

IESBA Sustainability

Question 19 - Yes

Regulators and Oversight Authorities, incl. Monitoring Group members

CEAOB - Committee of European Auditing Oversight Bodies

Structure and scope of ED-IESSA

- The title of extant Code is “Handbook of the International Code of Ethics for Professional Accountants including International Independence Standards”. Given the proposed changes and the objective to develop ethics and independence standards for all SAPs, (i.e. including non-professional accountants) we invite the IESBA to consider reflecting the extended scope in the name of the Code.
- Due to the changes to the Code more clarity is needed for PAs and SAPs to determine which parts they must comply with (i.e. for PAs parts 1-4 and for SAPs part 5). This should be made clear also in the Guide to the Code rather than in paragraph 5100.2 only. The CEOB identified a risk that the overall structure of the Code might be misunderstood and that ethical provisions applicable to a PA vs. ethical provisions applicable to an engagement are not fully clear to all users. Additional explanations would help to clarify the structure.
- We suggest adding material clarifying where there are practical differences between parts 1-4 and part 5, to facilitate implementation by PAs that also perform sustainability assurance engagements.
- In the same vein, we note that Appendices 1 and 3 included in the Explanatory Memorandum (EM) are useful for PAs and SAPs. Therefore, we recommend including those flowcharts as application material in the final standard, as guidance for PAs and SAPs helping them to understand the provisions appropriately.

IAASA - Irish Auditing & Accounting Supervisory Authority

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IFIAR - International Forum of Independent Audit Regulators

Structure of ED-IESSA

The following changes to the structure would improve clarity and understandability of the standard:

- The criteria for it being required to apply sections 5400-5700 should be presented at the start of part 5, along with the other material on scope in section 5100.
- The Code should clarify in the Guide to the Code, which parts are applicable to professional accountants (PAs) and which ones to sustainability assurance practitioners (SAPs) (paragraph 5100.2).
- The Appendices 1 and 3 that are included in the EM are useful for PAs and SAPs and these flowcharts should be included in the application guidance of the final standard. The flowcharts should fully reflect the text of the requirements. We also encourage the IESBA to consider whether Appendix 3 could be expanded to specifically cover section 5700.
- In the extant Code, the terminology of calling part 4 the “International Independence Standards” is reasonable, as it refers to a distinct part. However, we believe retaining this label for sections 5400-5700 within part 5 impairs user readability, as it creates an additional layer of complexity with respect to terminology. For example, the title of part 5 could be shortened to International Ethics and Independence Standards for Sustainability Assurance, instead of the current version with brackets.

UKFRC - United Kingdom Financial Reporting Council

We believe the title for part 5 should be International Ethics and Independence Standards for Sustainability Assurance, rather than International Ethics Standards for Sustainability Assurance (including International Independence Standards), for three reasons.

- It flows better and is simpler.
- In the extant Code, the terminology of International Independence Standards refers to an entire Part, whereas here it would only refer to a collection of requirements within a Part. Therefore, we believe it is less merited to have a separate title for these requirements.
- Our suggested title clarifies that the independence requirements relate to sustainability assurance too, which is somewhat unclear in the current proposal.

Investors and Other Users

DIR - Daiwa Institute of Research Ltd

Problems regarding business model, meaning limitation and shortcoming of current “issuer-preparer pay model” should be considered in the future. This is quite similar to problems regarding analyst report and credit rating.

IAIP - Indian Association of Investment Professionals (CFA Society India)

SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE (page 12)

We appreciate the IESBA's take this initiative setting out a framework of expected behaviors and ethics provisions for sustainability assurance practitioners. We realize its importance as assurance of Sustainability data is critical so investors and other stakeholders have access to high quality data. This would help in better assessment of the risks and opportunities of material ESG factors which in turn result in efficient decision making for the clients.

However, we have some suggestions as below.

We believe it would be helpful to have more details on what is acceptable or considered a good competency or knowledge. Example – minimum years of experience, or education background, etc. Once it's clearly defined, domestic institutions can develop programs to develop these competencies to provide better services.

The guidelines seem to be more principle based which can be easily mis-interpreted defeating the purpose. It would be helpful if we can also explain with few case based examples to clearly demonstrate the guidelines.

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

We believe it may be challenging for the practitioner to explain the implications which is multidimensional. Sustainability affects revenue, cost, assets/liabilities, and cost of capital through various transmission channels. It will extremely difficult for the assurance providers to explain the implications of those limitation

Preparers and Those Charged With Governance

Asma Jan Muhammad

SUBSECTION 5111 – INTEGRITY (5111.1 A2)

Comments:

The way to observe and document such behaviors is not clearly defined. Typically, instances of standing one's ground or challenging others are documented, but they lack standardization in how these actions are reported and addressed at the appropriate level. Therefore, there is a need for standardized procedures to document and report such behaviors effectively.

PROVISIONS RELATING TO SECTION 5410 (FEES)

Background:

I have chosen to focus on the fee provisions for comment, given their significance in ensuring independence, transparency, and ethical conduct in sustainability assurance engagements. Fees are crucial because they can influence the objectivity and integrity of the auditing process, especially when they are negotiated with and paid by the audit sustainability assurance client. By providing feedback on these provisions, I am contributing to the enhancement of standards that are pivotal in maintaining trust and credibility in sustainability reporting.

Comments:

While the provisions related to fees for sustainability assurance work offer a robust framework for addressing threats to independence and ensuring transparency, there are some areas where potential improvements could be made:

- **Subjectivity in Evaluation:**

The evaluation of threats to independence based on factors such as fee levels, client dependency, and service linkage may involve subjective judgments. Without clear guidelines or thresholds, there is a risk of inconsistency in how firms assess and address these threats, potentially leading to varying levels of independence across engagements.

- **Limited Enforcement Mechanisms:**

While the guidelines outline requirements and safeguards, there may be limited enforcement mechanisms to ensure compliance. Without effective oversight or penalties for non-compliance, firms may not feel sufficiently incentivized to adhere to the provisions rigorously.

- **Complexity and Interpretation:**

The provisions are detailed and complex, which could lead to challenges in interpretation, especially for smaller firms or practitioners. Ambiguities in the guidelines may result in differing interpretations among stakeholders, leading to confusion and inconsistency in implementation.

- **Inadequate Addressing of New Business Models:**

With evolving business models and emerging trends in sustainability reporting and assurance, the provisions may not fully capture new forms of fee arrangements or client engagements. There may be a need for periodic updates to ensure relevance and effectiveness in addressing emerging threats to independence.

- **Limited Consideration of External Factors:**

The provisions primarily focus on internal factors within the firm and its engagements. However, external factors such as regulatory changes, market dynamics, or economic conditions could also impact fee arrangements and independence. Incorporating a broader perspective may enhance the resilience of the framework.

- **Challenges in Implementation for Small Firms:**

Smaller firms with limited resources may face challenges in implementing the requirements effectively. The costs associated with compliance, such as investing in quality management systems or independent reviewers, could be prohibitive for smaller practitioners, potentially creating a disparity in adherence to the provisions.

Addressing these potential shortcomings would require ongoing review and refinement of the provisions, considering feedback from stakeholders, emerging industry trends, and evolving regulatory landscapes. Additionally, providing guidance and support tailored to the needs of smaller firms could help enhance the effectiveness and accessibility of the framework.

GENERAL SUGGESTIONS:

- *Restricting Sustainability Assurance to Qualified Firms*

Sustainability assurance should be restricted to firms that meet special stringent Quality Control Review (QCR) criteria and possess a certain level of size and capacity. In essence, very small firms should be excluded from offering these services due to the critical importance of sustainability to both business and the environment. This measure would ensure that ethical standards in sustainability are upheld from the outset of the assurance process.

- *Proactive Measures for Management in Sustainability Reporting*

While standards primarily address those engaged in providing sustainability assurance services, there is a corresponding need for proactive measures from businesses' management. Certain regulations should mandate that management takes the issuance of management representations regarding data provided to sustainability auditors seriously and conscientiously. Mandatory training for business personnel involved with preparation of data required for sustainability measurement and reporting should be implemented, ideally through a certification from a recognized body, demonstrating their understanding of data maintenance, record-keeping, and the understanding of how to accurately measure the Key Performance Indicators (KPIs) related to sustainability. In other words, while the adherence requirements would significantly increase on one side, it would preclude the possibility of shortcuts in the early phase, setting the right tone for thorough ethical sustainability practices from the outset.

- *Addressing Timing Challenges in Sustainability Assurance*

The timing of required assurance poses significant challenges. I have observed in the case of public entities that auditors are often compelled to deliver audit reports within an extremely short timeframe following the close of the financial year. This tight reporting schedule can render it impractical for auditors to conduct thorough assessments diligently. Such demanding reporting timelines exert undue pressure and, at times, compromise the objectivity of the exercise. Sustainability assurance encounters similar challenges. Therefore, I suggest that, particularly in the initial years when businesses and sustainability auditors may struggle to establish a solid foundation for ethical processes and reliable data, they should be afforded adequate time to implement the necessary measures before publishing sustainability reporting data.

Public Sector Organizations

AGNZ - Office of the Auditor General of New Zealand

We are confused about the relationship between the tax planning section (in Section 5380) and the tax advisory and tax planning services section (in Sub-section 5604). These sections appear to discuss the same material, but they are presented quite differently. We are concerned that Section 5380 is written in a way that advocates for the conduct of tax planning services rather than in identifying the threats to independence and in guiding the appropriate responses to eliminating or mitigating those threats.

GAO - US Government Accountability Office

We believe that the proposed Code should not be issued unless there is parity in the ethics and independence requirements for both accountants and practitioners. Ethics and independence requirements serve the public interest and help ensure that the information provided is trustworthy and supports the consistent performance of high-quality assurance engagements and other services. Generally accepted government auditing standards has consistent ethics and independence requirements for both performance auditors who audit subject matter information and financial statement auditors.

UNCTAD ARP - UNCTAD African Regional Partnership

Only one concern was raised, advocating for the standards to be obligatory rather than merely influential, with suggested remedies in case of non-compliance.

Independent National Standard Setter

APESB - Accounting Professional & Ethical Standards Board (Australia)

APESB is concerned about the complex numbering system that is used in the proposed Part 5. We note that some of the proposed paragraphs have letters included with the numbering (e.g., 5100.2, 5100.2a and 5100.2b), which we assume is to highlight when the proposed paragraph is not in the extant Code. However, we believe this creates unnecessary complexity for the users, especially for non-professional accountants who may only be using the proposed Part 5 of the Code. APESB suggest the IESBA consider renumbering the proposed paragraphs in the proposed Part 5 to be sequential or to just use numbers and decimals points to differentiate each paragraph (e.g., 5100.2, 5100.2.1, 5100.2.2). If this suggestion is not implemented, the IESBA should provide clarification within Part 5 as to why some paragraphs have additional letters connected to the paragraph numbers.

In addition, we have noted the following editorial matters for the IESBA's consideration:

- The drafting of paragraph 5111.1 A2 is inconsistent with paragraph 111.1 A2;
- Across the proposed Part 5, the use of the term sustainability assurance client and client is inconsistent. For example, in paragraph 5300.7 A3, the full term 'sustainability assurance client' is used, whereas in paragraph 5300.7 A4, the full term is used, and then it is shortened to just the term 'client'. The draft provisions should be reviewed to ensure the terms are used consistently. APESB prefers the second approach listed here to simplify the complexity of the text.

- APESB would also encourage the IESBA to review the proposed Part 5 to find opportunities to simplify the wording and ensure that drafting is consistent. For example, when you consider proposed paragraph 5300.7 A4a and proposed paragraph 5300.7 A5, it is apparent that the wording in proposed paragraph 5300.7 A4a could be simplified as follows:

‘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.’

NZAuASB - New-Zealand Auditing & Assurance Standard Board

Scope of Part 5

We found that the scope of Part 5 is not easily understood.

The Explanatory Memorandum (EM) paragraphs 28-44 and the diagrams in Appendix 1, provide helpful explanations about how the requirements and the glossary definition are expected to work together.

The EM helpfully clarifies that sustainability assurance engagements in the scope of the proposal do not include certification engagements. This could be included in Part 5 definitions.

We encourage the IESBA to explore ways to explain the scope of Part 5 or provide a tool to help navigate the requirements to understand the scope.

We ask the IESBA to clarify the title to highlight that the proposals apply to assurance engagements over sustainability information rather than refer to “sustainability assurance.” By referring to sustainability assurance, it may imply that the assurance is providing trust and confidence that the company is sustainable or that it covers other sustainability assurance (such as eco-labels or special purpose business to business reporting) rather than the assurance being restricted to the sustainability information reported by the company. We urge the IESBA to continue to work with the IAASB to be clear about what is included and if there are differences in scope to use different terminology to clarify the differences in scope.

Competence

We consider that competence and independence are critical to building trust and confidence within reported sustainability information and should have equal weighting and consideration in each engagement. We acknowledge that professional care and due competence is a fundamental principle in the Code, but believe that sustainability competence needs to consider and recognise the need for “contextual” awareness (e.g. location-specific environmental, social, economic and cultural issues). As this is an emerging field, it also needs to recognise that there is not one comprehensive set of

existing technical or professional standards that can be relied on. We recommend that R5113.1 A2 be amended as follows:

“The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. The sustainability assurance practitioner may need to consider location-specific environmental, social, economic and cultural issues. For example, in addition to ... “

We also consider that “context” specific knowledge is fundamentally important in determining sufficient expertise for sustainability assurance engagements. See our response to question 6 for further details.

Professional Accounting Organizations (PAOs)

AE - Accountancy Europe

Transitional provisions should be considered for specific sections such as the provisions related to long association of personnel, including leader rotation.

CAI - Chartered Accountants of Ireland

- We note communication between the external auditor and the SAP, and vice versa, is only considered in the context of Non-Compliance with Laws and Regulations (360 and 5360). This ‘consideration’ of communication between the SAP and the auditor should be extended to non-NOCLAR situations, for example, as part of 320 and 5320, Professional Appointments, subject to the client’s permission and consideration of relevant factors, including the list of examples provided by 5360.18a A1.
- During our review, we identified several examples of inconsistent use of terminology, which we recommend the IESBA reviews and simplifies for greater clarification and ease of understanding. Examples we identified include:
 - The terms ‘sustainability assurance practitioner (SAP)’ and ‘practitioner’ are used interchangeably throughout Part 5 of the Code. This is confusing, as the term “Practitioner” is not defined within the glossary and may be mistaken for any of the following terms in the glossary: “Another Practitioner”, “Existing Practitioner”, “Predecessor Practitioner”, “Proposed Practitioner”, and “Sustainability Assurance Practitioner”. For clarity and ease of understanding, we recommend the Code does not interchange between one of these defined terms and the word ‘practitioner’, but instead refers to the full term, as defined.
 - The definition of “value chain” in the glossary refers to applicable “sustainability reporting framework”. The latter term is not defined in the glossary, but instead the definition of “General Purpose Framework” refers to “general purpose sustainability reporting frameworks”. In this case, we recommend deleting “general purpose” before “sustainability reporting frameworks”.
 - The definition of “General Purpose Framework” includes a description of the use of the term “compliance framework”, which may be confusing to many users of the Code, who commonly understand a compliance framework to relate to a system to ensure compliance with internal controls and risk management. We recommend the IESBA reconsiders the terminology being applied, and in doing so, whether reference to a ‘principles based reporting framework’ and a ‘rules based reporting

framework’ would be simpler terminology to convey the meaning of “General Purpose Framework”?

- The definition of “Engagement Leader”, included in Chapter 2 of the ED, Proposed Revised Glossary, could be clearer by referring instead to a ‘Sustainability Engagement Leader’. When the term “Engagement Leader” is used within the text of the Code, e.g. 360.18a A2, it is not immediately clear what is being referred to and a user may not be aware this is a defined term. By referring to ‘Sustainability Engagement Leader’ it is more apparent that this is a role separate to “Engagement Partner” and more likely relates to sustainability assurance.
- The glossary defines “Sustainability Assurance Engagement” but does not differentiate between “Other Sustainability Assurance Engagements” referenced within 5400 in relation to the International Independence Standards. “Other” sustainability assurance engagement is open to interpretation, and unless familiar with the extant Code requirements regarding “assurance engagements other than audit and review engagements”, a SAP, or preparer of sustainability information, may not make a distinction with “sustainability assurance engagement”.
- Regarding paragraph 49 of the Explanatory Memorandum, we do not agree with the IESBA decision to not include ethical standards equivalent to extant section 321, Second Opinions. In the explanation provided, the IESBA has not considered the (a) outcome of a situation in which a SAP might be asked to provide a second opinion on the application of sustainability reporting standards or principles to specific circumstances, or (b) basis for measurement for sustainability information used by an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor SAP had, or is based on inadequate evidence.
- Regarding 5100.6 A3 and 5115.2 A1, we do not agree with including guidance for the SAP to consult with an appropriate regulatory or professional body, when obtaining separate legal or other expert advice may be a more appropriate step to take. A regulatory body may not be able to engage as it may compromise the objectivity and independence of its regulatory role, and it, and professional bodies, may not be sufficiently informed of all necessary and relevant information to advise the SAP on next steps.
- Regarding proposed amendments to Section 540 of the extant Code, and proposed new Section 5540 in Part 5 of the Code, we highlight a practical challenge that may present as a result of SAP rotation. The challenge arises in relation to sustainability assurance work that may be required to be performed in relation to a sustainability assurance client’s targets and forward-looking information. Targets and target planning, or realigning targets, involves relying on sustainability information from an established baseline period. When a new SAP is appointed, unless the work of the previous SAP can be relied upon, entities will be faced with the baseline period sustainability information being reassured. This may be impractical and add unnecessary additional costs. We recommend the IESBA considers the inclusion of a provision that allows successor SAPs the option to rely on the work of the previous

SAP together with provisions requiring the previous SAP to share details of their sustainability assurance work with their successor.

CPAA - CPA Australia

CPA Australia offers the comments and observations:

- Contents of Part 5: The IESBA might consider using bolded wording or spacing to more clearly identify the commencement of a new section and to more clearly differentiate between those sections – e.g., moving from 5100 to 5200 to 5300.
- Proposed paragraph 5100.1: CPA Australia recommends that the IESBA better clarifies the types of standards alongside which it expects “(h)igh-quality ethics and independence standards” are to be used. That is, rather than being used alongside merely “other” reporting and assurance standards, the IESBA may wish to consider using terminology such as “high-quality, globally accepted” reporting and assurance standards. This change would recognise the importance of the quality of reporting and assurance standards being used and on which assurance is being obtained, by the sustainability assurance practitioner.
- Proposed paragraph 5100.1a: The IESBA proposes that the “(s)ustainability assurance practitioners are expected to have relevant knowledge, skills and experience to perform” This is an example of where different definitions proposed by the IESBA with respect to proposed revisions related to the use of an expert, and used by the IAASB in its standards, create confusion. If one relies on:
 - The IESBA proposed definition, this statement is read as “(s)ustainability assurance practitioner are expected to have relevant expertise and experience to perform”
 - The IAASB definition, this statement is read as: “(s)ustainability assurance practitioner are expected to have relevant expertise to perform”

CPA Australia recommends that IESBA reviews its proposed standards and ensures that terms are used consistently throughout and does not create uncertainty for readers of the standards.

- Proposed paragraph 5100.6 A1: The IESBA should consider changing the word “enable” at the start of the second line of this paragraph to “support” or “assist”. This change would recognise that acting in the public interest is something that is not achieved by merely having standards to which to refer.
- Proposed paragraph 5115.2 A1: The IESBA should consider adding the words “or regulatory” between the words “professional” and “body” in the last line of the paragraph. This is consistent with creating profession agnostic standards and recognises that not all sustainability assurance practitioners will be members of a professional body.
- Proposed paragraph 5120.14 A1: As worded, this paragraph seems to be questioning the quality of the ISQM1 standard, and suggesting that it only might (i.e., it also might not) achieve the stated purpose. Assuming that that is not the intention, CPA Australia

recommends that the IESBA considers revising the wrong of this paragraph as follows:

“Quality management standards, such as ISQM1, might be used as a point of reference to address firm culture in the context.....”

- Proposed paragraph 5300.7 A3(c): The IESBA should consider revising this point to read “A client to whom no audit or assurance services are provided”.
- Proposed paragraph 5320.3 A2 Second dot point: There appears to be a superfluous “the” before the word “questionable” in this sentence, which could be removed.
- Proposed paragraph R5380.14: It is not the role of an assurance practitioner to consider reputational and commercial consequences. That is a role of the client.

GAA - Global Accounting Alliance

As indicated by earlier remarks and the dynamics of current developments, the IESBA should monitor the utilization of these standards and reflect upon their effectiveness. There is a strong case to set in place an earlier intended timeframe for post-implementation review than is normally considered, for example two years after implementation. This will be vital to mitigate against unintended consequences and for safeguarding the significant value of the Code as it currently stands.

HKICPA - Hong Kong Institute of Certified Public Accountants

Fee-disclosures

Our local stakeholders have expressed that challenges may arise from the implementation of the disclosure requirement of fee-related information under paragraphs R5410.30 and R5410.31 of the ED-IESSA.

Paragraph R5410.30 states that if laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than 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 a sustainability assurance client that is a public interest entity:

- 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
- The information that might enhance the users’ understanding of the fees paid or payable and their impact on the firm’s independence.

Paragraph R5410.31 of the ED-IESSA further requires that where a sustainability assurance client that is a public interest entity does not make the relevant fee disclosure, the firm should publicly disclose (a) fees paid or payable to the firm and network firms for the sustainability assurance engagements; and (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 on which the firm will express an opinion. The equivalent requirements for an audit of financial statement are set out in paragraphs R410.30 and R410.31 of the extant Code.

Hong Kong listed entities are mandated by the Corporate Governance Code of the Hong Kong Listing Rules (Appendix 14) to disclose an analysis of remuneration pertaining to both audit and non-audit services provided by auditors and the details of the nature of the services and the fees paid for each significant non-audit service assignment. Therefore, audit practitioners have not encountered significant issues in complying with the requirements of paragraphs R410.30 and R410.31 of the extant Code. We believe that in most jurisdictions, there would be no implementation concern in respect of the requirements for audits of financial statements as the regulatory and reporting framework for financial statements audits are well established. Furthermore, we note that there had been no specific guidance developed by the International Auditing and Assurance Standards Board (IAASB) to address the fees disclosure requirements in the extant Code.

Unlike financial statement audits, without mandatory requirements for sustainability assurance and the related fee disclosure requirements in Hong Kong, practitioners may face challenges when requesting their sustainability assurance clients to publicly disclose the fee-related information in their sustainability reports. Clients may be reluctant to do so and perceive the primary responsibility for complying with paragraphs R5410.30 and R5410.31 of the ED-IESSA lie with the practitioners rather than with the entities.

As the sustainability reporting framework, laws and regulations as well as best practices for sustainability are still evolving for most jurisdictions, we believe it may not be in the best interests of users of sustainability assurance reports to impose the same requirements for sustainability assurance as for an audit of financial statements. There could be unintended consequences with sustainability assurance practitioners disclosing clients' information for the first time in their report if there are no relevant laws and regulations requiring clients to disclose such information.

Therefore, we suggest that the IESBA consider providing some relief such as starting off with encouraging the fee disclosures as best practice and transitioning them into requirements over time. At the same time, the IESBA, local regulators and standard setters would need to educate both the practitioners and the sustainability assurance clients to enhance their awareness and understanding of the benefits associated with fee transparency in sustainability reporting.

We note that the IESBA has solicited feedback on Section 5390 within its Exposure Draft on Using the Work of an External Expert, therefore, we have duly submitted our comments on this particular section in our comment letter to the IESBA on 29 April 2024.

ICAEW - Institute of Chartered Accountants in England and Wales

We agree with the broad intent behind the proposals, which has as its ultimate goal, to raise the quality and reliability of Sustainability Information and the views expressed in Sustainability Assurance engagements for the benefit of all those relying on such information.

As such, we agree that all the public interest is best served by ensuring that all Sustainability Assurance Practitioners have the necessary knowledge, skills, experience and the sufficient degree of independence necessary- to undertake Sustainability Assurance Engagements.

We consider it important to ensure that all Sustainability Assurance Practitioners, irrespective of their professional background, have a shared and uniform interpretation and understanding of the requirements set out in these proposals and therefore consider that there is considerable scope for IESBA to produce supporting material and guidance in this regard.

IDW - Institute der Wirtschaftsprüfer (Germany)

We refer to our cover letter.

Key Concerns

The need for a level playing field

Users of financial statements and sustainability reporting have been vocal in demanding information that is connected, comparable and reliable.

Various parties, including the EU Commission, have tasked the financial statement auditor with the performance of sustainability assurance engagements for a variety of reasons, of which the IESBA will be aware. The IDW firmly believes that the advantages associated with the financial statement auditor performing sustainability assurance engagement are compelling and that the auditing profession's adherence to a high standard of ethical behavior is essential in the public interest in the context of sustainability assurance. Therefore, whilst we understand that non-professional accountants may also be tasked with sustainability assurance engagements, we consider it imperative that, where this is the case, legislative measures require them to adhere to ethical standards that are equivalent or at least as demanding as those applicable to professional accountants. On this basis we acknowledge the reasons for IESBA having now proposed to add Part 5 to the IESBA Code.

In responding to q. 1 in the appendix to this letter, we point out instances where we see a need for IESBA to revise its proposals to ensure a level playing field for PAs and non-PAs. In responding to q. 10 we point out that a failure to notify the group sustainability assurance practitioner (SAP) of required information relevant to independence on the part of an individual or firm outside the group SAPs network will impact the group sustainability assurance engagement, despite the fact that this is outside the group SAP's control, since we are concerned that such instances could be more prevalent when non-PAs are concerned.

We also encourage IESBA to take an active role in fostering the uptake of Part 5 by SAPs who are not professional accountants. As assurance of sustainability reporting gains traction globally, this is likely to be a crucial issue in multinational or group sustainability assurance engagements and in value chain scenarios.

Potential to limit unduly the availability of SAPs

Sustainability reporting is still evolving globally and many reporting entities will likely face urgent and acute challenges in establishing the necessary reporting systems within tight legislative deadlines, as is the case in the European Union. It is imperative that such entities have access to support at the start but also – where assurance is mandated from the start, that the availability of SAPs is not inadvertently limited by overly stringent ethical rules, beyond those targeted to independence in fact.

Independence from value chain entities whose information may be included in the sustainability reporting subject to assurance potentially poses an enormous challenge in many engagements, as we outline in responding to q. 13. In responding to q. 10, we urge IESBA to clarify the timing and significance of prohibitions in a group situation (see proposed 5405.16 A1) as this is a particularly complex area.

Proposed R5600.13, which requires consideration of individual non-assurance services as well as the combined effect of such services from a firm and its network firms may pose a particular issue in practice in this new and evolving area. In this context, we do however support the proposed definition of sustainability assurance client specifically excluding value chain entities.

We would also like to point out that the concept of using materiality to evaluate a threat from the provision of a non-assurance service (5600.11 A1) demands further guidance. Specifically, this is needed because materiality cannot generally be uniformly applied across multiple sustainability disclosures, a practice that is more commonly appropriate in an audit of financial statements, but instead must be differentially applied to many disparate topics and aspects of topics, such that materiality is considered at a comparatively granular level. IESBA also needs to clarify whether the provision of a non-assurance service in relation to just a single aspect of a topic shall necessarily result in non-acceptance of an engagement to obtain assurance on an entire sustainability report or, if not, how the practitioner shall consider materiality. It is not helpful to merely refer to the issue of materiality being up to the relevant reporting standard setter.

Fee limitation proposals when the auditor is also engaged as the SAP

We do not support the first sentence of paragraph 5410.11 A1, which refers an auditor engaged to perform a sustainability assurance engagement for the audit client to 410.11.A1 – A3 of Part 4A in the context of fees charged by the firm and network firms to the sustainability assurance client. In our view this reference is not justified, and sustainability assurance should not be viewed as a service other than audit for the purposes of calculating the ratio of fees for services other than audit to the audit fee (see para. 410.11 A2). In our opinion – in the same way that extending the scope of the financial statement audit, accompanied by an increase in audit fees, would not pose a self-interest threat to the audit – an auditor will not be subject to an additional self-interest threat to the audit by accepting a sustainability assurance engagement. We would like to point out that German legislation (Handelsgesetzbuch: Commercial Code) specifies that the auditor shall obtain reasonable assurance on the management report as an integral part of the financial statement audit. Sustainability reporting under the European CSRD will form part of the entity's management report. Indeed, the possible safeguards listed in para. 410.11.A3 – an additional review and reducing the extent of services other than audit provided to the audit client – do not fit this scenario at all as they would unnecessarily add costs to the audit or be detrimental to the quality of sustainability assurance engagement. Ultimately this approach could force too many firms to refuse to serve as SAP, which is entirely contrary to the public interest.

In our view, it is sufficient to modify the material in paras. 5410.15 et seq. to address a potential threat arising when the total fees generated from (audit and) a sustainability assurance client by the firm expressing the (audit and) 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 sustainability assurance and other services from that client impact the level of the self-interest threat and create an intimidation threat.

Non-PA SAPs may be unable to “identify” with proposed Part 5

Proposed Part 5 is largely a copy and paste from the existing Code and due to its length complexity and heavy degree of tailoring to the circumstances prevailing for many professional accountants may mean that “other” SAPs find it difficult to identify therewith. In responding to q. 1, we note that we are concerned that – besides being largely based on the material in the extant Code – the proposals include additional material or use different wording that could be equally interpretable for audit engagements, many of which are not specific to sustainability and provide examples thereof.

Furthermore, we note that this Part includes sections on matters such as custody of client’s assets and tax planning services which may currently be more likely to impact professional accountants who serve as SAPs than non-professional accountant SAPs. However, we question whether non-professional accountant SAPs, in particular, might perform different services or activities for assurance clients (e.g., certification of a specific matter later disclosed in a sustainability report) that would equally need to be addressed in new sections.

An inability to “identify” with Part 5 could impact the take up by non-professional accountant SAPs and impede the strived for level playing field needed by users of assured sustainability reports in the public interest.

We strongly recommend the IESBA consider whether further services or activities need to be addressed and also request IESBA staff to develop a frequently asked questions paper to guide readers at a glance as to how Part 5 addresses key issues commonly faced in practice.

Information relating to entities within the value chain

Our members note that the complexity, including the number of value chain entities, their differing degrees of removal from the reporting entity (i.e., a value chain entity may include information from its own operations but also from numerous entities further up or down its own value chain), as well as frequent changes in the value chains of many potential sustainability assurance clients, means that it will be extremely challenging if not outright impossible for a group SAP to ensure that both the firm and all engagement team members are independent of value chain entities in accordance with proposed R5407.3.

Specifically, it simply is not possible to determine who the other assurance practitioners are all the way up or down the value chain (in fact, value chains are ultimately circular), so SAPs cannot determine the independence of these other practitioners of the value chain entity at which they perform assurance engagements. Furthermore, even if the SAP is able to identify the other practitioners, the SAP may not be able to determine whether the other practitioners are independent from this or other entities up or down the value chain, including the entity being reported upon.

In practical terms it would also mean that the SAP firm would have to withdraw from providing many advisory services to any entity currently within, or potentially within, the reporting entity’s value chain. This would potentially deprive many entities of much

needed support in implementing sustainability reporting (we suspect that spare capacity may not be available elsewhere) – possibly with a knock-on effect on the quality of value chain information reaching the reporting entity. Therefore, we anticipate that the proposals will, in practice, be extremely likely preclude the group SAP's engagement team from performing the assurance work "at" the value chain entity, including "at" any value chain entities further down the chain that feed into that value chain entity's information (see para. 5407.2 A1 (a)) and force the SAP to either use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity (see para. 5407.2 A1 (b)) or 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 (see para. 5407.2 A1 (c)). Our concern is that there may be circumstances where, for quality reasons, in performing the sustainability assurance engagement in accordance with the relevant sustainability assurance standards, the firm might determine that the appropriate course of action would be for assurance procedures to be performed "at" the value chain entity (Note: we also believe IESBA should explain the meaning of "at" in this context.) but would be precluded from so doing. We suggest IESBA reconsider this and explain how a threats and safeguards approach could be applied to ensure the quality of assurance work is not unnecessarily compromised.

INCP - National Institute of Public Accountants of Colombia

The terms 'Professional Assurance Practitioner' and 'Other professional' are not included in the glossary and are recurrently referred to in the project.

Creating an exclusive independence reference framework for sustainability assurance services may be considered. There are several sections in the project referring to what can be audited and the procedures to be followed, but they do not necessarily take into account independence matters.

We find it surprising that the considerations of section R5405.11 do not include the obligation to give a written declaration of independence, where the specialist of the components outside the network of a group sustainability assurance firm must provide their declaration of independence. Likewise, we suggest to consider including some landmark on the independence period that should be required.

We consider that the way in which independence should be addressed by a specialist outside the network should be assessed when the sustainability client begins or starts being a public interest entity.

Regarding the proposal of the NAS in part 5, we consider that key indicators should be included, e.g., compliance indicators on green bonds or indexed securities covered by sustainability. Additionally, we suggest considering whether there is a conflict of interest when the firm that structures the issue is the same that evaluates them.

IWP - Institut Österreichischer Wirtschaftsprüferinnen

IESBA should consider transitional provisions for specific sections.

JICPA - Japanese Institute of Certified Public Accountants

- Reference to Part 4A that is not required for a sustainability assurance practitioner who is not a professional accountant

Some provisions in Part 5, such as those relating to PIEs, refer to provisions in Part 4A. We suggest the IESBA clarify that such provisions in Part 4A to which provisions in Part 5 refer also apply to a sustainability assurance practitioner who is not a professional accountant.

- Second Opinion

In subparagraph 5100.2b (b) (v), a practitioner, whether a professional accountant or not, is encouraged to apply the extant Code including Section 321 related to Second Opinions. We suggest the IESBA provide guidance such as explanations with specific paragraph numbers, because it may be difficult to understand the provisions in Part 5 by itself.

- Coordination with the IAASB

We suggest the IESBA ensure that the IESSA is consistent with the IAASB's ISSA 5000 in its finalizing process, because we realize the terms used in the proposed IESSA are not necessarily consistent with those used in the IAASB's ISSA 5000. In particular, the term "another practitioner" is only used in Section 5406 of the proposed IESSA, while the term "another practitioner" is used regardless of whether the entity on which another practitioner performs a sustainability assurance engagement is within the sustainability client's organizational boundary or a value chain entity in the IAASB's ISSA 5000.

MIA-MALTA - The Malta Institute of Accountants

MIA finds that considerable judgement is required on matters that may be interpreted differently by PAs and non-PAs alike. The levels of judgement involved will make 'fair presentation' and the respective assurance challenging.

The Institute believes that the proposals in Chapters 1 to 3 provide a solid foundation. However, we would like to see globally accepted definitions of greenwashing. This would be of benefit in mitigating against the risk of an entity inadvertently placing too much emphasis on positive aspects of its sustainability performance or by making narrowly focused statements that do not take appropriate account of the holistic nature of its activities.

MIA suggests that the IESBA develops further implementation guidance to explain how a practitioner can perform an analysis to determine whether other professional independence requirements are at least as demanding, such as a detailed comparison of other professional requirements and the IESBA Code.

Moreover, as an Institute we believe that in the absence of a sustainability assurance standard for group sustainability assurance engagements, it is imperative for IESBA and IAASB to develop application guidance as the nature of the independence standards would limit the way that they are worded and thus would limit the guidance that practitioners may follow in performing group sustainability assurance engagements.

NBA - Royal Netherlands Institute of Chartered Accountants

We agree with the reaction of Accountancy Europe dated May 10, 2024.

NYSSCPA - New York State Society of CPAs

In addition, we believe the Boards should clarify the applicability of its proposed standards, and in doing so provide examples of engagements to which they will apply. For example, will an engagement to provide assurance on an entity's cybersecurity constitute a sustainability assurance engagement that is subject to IAASB's Proposed ISSA 5000 and IESBA's Proposed Part 5? Or will cybersecurity assurance engagements be subject to extant Part 4B of the IESBA Code?

PICPA - Pennsylvania Institute of Certified Public Accountants

- Inconsistencies with International Standard on Auditing 5000, General Requirements for Sustainability Assurance - In certain instances, the committee notes inconsistencies with the standards being developed by the International Accounting and Assurance Standards Board (IAASB) (e.g., whether NOCLAR applies to value chain entities, whether or not SAPs are required to comply with ISQM 1 or a standard at least as demanding, requirements for the use of another practitioner and proposed 5406 [Question 12] and considerations when assurance work is performed at, or with respect to, a value chain entity and proposed 5407 [Question 13]). Ultimately, these differences should be eliminated.
- Performance requirements – The committee is generally concerned with the recent trend of including performance requirements in the Code. The committee finds this to be contrary to the public interest as practitioner compliance may be hampered by a lack of awareness of any incremental performance requirements. The committee noted these performance requirements in the recently completed standards on Noncompliance with Laws and Regulations and on Tax Planning Services. The committee has similar concerns that performance requirements are being incorporated into this proposal including requirements related to group assurance, another practitioner and value chain. Ultimately, it is unclear whether the performance requirements will be aligned with those of the IAASB or other sustainability assurance standards.

SAICA - South African Institute of Chartered Accountants

Yes. SAICA suggest that clarification is required for some concepts such as value chain within the context of the frameworks. There is a need to provide example and more clarity on definitions of PIE components. The standard needs to be clear for non-PAs so that it is easier for them to understand and apply. There will be a need for training when working with non-PAs.

WPK - Wirtschaftsprüferkammer (Germany)

We propose to examine whether and for which specific provisions transitional provisions would be necessary. This could be the case, in particular, in relation to Section 5540 - Long Association of Personnel (Including Leader Rotation) with a Sustainability Assurance Client.

Accounting Firms and Sole Practitioners

BDO - BDO International Limited

BDO would like to raise the following other matters for consideration:

- Paragraph 5100.2b(b) - If a non-professional accountant considers but does not adhere to the requirements in Parts 1 to 4B of the IESBA Code (since adherence is only encouraged, not required), BDO recommends that the nature of the non-adherence be disclosed appropriately, to facilitate an assessment of the impact of the non-adherence.
- Paragraph 5100.7 A1 – In situations involving cross-border engagements, there could be jurisdictions with less or more stringent requirements than the requirements of the principal practitioner's jurisdiction. It would be beneficial to have some guidance or illustrative examples to explain the application of the 'more stringent provisions' from the perspective of the principal practitioner.
- Paragraph 5110.2 A3 – BDO believes it would be better to require (rather than encourage) the practitioner to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions, due to the complexity of the matter involved and the use of professional judgement.
- Paragraph 5120.14 A1 – Should all quality management standards (for example ISO) be considered, or only standards that are at least as demanding as ISQM 1?
- Paragraph 5360.5 A2 – The inclusion of additional examples such as human rights, consumer rights and labor conditions could result in application issues, due to differing interpretations and values across jurisdictions.
- Paragraph 5360.18a - If the external auditors explicitly inquire from the sustainability assurance practitioner about any known or suspected instances of non-compliance with laws and regulations, as part of their procedures pursuant to ISA 250, would the sustainability assurance practitioner be compelled to respond to such formal inquiries?
- Paragraph 5390.21 A1 – BDO believes that it would be better to require the sustainability assurance practitioner to document (rather than encourage) the matters contained in the bullet points in this paragraph.

DTTL - Deloitte Touch Tohmatsu Limited

Deloitte Global notes the long association transitional provisions for a sustainability assurance client that becomes a PIE are the same as those in Part 4A for an audit client that becomes a PIE. It is unclear how this transition would apply when a sustainability assurance practitioner has been performing a sustainability assurance engagement either under Part 4B or another ethical standard and the IESSA becomes effective. It will be important for the Board to consider giving additional transitional time in this regard when the IESSA is first implemented. Without doing so, the engagement leader might have to rotate off a sustainability assurance engagement after only two additional years (maximum). Sustainability assurance is an area where all firms are currently building

capabilities and a lack of qualified engagement leaders may provide barriers to using the IESSA which could result in a negative impact on adoption.

EY - Ernst & Young Global Limited

The ED uses the term “opinion” in regard to a sustainability assurance engagement for both limited and reasonable assurance conclusions. We believe it is misleading and may be misunderstood as dealing only with reasonable assurance, since the term “opinion” is used only for reasonable assurance by IAASB. We recognized that paragraph 5400.3c states that: “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.” However, we believe that there is a risk that users of Part 5, in particular non-Pas, may overlook this point and not understand the intended meaning of opinion. We believe that the word “conclusion” should be used in Part 5, as “conclusion” can be used for all assurance engagements (an opinion being a reasonable assurance conclusion).

KMPG - KPMG IFRG Limited

If proposed provisions on group SAEs and VCEs are maintained, is there an impact on a firm’s system of quality management in relation to scoping of the SAE? We recommend this topic be discussed with the IAASB and be included in either or both the IAASB’s and IESBA’s implementation guides.

Comments on specific paragraphs include:

- 5700.2 – This paragraph states that this section sets out “application material” when it should say “requirements and application material” due to the presence of the requirement paragraph R5700.4.
- 5100.2b – We suggest adding “in the public interest” to link to both the reference to “public trust in sustainability information that is subject to assurance” in the same paragraph and the reference to “public interest” in paragraph 5100.1, as follows:

“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 in the public interest. 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....”

PwC - PricewaterhouseCoopers International Limited

Appendix 2

We provide some other detailed comments below for consideration by IESBA.

Para 5100.2a

We believe it could be clearer for sustainability assurance engagements not within the scope of the International Independence Standards in Part 5 (applying paragraphs

5400.3a and 5400.3b), that Sections 5100 to 5390 of Part 5 still apply. This is easily missed. See our comments regarding the drafting of 5100.6.

Para R5360.16/18

It is not immediately apparent that the group engagement leader referred to in paragraph R5390.16 is the sustainability group engagement leader. This might usefully be clarified so that the contrast with proposed R5360.18a is clear.

In paragraph 5360.18a, there is reference to the client's external auditor. This is not a defined term in the Code or IIS and may not be a term that is used in all jurisdictions. There is no mention that this is in relation to the audit of the financial statements. We recommend that the term is either defined or explained.

Para R5360.31 and suite

The heading above the sub-section refers to Communication with the External Auditor. In fact only para .33 deals with communications with the External auditor, so we recommend that the header is amended.

Para 5406.5

Bullet a) states: "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". We understand this to mean that the practitioner is independent of the "entity"; however the words "in accordance with..." could be read to suggest that this means independence of the group sustainability assurance client and its related entities. Clarity would be helpful.

Para 5407.3

We note that this paragraph states that the firm (and 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. The reference to "in accordance with" could be read that this extends to related entities of the value chain entity. We do not believe this is the intent and recommend that this is clarified.

Para 5410.11A1

Proportion of fees

The introductory sentence leads the reader to Part 4A of the Code when the firm also undertakes the financial statement audit. The effect of this is that the firm considers the audit fee compared to the fees from both the sustainability assurance engagement bucketed with other non-assurance fees. Given the nature of the sustainability assurance engagement we do not believe this is appropriate and recommend that Part 4A is amended, in such situations, to recognise three categories of fees (financial statement audit; sustainability assurance fees; and NAS), and that the evaluation of threats should reflect this and the nature of the different engagement types. Part 5 should be aligned.

This would be more consistent with the proposed provisions where the sustainability assurance practitioner is not undertaking an audit and evaluates any threat created by the proportion of the sustainability assurance fees compared to other NAS fees.

Para 5410.12 A1 to 5410.21 A1

Unlike 5410.11 A1, these subsections do not recognise that the sustainability assurance practitioner might also be performing an audit engagement. There is an inconsistency. There is a need to address this scenario particularly in the case of fee dependency, when clearly the overall evaluation of threats would need to take into account the level of audit fees to the firm and relevant individuals. We recommend that 5410.12-5410.21 also point back to the relevant section of 4A.

Para R5410.30 and .31

Similarly, these paragraphs do not recognise that the sustainability assurance practitioner might also be performing an audit engagement.

The public fee disclosure requirements when the sustainability assurance practitioner is also the financial statement auditor will be misleading if they are not further refined.

For the audit fee disclosure, sustainability assurance engagement fees will be included with other services (such as advisory services) (see R5410.31 (b)). The evaluation of threats to independence for audit, sustainability and non-assurance services are different and as noted above we believe that there should be three categories of fee analysis. (See above).

Para 5603.2 A2

In relation to valuation, forecasting, or similar services, we believe we have identified a drafting error in section 5603.2.A2, which may lead to unintended consequences. The current wording states that there will be "...no effect on the records underlying the sustainability information or the sustainability information on which the firm will express an opinion." However, the first usage of 'sustainability information' in this sentence is separated from the information on which the firm will express an opinion. This separation implies that there is consideration for sustainability information other than the information on which the firm is providing an opinion. The first reference to "sustainability information" should be removed.

Para 900.1

Following the introduction of the group audit standard (Section 405) it should probably be clarified here that if "an audit of specific elements, accounts or items of a financial statement" are requested to be performed as part of a group audit (whereby the entity is a component at which audit work is performed) that the firm and individuals are subject to the requirements in Section 405, and not Part 4B. This is a common question.

RSM - RSM International Limited

Proposed Revised Glossary

Organisational boundary

We noted that the term, organisational boundary, is used throughout the standard, but the term is not defined. Accordingly, we recommend adding this term to proposed revised glossary.

Fundamental principles

In the definition of 'fundamental principles', we noticed that the references for the 'confidentiality' principle were inconsistent with the others. We recommend changing the references to the following:

Confidentiality R114.1 ~~to R114.3~~ and R5114.1 ~~to R114.3~~

Academia and Research Institutes

NSU - Nova Southeastern University (Florida)

Question 19: One response received, below.

- Yes, the only issues for the ED would be the reporting requirements. For example, when the annual reports are presented or given, and there are inconsistencies, how will that be addressed or rectified?

Others

IIA - The Institute of Internal Auditors

Conformance to The IIA's Standards, specifically including Quality Assurance and Improvement Programs (QAIPs), as a Criterion for Evaluating Internal Audit Services:

Under the section titled, "Risk of Assuming Management Responsibility When Providing an Internal Audit Service," The IIA recommends that the IESBA's Exposure Draft include a reference to our Standards, and a specific reference to QAIPs, to help others evaluate the adequacy of internal audit services. The IIA's Standards are part of the International Professional Practices Framework® (IPPF), which organizes the authoritative body of knowledge for the professional practice of internal auditing. The IPPF includes the following:

- Global Internal Audit Standards™.
- Topical Requirements.
- Global Guidance.

As the internationally recognized, profession-wide benchmark, the Standards instill confidence in internal auditors' work that allows stakeholders (e.g., governing bodies, senior management, external audit, sustainability assurance providers and preparers, etc.) to make key decisions to help strengthen organizations. The IIA regularly conducts a comprehensive, robust multi-year assessment process to ensure that our Standards are aligned with modern practices and fit for purpose across a wide range of internal audit

functions. QAIPs promote continuous improvement and help provide evidence of internal audit functions' conformance to the Standards and insights on achieving performance objectives. This will ensure a uniform criterion is applied across different jurisdictions and industries, enhancing the consistency and reliability of internal audit assessments in support of fair sustainability reporting and its ethical underpinnings.

Clarification and Specificity of the Use of the Terms Involving “Audit”:

The IIA recommends that the IESBA consider the explicit use of the terms “internal audit” and “external audit” given that the standalone term “audit” may be unclear. This clarification will prevent ambiguity and differentiate between the work and functions of internal auditors and external auditors. A clearer delineation supports the understanding and expectation of stakeholders regarding the roles and responsibilities of each. This distinction is important, as the scope, objectives, and governance of these functions vary.

Ethics requires clarity and accountability. By specifying the audit-related terminology used in the Exposure Draft, the IESBA provides a clear understanding of the responsibilities of the different stakeholders involved in assurance as they perform their work and use the work of others. Moreover, the definitions related to internal audit functions must be clear, especially when juxtaposed with the terms established for external audit (e.g., “audit team”), ensuring coherence and comprehensive understanding across the various facets of audit terminology. Incorporating these recommendations will enhance the clarity and applicability of the IESBA's ethics standards, further reinforcing the pivotal role of internal audit in promoting integrity and accountability across organizations.

SUBSECTION 5605 – INTERNAL AUDIT SERVICES (Page 171)

Requirements and Application Material

Description of Service

5605.2 A1

Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include, **but are not limited to:**

- **Evaluating the impact and likelihood of the different risks of an entity.**
- Monitoring of internal control – reviewing controls, monitoring their operation, and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
 - o Reviewing the means used to identify, measure, classify and report that financial and operating information.
 - o 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:
 - o Laws, regulations, and other external requirements.

- o 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. They might involve matters that are **financial**, operational, **or strategic** in nature that will be subject to consideration in relation to the assurance of sustainability information.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service (Page 172) R5605.3

Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

...

- (c) The client evaluates the adequacy of the internal audit services, **and** the findings resulting from their performance, **whether the internal auditors follow the latest global internal audit standards, as promulgated by The Institute of Internal Auditors, and whether the internal audit function maintains a Quality Assurance and Improvement Program.**

CHAPTER 2 – PROPOSED REVISED GLOSSARY (Page 186)

External Assurance engagement

An engagement in which a professional accountant in public practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. (ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and the Assurance Framework provides a general description of assurance engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) International Standards on Assurance Engagements (ISAEs) and International Standards on Sustainability Assurance (ISSAs) apply.)

External Audit engagement

A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an **external** audit required by legislation or other regulation. *In Part 4A, the term "**external** audit engagement" applies equally to "review engagement."*

External Audit report

*In Part 4A, the term "**external** audit report" applies equally to "review report."*

External Audit team

- (a) All members of the engagement team for the **external** audit engagement;

(b) All others within, or engaged by, the firm who can directly influence the outcome of the **external** audit engagement, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the external audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
- (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
- (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "**external** audit team" applies equally to "review team." In the case of a group audit, see the definition of group audit team.*

If [external] "audit team" is defined, the definition of an internal audit function should also be included. Below is a definition of "internal audit function."

Internal Audit Function

A professional individual or group within a covered entity who, in conformity with globally accepted internal auditing standards, is responsible for providing: the board of directors, an audit committee, if applicable; and management with: objective assurance over the covered entity's governance, risk management, and internal controls; consulting services; and strategic advice on risk mitigation. An internal audit function shall be—

- (a) Independent from management, reporting to the organization's board of directors, a committee, or another body to which the board of directors has delegated certain functions;
- (b) Led by a qualified professional responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services;
- (i) The leader of the internal audit function, and relevant staff, shall hold appropriate professional certifications or other credentials, such as the Certified Internal Auditor credential.
- (c) Required to establish a written internal audit charter agreed upon by both the board of directors and the qualified professional leading the internal audit function.

Question 19 - No

Regulators and Oversight Authorities, incl. Monitoring Group members

ACRA - Accounting and Corporate Regulatory Authority (Singapore)

BAOA - Botswana Accountancy Oversight Authority

No other matters to raise. We believe the proposals have adequately addressed issues relating to ethics and independence for sustainability reporting. A glossary of terms is also

included to cater for the revised definitions aligned to sustainability, for better understanding by the users.

ESMA - European Securities and Market Authority

IOSCO - International Organization of Securities Commissions

IRBA - Independent Regulatory Board for Auditors

Questions 33 and 34: We have no other matters for comment.

NASBA - National Association of State Boards of Accountancy (US)

NASBA has not identified any other matters to raise concerning the remaining proposals in Chapters 1 to 3 of the Exposure Draft.

PAABZ - The Public Accountants and Auditors Board of Zimbabwe

SGX - Singapore Exchange Limited

Investors and Other Users

Ceres Accelerator

MSCI - Morgan Stanley Capital International

NBIM - Norges Bank Investment Management

SAAJ - The Securities Analysts Association of Japan

Preparers and Those Charged With Governance

BD - Bruno Dirringer

ICFOA - International CFO Alliance

Public Sector Organizations

UNCTAD ARL - UNCTAD's Latin America Regional Alliance

Professional Accounting Organizations (PAOs)

ACCA - Association of Chartered Certified Accountants

There are no other matters we would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED Sustainability Reporting Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest.

AIC - Asociacion Interamericana de Contabilidad (Inter-American Accounting Association)

No, at this time we have nothing to add regarding the rest of the ED's proposals, not specifically addressed in this document, that merit our comments.

AICPA - American Institute of Certified Public Accountants Professional Ethics Executive Committee

Overall response: No comment.

BICA - Botswana Institute of Chartered Accountants

- Any other proposals or concerns regarding the remaining chapters of the ED should be carefully considered to ensure comprehensive coverage and alignment with the objectives of the International Independence Standards.

CAANZ - Chartered Accountants Australia and New Zealand

No comments.

CBPS-CFC-IBRACON

CFAR - Chamber of Financial Auditors of Romania

We do not have any other matters to raise concerning the remaining proposals in Chapters 1 to 3.

CNCC-CNOEC - Compagnie Nationale des Commissaires aux Comptes

No

CPAC - Chartered Professional Accountants Canada Public Trust Committee

The PTC thinks that as the IESBA becomes better informed through outreach with non-PAs and the implementation of the IESSA in various jurisdictions, it will be important to keep pace and maintain relevance by addressing these matters in additional guidance and educational materials.

EFAA - European Federation of Accountants and Auditors for SMEs

We do not have any other matters to raise concerning the remaining proposals in Chapters 1 to 3.

FACPCE - Federación Argentina de Consejos Profesionales de Ciencias Económicas

ICAS - The Institute of Chartered Accountants of Scotland

We have no other matters to raise.

ICPAU - Institute of Certified Public Accountants of Uganda

No, there are no any other matters to raise concerning the remaining proposals of the ED.

IFAC - International Federation of Accountants

There are no other matters we wish to raise.

IICA - Institute of Indonesia Chartered Accountants

No

IPA - Institute of Public Accountants (Australia)

IPA generally supports the Proposed Revised Glossary (Chapter 2) and the Proposed Consequential and Conforming Amendments to the IESBA Code (Chapter 3)

ISCA - Institute of Singapore Chartered Accountants

KICPA - Korean Institute of Certified Public Accountants

The KICPA supports the ED with no other matter to raise.

MIA-Malaysian - Malaysian Institute of Accountants

As a general comment, for the IESSA to serve as the global standard for ethics and independence in sustainability assurance, it will depend on receiving support from regulatory bodies in various jurisdictions. The IESBA's continuing dialogue with such regulatory bodies is therefore important to achieve this objective.

Please take note that our comments on using the work of an external expert in this ED have been included in a separate letter to the IESBA when commenting on the ED regarding "Using the Work of an External Expert".

MICPA - Malaysian Institute of Certifice Public Accountants

We don't have any matters to raise on the remaining proposals in Chapters 1 to 3 of the ED.

PAFA - The Pan-African Federation of Accountants

There are no other matters we wish to raise.

SOCPA - Saudi Organization for Chartered and Professional Accountants

SOCPA has no comments relating to other matters in Chapters 1 to 3 of the ED.

Other Assurance Providers and Accreditation Bodies (non-PAs)

AccountAbility

IAF - International Accreditation Forum

Ethics and independence requirements for external experts

[see mainly the following points: R5390.8, R5390.9, R5390.11, R5390.12, 5390.17 A2, 5390.20 A1, 5390.21 A1]

We support the proposed methodology and level of detail for the evaluation of external experts.

We recommend to introduce the possibility to recognize formally acknowledged competences and qualifications obtained by recognized mechanisms (ie. accreditation, certification, third party conformity, recognition by public authorities) linked to the subject matter on which the expert was questioned.

For example, in 5390.5 A1 and 5390.17 A2, another factor that could assist the practitioner in evaluating an external expert's competence is his experience in assurance activities carried out in accordance with technical standards by formally recognized assurance providers and assurance activities carried out in accordance with recognized accreditation processes.

JAB - Japan Accreditation Board

Accounting Firms and Sole Practitioners

Assirevi - Association of Italian Audit Firms

BKTI - Baker Tilly International

GTIL - Grant Thornton International Limited

MAZARS - Mazars Group

We have no further comments.

MOORE - Moore Global Network Limited

No. There are no other matters we would like to raise.

MU - Muhammad Umar - Mo Chartered Accountants

None

PKF - PKF Global

PKF Global Response: We have no matters to report on this question.

PP - Pitcher Partners Advisors Proprietary Limited

No other matters to raise at this time. However, as there has been no practical testing of this it is not clear as to the nature or extent of issues that may eventuate.

Academia and Research Institutes

AFAANZ - The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand

No comment

DIRC - Deakin University Integrated Reporting Centre

There are no other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED.

NNN - Nada Naufal Director at the American University of Beirut

NRS - Professor Nicole Ratzinger-Sakel

Others

IBA - The International Bar Association