The requirements of the engagement; and
- The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- The level of fees and the extent to which they have regard to the resources required, taking into account the sustainability assurance practitioner~~professional accountant~~'s commercial and market priorities.

**5320.3 A5** Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

## Changes in a Professional Appointment

### General

**R5320.4** A sustainability assurance practitioner~~professional accountant~~ shall determine whether there are any reasons for not accepting an engagement when the ~~practitioner~~accountant:

- (a) Is asked by a potential sustainability assurance client to replace another sustainability assurance practitioner~~accountant~~;
- (b) Considers tendering for an engagement held by ~~another~~ a different practitioner~~accountant~~ for a sustainability assurance client; or
- (c) Considers undertaking work for a sustainability assurance client that is complementary or additional to that of ~~another~~ a different practitioner~~accountant~~.

**5320.4 A1** There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a sustainability assurance practitioner~~professional accountant~~ accepts the engagement before knowing all the relevant facts.

- 5320.4 A2** If a sustainability assurance practitioner~~professional accountant~~ is asked by a sustainability assurance client to undertake work that is complementary or additional to the work of an existing or predecessor practitioner~~accountant~~, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.
- 5320.4 A3** A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor practitioner~~accountant~~ will be requested. This contact gives the proposed practitioner~~accountant~~ the opportunity to inquire whether there are any reasons why the engagement should not be accepted.
- 5320.4 A4** Examples of actions that might be safeguards to address such a self-interest threat include:
- Asking the existing or predecessor practitioner~~accountant~~ to provide any known information of which, in the existing or predecessor practitioner~~accountant~~'s opinion, the proposed practitioner~~accountant~~ needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor practitioner~~accountant~~ that might influence the decision to accept the appointment.
  - Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the sustainability assurance client.

*Communicating with the Existing or Predecessor Practitioner~~Accountant~~*

- 5320.5 A1** A proposed practitioner~~accountant~~ will usually need the sustainability assurance client's permission, preferably in writing, to initiate discussions with the existing or predecessor practitioner~~accountant~~.
- R5320.6** If unable to communicate with the existing or predecessor practitioner~~accountant~~, the proposed practitioner~~accountant~~ shall take other reasonable steps to obtain information about any possible threats.

*Communicating with the Proposed Practitioner~~Accountant~~*

- R5320.7** When an existing or predecessor practitioner~~accountant~~ is asked to respond to a communication from a proposed practitioner~~accountant~~, the existing or predecessor practitioner~~accountant~~ shall:
- (a) Comply with relevant laws and regulations governing the request; and
  - (b) Provide any information honestly and unambiguously.
- 5320.7 A1** An existing or predecessor practitioner~~accountant~~ is bound by confidentiality. Whether the existing or predecessor practitioner~~accountant~~ is permitted or required to discuss the affairs of a sustainability assurance client with a proposed

~~practitioner~~ ~~accountant~~ will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor ~~practitioner~~ ~~accountant~~ has permission from the sustainability assurance client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

5320.7 A2 Circumstances where a sustainability assurance practitioner ~~professional accountant~~ is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 5114.3 A1 ~~of the Code~~.

#### Changes in Sustainability Assurance Audit or Review Appointments

**R~~5~~320.8** In the case of a sustainability assurance engagement within the scope of the International Independence Standards in this Part ~~audit or review of financial statements~~, a sustainability assurance practitioner ~~professional accountant~~ shall request the existing or predecessor ~~practitioner~~ ~~accountant~~ to provide known information regarding any facts or other information of which, in the existing or predecessor ~~practitioner~~ ~~accountant~~'s opinion, the proposed ~~practitioner~~ ~~accountant~~ needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R~~5~~360.21 and R~~5~~360.22:

- (a) If the sustainability assurance client consents to the existing or predecessor ~~practitioner~~ ~~accountant~~ disclosing any such facts or other information, the existing or predecessor ~~practitioner~~ ~~accountant~~ shall provide the information honestly and unambiguously; and
- (b) If the sustainability assurance client fails or refuses to grant the existing or predecessor ~~practitioner~~ ~~accountant~~ permission to discuss the client's affairs with the proposed ~~practitioner~~ ~~accountant~~, the existing or predecessor ~~practitioner~~ ~~accountant~~ shall disclose this fact to the proposed ~~practitioner~~ ~~accountant~~, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

#### Client and Engagement Continuance

**R~~5~~320.9** For a recurring ~~client~~ engagement for a sustainability assurance client, a sustainability assurance practitioner ~~professional accountant~~ shall periodically review whether to continue with the engagement.

5320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the sustainability assurance practitioner ~~professional accountant~~ to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper sustainability reporting, such as changes in measurement methodology to create the appearance of a positive trend in a key performance indicator ~~earnings management or balance sheet valuations~~.

### Using the Work of an Expert

~~R320.10~~ — When a professional accountant intends to use the work of an expert in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose.

~~320.10 A1~~ — Factors to consider when a professional accountant intends to use the work of an expert include:

- ~~• The reputation and expertise of, and the resources available, to the expert.~~
- ~~• Whether the expert is subject to applicable professional and ethics standards.~~

~~Such information might be gained from prior association with, or from consulting others about, the expert.~~

### Using the Output of Technology

~~R5320.104~~ When a sustainability assurance practitioner~~professional accountant~~ intends to use the output of technology in the course of undertaking a professional activity for a sustainability assurance client, the ~~practitioner~~~~accountant~~ shall determine whether the use is appropriate for the intended purpose.

~~5320.104~~ A1 Factors to consider when a sustainability assurance practitioner~~professional accountant~~ intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the ~~practitioner~~~~accountant~~ has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

### Other Considerations



5320.11~~2~~ A1 When a sustainability assurance practitioner~~professional—accountant~~ is considering using ~~the work of experts or~~ the output of technology, a consideration is whether the ~~practitioner~~~~accountant~~ is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

5320.11 A2 When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply.

## SECTION 5325

# OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

### Introduction

- 5325.1 ~~Sustainability assurance practitioners~~Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 5325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer for a sustainability assurance client.
- 5325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 5300.8 A4. Therefore, the application material in this section might apply in circumstances where a sustainability assurance practitioner~~professional accountant~~ appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

### Application Material

#### General

- 5325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. For example, ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2.
- 5325.5 A2 An engagement quality reviewer is a leader, partner, or other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

#### Identifying Threats

- 5325.6 A1 The following are examples of circumstances where threats to the objectivity of an individual~~professional accountant~~ appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
- Two engagement leaders~~partners~~ each serving as an engagement quality reviewer for the other's engagement.

(b) Self-review threat

- An ~~individual accountant~~ serving as an engagement quality reviewer on a ~~an audit sustainability assurance~~ engagement after previously serving as the engagement ~~leaderpartner~~.

(c) Familiarity threat

- An ~~individual accountant~~ serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

(d) Intimidation threat

- An ~~individual accountant~~ serving as an engagement quality reviewer for an engagement has a direct reporting line to the ~~leaderpartner~~ responsible for the engagement.

### Evaluating Threats

**5325.7 A1** Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

### Addressing Threats

**5325.8 A1** An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

**5325.8 A2** An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

### Cooling-off Period

**5325.8 A3** Quality management standards ~~ISQM 2-might~~ requires the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period ~~of two years~~ before the engagement ~~leaderpartner~~ can assume the role of

engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements. For example, ISQM 2 requires a cooling-off period of two years.

- 5325.8 A4 The cooling-off period that might be required by quality management standards such as ISQM 2 is distinct from, and does not modify, the leader partner-rotation requirements in Section 5540, which are designed to address threats to independence created by long association with a sustainability assurance audit client.

## SECTION 5330

### FEES AND OTHER TYPES OF REMUNERATION

#### Introduction

- 5330.1 ~~Sustainability assurance practitioners~~Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5330.2 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 application material relevant to applying the conceptual framework in such circumstances.

#### Application Material

##### Level of Fees

- 5330.3 A1 The level of fees might impact a ~~sustainability assurance practitioner~~professional accountant's ability to perform professional services ~~for sustainability assurance clients~~ in accordance with technical and professional standards.
- 5330.3 A2 A ~~sustainability assurance practitioner~~professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than ~~another a different practitioner~~accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 5330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the ~~sustainability assurance~~ client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered.
  - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 5330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
  - Having an appropriate reviewer review the work performed.

##### Contingent Fees

- 5330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

5330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.
- Disclosure to intended users of the work performed by the sustainability assurance practitioner~~professional accountant~~ and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the work~~transaction~~.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

5330.4 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 by the sustainability assurance practitioner~~professional accountant~~.
- Obtaining an advance written agreement with the sustainability assurance client on the basis of remuneration.

5330.4 A4 Requirements and application material related to contingent fees for services provided to sustainability assurance audit or review clients and other assurance clients are set out in Section 5410 and Section 905~~International Independence Standards~~.

### Referral Fees or Commissions

5330.5 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a sustainability assurance practitioner~~professional accountant~~ pays or receives a referral fee or receives a commission relating to a sustainability assurance client. Such referral fees or commissions include, for example:

- A fee paid to a third party for that party referring a sustainability assurance client to the practitioner~~another professional accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant~~.
- A fee received from a third party for the practitioner referring a continuing sustainability assurance client to that party~~for referring a continuing client to another professional accountant or other expert where the existing~~

~~accountant does not provide the specific professional service required by the client.~~

- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a sustainability assurance client.

5330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining an advance agreement from the sustainability assurance client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements paid to, or received from, another sustainability assurance practitioner~~professional—accountant~~ or third party for recommending services or products might address a self-interest threat.

#### **Purchase or Sale of a Firm**

5330.6 A1 A sustainability assurance practitioner~~professional—accountant~~ may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

## SECTION 5340

### INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

#### Introduction

- 5340.1 ~~Sustainability assurance practitioners~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 5340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services for sustainability assurance clients that does not constitute non-compliance with laws and regulations. This section also requires a sustainability assurance practitioner ~~professional accountant~~ to comply with relevant laws and regulations when offering or accepting inducements.

#### Requirements and Application Material

##### General

- 5340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between sustainability assurance practitioners ~~professional accountants~~ and existing or prospective sustainability assurance clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment or other commercial opportunities.
  - Preferential treatment, rights or privileges.

##### Inducements Prohibited by Laws and Regulations

- R5340.5 In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The sustainability assurance practitioner ~~professional~~



~~accountant~~ shall obtain an understanding of relevant laws and regulations and comply with them when the ~~practitioner~~~~accountant~~ encounters such circumstances.

### Inducements Not Prohibited by Laws and Regulations

**5340.6 A1** The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

#### *Inducements with Intent to Improperly Influence Behavior*

**R5340.7** A ~~sustainability assurance practitioner~~ ~~professional accountant~~ shall not offer, or encourage others to offer, any inducement that is made, or which the ~~practitioner~~~~accountant~~ considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

**R5340.8** A ~~sustainability assurance practitioner~~ ~~professional accountant~~ shall not accept, or encourage others to accept, any inducement that the ~~practitioner~~~~accountant~~ concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.

**5340.9 A1** An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a ~~sustainability assurance practitioner~~ ~~professional accountant~~ in considering what constitutes unethical behavior on the part of the ~~practitioner~~~~accountant~~ and, if necessary by analogy, other individuals.

**5340.9 A2** A breach of the fundamental principle of integrity arises when a ~~sustainability assurance practitioner~~ ~~professional accountant~~ offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.

**5340.9 A3** The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.

- Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the sustainability assurance client.
- The roles and positions of the individuals at the firm or the sustainability assurance client offering or being offered the inducement.
- Whether the sustainability assurance practitioner professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the sustainability assurance client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behavior or reputation of the offeror.

#### Consideration of Further Actions

5340.10 A1 If the sustainability assurance practitioner professional accountant becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R5340.7 and R5340.8 are met.

5340.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the firm or those charged with governance of the sustainability assurance client regarding the offer.
- Amending or terminating the business relationship with the sustainability assurance client.

#### *Inducements with No Intent to Improperly Influence Behavior*

5340.11 A1 The requirements and application material set out in the conceptual framework apply when a sustainability assurance practitioner professional accountant has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

5340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

5340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the sustainability assurance practitioner professional accountant has concluded there is no actual or perceived intent to improperly influence behavior include:

- Self-interest threats
  - A sustainability assurance practitioner ~~professional accountant~~ is offered hospitality from the prospective acquirer of a sustainability assurance client while providing corporate finance services to the client.
- Familiarity threats
  - A sustainability assurance practitioner ~~professional accountant~~ regularly takes an existing or prospective sustainability assurance client to sporting events.
- Intimidation threats
  - A sustainability assurance practitioner ~~professional accountant~~ accepts hospitality from a sustainability assurance client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

5340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 5340.9 A3 for determining intent.

5340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the sustainability assurance client to another individual who the sustainability assurance practitioner ~~professional accountant~~ has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

5340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the sustainability assurance client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the sustainability assurance client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service to the sustainability assurance client, review any work performed or decisions made by the sustainability assurance practitioner ~~professional accountant~~ with respect to the client from which the practitioner ~~accountant~~ accepted the inducement.

- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

### Immediate or Close Family Members

**R5340.12** A sustainability assurance practitioner professional accountant shall remain alert to potential threats to the practitioner's accountant's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the practitioner accountant to an existing or prospective sustainability assurance client ~~of the accountant~~.
- (b) To an immediate or close family member of the practitioner accountant by an existing or prospective sustainability assurance client ~~of the accountant~~.

**R5340.13** Where the sustainability assurance practitioner professional accountant becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the practitioner accountant or of an existing or prospective sustainability assurance client ~~of the accountant~~, or considers a reasonable and informed third party would be likely to conclude such intent exists, the practitioner accountant shall advise the immediate or close family member not to offer or accept the inducement.

**5340.13 A1** The factors set out in paragraph 5340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the sustainability assurance practitioner professional accountant or of the existing or prospective sustainability assurance client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The practitioner accountant and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The practitioner accountant and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the practitioner accountant by a client for whom the practitioner accountant is performing a sustainability assurance engagement ~~providing a business valuation for a prospective sale~~ might indicate such intent.

**5340.13 A2** The application material in paragraph 5340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the sustainability assurance

~~practitioner~~professional—accountant, or of the existing or prospective sustainability assurance client even if the immediate or close family member has followed the advice given pursuant to paragraph R5340.13.

#### *Application of the Conceptual Framework*

5340.14 A1 Where the sustainability assurance practitioner ~~professional—accountant~~ becomes aware of an inducement offered in the circumstances addressed in paragraph R5340.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the ~~practitioner~~accountant pursuant to paragraph R5340.13; or
- (b) The ~~practitioner~~accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the ~~practitioner~~accountant or of the existing or prospective sustainability assurance client exists.

5340.14 A2 The application material in paragraphs 5340.11 A1 to 5340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 5340.13 A1.

#### **Other Considerations**

5340.15 A1 If a sustainability assurance practitioner ~~professional—accountant~~ encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a sustainability assurance client or individuals working for or under the direction of the sustainability assurance client, the requirements and application material in Section 5360 apply.

5340.15 A2 If a firm, network firm or an ~~audit—sustainability assurance~~ team member is being offered gifts or hospitality from an ~~audit—sustainability assurance~~ client, the requirement and application material set out in Section 5420 apply.

~~340.15 A3—~~[Paragraph 5340.15 A3 is intentionally left blank]~~If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.~~

## SECTION 5350 CUSTODY OF CLIENT ASSETS

### Introduction

- 5350.1** ~~Sustainability assurance practitioners~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5350.2** Holding client assets creates a self-interest or other threat to compliance with the principles of professional behavior and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### Requirements and Application Material

#### Before Taking Custody

- R5350.3** A ~~sustainability assurance practitioner~~ professional accountant shall not assume custody of ~~client~~ money or other assets belonging to a sustainability assurance client unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.
- R5350.4** As part of client and engagement acceptance procedures related to assuming custody of ~~client~~ money or assets belonging to a sustainability assurance client, a ~~sustainability assurance practitioner~~ professional accountant shall:
- (a) Make inquiries about the source of the assets; and
  - (b) Consider related legal and regulatory obligations.
- 5350.4 A1** Inquiries about the source of ~~client~~ assets belonging to a sustainability assurance client might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 5360 would apply.

#### After Taking Custody

- R5350.5** A ~~sustainability assurance practitioner~~ professional accountant entrusted with money or other assets belonging to a sustainability assurance client ~~others~~ shall:
- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
  - (b) Keep the assets separately from personal or firm assets;
  - (c) Use the assets only for the purpose for which they are intended; and
  - (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

## SECTION 5360

### RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

#### Introduction

- 5360.1 ~~Sustainability assurance practitioners~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a sustainability assurance practitioner ~~professional accountant~~ becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 5360.3 A sustainability assurance practitioner ~~professional accountant~~ might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a sustainability assurance client. This section guides the ~~practitioner~~ accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the client's financial statements or sustainability information; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts, impacts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

#### Objectives of the Sustainability Assurance Practitioner ~~Professional Accountant~~ in Relation to Non-compliance with Laws and Regulations

- 5360.4 ~~A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. It is of public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance.~~ When responding to non-compliance or suspected non-compliance, the objectives of the ~~practitioner~~ professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the sustainability assurance client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

- (ii) Deter the commission of the non-compliance where it has not yet occurred; and
- (c) To take such further action as appropriate in the public interest.

## Requirements and Application Material

### General

**5360.5 A1** Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) A sustainability assurance client;
- (b) Those charged with governance of a sustainability assurance client;
- (c) Management of a sustainability assurance client; or
- (d) Other individuals working for or under the direction of a sustainability assurance client.

**5360.5 A2** Examples of laws and regulations which this section addresses include those that deal with:

- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.
- Data protection.
- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- ~~Data protection.~~
- Tax and pension liabilities and payments.
- ~~Environmental protection.~~
- ~~Public health and safety.~~

**5360.5 A3** Non-compliance might result in fines, litigation or other consequences for the sustainability assurance client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this



section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R5360.6** In some jurisdictions, there are legal or regulatory provisions governing how sustainability assurance practitioners ~~professional accountants~~ should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the ~~practitioner~~accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the sustainability assurance client.

**5360.6 A1** A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

**5360.7 A1** This section applies regardless of the nature of the sustainability assurance client, including whether or not it is a public interest entity.

**5360.7 A2** A sustainability assurance practitioner ~~professional accountant~~ who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the sustainability assurance client, its stakeholders and the general public.

**5360.7 A3** This section does not address:

- (a) Personal misconduct unrelated to the business activities of the sustainability assurance client; and
- (b) Non-compliance by parties other than those specified in **paragraph 5360.5 A1**. This includes, for example, when the identified or suspected non-compliance has been committed by an entity in the sustainability assurance client's value chain~~circumstances where a professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.~~

The sustainability assurance practitioner~~accountant~~ might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

## **Responsibilities of Management and Those Charged with Governance**

**5360.8 A1** Management, with the oversight of those charged with governance, is responsible for ensuring that the sustainability assurance client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and

addressing any non-compliance by:

- (a) The sustainability assurance client;
- (b) An individual charged with governance of the sustainability assurance client entity;
- (c) A member of management of the sustainability assurance client; or
- (d) Other individuals working for or under the direction of the sustainability assurance client.

## **Responsibilities of Sustainability Assurance Practitioners ~~All Professional Accountants~~**

**R5360.9** Where a sustainability assurance practitioner ~~professional accountant~~ becomes aware of a matter to which this section applies, the steps that the ~~practitioner~~ accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the ~~practitioner~~ accountant shall have regard to the nature of the matter and the potential harm to the interests of the sustainability assurance client entity, investors, creditors, employees or the general public.

## **Sustainability Assurance Engagements Within the Scope of the International Independence Standards in this Part ~~Audits of Financial Statements~~**

### *Obtaining an Understanding of the Matter*

**R5360.10** If a sustainability assurance practitioner ~~professional accountant~~ engaged to perform a sustainability assurance engagement that is within the scope of the International Independence Standards in this Part ~~an audit of financial statements~~ becomes aware of information concerning non-compliance or suspected non-compliance, the ~~practitioner~~ accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

**5360.10 A1** The sustainability assurance practitioner ~~professional accountant~~ might become aware of the non-compliance or suspected non-compliance in the course of performing the sustainability assurance engagement or through information provided by other parties.

**5360.10 A2** The sustainability assurance practitioner ~~professional accountant~~ is expected to apply knowledge and expertise, and exercise professional judgment. However, the ~~practitioner~~ accountant is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the sustainability assurance engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

**5360.10 A3** Depending on the nature and significance of the matter, the sustainability assurance practitioner ~~professional accountant~~ might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

- R5360.11** If the ~~sustainability assurance practitioner professional accountant~~ identifies or suspects that non-compliance has occurred or might occur, the ~~practitioner accountant~~ shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.
- 5360.11 A1** The purpose of the discussion is to clarify the ~~sustainability assurance practitioner's professional accountant's~~ understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.
- 5360.11 A2** The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
  - The individuals actually or potentially involved.
  - The likelihood of collusion.
  - The potential consequences of the matter.
  - Whether that level of management is able to investigate the matter and take appropriate action.
- 5360.11 A3** The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the ~~sustainability assurance~~ client.
- 5360.11 A4** The ~~sustainability assurance practitioner professional accountant~~ might also consider discussing the matter with internal auditors, where applicable.
- R5360.12** If the ~~sustainability assurance practitioner professional accountant~~ believes that management is involved in the non-compliance or suspected non-compliance, the ~~practitioner accountant~~ shall discuss the matter with those charged with governance.

#### *Addressing the Matter*

- R5360.13** In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the ~~sustainability assurance practitioner professional accountant~~ shall advise them to take appropriate and timely actions, if they have not already done so, to:
- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
  - (b) Deter the commission of the non-compliance where it has not yet occurred; or
  - (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

**R5360.14** The ~~sustainability assurance practitioner professional accountant~~ shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

**5360.14 A1** If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the ~~sustainability assurance practitioner professional accountant~~ might suggest appropriate sources of information or recommend that they obtain legal advice.

**R5360.15** The ~~sustainability assurance practitioner professional accountant~~ shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under ~~sustainability assurance~~auditing standards, including those relating to:
  - Identifying and responding to non-compliance, including fraud.
  - Communicating with those charged with governance.
  - Considering the implications of the non-compliance or suspected non-compliance for the ~~sustainability assurance auditor's~~ report.

**5360.15 A1** Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

#### Communication with Respect to Groups

**R5360.16** Where ~~at the sustainability assurance practitioner professional accountant~~ becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the ~~practitioner accountant~~ shall communicate the matter to the group engagement ~~leaderpartner~~ unless prohibited from doing so by law or regulation:

- (a) The ~~practitioner accountant~~ performs ~~audit sustainability assurance~~ work related to a component for purposes of the group's ~~sustainability assurance engagement audit~~; or
- (b) The ~~practitioner accountant~~ is engaged to perform an ~~sustainability assurance engagement audit of for~~ the ~~sustainability information financial statements~~ of a legal entity or business unit that is part of a group for purposes other than the group's ~~sustainability assurance engagement audit, for example, a statutory audit~~.

The communication to the group engagement ~~leaderpartner~~ shall be in addition to responding to the matter in accordance with the provisions of this section.

**5360.16 A1** The purpose of the communication is to enable the group engagement ~~leaderpartner~~ to be informed about the matter and to determine, in the context of the group's sustainability assurance engagement~~audit~~, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in ~~paragraph R5360.16~~ applies regardless of whether the group engagement ~~leaderpartner~~'s firm or network is the same as or different from the sustainability assurance practitioner's professional accountant's firm or network.

**R5360.17** Where the group engagement ~~leaderpartner~~ becomes aware of non-compliance or suspected non-compliance in the course of a group's sustainability assurance engagement~~audit~~, the group engagement ~~leaderpartner~~ shall consider whether the matter might be relevant to:

- (a) One or more components subject to audit sustainability assurance work for purposes of the group's sustainability assurance engagement~~audit~~; or
- (b) One or more legal entities or business units that are part of the group and whose sustainability information~~financial statements~~ ~~is~~are subject to assurance~~audit~~ for purposes other than the group's sustainability assurance engagement~~audit~~, ~~for example, a statutory audit~~.

This consideration shall be in addition to responding to the matter in the context of the group's sustainability assurance engagement~~audit~~ in accordance with the provisions of this section.

**R5360.18** If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in ~~paragraph R5360.17(a)~~ and legal entities or business units specified in ~~paragraph R5360.17(b)~~, the group engagement ~~leaderpartner~~ shall take steps to have the matter communicated to those performing audit sustainability assurance work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement ~~leaderpartner~~ shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities or business units specified in ~~paragraph R5360.17(b)~~ are subject to sustainability assurance~~audit~~ and, if so, to ascertain to the extent practicable the identity of the practitioners~~auditors~~.

**5360.18 A1** The purpose of the communication is to enable those responsible for audit sustainability assurance work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement ~~leaderpartner~~'s firm or network is the same as or different from the firms or networks of those performing sustainability assurance~~audit~~ work at the components, legal entities or business units.

#### Communicating the Matter to the Sustainability Assurance Client's External Auditor

**R5360.18a** The sustainability assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the sustainability assurance

client's external auditor, if any.

#### Relevant Factors to Consider

5360.18a A1 Factors relevant to considering the communication in accordance with paragraph R5360.18a include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the sustainability assurance client's external auditor about the matter.
- Whether and, if so, how the firm's or network firm's protocols or procedures address communication of non-compliance or suspected non-compliance within the firm or network firm.

#### Purpose of Communication

5360.18a A2 In the circumstances addressed in paragraph R5360.18a, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code.

#### *Determining Whether Further Action Is Needed*

**R5360.19** The sustainability assurance practitioner ~~professional accountant~~ shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

**5360.19 A1** Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.

- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

**R5360.20** In light of the response of management and, where applicable, those charged with governance, the sustainability assurance practitioner ~~professional accountant~~ shall determine if further action is needed in the public interest.

**5360.20 A1** The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the sustainability assurance client.
- Whether the sustainability assurance practitioner ~~professional accountant~~ continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the sustainability assurance client ~~entity~~, investors, creditors, employees or the general public.

**5360.20 A2** Examples of circumstances that might cause the sustainability assurance practitioner ~~professional accountant~~ no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The practitioner ~~accountant~~ suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The practitioner ~~accountant~~ is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

**R5360.21** The sustainability assurance practitioner ~~professional accountant~~ shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the practitioner ~~accountant~~ shall take into account whether a reasonable and informed third party would be likely to conclude that the practitioner ~~accountant~~ has acted appropriately in the public interest.



**5360.21 A1** Further action that the sustainability assurance practitioner professional accountant might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

**5360.21 A2** Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the sustainability assurance practitioner's professional accountant's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the practitioner accountant. In such circumstances, withdrawal might be the only available course of action.

**R5360.22** Where the sustainability assurance practitioner professional accountant has withdrawn from the professional relationship pursuant to paragraphs R5360.20 and 5360.21 A1, the practitioner accountant shall, on request by the proposed practitioner accountant pursuant to paragraph R5320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed practitioner accountant. The predecessor practitioner accountant shall do so, even in the circumstances addressed in paragraph R5320.8(b) where the sustainability assurance client fails or refuses to grant the predecessor practitioner accountant permission to discuss the client's affairs with the proposed practitioner accountant, unless prohibited by law or regulation.

**5360.22 A1** The facts and other information to be provided are those that, in the predecessor practitioner's accountant's opinion, the proposed practitioner accountant needs to be aware of before deciding whether to accept the audit appointment. Section 5320 addresses communications from proposed practitioners accountants.

**R5360.23** If the proposed practitioner accountant is unable to communicate with the predecessor practitioner accountant, the proposed practitioner accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

**5360.23 A1** Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

**5360.24 A1** As assessment of the matter might involve complex analysis and judgments, the practitioner professional accountant might consider:

- Consulting internally.
- Obtaining legal advice to understand the practitioner's accountant's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.



## Determining Whether to Disclose the Matter to an Appropriate Authority

**5360.25 A1** Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

**5360.25 A2** The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the ~~sustainability assurance practitioner professional accountant~~ might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The ~~sustainability assurance client entity~~ is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The ~~sustainability assurance client entity~~ is regulated and the matter is of such significance as to threaten its license to operate.
- The ~~sustainability assurance client entity~~ is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the ~~client's entity's~~ securities or pose a systemic risk to the financial markets.
- It is likely that the ~~sustainability assurance client entity~~ would sell products that are harmful to public health or safety.
- The ~~sustainability assurance client entity~~ is promoting a scheme to its clients to assist them in evading taxes.

**5360.25 A3** The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the ~~sustainability assurance practitioner professional accountant~~ or other individuals.

**R5360.26** If the ~~sustainability assurance practitioner professional accountant~~ determines that disclosure of the non-compliance or suspected non-compliance to an

appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to ~~paragraph R5114.3 of the Code~~. When making such disclosure, the ~~practitioner~~~~accountant~~ shall act in good faith and exercise caution when making statements and assertions. The ~~practitioner~~~~accountant~~ shall also consider whether it is appropriate to inform the ~~sustainability assurance~~ client of the ~~practitioner's~~~~accountant's~~ intentions before disclosing the matter.

#### *Imminent Breach*

**R5360.27** In exceptional circumstances, the ~~sustainability assurance practitioner~~~~professional accountant~~ might become aware of actual or intended conduct that the ~~practitioner~~~~accountant~~ has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the ~~sustainability assurance client~~~~entity~~, the ~~practitioner~~~~accountant~~ shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to ~~paragraph R5114.3 of the Code~~.

#### *Documentation*

**R5360.28** In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the ~~sustainability assurance practitioner~~~~professional accountant~~ shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the ~~practitioner~~~~accountant~~ considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the ~~practitioner~~~~accountant~~ is satisfied that the ~~practitioner~~~~accountant~~ has fulfilled the responsibility set out in ~~paragraph R5360.20~~.

**5360.28 A1** This documentation is in addition to complying with the documentation requirements ~~in relation to non-compliance or suspected non-compliance~~ under applicable ~~sustainability assurance~~~~auditing~~ standards. ~~ISAs, for example, require a professional accountant performing an audit of financial statements to:-~~

- ~~Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;-~~
- ~~Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant~~

~~matters discussed and when and with whom the discussions took place; and~~

- ~~• Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.~~

**Sustainability Assurance Engagements Not Within the Scope of the International Independence Standards in this Part and Other Professional Services ~~Other than Audits of Financial Statements~~**

*Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance*

**R5360.29** If a ~~sustainability assurance practitioner professional accountant~~ engaged to ~~provide~~perform a sustainability assurance engagement that is not within the scope of the *International Independence Standards in this Part* or another a professional service ~~for a sustainability assurance client other than an audit of financial statements~~ becomes aware of information concerning non-compliance or suspected non-compliance, the ~~practitioneraccountant~~ shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

**5360.29 A1** The ~~sustainability assurance practitioner professional accountant~~ is expected to apply knowledge and expertise, and exercise professional judgment. However, the ~~practitioneraccountant~~ is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the ~~practitioneraccountant~~ was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

**5360.29 A2** Depending on the nature and significance of the matter, the ~~sustainability assurance practitioner professional accountant~~ might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

**R5360.30** If the ~~sustainability assurance practitioner professional accountant~~ identifies or suspects that non-compliance has occurred or might occur, the ~~practitioneraccountant~~ shall discuss the matter with the appropriate level of management. If the ~~practitioneraccountant~~ has access to those charged with governance, the ~~practitioneraccountant~~ shall also discuss the matter with them where appropriate.

**5360.30 A1** The purpose of the discussion is to clarify the ~~sustainability assurance practitioner's professional accountant's~~ understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

5360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Sustainability Assurance Client's Entity's External Auditor

**R5360.31** If the sustainability assurance practitioner professional accountant is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional non-audit service for a sustainability assurance client that is:

- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm,

the practitioner accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

**R5360.32** If the sustainability assurance practitioner professional accountant is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional non-audit service for a sustainability assurance client that is:

- (a) An audit client of a network firm; or
- (b) A component of an audit client of a network firm,

the practitioner accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

**R5360.33** If the sustainability assurance practitioner professional accountant is performing a sustainability assurance engagement that is not within the scope of the International Independence Standards in this Part or another professional non-audit service for a sustainability assurance client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the ~~practitioner~~ accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the sustainability assurance client's external auditor, if any.

#### Relevant Factors to Consider

5360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R5360.31 to R5360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client ~~entity~~ to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.
- ~~The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.~~

#### Purpose of Communication

5360.35 A1 In the circumstances addressed in paragraphs R5360.31 to R5360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code ~~section~~.

#### Considering Whether Further Action Is Needed

**R5360.36** The sustainability assurance practitioner ~~professional accountant~~ shall also consider whether further action is needed in the public interest.

5360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.

- The likelihood of substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

**5360.36 A2** Further action by the sustainability assurance practitioner professional accountant might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

**5360.36 A3** In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client entity to enable it to take appropriate action.

**R5360.37** If the sustainability assurance practitioner professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to **paragraph R5114.3 of the Code**. When making such disclosure, the practitioner accountant shall act in good faith and exercise caution when making statements and assertions. The practitioner accountant shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's accountant's intentions before disclosing the matter.

#### *Imminent Breach*

**R5360.38** In exceptional circumstances, the sustainability assurance practitioner professional accountant might become aware of actual or intended conduct that the practitioner accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client entity, the practitioner accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to **paragraph R5114.3 of the Code**.

### Seeking Advice

5360.39 A1 The sustainability assurance practitioner ~~professional accountant~~ might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

### Documentation

5360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner ~~professional accountant~~ is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner ~~accountant~~ considered, the judgments made and the decisions that were taken.
- How the practitioner ~~accountant~~ is satisfied that the practitioner ~~accountant~~ has fulfilled the responsibility set out in paragraph R5360.36.

## SECTION 5380

### TAX PLANNING SERVICES

#### Introduction

- 5380.1 Sustainability assurance practitioners ~~Professional accountants~~ are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5380.2 Providing tax planning services might create self-interest, self-review, advocacy, or intimidation threats to compliance with the fundamental principles.
- 5380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning services to a sustainability assurance client. This section also requires a sustainability assurance practitioner ~~professional accountant~~ to comply with relevant tax laws and regulations when providing such services.

#### Requirements and Application Material

##### General

~~Professional Accountants'~~ Public Interest Role of Sustainability Assurance Practitioners in Relation to Tax Planning Services

- 5380.4 A1 Sustainability assurance practitioners providing tax planning services to sustainability assurance clients ~~Professional accountants~~ play an important role ~~in tax planning~~ by contributing their expertise and experience to assist those clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, ~~practitioners~~ ~~accountants~~ help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.
- 5380.4 A2 Clients are entitled to organize their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, sustainability assurance practitioners ~~professional accountants~~' role is to use their expertise and experience to assist their sustainability assurance clients in achieving their tax planning goals and meeting their tax obligations. However, when ~~accountants~~ ~~practitioners~~ provide such assistance, it might involve certain tax minimization arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.
- 5380.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

##### Description of Tax Planning Services

- 5380.5 A1 Tax planning services are advisory services designed to assist a sustainability assurance client, ~~whether an individual or an entity~~, in planning or structuring the



client's affairs in a tax-efficient manner.

**5380.5 A2** Tax planning services cover a broad range of topics or areas. Examples of such services include:

- Advising an individual entity to structure its tax affairs to achieve investment, ~~retirement or estate planning~~ goals.
- Advising an entity individual business owner on structuring its ownership of, and income from, the separate businesses es to minimize its overall taxes.
- Advising an entity on structuring its international operations to minimize its overall taxes.
- Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.
- Advising on the utilization of losses in a tax-efficient manner.
- Advising an entity on the structuring of its capital distribution strategy in a tax-efficient manner.
- Advising an entity on structuring its compensation strategy for senior executives to optimize the tax benefits.

**5380.5 A3** Tax planning services do not include services that are generally referred to as tax compliance or tax preparation, which are services to assist the sustainability assurance client in fulfilling the client's filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax service comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

**5380.5 A4** This section applies regardless of the nature of the sustainability assurance client, including whether it is a public interest entity.

### Related Services

**5380.6 A1** There might be circumstances where a sustainability assurance practitioner ~~professional accountant~~ is engaged to provide a related service to a sustainability assurance client that is based on or linked to a tax planning arrangement developed by the client or a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

**5380.6 A2** Examples of such related services include:

- Assisting the sustainability assurance client in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the sustainability assurance client in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the sustainability assurance client.

- Advising the sustainability assurance client on an acquisition where the valuation depends on the tax planning arrangement established by the target.
- ~~Advising the client on estate planning based on a tax planning arrangement established for the client's business.~~

## Compliance with Laws and Regulations

5380.7 A1 This section does not address tax evasion, which is illegal.

### *Anti-avoidance Laws and Regulations*

**R5380.8** Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a sustainability assurance practitioner professional accountant shall obtain an understanding of those laws and regulations and advise the sustainability assurance client to comply with them when providing tax planning services.

### *Non-compliance with Tax Laws and Regulations*

5380.8 A1 If, in the course of providing tax planning services, a sustainability assurance practitioner professional accountant becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a sustainability assurance client, management, those charged with governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 5360 apply.

## Responsibilities of Management and Those Charged with Governance

5380.9 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the sustainability assurance client's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the sustainability assurance client to fulfill its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the sustainability assurance practitioner professional accountant to perform the tax planning service.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the sustainability assurance practitioner professional accountant's recommendation or advice on a tax planning arrangement.

- Authorizing the submission of the sustainability assurance client's tax returns and ensuring that any matters raised by the relevant tax authorities are addressed in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the financial statements, sustainability disclosures or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the sustainability assurance client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

## **Responsibilities of All Sustainability Assurance Practitioners ~~Professional Accountants~~**

**R5380.10** As part of providing a tax planning service, a sustainability assurance practitioner ~~professional accountant~~ shall obtain an understanding of the nature of the engagement, including:

- (a) Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance, and its business activities;
- (b) The purpose, facts and circumstances of the tax planning arrangement; and
- (c) The relevant tax laws and regulations.

**5380.10 A1** The requirements and application material in Section **5320** apply with respect to client and engagement acceptance.

**380.10 A2** — [Paragraph 5380.10 A2 is intentionally left blank] ~~A professional accountant might be engaged to provide a second opinion on a tax planning arrangement. In addition to the provisions in this section, the requirements and application material in Section 321 also apply in such circumstances.~~

**5380.11 A1** A sustainability assurance practitioner ~~professional accountant~~ is expected to apply professional competence and due care in accordance with Subsection **5113** when providing a tax planning service. The ~~accountant practitioner~~ is also expected to have an inquiring mind and exercise professional judgment in accordance with Section **5120** when considering the specific facts and circumstances relating to the tax planning service.

## **Basis for Recommending or otherwise Advising on a Tax Planning Arrangement**

**R5380.12** A sustainability assurance practitioner ~~professional accountant~~ shall recommend or otherwise advise on a tax planning arrangement to a sustainability assurance client only if the ~~accountant practitioner~~ has determined that there is a credible

basis in laws and regulations for the arrangement.

**5380.12 A1** The determination of whether there is a credible basis involves the exercise of professional judgment by the sustainability assurance practitioner~~professional accountant~~. This determination will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.

**5380.12 A2** If the sustainability assurance practitioner~~professional accountant~~ determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R**5380.12** does not preclude the ~~accountant-practitioner~~ from explaining to the sustainability assurance client the ~~practitioner~~~~accountant's~~ rationale for the determination or advising on an alternative arrangement that has a credible basis.

**5380.12 A3** Paragraph R**5380.12** also does not preclude the sustainability assurance practitioner~~professional accountant~~ from being engaged by the sustainability assurance client, or otherwise assisting the client, to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of service is a related service as described in paragraphs **5380.6 A1** and **A2**. This includes, for example:

- Assisting the client to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution service.
- Agreeing with the client appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the client in administrative or court proceedings.

**5380.12 A4** Examples of actions that a sustainability assurance practitioner~~professional accountant~~ might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.

- Consulting with legal counsel or other experts within or outside the sustainability assurance practitioner~~professional—accountant~~'s firm regarding what a reasonable interpretation of the relevant laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

**R5380.13** If, during the course of the engagement, the sustainability assurance practitioner~~professional—accountant~~ becomes aware of circumstances that might impact the previous determination of the credible basis, the practitioner~~accountant~~ shall re-assess the validity of that basis.

#### *Consideration of the Overall Tax Planning Recommendation or Advice*

**R5380.14** In addition to determining that there is a credible basis for the tax planning arrangement, the sustainability assurance practitioner~~professional—accountant~~ shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

**5380.14 A1** The reputational and commercial consequences might relate to ~~personal or~~ business implications to the sustainability assurance client or implications to the reputation of the client ~~or a relevant and the profession or a group of practitioners to which the sustainability assurance practitioner might belong~~ from a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

**5380.14 A2** An awareness of the wider economic consequences might take into account the sustainability assurance practitioner~~professional—accountant~~'s general understanding of the current economic environment and the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the sustainability assurance client operates.

**R5380.15** If, having considered the matters set out in paragraph R5380.14, the sustainability assurance practitioner~~professional—accountant~~ decides not to recommend or otherwise advise on a tax planning arrangement that the sustainability assurance client would like to pursue, the ~~accountant—practitioner~~ shall inform the client of this and explain the basis for the practitioner~~accountant~~'s conclusion.

#### *Tax Planning Arrangements Involving Multiple Jurisdictions*

**5380.16 A1** There might be circumstances where a sustainability assurance practitioner~~professional—accountant~~ becomes aware that a sustainability assurance client is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and

regulations of each jurisdiction, the ~~accountant-practitioner~~ might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

5380.16 A2 Relevant factors the ~~sustainability assurance practitioner professional-accountant~~ might consider in determining whether to advise the ~~sustainability assurance~~ client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

### Circumstances of Uncertainty

5380.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a ~~sustainability assurance practitioner professional-accountant~~ might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the ~~accountant-practitioner~~ to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

5380.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.
  - Challenges to previous court rulings.
  - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
  - Innovative business models not addressed by the current tax laws and regulations.
  - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
  - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
  - Lack of a legal precedent, ruling or position.

- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

**R5380.18** Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a sustainability assurance practitioner ~~professional accountant~~ shall discuss the uncertainty with the sustainability assurance client.

**5380.18 A1** The discussion serves a number of purposes, including:

- Explaining the sustainability assurance practitioner ~~professional accountant~~'s assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from the sustainability assurance client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the sustainability assurance client, including consideration of disclosure to the relevant tax authorities.

### Potential Threats Arising from Providing a Tax Planning Service

**5380.19 A1** Providing a tax planning service to a sustainability assurance client might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a sustainability assurance practitioner ~~professional accountant~~ has recently provided a valuation service to a client for tax purposes, the output of which is then relied upon or is a key input to a tax planning service for the client.
- A self-interest threat might be created when a sustainability assurance practitioner ~~professional accountant~~ has a direct financial interest in a client and the accountant is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner ~~professional accountant~~ actively promotes a particular tax position a client should adopt.
- A self-interest threat might be created when a sustainability assurance practitioner ~~professional accountant~~ is in possession of confidential information obtained from the practitioner's accountant's involvement in



formulating or drafting tax policy, laws or regulations for a government agency and the confidential information would be valuable to the ~~practitioner~~~~accountant~~ in advising other clients on their tax planning arrangements.

- A self-interest threat might be created when a ~~sustainability assurance practitioner professional accountant~~ accepts a fee that might be perceived to be excessive for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a ~~sustainability assurance practitioner professional accountant~~ advocates a client's position in a tax planning arrangement which the ~~accountant-practitioner~~ previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a ~~sustainability assurance practitioner professional accountant~~ provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the ~~practitioner~~~~accountant's~~ determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a ~~sustainability assurance practitioner professional accountant~~ is threatened with dismissal from the engagement or the ~~practitioner~~~~accountant's~~ firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

5380.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the ~~sustainability assurance~~ client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the ~~sustainability assurance practitioner professional accountant~~ knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the ~~sustainability assurance practitioner professional accountant's~~ expertise and experience in the relevant tax areas.



- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.
- The extent to which the sustainability assurance practitioner ~~professional accountant~~ is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the sustainability assurance client or another party on the sustainability assurance practitioner ~~professional accountant~~.
- The degree of urgency in implementing the tax planning arrangement.
- Whether it is a tax planning arrangement used for multiple sustainability assurance clients with little modification for the client's specific circumstances.
- The known previous behavior or reputation of the sustainability assurance client, including its organizational culture.

5380.19 A3 Examples of actions that might eliminate such threats include:

- Referring the sustainability assurance client to an expert outside the sustainability assurance practitioner ~~professional accountant~~'s firm who has the necessary expertise and experience to advise the client on the tax planning arrangement.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising the sustainability assurance client not to pursue the tax planning arrangement.

5380.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the sustainability assurance client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.

- Consulting with a legal counsel or other expert within or outside the sustainability assurance practitioner~~professional accountant~~'s firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or a sustainability assurance practitioner~~a another professional accountant~~) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the sustainability assurance practitioner~~professional accountant~~ with respect to the tax planning arrangement.
- Having the sustainability assurance client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

**5380.19 A5** Examples of steps a sustainability assurance practitioner~~professional accountant~~ might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within the sustainability assurance client.
- Making inquiries of others within or outside the firm who have dealt with the sustainability assurance client, having regard to the principle of confidentiality.
- Reviewing the sustainability assurance client's tax records, financial statements and other relevant corporate records.
- Making inquiries of registrars where the sustainability assurance client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

### Communication of Basis of the Tax Planning Recommendation or Advice

**R5380.20** A sustainability assurance practitioner~~professional accountant~~ shall explain the basis on which the sustainability assurance practitioner~~accountant-practitioner~~ recommended or otherwise advised on a tax planning arrangement to the sustainability assurance client.

### Disagreement with the Sustainability Assurance Client

**R5380.21** If the sustainability assurance practitioner~~professional accountant~~ disagrees that a tax planning arrangement that a sustainability assurance client would like to pursue has a credible basis, the sustainability assurance practitioner~~practitioner-accountant~~ shall:

- (a) Inform the client of the basis of the sustainability assurance practitioner~~practitioner-accountant~~'s assessment;

- (b) Communicate to the client the potential consequences of pursuing the arrangement; and
- (c) Advise the client not to pursue the arrangement.

**R5380.22** If the sustainability assurance client decides to pursue the tax planning arrangement despite the sustainability assurance practitioner~~professional accountant~~'s advice to the contrary, the accountant-practitioner shall advise the client to:

- (a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;
- (b) Consider making full disclosure of the arrangement to the relevant tax authorities; and
- (c) Consider communicating the details of the arrangement and the difference of views to the external auditor, if any.

**5380.22 A1** As part of communicating the matters set out in paragraphs R5380.21 and R5380.22, a sustainability assurance practitioner ~~professional accountant~~ might consider it appropriate to raise the relevant matters with those charged with governance of the sustainability assurance client.

**R5380.23** In light of the sustainability assurance client's response to the sustainability assurance practitioner~~professional accountant~~'s advice, the accountant-practitioner shall consider whether there is a need to withdraw from the engagement and the professional relationship.

### Tax Planning Products or Arrangements Developed by a Third Party

**R5380.24** If a sustainability assurance client engages a sustainability assurance practitioner ~~professional accountant~~ to advise on a tax planning product or arrangement developed by a third party, the accountant-practitioner shall:

- (a) Inform the client of any professional or business relationship the sustainability assurance practitioner ~~accountant~~ has with the third-party provider; and
- (b) Apply the provisions in this section with respect to the tax planning product or arrangement.

**R5380.25** If a sustainability assurance practitioner ~~professional accountant~~ recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the accountant-practitioner shall inform the client of any professional or business relationship the accountant-practitioner has with the third-party provider.

**5380.25 A1** Where the sustainability assurance practitioner ~~professional accountant~~ only recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the provisions of this section do not apply.

**5380.25 A2** If a sustainability assurance practitioner ~~professional accountant~~ receives a referral fee or commission from the third-party provider, the provisions in Section

5330 apply.

## Documentation

5380.26 A1 When providing a tax planning service, a sustainability assurance practitioner ~~professional accountant~~ is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The ~~accountant's practitioner's~~ analysis, the courses of action considered, the judgments made, and the conclusions reached in advising the sustainability assurance client on the tax planning arrangement.
- The results of discussions with the sustainability assurance client and other parties.
- The sustainability assurance client's response to the ~~practitioner accountant's~~ advice.
- Any disagreement with the sustainability assurance client.

5380.26 A2 Preparing such documentation assists the ~~accountant~~ sustainability assurance practitioner to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.
- Develop the ~~practitioner accountant's~~ analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgments at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the ~~accountant~~ practitioner has complied with the provisions in this section.

## **SECTION 5390 USING THE WORK OF AN EXTERNAL EXPERT**

**[Placeholder for new Section by Use of Experts TF]**

# INTERNATIONAL INDEPENDENCE STANDARDS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

## SECTION 5400

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

#### Introduction

#### General

5400.1 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~~ [Paragraph 5400.2 is intentionally left blank] 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.~~

5400.3 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 Part 5

5400.3a 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) Is

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

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

5400.3b Law or regulation might also require the application of the International Independence Standards in Part 5 to sustainability assurance engagements other than those described in paragraph 5400.3a.

5400.3c The International Independence Standards in Part 5 apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references

mean a firm expressing a conclusion on the sustainability information.

5400.3d An assurance engagement might be either an attestation engagement or a direct engagement. The International Independence Standards in this Part cover only sustainability assurance engagements that are attestation engagements.

5400.3e Part 4B of the Code sets out International Independence Standards for other sustainability assurance engagements that are not within the scope of the International Independence Standards in 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.

#### Quality Management

5400.3f Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. Sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, ISSA 5000 requires compliance with ISQM 1 or other legal, regulatory or professional requirements that are at least as demanding as ISQM 1.

5400.4 Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. 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. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of the International Independence Standards in this Part do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. ISQM 1 requires a firm to design implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in

~~accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews 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 remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.~~

5400.5 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 ~~n-audit~~ sustainability assurance team member's, integrity, objectivity, or professional skepticism has been compromised.

In the International Independence Standards 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.

5400.6 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 5120 applies to independence as it does to the fundamental principles set out in Section 5110. Section 5405 sets out specific requirements and application material applicable in a group sustainability assurance engagement-audit.

5400.7 The International Independence Standards in this Part describe:

- (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

5400.8      ~~The International Independence Standards in t~~his Part ~~applies~~ apply to all ~~audit and sustainability assurance~~ team members, including engagement team members.

5400.9      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 — [Paragraph 5400.10 is intentionally left blank] 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.~~

5400.10a    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.

5400.11      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 5390]

5400.12 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.

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

5400.12a 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.

5400.12b There might be other practitioners who perform assurance work related to the engagement whose work the firm might be unable to direct, supervise and 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.

5400.12c 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 5406 of this Part sets out specific requirements and application material when a firm plans to use the work of such a practitioner.

## Public Interest Entities

5400.13 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. An entity is a public interest entity in this Part if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

5400.13a A firm performing the audit of an entity's financial statements might decide to voluntarily treat the entity as a public interest entity. In such circumstances, this does not mean that another firm performing a sustainability assurance engagement for that entity is required to treat that entity as a public interest entity for the purposes of the sustainability assurance engagement.

~~400.14~~ — [Paragraph 5400.14 is intentionally left blank] ~~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.~~

5400.15 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 entity.~~ The purpose of the requirements and application material for public interest entities ~~as described in paragraph 5400.13~~ 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.~~

## Reports that Include a Restriction on Use and Distribution

~~400.16~~ — [Paragraph 5400.16 is intentionally left blank] ~~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

5400.16a 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, and this Part apply to the firm, a network firm and the audit team members.

### Assurance Engagements other than Audit and Review Engagements

~~400.17~~ ~~[Paragraph 5400.17 is intentionally left blank]~~ 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

**R5400.18** A firm performing an audit sustainability assurance engagement shall be independent.

**R5400.19** A firm shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to an audit sustainability assurance engagement.

### Prohibition on Assuming Management Responsibilities

**R5400.20** A firm or a network firm shall not assume a management responsibility for an audit sustainability assurance client.

5400.20 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.

5400.20 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.

5400.20 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.

- 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 identifying material sustainability matters to be reported.
  - Designing, implementing, monitoring or maintaining internal control.
  - Supply chain management.
  - Designing or implementing software to collect or produce sustainability data for the client.
  - Reporting on environmental credits or offsets.
  - Resource allocation for sustainability initiatives.
- Controlling or managing bank accounts or investments.

5400.20 A4 Subject to compliance with paragraph R5400.21, providing advice and recommendations to assist the management of an ~~an audit~~ sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an ~~an audit~~ sustainability assurance client might create a self-review threat and is addressed in Section 5600.

**R5400.21** When performing a professional activity for an ~~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.

5400.21 A1 When technology is used in performing a professional activity for an ~~an audit~~ sustainability assurance client, the requirements in paragraphs R5400.20 and R5400.21 apply regardless of the nature or extent of such use of the technology.

### Public Interest Entities

~~R400.22~~ — [Paragraph R5400.22 is intentionally left blank] 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~~ — [Paragraph 5400.22 A1 is intentionally left blank] 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~~ — [Paragraph R5400.23 is intentionally left blank] 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~~ — [Paragraph 5400.23 A1 is intentionally left blank] The categories set out in paragraph R400.22 (a) to (c) are broadly defined and no recognition is given to

~~any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:—~~

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

~~400.23 A2 — [Paragraph 5400.23 A2 is intentionally left blank] 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 — [Paragraph 5400.24 A1 is intentionally left blank] 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~~

**R5400.25** Subject to paragraph R5400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 5400.13 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.

**R5400.26** As an exception to paragraph R5400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

**Related Entities**

**R5400.27** 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 5400.28 to 5400.29 are intentionally left blank]**

**Period During which Independence is Required**

**R5400.30** Independence, as required by the International Independence Standards in this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The reporting period for the engagement. ~~The period covered by the financial statements.~~

**5400.30 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.

**5400.30 A2** The reporting period for the engagement might be the same as the period covered by the financial statements. The reporting period for the engagement



does not refer to the period covered by the sustainability information from the start of historical information to the end of any forward-looking information.

**R5400.31** If an entity becomes an audit sustainability assurance client during or after the reporting period for the engagement covered by the financial statements 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 reporting period for the engagement covered by the financial statements 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.

**5400.31 A1** Threats to independence are created if a non-assurance service was provided to an audit sustainability assurance client during, or after the reporting period for the engagement 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.

**5400.31 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.

**5400.31 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.

**5400.31 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 reporting period for the engagement covered by the financial statements 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

**R5400.32** 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.

**5400.32 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 **5400.33** to **5400.39** are intentionally left blank]

**Communication with those Charged with Governance**

**5400.40 A1** Paragraphs **R5300.9** and **R5300.10** set out requirements with respect to communicating with those charged with governance.

**5400.40 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 [5400.41](#) to [5400.49](#) are intentionally left blank]

### Network Firms

[5400.50](#) 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.

**R5400.51** A network firm shall be independent of the [audit-sustainability assurance](#) clients of the other firms within the network as required by this Part.

[5400.51](#) 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.

**R5400.52** 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.

**R5400.53** 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. [5400.53](#) A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. [5400.53](#) A3);

- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. [5400.53 A4](#));
- (d) The entities within the structure share a common business strategy. (Ref: Para. [5400.53 A5](#));
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. [5400.53 A6](#), [5400.53 A7](#)); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para [5400.53 A8](#), [5400.53 A9](#)).

[5400.53 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 [R5400.53](#). 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.

[5400.53 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. [R5400.53\(a\)](#)).

[5400.53 A3](#) Common ownership, control or management might be achieved by contract or other means. (Ref: Para. [R5400.53\(b\)](#)).

[5400.53 A4](#) Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. [R5400.53\(c\)](#)).

[5400.53 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. [R5400.53\(d\)](#)).

[5400.53 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. [R5400.53\(e\)](#)).

[5400.53 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. [R5400.53\(e\)](#)).

[5400.53 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. R5400.53(f)).

5400.53 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. R5400.53(f)).

**R5400.54** 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.

5400.54 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 5400.55 to 5400.59 are intentionally left blank]

#### General Documentation of Independence for Sustainability Assurance Audit and Review Engagements

**R5400.60** A firm shall document conclusions regarding compliance with the International Independence Standards in 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.

**5400.60 A1** Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with [the International Independence Standards in](#) this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

**[Paragraphs 5400.61 to 5400.69 are intentionally left blank]**

## **Mergers and Acquisitions**

### *When a Client Merger Creates a Threat*

**5400.70 A1** An entity might become a related entity of an ~~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 ~~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.

**R5400.71** In the circumstances set out in paragraph 5400.70 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 R5400.72, 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.

**R5400.72** As an exception to paragraph R5400.71(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.

**5400.72 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.

**5400.72 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.

**R5400.73** If, following the discussion set out in paragraph R5400.72(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 5600 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.

**5400.73 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.

**R5400.74** 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 5400.70 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 R5400.73(b) to (c); and
- (c) Ceases to ~~perform~~ ~~be~~ the ~~auditor sustainability assurance engagement~~ no later than the date that the ~~audit sustainability assurance~~ report is issued.

*If Objectivity Remains Compromised*

**R5400.75** Even if all the requirements of paragraphs R5400.71 to R5400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 5400.70 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*

**R5400.76** The firm shall document:

- (a) Any interests or relationships identified in paragraph 5400.70 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 5400.77 to 5400.79 are intentionally left blank.]**

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

*When a Firm Identifies a Breach*

**R5400.80** If a firm concludes that a breach of an independence 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 ~~leader~~partner;
  - (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.

5400.80 A1 A breach of an independence 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.

5400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an ~~audit~~ 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.

**5400.80 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.

**R5400.81** 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.

**R5400.82** 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*

**5400.83 A1** Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

**R5400.84** With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R5400.82 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.

**R5400.85** If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R5400.80(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 R5400.81.

*Breaches Before the Previous Audit-Sustainability Assurance Report Was Issued*

**R5400.86** If the breach occurred prior to the issuance of the previous audit-sustainability assurance report, the firm shall comply with the independence provisions of this Part 4A 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.

**R5400.87** 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*

**R5400.88** In complying with the requirements in paragraphs R5400.80 to R5400.87, 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.

**R5400.89** 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.

## SECTION 5405

### GROUP ~~AUDITS~~ SUSTAINABILITY ASSURANCE ENGAGEMENTS

#### Introduction

5405.1 Section 5400 requires a firm to be independent when performing an ~~audit~~ sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 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

5405.2 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. Depending on the sustainability reporting framework, the firm might express an opinion on group sustainability information that includes information about components within the group. The firm might use the work of a component sustainability assurance firm for the purpose of the group sustainability assurance engagement. In such circumstances, the applicable sustainability assurance standard might require the group engagement leader to be sufficiently and appropriately involved in the work of that component sustainability assurance firm, including directing, supervising and reviewing that work.~~

5405.2 A1a This section sets out requirements and application material that are applicable to the group sustainability assurance firm, component sustainability assurance firms and members of the group sustainability assurance team.

5405.2 A1b Where the group sustainability assurance firm uses the work of another firm, which performs assurance work at the sustainability assurance client, for purposes of the group sustainability assurance engagement, this section only applies where the group sustainability assurance firm is able to direct, supervise and review the work of that firm.

5405.2 A2 A component ~~auditor~~ sustainability assurance firm that participates in a group ~~audit~~ sustainability assurance engagement might separately issue an ~~audit~~ assurance opinion on the ~~financial statements~~ sustainability information of the

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

### Communication Between a Group ~~Auditor—Sustainability Assurance~~ Firm and a Component ~~Auditor—Sustainability Assurance~~ Firm

**R5405.3** ~~ISA 600 (Revised) requires that~~ The group engagement ~~leader partner to shall~~ take responsibility to make a component ~~auditor—sustainability assurance firm~~ aware of the relevant ethical ~~sal, including independence, requirements provisions in this 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 ~~sal, including independence, requirements provisions~~, 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.

**5405.3 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 ~~als, including independence, requirements provisions~~ 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~~.

**R5405.4** ~~ISA 600 (Revised) also requires that~~ 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 requesting the component sustainability assurance firm to confirm whether it 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.

R5405.4a-A1 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*

R5405.5 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*

R5405.6 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.

R5405.7 In relation to related entities or components within the group ~~audit-sustainability~~

assurance client other than those covered in paragraph R5405.6, 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.

5405.7A1 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 R5405.7 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 5510).
- A loan or guarantee involving: (see Section 5511)
  - 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 5520).
- An immediate family member who is: (see Section 5521)
  - 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.
- The individual serving as, or having recently served as: (see Section 5522 and Section 5523)
  - 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.

R5405.8 Upon receiving the notification as set out in paragraph R5405.7, 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**

**R5405.9** 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**

**R5405.10** 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

**R5405.11** 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 R5510.4(a), R5510.7 and R5510.9 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 5511 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.

**R5405.12** 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 R5405.11(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.

**R5405.13** 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~~ — **[Paragraph 5405.14 A1 is intentionally left blank]** ~~The references to the financial statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the group financial statements and the audit report on the group financial statements respectively when applied in this section.~~

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

**R5405.15** 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.

**5405.15 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

**R5405.16** Subject to paragraph R5405.17, 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 5600 that are applicable to public interest entities with respect to provision of non-assurance services to the component audit-sustainability assurance client.

**5405.16 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 that might affect the sustainability information on which the component sustainability assurance firm performs assurance work to a component audit-sustainability assurance client that is not a public interest entity (see Subsection 5601).

- 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 perform assurance work (see Subsection 5606).
- 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 5608).

5405.16 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 5600. 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.

**R5405.17** As an exception to paragraph R5405.16, 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 5600 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 R5600.21 to R5600.24.

#### Key Audit-Sustainability Assurance-Partners Leaders

**R5405.18** 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 R5411.4; and
  - (ii) In the case of group audit-sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R5524.6, R5540.5(c) and R5540.20.

5405.18 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

**R5405.19** 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 R5400.71 to R5400.76.

## Changes in Component Auditor-Sustainability Assurance Firms

All Group ~~Audit~~ Sustainability Assurance Clients

5405.20 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 reporting period ~~for the engagement covered by the group financial statements~~, 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 reporting period ~~for the engagement covered by the group financial statements~~ 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.

5405.20 A2 Paragraphs 5400.31 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 ~~reporting~~ period ~~for the engagement covered by the group financial statements~~, 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.

- 5405.20 A3 Paragraph 5400.31 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 ~~reporting~~ period ~~for the engagement covered by the group financial statements~~.

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

- 5405.21 A1 Paragraphs R5400.32 and 5400.32 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.
- 5405.21 A2 Paragraphs R5600.25 and 5600.25 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**

- 5405.22 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 R5405.23 to R5405.29 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.
- 5405.22 A2 In the case of a breach at a component ~~auditor sustainability assurance~~ firm within the group ~~auditor sustainability assurance~~ firm's network, paragraphs R5400.80 to R5400.89 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

**R5405.23** If a component ~~auditor~~ sustainability assurance firm concludes that a breach of this section has occurred, the component ~~auditor~~ sustainability assurance firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component ~~auditor~~ sustainability assurance firm's objectivity and ability to perform ~~audit~~ assurance work for the purposes of the group ~~audit~~ sustainability assurance engagement;
- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
- (d) Promptly communicate in writing the breach to the group engagement ~~partner~~ leader, including the component ~~auditor~~ sustainability assurance firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

**5405.23 A1** Paragraphs **5400.80 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.

**R5405.24** 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.

**R5405.25** In applying paragraph **R5405.24**, 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~~.

**5405.25 A1** If the group engagement ~~partner-leader~~ determines that the consequences of the breach have 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.

**5405.25 A2** ~~ISA 600 (Revised) sets out that if~~ 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*

**5405.26 A1** With respect to breaches by a component ~~auditor-sustainability assurance~~ firm within the group ~~auditor-sustainability assurance~~ firm's network, paragraph R5400.84 applies.

**R5405.27** 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.

**R5405.28** 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 R5405.27 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.

**R5405.29** 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.



## SECTION 5406

### ANOTHER PRACTITIONER INVOLVED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT FOR A SINGLE ENTITY OR GROUP

#### Introduction

5406.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 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 that performs assurance work at the firm's sustainability assurance client and whose work the firm is unable to direct, supervise and review. Such a practitioner is referred to in this section as "another practitioner."

#### Requirements and Application Material

##### General

5406.2 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. An example of such circumstance is where the client chooses to engage another practitioner in relation to certain sustainability information.

5406.2 A2 As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and 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

R5406.3 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 ethics, including independence, provisions in this Part that are applicable to the sustainability assurance client 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.

5406.3 A1 Examples of matters the firm might communicate include:

- Whether the sustainability assurance client is a public interest entity and the relevant provisions applicable to the 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.

R5406.4 If the firm intends to use the work of another practitioner, the engagement leader shall take responsibility for requesting that practitioner to confirm whether:

- (a) Where the work has yet to be carried out, the practitioner understands and will comply with the relevant ethics, including independence, provisions; or
- (b) Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions.

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

R5406.5 If the firm intends to use the work of another practitioner, the firm shall request that practitioner to confirm that:

- (a) The practitioner is independent of the entity on whose sustainability information the other practitioner performs assurance work in accordance with the independence requirements of this Part that are applicable to a firm with respect to a sustainability assurance client; and
- (b) The individuals from that other practitioner who perform the assurance work are independent of that entity in accordance with the independence requirements of this Part that are applicable to a member of the sustainability assurance team with respect to a sustainability assurance client.

## **SECTION 5407**

### **INDEPENDENCE CONSIDERATIONS RELATING TO ASSURANCE WORK AT, OR WITH RESPECT TO, A VALUE CHAIN ENTITY**

#### **Introduction**

5407.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 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 performs assurance work, or uses assurance work performed, at, or with respect to, a value chain entity for the purposes of the sustainability assurance engagement.

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

##### **General**

5407.2 A1 The sustainability information on which a firm expresses an opinion might include information from a value chain entity. In performing the sustainability assurance engagement in accordance with the relevant sustainability assurance standards, the firm might determine that assurance procedures need to be performed at, or with respect to, that value chain entity. In such circumstances, the firm might:

- (a) Perform the assurance work at the value chain entity;
- (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or;
- (c) Perform the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity.

5407.2 A2 As information from value chain entities may be included in both standalone or group sustainability information, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and 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.

#### **Independence Considerations When a Firm Performs Assurance Work at a Value Chain Entity**

**R5407.3** If the firm performs assurance work at a value chain entity for the purposes of the sustainability assurance engagement, the firm and members of the sustainability assurance team shall be independent of the value chain entity in

accordance with the independence requirements of this Part that are applicable to a firm and a sustainability assurance team member, as applicable, with respect to a sustainability assurance client.

**Independence Considerations When a Firm Intends to Use the Work of a Sustainability Assurance Practitioner at a Value Chain Entity**

**R5407.4** If the firm intends to use the work of a sustainability assurance practitioner who performs assurance work at a value chain entity, the firm shall be satisfied that that practitioner is independent of the value chain entity in accordance with the independence requirements of this Part that are applicable to a firm with respect to that entity.

**5407.4 A1** For the purposes of meeting the requirement in paragraph R5407.4, the firm may rely on a statement of independence in the sustainability assurance practitioner's report.

**R5407.5** If the sustainability assurance practitioner has not provided a statement of independence in relation to the assurance work performed at the value chain entity, the engagement leader shall take responsibility for requesting the practitioner to confirm whether:

- (a)** Where the work has yet to be carried out, the practitioner will comply with the relevant ethics, including independence, provisions of this Part; or
- (b)** Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions of this Part.

**Independence Considerations When a Firm Performs Assurance work on Sustainability Information of a Value Chain Entity Provided by the Sustainability Assurance Client Without Carrying out Assurance Work at that Entity**

**R5407.6** If the firm performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity, the firm and members of the sustainability assurance team shall be independent of the sustainability assurance client in accordance with the independence requirements of this Part.

## SECTION 5410

### FEES

#### Introduction

- 5410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5410.2 Section 5330 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

- 5410.3 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.
- 5410.3 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.
- 5410.3 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))
- 5410.3 A4 If the firm also performs the audit engagement for the same client, the audit fees and fees for the sustainability assurance engagement are a matter for the firm and the client to agree. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply, in addition to the relevant provisions in Part 4A that apply to the separate audit engagement.

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

- 5410.4 A1 When fees are negotiated with and paid by an ~~an-audit~~ sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 5410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an ~~an-audit~~ sustainability assurance engagement, or any other engagement for an ~~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 ~~an-audit~~ sustainability assurance engagement.
- 5410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an ~~an-audit~~ sustainability assurance engagement, or any other engagement, are paid by the ~~an-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 ~~an-audit~~ sustainability assurance engagement and those for services other than ~~an-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 ~~an-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 ~~an-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.

5410.4 A4 The conditions, policies and procedures described in paragraph 5120.15 A3 (particularly a system of quality management designed, ~~and~~ implemented and operated by the firm in accordance with applicable quality management standards ~~issued by the IAASB~~) might also impact the evaluation of whether the threats to independence are at an acceptable level.

5410.4 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

5410.5 A1 Determining the fees to be charged to an ~~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.

5410.5 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.

5410.5 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

**R**5410.6 Subject to paragraph R5410.7, 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 ~~an-audit~~ sustainability assurance client by the firm or a network firm.

**5410.6 A1** The ~~audit-sustainability assurance~~ fee ordinarily reflects a combination of matters, such as those identified in paragraph **5410.23 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.

**R5410.7** As an exception to paragraph **R5410.6**, 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

**5410.8 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.

**R5410.9** A firm shall not charge directly or indirectly a contingent fee for an ~~audit-sustainability assurance~~ engagement.

**R5410.10** 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.

**5410.10 A1** Paragraphs **R5410.9** and **R5410.10** 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.

**5410.10 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.

5410.10 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**

5410.11 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 5410.11 A2 to A4 apply.

5410.11 A2 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.

5410.11 A3 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.

5410.11 A~~43~~ 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**

5410.12 A1 The level of the self-interest threat might be impacted if fees payable by an ~~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.

5410.12 A2 It is generally expected that the firm will obtain payment of such fees before the ~~audit-sustainability assurance~~ report is issued.

5410.12 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.

5410.12 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.

**R**5410.13 When a significant part of the fees due from an ~~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 ~~S~~section 5511 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*

5410.14 A1 When the total fees generated from an ~~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.

5410.14 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.

5410.14 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.

5410.14 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.

5410.14 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 leader~~ or one office of the firm.

5410.14 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 leader~~ or office.
- The extent to which the compensation of the ~~partner leader~~, or the ~~partners leaders~~ in the office, is dependent upon the fees generated from the client.

5410.14 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 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 leader~~ or office to the ~~audit-sustainability assurance~~ client.
- Increasing the client base of the ~~partner leader~~ or the office to reduce

dependence on the client.

- Increasing the extent of services provided by the partner leader or the office to other clients.

Audit Sustainability Assurance Clients that are Not Public Interest Entities

**R5410.15** 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 accountants 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.

**R5410.16** If the total fees described in paragraph R5410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R5410.15 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.

**R5410.17** 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 R5410.15 (a), if:

- (a) The circumstances addressed by paragraph R5410.15 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

**R5410.18** 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.

**R5410.19** 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 R5410.18, if:

- (a) The circumstances addressed by paragraph R5410.18 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.

**R5410.20** Subject to paragraph R5410.21, if the circumstances described in paragraph R5410.18 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.

**R5410.21** As an exception to paragraph R5410.20, 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.

**5410.21 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.

## 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*

5410.22 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

**R5410.23** Subject to paragraph R5410.24, the firm shall communicate in a timely manner with those charged with governance of a ~~n-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.

5410.23 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.

5410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

**R5410.24** As an exception to paragraph 5410.23, the firm may determine not to communicate the information set out in paragraph 5410.23 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

**R5410.25** Subject to paragraph 5410.27, 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 5410.23(a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement covered by the financial statements 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 5410.11 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.

5410.25 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 R5410.25(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.

**R5410.26** The firm shall include in the communication required by paragraph R5410.25(a) the fees, other than those disclosed under paragraph R5410.23(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.

5410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R5410.23(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.

**R5410.27** As an exception to paragraph R5410.25, the firm may determine not to communicate the information set out in paragraph R5410.25 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

**R5410.28** 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 R5410.18); and
- (c) Any proposal to continue as the auditor sustainability assurance engagement under paragraph R5410.21.

#### Public Disclosure of Fee-related Information

5410.29 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.~~

**R5410.30** 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.

5410.30 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 R5410.31(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.

**R5410.31** After the discussion with those charged with governance as set out in paragraph R5410.30, to the extent that the audit sustainability assurance client that is a public interest entity does not make the relevant disclosure, subject to paragraph

R5410.32, 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 reporting period for the engagement ~~financial statements 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 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.

5410.31 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 5410.30 A1.

5410.31 A2 Factors the firm might consider when making the determination required by paragraph R5410.31(c) are set out in paragraph 5410.26 A1.

5410.31 A3 When disclosing fee-related information in compliance with paragraph R5410.31, 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.

**R5410.32** As an exception to paragraph R5410.31, the firm may determine not to publicly disclose the information set out in paragraph R5410.31 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 ~~those that~~ group ~~financial statements~~ sustainability information.

#### *Considerations for Review Clients*

**R410.33** ~~— [Paragraph R5410.33 is 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 those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.~~

## SECTION 5411

### COMPENSATION AND EVALUATION POLICIES

#### Introduction

- 5411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5411.2 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

- 5411.3 A1 When an ~~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:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
  - (b) The role of the individual on the ~~audit sustainability assurance~~ team; and
  - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 5411.3 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.
- 5411.3 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.
- R5411.4** 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.

## SECTION 5420

### GIFTS AND HOSPITALITY

#### Introduction

- 5420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5420.2 Accepting gifts and hospitality from an ~~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

- R5420.3** A firm, network firm or an ~~an-audit~~ sustainability assurance team member shall not accept gifts and hospitality from an ~~an-audit~~ sustainability assurance client, unless the value is trivial and inconsequential.
- 5420.3 A1 Where a firm, network firm or ~~audit~~-sustainability assurance team member is offering or accepting an inducement to or from an ~~an-audit~~ sustainability assurance client, the requirements and application material set out in Section 5340 apply and non-compliance with these requirements might create threats to independence.
- 5420.3 A2 The requirements set out in Section 5340 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.

## SECTION 5430

### ACTUAL OR THREATENED LITIGATION

#### Introduction

- 5430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5430.2 When litigation with an ~~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

- 5430.3 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 ~~an-audit~~ sustainability assurance client and the firm, a network firm or an ~~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.
- 5430.3 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.
- 5430.3 A3 If the litigation involves an ~~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.
- 5430.3 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.

## 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 5120 to identify, evaluate and address threats to independence.
- 510.2 Holding a financial interest in an ~~an-audit~~ sustainability assurance 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 ~~an-audit~~ sustainability assurance client 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

- R**510.4 Subject to paragraph **R**510.5, 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.

5510.4 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.

**R5510.5** As an exception to paragraph R5510.4, an immediate family member identified in subparagraphs R5510.4(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**

**R5510.6** 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**

**R5510.7** Paragraph R5510.4 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

- R5510.8** (a) A firm, or a network firm, or a an-audit sustainability assurance team member, or any of that individual's immediate family shall not hold a financial interest in an entity when a 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 R5510.8(a) can become a 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

- R5510.9** 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 a 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 a 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 a 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 Interests – Other Circumstances

### *Immediate Family*

5510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an ~~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.

5510.10 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.

5510.10 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.

5510.10 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*

5510.10 A5 A self-interest threat might be created if an ~~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.

5510.10 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.

5510.10 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.

5510.10 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

5510.10 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 R5510.4, or their immediate family members.
- Individuals with a close personal relationship with an ~~audit~~ sustainability assurance team member.

5510.10 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.

5510.10 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.

5510.10 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

5510.10 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.

## 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 5120 to identify, evaluate and address threats to independence.
- 511.2 A loan or a guarantee of a loan with an ~~n-audit~~ sustainability assurance 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 ~~n-audit~~ Sustainability Assurance Client

- R**511.4 A firm, a network firm, an ~~n-audit~~ sustainability assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to a sustainability assurance ~~n-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 ~~n-audit~~ Sustainability Assurance Client that is a Bank or Similar Institution

- R**511.5 A firm, a network firm, an ~~n-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 ~~n-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 ~~n-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 ~~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 ~~an-audit~~ sustainability assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an ~~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 ~~an-Audit~~ Sustainability Assurance Client that is Not a Bank or Similar Institution**

R511.7 A firm, a network firm, an ~~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 ~~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.

## 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 5120 to identify, evaluate and address threats to independence.
- 520.2 A close business relationship with an ~~an-audit sustainability assurance~~ client or its management 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

- R**520.4 A firm, a network firm or an ~~an-audit sustainability assurance~~ team member shall not have a close business relationship with an ~~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.

- 5520.4 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 ~~an-audit~~ sustainability assurance team member.

### Common Interests in Closely-Held Entities

- R5520.5** A firm, a network firm, an ~~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 ~~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

- 5520.6 A1 The purchase of goods and services, including the licensing of technology, from an ~~an-audit~~ sustainability assurance client by a firm, a network firm, an ~~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.

- 5520.6 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

- 5520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To an ~~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 5600 apply.

## 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 5120 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 ~~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 ~~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.

**R5521.5** An individual shall not participate as an ~~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 ~~reporting period for the engagement financial statements~~.

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

**5521.6 A1** A self-interest, familiarity or intimidation threat is created when a close family member of an ~~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.

**5521.6 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.

**5521.6 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.

**5521.6 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**

**R5521.7** An ~~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.

5521.7 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.

5521.7 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.

5521.7 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

R5521.8 ~~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.

5521.8 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.

5521.8 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.

## 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 5120 to identify, evaluate and address threats to independence.
- 522.2 If an ~~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.

5522.4 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.

## 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 5120 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

- R**523.3 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

- R**523.4 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 5600, *Provision of Non-assurance Services to an ~~Audit~~ Sustainability Assurance Client*.)

## SECTION 524

### EMPLOYMENT WITH ~~AN AUDIT~~ 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 5120 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

- R**524.4 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.

5524.4 A1 Even if the requirements of paragraph R5524.4 are met, a familiarity or intimidation threat might still be created.

5524.4 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 5524.3 A1 and the entity subsequently becomes an audit a sustainability assurance client of the firm.

5524.4 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.

5524.4 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

**R5524.5** 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.

5524.5 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.



5524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit-sustainability assurance team.

5524.5 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

**R5524.6** Subject to paragraph R5524.8, 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

**R5524.7** Subject to paragraph R5524.8, 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

**R5524.8** As an exception to paragraphs R5524.6 and R5524.7, 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.

## 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 5120 to identify, evaluate and address threats to independence.
- 525.2** The loan of personnel to an ~~n-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 ~~n-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 ~~n-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 ~~n-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 ~~n-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 professional services that the firm or network firm is prohibited from performing by the Code.

## SECTION 5540

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

#### Introduction

- 5540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5540.2 When an individual is involved in an audit sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, 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

##### General

[Paragraph 5540.3 A1 is intentionally left blank]

##### All Audit Sustainability Assurance Clients

- 5540.43 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 or audit team member with:
- The audit sustainability assurance client and its operations;
  - The audit sustainability assurance client's senior management; or
  - 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.
- 5540.43 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.
- 5540.43 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- 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 for the sustainability assurance engagement or the audit engagement, 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.

5540.43 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.

5540.43 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, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time would be rotating the individual off the audit-sustainability assurance team.

5540.43 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<sub>1</sub> or external<sub>1</sub> quality reviews of the engagement.

**R5540.54**

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 R5540.75 to R5540.20-22 also apply.

**R5540.6**

Where an individual is a member of both the sustainability assurance team and the audit team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the sustainability assurance team and the audit team, the firm shall, in addition to complying with paragraph R5540.5, 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 R5540.7 to R5540.22 also apply.

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

**R5540.75**

Subject to paragraphs R5540.97 to R5540.119, 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 R5540.134 to R5540.2149.

**R5540.86** 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 R5540.75(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 R5540.134 to R5540.153 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

**5540.86 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 R5540.175.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client's financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R5540.18.

**R5540.97** As an exception to paragraph R5540.75, 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.

**5540.97 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.

**R5540.108** 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 the~~ capacity ~~of a key sustainability assurance~~

leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R540.75, 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 the~~ capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

**R540.119** 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 R540.75, 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

**R540.120** 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 or the audit engagement for the same client prior to the individual becoming a key sustainability assurance audit partner leader.

**540.120 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

**R540.131** If the individual acted as the engagement partner leader for seven cumulative years, the cooling-off period shall be five consecutive years.

**R540.142** 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.

**R540.153** If the individual has acted as a key audit partner sustainability assurance leader other than in the capacities set out in paragraphs R540.131 and R540.142 for



seven cumulative years, the cooling-off period shall be two consecutive years.

**540.164 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 5325.8 A4).

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

**R540.175** If the individual acted in a combination of key sustainability assurance audit partner leader or key audit partner roles and served as the ~~engagement partner~~ engagement leader or engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

**R540.186** Subject to paragraph R540.197(a), if the individual acted in a combination of key sustainability assurance audit partner leader or key audit partner roles and served as the key sustainability assurance audit partner leader or key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

**R540.197** If an individual has acted in a combination of engagement leader, engagement partner 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 R540.186, be five consecutive years where the individual has been the ~~engagement partner~~ engagement leader or engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R540.2018** If the individual acted in any combination of key sustainability assurance audit partner leader and key audit partner roles other than those addressed in paragraphs R540.175 to R540.197, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

**R540.2119** In determining the number of years that an individual has been a key sustainability assurance audit partner leader or a key audit partner as set out in paragraph R540.75, the length of the relationship shall, where relevant, include time while the individual was a key audit sustainability assurance partner leader on the sustainability assurance engagement or a key audit partner on that the audit engagement for the same client at a prior firm.

**R540.20** — [Paragraph R5540.22 is intentionally left blank]

Restrictions on Activities During the Cooling-off Period

**R540.231** 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 or the audit 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 or the audit 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 or the audit 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 or the audit engagement.

~~5540.234~~ A1 The provisions of paragraph R~~5540.2324~~ 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).

## Section 5600

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

#### Introduction

- 5600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5600.2 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.
- 5600.3 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.
- 5600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to a ~~n-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.
- 5600.5 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 a ~~n-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.
- 5600.6 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 a ~~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 a ~~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.

## Requirements and Application Material

### General

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

**5600.7 A1** Paragraphs R5100.6 to 5100.7 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*

**5600.8 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 R5400.21 have been complied with.

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

**R5600.9** 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

**5600.10 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 5120.6 A3.

**5600.10 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. R5400.20 to R5400.21).
- 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.

5600.10 A3 Subsections 5601 to 5610 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

5600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an ~~an audit~~ sustainability assurance client. Subsections 5601 to 5610 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.

**5600.11 A2** Where the Code expressly prohibits the provision of a non-assurance service to an ~~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

**5600.12 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 R600.15<sup>4</sup>. 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 R5600.17 and R5600.18 apply.

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

**R5600.13** When a firm or a network firm provides multiple non-assurance services to an ~~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.

**5600.13 A1** In addition to paragraph 5600.10 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 ~~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 sustainability assurance client.

**5600.13 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

**5600.14 A1** When a firm or a network firm provides a non-assurance service to an ~~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.

**R5600.15** 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 those 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

5600.16 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.

5600.16 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

**R5600.17** 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~~ assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 5600.14 A1 and R5600.15).

Providing advice and recommendations

**R5600.18** As an exception to paragraph R5600.17, 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. R5400.20 and R5400.21); 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.

5600.18 A1 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 financial and accounting controls related to sustainability information 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

5600.19 A1 Paragraphs R5120.10 to 5120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

5600.19 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.

5600.19 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).

5600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an ~~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

5600.20 A1 Paragraphs 5400.40 A1 and 5400.40 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

5600.21 A1 Paragraphs R5600.22 to R5600.24 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.

5600.21 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 R5600.22 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.

**R5600.22**

Before a firm that undertakes assurance work on the sustainability information that audits the financial statements 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 as sustainability assurance practitioner 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.

**5600.22 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.

**R5600.23** A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R5600.22 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.

**R5600.24** As an exception to paragraphs R5600.22 and R5600.23, 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).

**R5600.25** 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 R5600.22 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

**R5600.26** 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.

**5600.26 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*

**R5600.27** 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 R5400.2015, 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.

#### Documentation

- 5600.28 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R5400.60 and 5400.60 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 R5600.22, the steps taken to comply with paragraphs R5600.22 to R5600.24.

## SUBSECTION 5601 – ~~ACCOUNTING AND BOOKKEEPING~~ SUSTAINABILITY DATA AND INFORMATION SERVICES

### Introduction

5601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 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

5601.2 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

5601.3 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

5601.4 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

**R5601.5** 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.

5601.5 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.

5601.5 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.

5601.5 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 R5400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R5601.5(b).

5601.5 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

R5601.6 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.

R601.7 ~~[Paragraph R5601.7 is intentionally left blank]~~ As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- ~~(a) The audit report on the group financial statements 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 of the related entity and those financial statements are based on client approved information; and~~

~~(d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.~~

## SUBSECTION 5602 – ADMINISTRATIVE SERVICES

### Introduction

5602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

### Application Material

#### Description of Service

5602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

5602.2 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 ~~an-audit~~ sustainability assurance client of those dates.

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

All ~~Audit~~ Sustainability Assurance Clients

5602.3 A1 Providing administrative services to an ~~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.

## SUBSECTION 5603 – VALUATION, FORECASTING AND SIMILAR SERVICES

### Introduction

5603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 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

5603.2 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.

5603.2 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 5604.17 A1 to 5604.19 A1, relating to such services, apply.

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

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

5603.3 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.

5603.3 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 R5603.5 applies.

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

5603.3 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.

**R5603.4** 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 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.

5603.4 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

**R5603.5** A firm or a network firm shall not provide a valuation, forecasting or similar service to an ~~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. R5600.15 and R5600.17).

### Advocacy Threats

**5603.5 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 ~~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.

## **SUBSECTION 5604 – TAX SERVICES**

### Introduction

**5604.1** In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a tax service to an ~~an audit sustainability assurance~~ client.

## **Requirements and Application Material**

### Description of Service

**5604.2 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.

**5604.2 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

**5604.3 A1** Providing tax services to an ~~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.

5604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an ~~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

**R5604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to an ~~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.

5604.4 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 R5604.4 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

5604.5 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

5604.6 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

5604.7 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

5604.8 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 on which the firm expresses an opinion.

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

5604.9 A1 In addition to the factors in paragraph 5604.3 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.

5604.9 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

**R5604.10** 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. R5600.15 and R5600.17).

## C. Tax Advisory and Tax Planning Services

### Description of Service

**5604.11 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

**5604.12 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.

**5604.12 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.

**5604.12 A3** In addition to paragraph 5604.3 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 R5604.15 applies.

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

**R5604.13** 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

**5604.14 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

**R5604.15** 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. R5600.15, R5600.17, 5604.12 A2).

Advocacy Threats

**5604.15 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

5604.16 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

5604.17 A1 Providing a valuation for tax purposes to an ~~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.

5604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an ~~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 5603 relating to valuation services apply.

5604.17 A3 Performing a valuation for tax purposes for an ~~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*

5604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an ~~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.

5604.18 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 5604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an ~~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.

5604.18 A3 Examples of actions that might be safeguards to address such threats for an ~~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

**R5604.19** A firm or a network firm shall not perform a valuation for tax purposes for an ~~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. R5600.15, R5600.17,

5604.17 A3).

#### Advocacy Threats

5604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an ~~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

5604.20 A1 A non-assurance service to provide assistance to an ~~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

5604.21 A1 Providing assistance in the resolution of a tax dispute to an ~~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.

5604.22 A1 In addition to those identified in paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting an ~~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 ~~an-audit sustainability assurance~~ client that is a public interest entity has been identified, paragraph R~~5~~604.24 applies.

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

~~5~~604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an ~~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

**R~~5~~604.24** A firm or a network firm shall not provide assistance in the resolution of tax disputes to an ~~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. R~~5~~600.15 and R~~5~~600.17).

Advocacy Threats

~~5~~604.24 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 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*

**R~~5~~604.25** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an ~~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

**R5604.26** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an ~~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.

**5604.27 A1** Paragraphs R5604.25 and R5604.26 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.

**5604.27 A2** What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

## **SUBSECTION 5605 – INTERNAL AUDIT SERVICES**

### **Introduction**

**5605.1** In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to an ~~an audit~~ sustainability assurance client.

## **Requirements and Application Material**

### **Description of Service**

**5605.2 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.

**5605.2 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**

**R5605.3** Paragraph R5400.20 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.

**5605.3 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.

**5605.3 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

**5605.4 A1** Providing internal audit services to an ~~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.

**5605.4 A2** When a firm uses the work of an internal audit function in an ~~an audit~~ sustainability assurance engagement, ~~the applicable assurance standards~~ ~~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 ~~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.

**5605.4 A3** Factors that are relevant in identifying a self-review threat created by providing internal audit services to an ~~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 ~~an audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R5605.6 applies.

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

5605.5 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 ~~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

**R5605.6** A firm or a network firm shall not provide internal audit services to an ~~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. R5600.15 and R5600.17).

5605.6 A1 Examples of the services that are prohibited under paragraph R5605.6 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 information ~~or 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.

## SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

### Introduction

5606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an ~~an audit~~ sustainability assurance client.

## Requirements and Application Material

### Description of Service

5606.2 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.



**5606.2 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 ~~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**

**R5606.3** Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an ~~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.

**5606.3 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.

5606.3 A2 The collection, receipt, transmission and retention of data provided by an ~~an audit~~ sustainability assurance client in the course of an ~~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

5606.4 A1 Providing IT systems services to an ~~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.

5606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an ~~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 ~~an audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R5606.6 applies.

5606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect an ~~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 ~~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

5606.5 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*

**R5606.6** 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. R5600.15 and R5600.17).

## **SUBSECTION 5607 – LITIGATION SUPPORT SERVICES**

### **Introduction**

5607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 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**

5607.2 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*

5607.3 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.

5607.4 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 R5607.6 applies.

5607.4 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 5603 related to valuation services apply.

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

5607.5 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

**R5607.6** 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. R5600.15 and R5600.17).

5607.6 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

5607.6 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

5607.7 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.

**5607.7 A2** A threat to independence is not created when an individual, in relation to a matter that involves an ~~n-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.

**5607.7 A3** The advocacy threat created when acting as an expert witness on behalf of an ~~n-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*

**5607.8 A1** An example of an action that might be a safeguard to address an advocacy threat for an ~~n-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 ~~n-audit~~ sustainability assurance team member.

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

**R5607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for an ~~n-audit~~ sustainability assurance client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph **5607.7 A3** apply.

## **SUBSECTION **5608** – LEGAL SERVICES**

### **Introduction**

**5608.1** In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs **5600.1** to

5600.28 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

5608.2 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.

5608.2 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

5608.3 A1 Providing legal services to an ~~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 ~~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

5608.4 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 ~~an audit~~ sustainability assurance client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an ~~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

5608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to an ~~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 ~~an-audit~~ sustainability assurance client that is a public interest entity has been identified, paragraph R5608.7 applies.

5608.5 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.~~

5608.5 A3 Negotiating on behalf of an ~~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

5608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an ~~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

**R5608.7** A firm or a network firm shall not provide legal advice to an ~~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. R5600.15 and R5600.17).



## Advocacy Threats

5608.8 A1 The considerations in paragraphs 5608.5 A1 and 5608.5 A3 to 5608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an ~~an-audit~~ sustainability assurance client that is a public interest entity.

## B. Acting as General Counsel

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

**R5608.9** An ~~an engagement leader partner~~ or employee of the firm or the network firm shall not serve as General Counsel of an ~~an-audit~~ sustainability assurance client.

5608.9 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

**R5608.10** A firm or a network firm shall not act in an advocacy role for an ~~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 or the information involved are material to the ~~financial statements~~ sustainability information on which the firm will express an opinion.

5608.10 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 ~~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

**R5608.11** A firm or a network firm shall not act in an advocacy role for an ~~an-audit~~ sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

## SUBSECTION 5609 – RECRUITING SERVICES

### Introduction

5609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 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

**5609.2 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

**R5609.3** Paragraph R5400.20 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

**5609.4 A1** Providing recruiting services to an ~~audit~~ sustainability assurance client might create a self-interest, familiarity or intimidation threat.

**5609.4 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-accounting sustainability reporting, administrative or control positions.

**5609.4 A3** Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an ~~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.

**5609.4 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

**R5609.5** When providing recruiting services to an ~~an-audit~~ sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.

**R5609.6** A firm or a network firm shall not provide a recruiting service to an ~~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.

## SUBSECTION **5610** – CORPORATE FINANCE SERVICES

### Introduction

**5610.1** In addition to the specific requirements and application material in this

subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an ~~an-audit~~ sustainability assurance client.

## Requirements and Application Material

### Description of Service

5610.2 A1 Examples of corporate finance services include:

- Assisting an ~~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.

### Potential Threats Arising from the Provision of Corporate Finance Services

All ~~Audit-Sustainability Assurance~~ Clients

5610.3 A1 Providing corporate finance services to an ~~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 ~~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.

5610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to an ~~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 R5610.8 applies.

#### Corporate Finance Services that are Prohibited

**R5610.5** 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.

**R5610.6** 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

**5610.7 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

**R5610.8** 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. R5600.154 and R5600.176).

## Advocacy Threats

5610.8 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.

## **SECTION 5700**

### **INTERESTS, RELATIONSHIPS OR CIRCUMSTANCES INVOLVING VALUE CHAIN ENTITIES**

#### **Introduction**

5700.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5700.2 When a firm uses the work of a sustainability assurance practitioner at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion, interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and the value chain entity might create threats to independence. This section sets out application material relevant to applying the conceptual framework in such circumstances.

#### **Application Material**

##### **General**

5700.3 A1 The applicable reporting framework might require a sustainability assurance client to include information from value chain entities in its sustainability information. Depending on the reporting framework and the client's business and operations, this information might relate to multiple entities.

#### **Interests, Relationships or Circumstances Involving a Value Chain Entity**

**R5700.4** When the sustainability assurance team knows, or has reason to believe, that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and the value chain entity is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that interest, relationship or circumstance when identifying, evaluating and addressing threats to independence.