

Agenda Item C-1

Independence Considerations for Sustainability Assurance Engagements

Key Matters Related to Draft Standards

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IESBA CAG, September 11, 2023

- 1) Report back on the March 2023 CAG discussions
- 2) Key Matters relating to Independence Standards for Sustainability Assurance
 - Scope of Independence Standards
 - Firm's Quality Management System
 - Determination of Public Interest Entities (PIE)
 - NAS Provided by Sustainability Assurance Practitioners
 - Group Sustainability Assurance Engagements
 - Using the Work of Another Practitioner
 - Relationship with Value Chain Entities



Recap of IESBA's Decisions re Independence



- Sustainability assurance engagements within scope of Part 5 must be underpinned by the same high standards that apply to audits of financial information
 - IESBA to develop independence provisions equivalent to Part 4A
- Relationships addressed in Part 4A in the context of audit clients could also create threats to independence in the context of sustainability assurance engagements
 - Part 5 will also address other scenarios specific to sustainability-related services (e.g. different reporting boundary)
- Some terminology used in Part 4A is specific to accounting firms and audits of financial statements
 - Part 5 will use more neutral terms (e.g. “engagement leader” instead of “engagement partner”)

Scope of Independence Standards in Part 5



- The standards will apply only to assurance engagements, both limited and reasonable assurance
 - Not applicable to “certification-type” engagements
- Independence standards in Part 5 will be applicable to attestation engagements, not direct engagements
- Sustainability assurance engagements cover a wide range of assurance engagements
 - Independence standards in Part 5 equivalent to standards for audit engagements apply to sustainability assurance engagements where there is same level of public interest as for audit
 - For other sustainability assurance engagements, Part 4B applies
 - IESBA will revisit Part 4B as part of a next phase

Scope of Independence Standards in Part 5



For other sustainability assurance engagements, Part 4B applies

- Independence provisions in **Part 5** apply to sustainability assurance engagements where the sustainability information on which the firm expresses opinion is:
 - a) Reported in accordance with a general-purpose framework; and
 - b) i. Required to be provided in accordance with law or regulation, or
 - ii. Publicly disclosed to support decision-making by investors or other stakeholders.
- In addition, law or regulation may require the application of Part 5 to sustainability assurance engagements not covered above

Provider



Sustainability Assurance Engagements

Certification Type
Engagements

“Part 5 Engagements”

Other

PA

Part 5

Part 4B

Parts 1-3

Non-PA

Part 5

Voluntary application of
Code, or other standards
as demanding as the
Code

Other ethics
frameworks

Questions & Comments



Quality Management System



- Prerequisite for firms performing sustainability assurance engagements, including non-PAs, to have a system of quality management in place to support compliance with a high bar of ethics and independence standards
 - Audit firms carrying out sustainability assurance are already subject to ISQM 1
- A firm of sustainability assurance practitioners complying with the Code will be required to be subject to ISQM 1 or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality management, that are at least as demanding as ISQM 1
 - Consistent with IAASB's proposals for ISSA 5000

Determination of PIE

Revised PIE
definition for audit
engagements will
come into effect
in December
2024

- What is a PIE in relation to sustainability-related services? Is it different for audit engagements and sustainability assurance engagements?
 - Different regimes in Part 5 for clients that are PIEs (equivalent to the standards in Part 4A of the Code)
- IESBA will not propose that Part 5 specifically determine PIEs in the context of sustainability assurance engagements
- Provisions for PIEs in Part 5 will be applicable if
 - The entity is a PIE for purposes of the audit of its financial statements, or
 - The specific jurisdiction determines that the entity is a PIE in the context of the sustainability assurance engagement.

Providing NAS to Sustainability Assurance Client

- IESBA reviewed independence provisions in Part 4A in the context of sustainability assurance engagements
 - Input from IESBA Sustainability Reference Group
 - Sustainability-specific examples of factors and safeguards
- The current prohibitions regarding NAS in Section 400 and 600 could also apply in the context of sustainability assurance engagements
 - For example, prohibition from assuming management responsibilities and “self-review threat” prohibition
- New NAS to address specific attributes of sustainability services
 - Sustainability data and information services instead of “accounting and bookkeeping”
 - Future-looking services, such as forecasting and estimation services



Questions & Comments



Group Sustainability Assurance Engagements



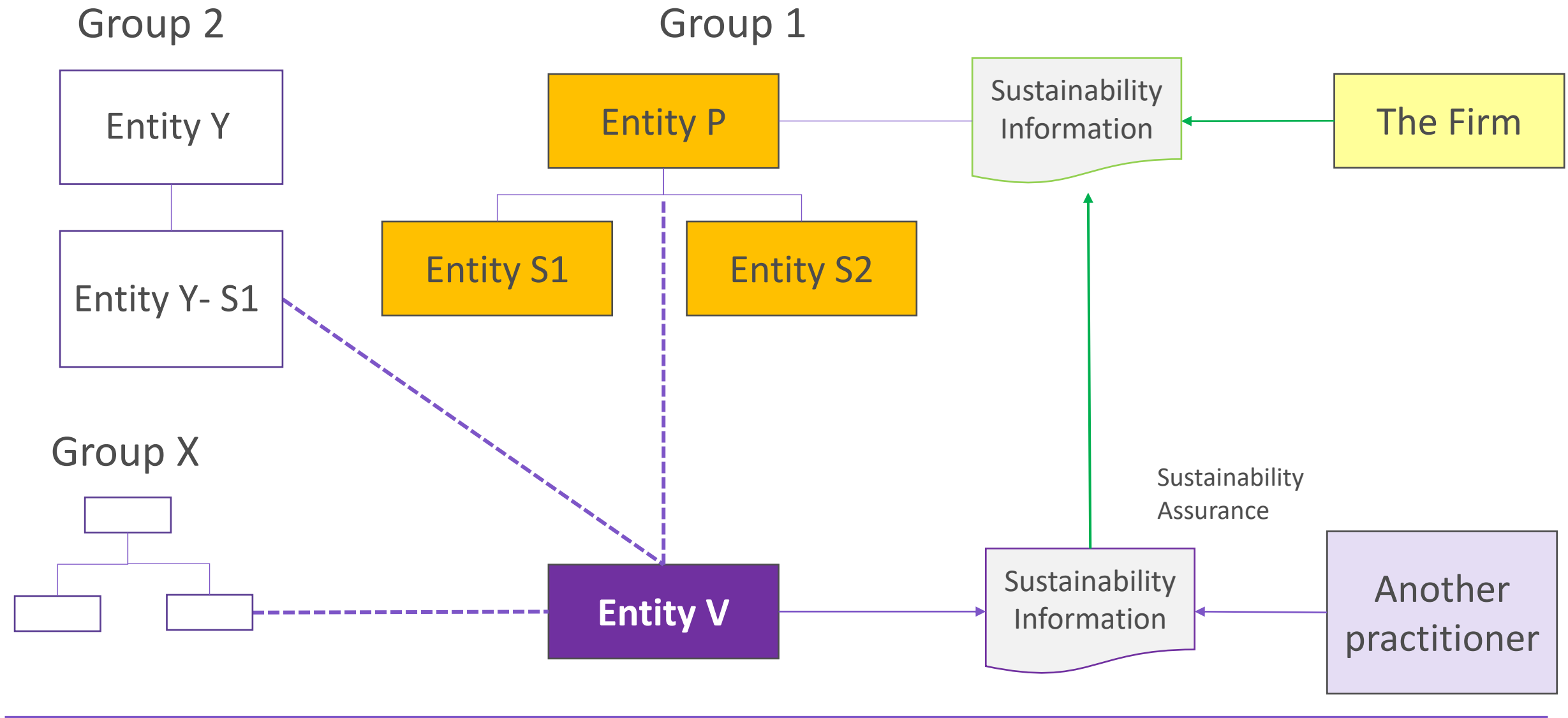
- Part 5 addresses independence of sustainability assurance team members
- Sustainability assurance engagements are mostly carried out in a group reporting context
 - WS1 proposes addressing independence of sustainability assurance team members and firms participating in *group sustainability assurance engagements*
 - Members and firms under the direction, supervision and review (DSR) of group firm
- Firms might need to use the work of other practitioners whose work the firm cannot direct, supervise or review
 - “Another practitioner” also performs assurance work and needs to be independent
 - It will be a defined term in the Glossary
 - They are not part of the engagement team

Using the Work of Another Practitioner

- Part 5 does not impose requirements directly on “another practitioners”
 - They are not part of the engagement team and not under DSR of the firm
- Requirements for the firm to obtain confirmation regarding another practitioner’s independence
 - Independence from the entity on whose sustainability information the practitioner expresses an opinion
 - Compliance with relevant provisions of the Code with respect to that entity
 - Application of “knows or has reason to believe” principle with respect to other entities within the group
- If the firm cannot obtain confirmation regarding the other practitioner’s independence, the firm cannot use that practitioner’s work




Using the Work of Another Practitioner



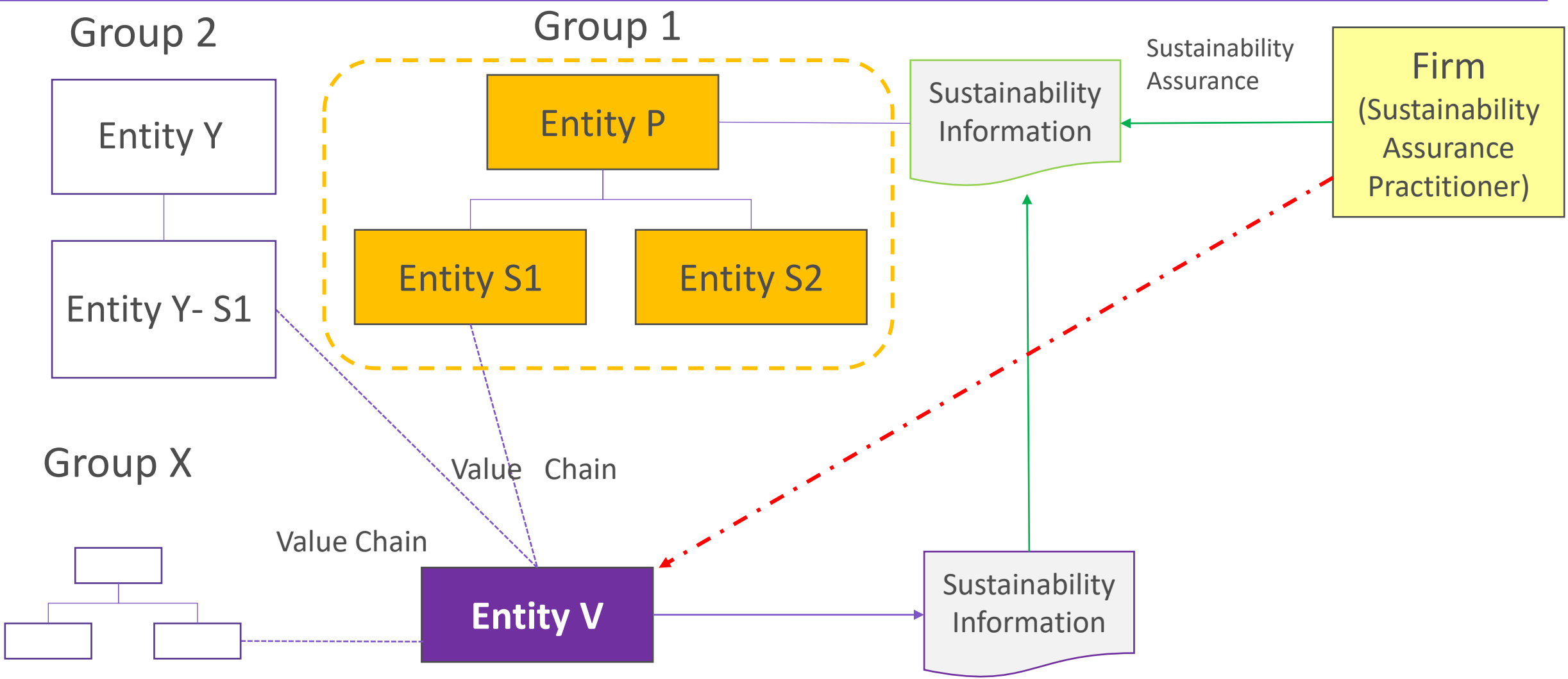
Questions & Comments



Relationship with Value Chain Entities

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- Reporting boundary for sustainability information might differ from reporting boundary for f/s
 - Reporting boundary might include activities, operations, relationships or resources up and down the entity's value chain that are not necessarily within the organizational boundary
 - Guidance regarding threats created by relationships between the firm and team members with a value chain entity
 - Material financial interests, loans or close business relationships might create SI threat
 - Provision of NAS might create SR threat if it impacts the sustainability information
 - Proposal recognizes “distance” from value chain entities and lack of access to information about those entities
 - Application of “knows or has reason to believe” principle by the firm and team members to identify threats
 - No monitoring obligation or additional administrative burden

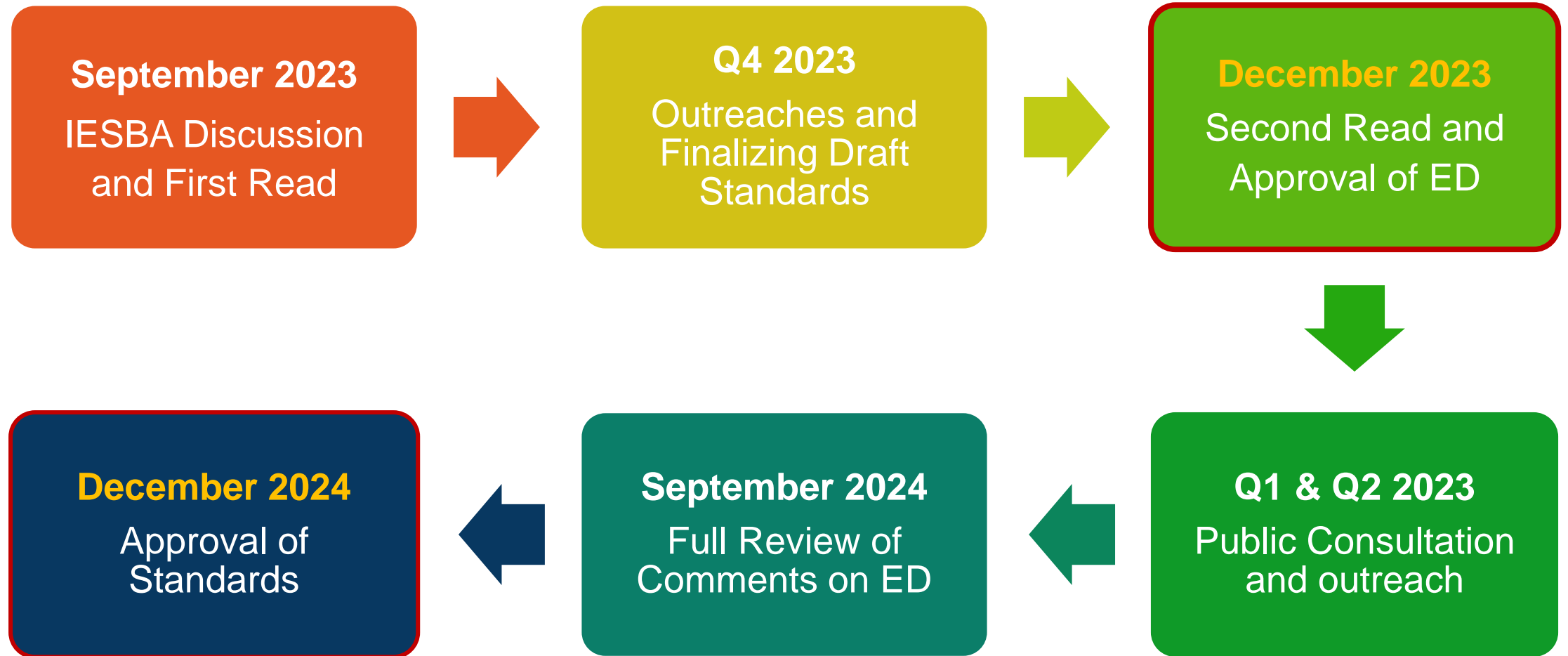
Relationship with an Entity within the Reporting Boundary



Questions & Comments



Next Steps





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