10 May 2024

Mr K Siong
IESBA Program and Senior Director
International Ethics Standards Board for Accountants
New York
UNITED STATES OF AMERICA

Dear Mr Siong

COMMENTS ON PROPOSED INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE

Thank you for the opportunity to comment on the Proposed International Ethics Standards for Sustainability Assurance (the proposed standard).

The Auditor-General of New Zealand is responsible for auditing all public sector entities in New Zealand. Public sector entities in New Zealand include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public sector entities are operating and accounting for their performance as intended.

Our main concern is that the proposed standard is based on the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) that we do not consider meets the IESBA’s mission to set standards that provide a cornerstone to ethical behaviour, or to establish and maintain public trust in information. We have expressed our concerns about the Code with the IESBA previously and have not repeated them in this submission.

We have further comments in the attachment to this letter that address the IESBA’s request for comments on specific questions.

If you have any questions please contact Roy Glass at roy.glass@oag.parliament.nz or me at todd.beardsworth@oag.parliament.nz.

Yours sincerely

Todd Beardsworth
Assistant Auditor-General
Audit Quality Group
PROPOSED INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE - RESPONSES TO SPECIFIC QUESTIONS

Main objectives of the IESSA

1. Do you agree that the proposals in Chapter 1 of the ED are:

   (a) Equivalent to the ethics and independence standards for audit engagements in the extant code?

       Yes.

   (b) Profession-agnostic and framework-neutral?

       Yes.

2. Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the public interest framework’s qualitative characteristics?

       We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.

Definition of sustainability information

3. Do you support the definition of “sustainability information” in Chapter 2 of the ED?

       The definition of “sustainability information” seems reasonable.

Scope of proposed IESSA in Part 5

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5?

       The IESBA should also consider extending the ethics standards in the new Part 5 to address “interests in or relationships with” entities beyond the sustainability client, but that fall within the “value chain”.

5. The IESBA is proposing that the international independence standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a?

       Yes.
Structure of Part 5

6 Do you support including Section 5270 in Chapter 1 of the ED?

Yes.

NOCLAR

7 Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other?

_We support the provisions added in extant Section 360 and in Section 5360._

_However, we disagree with the IESBA conclusion not to report NOCLAR to other sustainability assurance practitioners that are known to be working for the sustainability client. We question why an other sustainability practitioner is not afforded the same status as the auditor in terms of NOCLAR that may have a bearing on their conclusions. In addition, “erring” on the side of disclosure is more likely to increase the effectiveness of the collective assurance provided by sustainability assurance practitioners._

8 Do you support expanding the scope of the extant requirement for PAIBs? (see paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED)

_We have no comment to make in response to this question._

Determination of PIEs

9 For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity’s financial statements?

_As a matter of principle, equivalence between the requirements placed on auditors and sustainability assurance providers is essential._

Group sustainability assurance engagements

10 The IESBA is proposing that the international independence standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.

(a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements?

Yes.
Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed section 5405?

We have no comment to make in response to this question.

(b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:

I  Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see section 5405)?

Yes.

II Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement?

Yes.

III Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?

Yes.

Using the work of another practitioner

11 Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former’s direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in section 5406?

Yes.

Assurance at, or with respect to, a value chain entity

12 Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements?

Yes.
Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity?

We disagree with the collective provisions in Part 5 because they do not clearly establish the standard of independence that is necessary to enable the users of a sustainability assurance practitioner’s report to have confidence in that report. Users’ confidence derives not only from actual threats to independence, but also from threats to independence in appearance. Our concern arises because value chain entities can have a material impact on the subject matter of the sustainability assurance engagement. The assurance provided by a sustainability assurance practitioner will be diminished if a consistent standard of independence is not applied to all entities that are included in a sustainability assurance engagement – including value chain entities.

Identification of threats

Paragraph R5310.4 states: “A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgment.”

Paragraph R5310.5 states: “Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest …”

Paragraph R5407.3 states: “If the firm performs assurance work at a value chain entity for the purposes of the sustainability assurance engagement, the firm and members of the sustainability assurance team shall be independent of the value chain entity in accordance with the independence requirements of this Part …”

In our opinion, these paragraphs establish the processes that should enable significant independence threats (both and actual and perceived) to be identified. This is on the understanding that reasonable steps requires the sustainability assurance practitioner to make positive enquiries within the firm (and within the network firm where necessary) about the firm’s “interests in and relationships with” value chain entities that may materially impact on the subject matter of the sustainability assurance engagement. In addition, positive enquiries should also be made of the members of the sustainability assurance engagement team.

The same rigour of enquiry is not demanded in paragraph R5700.4 which states: “When the sustainability assurance team knows, or has reason to believe, that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and the value chain entity is relevant to the evaluation of the firm’s independence from the client, the sustainability assurance team shall include that interest, relationship or circumstance when identifying, evaluating and addressing threats to independence.”
In our opinion, the standard of “knows, or has reason to believe” is a different (and lesser) standard to “shall take reasonable steps”. Our recommendation is that the words “knows, or has reason to believe” should be removed from paragraph R5700.4 and that the paragraph should reflect the “shall take reasonable steps” requirement.

The limits to which a sustainability assurance practitioner can report on a value chain entity in which they have a significant “interest in and/or relationship with”

From our reading, Part 5 does not discuss the circumstance where the sustainability assurance practitioner has an “interest in and/or relationship with” a value chain entity that creates a significant independence threat. Furthermore, Part 5 does not provide further guidance on whether those threats can be mitigated, or whether the threats are so significant that the engagement must be declined. There are various permutations that need to be considered, including:

- The nature of the interest or relationship. For example, an ownership or management interest, or when a network firm prepares the sustainability subject matter for the value chain entity;

- What is the appropriate response when the sustainability assurance practitioner firm carries out the work on the sustainability assurance engagement at the value chain entity?

- What is the appropriate response when another sustainability assurance practitioner carries out the work at the value chain entity that will be used for the sustainability assurance engagement?

In principle, and in our view, the independence requirements that apply to group audits should be applied to sustainability assurance engagements that involve value chain entities.

Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:

(a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm’s independence?

    Yes.

(b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700?

    No.
What other guidance, if any, might Part 5 provide?

Please refer to our response to question 13.

Providing NAS to sustainability assurance clients

The international independence standards in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)?

We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.

Subsections 5601 to 5610 address specific types of NAS.

(a) Do you agree with the coverage of such services and the provisions in the subsections?

We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.

(b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.

Independence matters arising when a firm performs both audit and sustainability assurance engagements for the same client

Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client’s financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)?

Yes we agree that a financial statement auditor can also be a sustainability assurance practitioner and that any independence issues can be satisfactorily managed. It is common for an auditor to carry out other significant assurance engagements for the same entity. Any concerns over the level of fees are addressed through full disclosure (usually in the notes to an entity’s financial statements) that describe the nature of the various assurance engagements and their associated fees. We would observe that a number of substantial assurance engagements are required of an entity’s auditor by regulators.
Other matters

Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

We have not identified any additional matters where additional guidance is necessary, other than that described in our response to question 13.

Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

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.

Scope of sustainability reporting revisions and responsiveness to the public interest

Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the code to all preparers of sustainability information?

As we understand the intent of the proposed standard, it requires non-accountant assurance practitioners to comply with Part 5 and encourages non-accountant practitioners to comply with Parts 1 to 4B.

This is an ambitious goal. We think the IESBA has a responsibility to consult extensively with the bodies who represent non-accountant practitioners, and to assist them to prepare the necessary materials (and the associated training) to enable a full understanding of the Code. We note that the IAASB faces a similar challenge with ISSA 5000.

Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the public interest framework’s qualitative characteristics?

We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.
Proposed revisions to the extant Code

22 Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:

(a) Proposed revisions to Section 220?

   *We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.*

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?

   *We were unable to readily identify the proposed examples you are referring to.*

(c) Other proposed revisions?

   *We have no comment to make in response to this question.*

23 Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

   *We have chosen not to comment on this question because it relates to the different view we have about the adequacy of the underlying Code.*

Effective date

24 Do you support the IESBA’s proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

   *The proposed timing is considered to be reasonable.*