

# Sustainability Independence Considerations

## Workstream 1 Update

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IESBA CAG Meeting  
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## Consider and provide input regarding:

- ✓ The scope and proposed options for presenting new ethics and independence standards for sustainability assurance engagements
- ✓ Independence considerations applicable to sustainability assurance engagements
- ✓ Next Steps





# Recap of IESBA's Decisions



- IESBA committed to developing ethics and independence standards for sustainability assurance engagements irrespective of:
  - Whether the engagements are carried out by a professional accountant (PA) or other sustainability assurance provider (**profession-agnostic**)
  - The reporting and assurance frameworks used to prepare and assure sustainability information (**framework-neutral**)
- Recognizing the heightened public interest in specific sustainability information, sustainability assurance engagements must be underpinned by the same high standards that apply to audits of financial information
  - **Developing independence provisions equivalent to Part 4A of the Code, with applicable ethics provisions from other Parts of the Code**

# Scope of Standard for Sustainability Assurance



- Sustainability assurance engagements cover a wide range of assurance engagements
  - Is it necessary that sustainability assurance providers apply the more stringent provisions equivalent to Part 4A to all sustainability assurance engagements?
- WS1 proposes that new ethics and independence standards apply to sustainability assurance engagements of heightened public interest, where:
  - a. The assurance is provided on sustainability information reported in accordance with a general-purpose reporting framework; and
  - b. The sustainability information is widely available to the public and other stakeholders, or the information is specifically used for decision-making

# Presentation of New Standards

- In September 2022, IESBA discussed possible ways to present new, profession-agnostic ethics and independence standards for sustainability assurance
  - Revisions integrated within the Code (integrated approach) vs. Separate code for sustainability assurance engagements (standalone approach)
- Essential that the new standards meet the requirements of Public Interest Framework with respect to all sustainability assurance providers
  - Comprehensive | Scalable | Clear | Implementable | Globally Operable and Enforceable
- Roundtables participants to discuss the pros and cons and provide input to 3 possible options (see next slides)
- Two essential premises underlying all options
  - a. Use of terms that are relevant to both PAs and other sustainability assurance providers
  - b. Equivalence of ethics and independence provisions for sustainability assurance providers and for PAs performing audits of financial statements
    - The same requirements cannot be articulated differently for PAs and non-PAs

## Integrated Approach

### Option 1

# Provisions Relevant to Audit, Review, Assurance and Sustainability Assurance Engagements

## PART 1

*All Professional Accountants and Sustainability Assurance Providers*

## PART 2<sup>\*</sup> *Professional Accountants in Business*

<sup>\*</sup> Based on the Code's building blocks approach, when a sustainability assurance provider is performing assurance pursuant to the provider's relationship with its organization, the provider needs to comply with the provisions in Part 2 that apply to that circumstances (see paragraph R300.5)

## PART 3

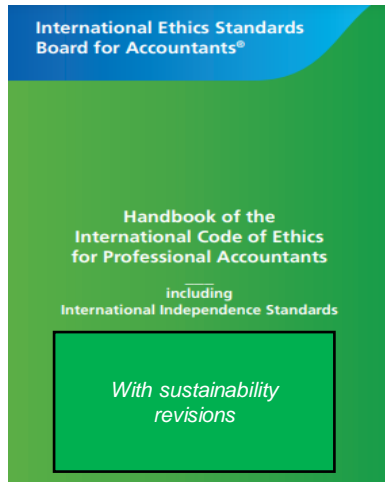
*All Professional Accountants in Public Practice and Sustainability Assurance Providers*

## PART 4A & 4B

**International Independence Standards**

*Part 4A – Audit, Review and Sustainability Assurance Engagements*

*Part 4B – Other Assurance Engagements*



## Glossary

# Integrated Approach – Option 1

Advantages	Disadvantages/ Risks
<ul style="list-style-type: none"><li>• One, single set of standards for PAs and other sustainability assurance providers<ul style="list-style-type: none"><li>— Avoids having to implement two separate, but almost identical Codes</li><li>— From a perception point of view, it better demonstrates that same ethics and independence standards should apply to audits of financial statements and sustainability assurance engagements</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Could be perceived as being developed first and foremost for PAs only</li><li>• May result in an architecture that would not be scalable if IESBA needs to address new types of assurance engagements of same heightened public interest as audits</li><li>• Further complexity to already complex independence standards for audits</li><li>• Changes to extant independence standards for audits could give rise to potential unintended consequences</li></ul>



## Integrated Approach

### Option 2

## Provisions Relevant to Audit, Review, and Other Assurance Engagements (excluding Sustainability Assurance)

## Provisions Relevant to Sustainability Assurance Engagements

### Guide

*Non-authoritative Guide to the Code for All Users*

### PART 1

*All Professional Accountants*

### PART 2

*Professional Accountants in Business*

### PART 3

*Professional Accountants in Public Practice*

### PART 4A & 4B

**International Independence Standards**

*Part 4A – Audit and Review Engagement*

*Part 4B – Other Assurance Engagements*

### PART 5

**International Ethics and Independence Standards for Sustainability Assurance Engagement**

**All Sustainability Assurance Providers (Including Professional Accountants)**

*Part 5A – Ethics Standard*

*Part 5B – Independence Standards*

### Glossary

International Ethics Standards Board for Accountants®

Handbook of the International Code of Ethics for Professional Accountants

including International Independence Standards

International Ethics and Independence Standards for Sustainability Assurance Engagement

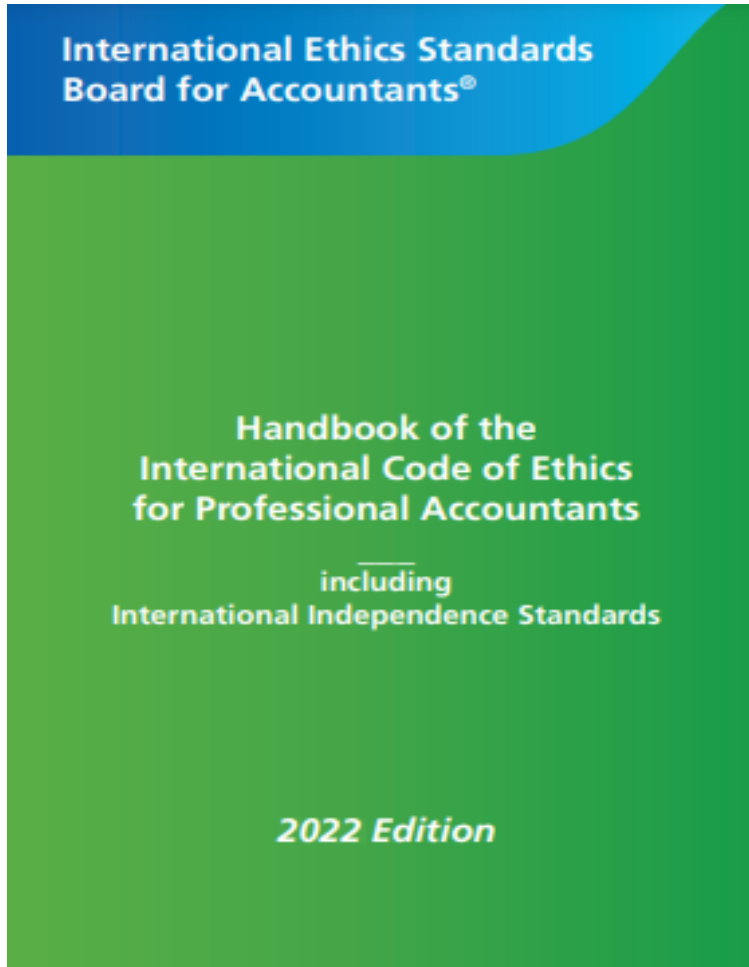


# Integrated Approach – Option 2

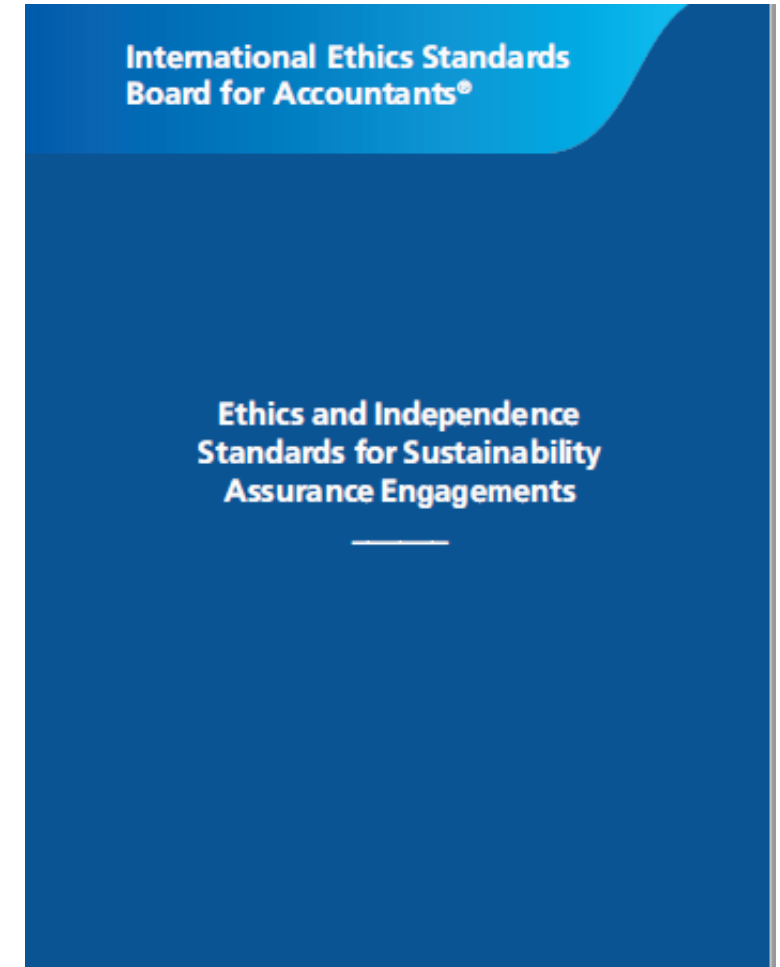
Advantages	Disadvantages/ Risks
<ul style="list-style-type: none"><li>• Having a separate Part applicable to all providers could better convey IESBA's intent to address the ethics and independence considerations for all sustainability assurance providers equally<ul style="list-style-type: none"><li>— Facilitate easier understanding of standards and promote their wider adoption</li></ul></li><li>• Greater flexibility to cater for other types of assurance engagements in the future</li></ul>	<ul style="list-style-type: none"><li>• Increased length of the Code given duplicated material</li><li>• For auditors, some potential complexity in navigating standards in two different locations</li></ul>

International Code of Ethics for Professional Accountants (including International Independence Standards)

International Code of Ethics and Independence Standards for Sustainability Assurance Engagements



Standalone Approach



# Standalone Approach

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Separate set of standards developed and available for all sustainability assurance practitioners</li><li>• Facilitate easier understanding of standards and promote their wider adoption</li></ul>	<ul style="list-style-type: none"><li>• Potentially long lead-time for adoption in jurisdictions where legal backing is required for ethics and independence that sit outside the Code</li><li>• Replicate Parts 1, 3 and 4A of the extant Code</li><li>• For auditors, some potential complexity in navigating standards in two different locations</li></ul>

## CAG Representatives' input is sought regarding:

- Scope of the new ethics and independence standards
- The proposed options for presenting the new standards, including their pros and cons
- Any preferred option

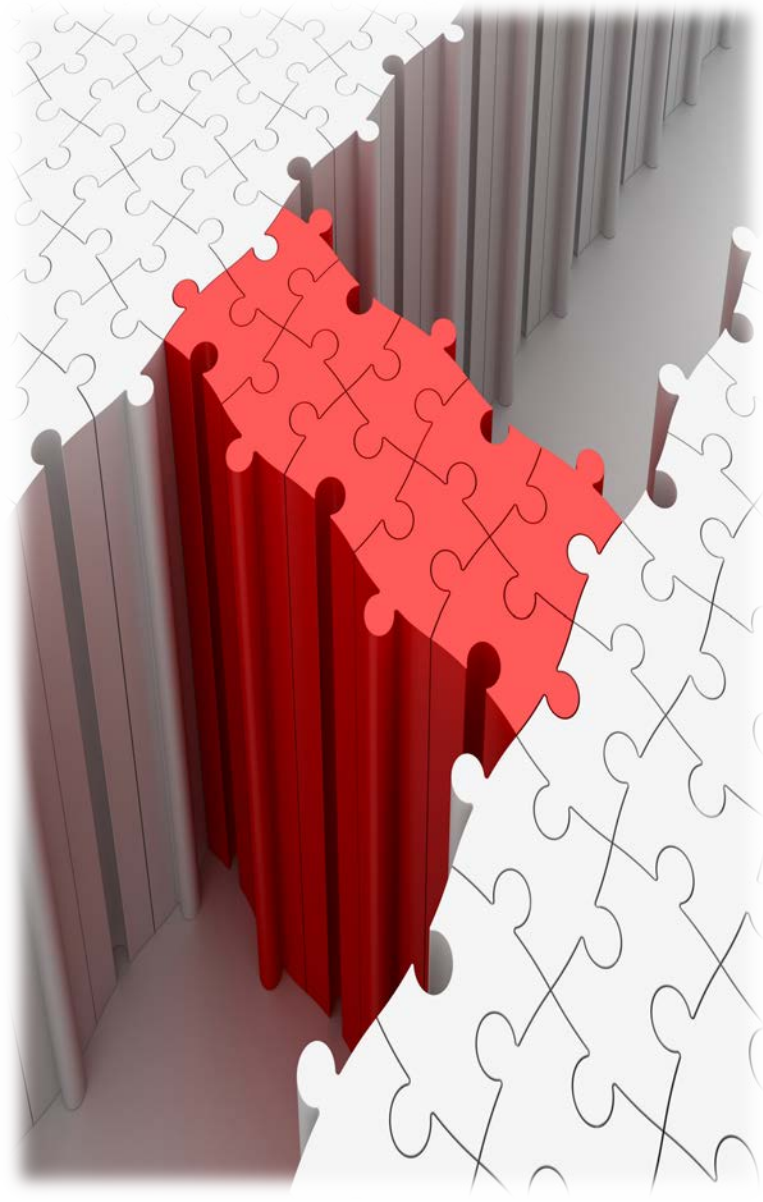




# Landscape of Sustainability Assurance Providers

- Sustainability assurance providers who are not PAs range from very large global operations down to relatively small single country operators
  - Generally, they are corporate rather than partnerships
- The large operators provide a wide range of other consultancy services → Some services are of an accountancy nature, such as due diligence, financial valuations, verification of business transactions and tax related services
- Sustainability related services provided include ISO certifications (e.g., for GHG emissions) and assurance in compliance with ISAE 3000/ISAE3410
  - Assurance levels provided include both limited and reasonable
- Only a few providers indicate compliance with the IESBA Code or an equivalent
  - Some refer to their own or other organization's code which typically are very much less detailed than IESBA Code
  - Other statements on independence

# Independence Considerations



- IESBA will consider whether threats to fundamental principles and independence in Part 4A can also be applied to equivalent scenarios in context of sustainability assurance
  - Are there any other scenarios the new independence standards for sustainability assurance engagements need to address?
- Some terminology used in Part 4A is specific for accounting firms and audit of the financial statements
  - Whether this terminology and principles are fit-for-purpose for profession-agnostic ethics and independence standards for all sustainability assurance providers
  - IESBA is seeking feedback whether the standards should include more neutral terms, for example “engagement leader” instead of “engagement partner”

# Independence Considerations

## Interests and Relationships

- Relationships addressed in Part 4A in the context of audit clients could also create threats to independence in the context of sustainability assurance engagements and sustainability assurance clients
- First-time implementation of new standards by non-PA assurance providers could result in breaches from day one
  - For example, fee cap from one client or provisions on partner rotation
- It could risk voluntary adoption of the new standard
- IESBA will consider potential ways to help first-time implementation
  - For example, guidance for non-PAs addressing their specific challenges while applying the Code
- Regulators and others who oversee and enforce compliance may need to consider transitional issues in relation to implementation

Financial  
interests

Loans and  
guarantees

Business  
relationships

Family and  
personal  
relationships

Long  
association of  
personnel and  
partner rotation

# Independence Considerations

## Provision of Non-Assurance Services

- IESBA will consider how the current prohibitions regarding non-assurance services in Sections 400 and 600 would apply in the context of sustainability assurance engagements
  - For example, prohibition on assuming management responsibilities and “self-review threat” prohibition
- Do sustainability assurance providers provide other services that could create threats to independence? WS1 is seeking input on whether sustainability assurance practitioners provide any other services to their clients
  - For example, management of sustainability data and information of the client
  - As an underlying principle, S 600 already requires the application of conceptual framework to new and emerging services
- Are there any potential threats to independence when an auditor also performs sustainability assurance for an audit client?
  - It may also result in revisions to current standard for auditors of financial statements



CAG Representatives' input is sought regarding the proposed approach for independence considerations applicable to sustainability assurance engagements?



# Next Steps



Any Questions or Comments

