7 May 2024

Ms Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants

Dear Gabriela

**Proposed International Ethics Standards for Sustainability Reporting Assurance - Submission by Deakin University Integrated Reporting Centre**

Thank you for the opportunity for us as leaders of the Deakin University Integrated Reporting Centre to make a submission on this important consultation. We believe in sustainability reporting assurance, and the ethics and independence standards required to deliver it, given its benefits for preparers, investors and other stakeholders, and thereby its contribution to the public interest.

We believe that the IESBA can be confident in pursuing internationally aligned ethics standards for sustainability assurance including international independence standards.

<u>Assurance of the Descriptions of an Organisation's Business</u>

We refer to our submission to the IAASB of 6 November 2023[1] in relation to the exposure draft of its ISSA 5000 and re-iterate its key points and recommendations.

Assuring descriptions of a business[2] (a central feature of assurance of disclosures under IFRS Sustainability Disclosure Standards S1 and S2 and integrated reporting assurance) is important given existing and growing

[1] Stanhope, J, Bray, M and Carey, P, 'Submission by Deakin University Integrated Reporting Centre on Proposed ISSA 5000. November 2004.

[2] When we refer to 'the business' in this submission, we have in mind descriptions of an organisation's business which will result from applying the IFRS Foundation's International Integrated Reporting Framework and the type of business which will result from applying the Foundation's Integrated Thinking Principles. Broadly such a description results from applying the fundamental concepts of integrated reporting as set out in the Framework:

- Value Creation – the *what* of the business – the strategy, risks and opportunities.

market practice around the world. It is also the major focus of this submission, in particular, in our response to Question Three.

Accordingly, it is important that the IESBA standard appropriately addresses ethics and independence considerations in relation to the assurance of the description of the organisation's business.

We believe that a trend towards the description of the business to be a comprehensive description will occur and be in the interests of investors and other stakeholders. On this basis, there will be benefits to the corporate reporting system from having comprehensive or partial descriptions of the business subject to independent external assurance, which should enhance the credibility of the reports.

Assurance of reporting under the sustainability reporting mechanisms, standards and frameworks discussed above requires the assurance practitioner to *evaluate* the description of the business. Complex assurance practitioner judgements are typically required to evaluate such qualitative disclosures which reflects business judgements by Boards of Directors and management teams. As practice in these areas is rapidly expanding, dedicated assurance standards and guidance are urgently required.

<u>The Deakin University Integrated Reporting Centre</u>

The Deakin University Integrated Reporting Centre (DIRC) is an independent thought leadership centre with deep connections into academia, accounting and assurance standard-setting, and the business world. It provides leadership across three pillars of excellence in integrated reporting: thought leadership and engagement, education and training, and research, both pure and applied.

The DIRC also provides the Secretariat for the Australian Business Reporting Leaders Forum (BRLF). The BRLF is a discussion forum. It is the IFRS Foundation's designated Integrated Reporting Community for Australia and is a reporting stakeholder to the Financial Reporting Council (FRC). Accordingly, it has direct international connectivity and a strong local voice. Its mission is to drive better business reporting with a focus on integrated reporting and integrated reporting assurance, and producing support research, thought leadership and education in integrated reporting and integrated reporting assurance.

This consultation is core to the missions of both the DIRC and BRLF given the importance of integrated reporting and integrated reporting assurance to well-functioning capital markets, well-informed stakeholders and the

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- The Capitals – the *with* of the business – its resources and relationships.
- Value Creation Process – the *how* of the business – its business model, which is comprised of key business processes including the board's governance process, management's strategic management process (where opportunities are pursued), the stakeholder relationship management process, the materiality determination process, the risk management process, and the reporting process.

The process of integrated reporting is founded on integrated thinking. An integrated report provides a window into the quality of an organisation's integrated thinking. An independently assured integrated report will enhance the credibility of the business story being communicated by the integrated report in the eyes of investors and other stakeholders.

public interest within a better business reporting context. We make this submission on behalf of the DIRC and offer any required assistance to the AUASB.

DIRC Offers of Support to IESBA

The Deakin University Integrated Reporting Centre offers to provide assistance to the IESBA – for instance, carrying out research and drafting guidance and examples. We have referred to some of our work in this submission, which we believe is of relevance to standard setting and policy development.

Please contact Michael Bray on mgbray18@gmail.com should you require further information in relation to this submission.

Yours faithfully

Michael Bray
*Professor of Practice, Deakin Integrated Reporting Centre*

**Deakin Submission to IESBA**

***Question 1 - Main Objectives of the IESSA***

We agree that the proposals in Chapter 1 of the ED are equivalent to the ethics and independence standards for audit engagements in the extant Code and are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics.

***Question 2***

We agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics.

***Question 3 - Definition of Sustainability Information***

We partially support the definition of "sustainability information" in Chapter 2 of the ED as it includes risks and opportunities of economic and other sustainability factors (as well as environmental and social factors and governance in relation to them) on certain business information (about an entity's activities, services or products).

The proposed IESBA standard achieves most of what we recommended to the IAASB. However, we have some suggestions in relation to the manner in which IESBA is proposing to define 'sustainability information'.

We believe that the definition would be improved by:

- adding 'strategic objectives' before 'opportunities' in the first line of the definition of sustainability information. This is because the risks, opportunities and impacts arise because of pursuing the strategic objectives;
- adding 'business model' before 'activities' in I and ii. This is because 'business model' is a well understood business term that is also used in some reporting frameworks and standards encompasses the inputs to (the organisation's resources and relationships), activities of, and outputs (products and services) and outcomes (for the organisation's resources and relationships and stakeholders) from pursuing an organisation's strategic objectives as it strives to realise its purpose.
- Adding to the examples of sustainability information, information about the key activities comprising the key business processes making up the business model, including the Board's governance process, the CEO's strategic management process, the materiality determination process, the stakeholder relationship management process, the risk management process and the reporting process.

In this way and viewed through the lens of financial materiality, the definition of 'sustainability information' will cover all aspects of the organsation's business and its enterprise value (net present value of its future cash flows) which is the way in which the IFRS Foundation explains the *concept of 'sustainability'* and from that, *the definition of 'sustainability-related financial' (material to the net present value of the entity's future cash flows)*. 'The business' is a sustainability matter and a holistic description of the business is sustainability information.

There is a trend towards a more integrated approach to assurance which includes assurance practitioners assuring the description of an organisation's business, with over 20,000 entities around the world expected to have the description of their business in corporate reports independently assured.  The 700 largest companies in Brazil are subject to an 'opt in' mandate from the securities regulator to prepare integrated reports and have them independently assured; companies in Spain, Italy and France must have a partial description of their business independently assured under the assurance mandate attached to Article 19(a) of the CSRD. Voluntary instances of integrated reporting assurance are known to exist in the Netherlands, India, Australia and Sri Lanka.

This number will increase further as jurisdictions introduce assurance mandates in relation to disclosures under IFRS Sustainability Disclosure Standards S1 and S2, which became effective internationally on 1 January 2024. This is because the standards require a description of the organisation's governance, strategy and risk management in relation to climate and other sustainability metrics and associated disclosures.

Australia is a relevant example, and the mandate is not being limited to disclosing the partial description of the business. The mandate requires assurance of these partial business descriptions, starting with limited assurance and progressing to reasonable assurance by 2030.

This is a relevant matter for IESBA and its ethics and independence standard for accountants in numerous sections of the standards – for example, the use of external experts and the use of the practitioner's own experts, and conflicts of interest. In such forms of assurance, the assurance team will need expertise in business matters that go beyond that required to plan a financial statements audit. This is because the description of the business – its governance, strategy, business model and risk management - is central sustainability matter for this report subject to assurance. This differs to the expertise required in sustainability topic areas such as climate.

The knowledge, skills, experience and assurance procedures required to make such evaluations and obtain relevant evidence are quite different to those required for assuring quantitative metrics and associated narratives, which typically relate to *measurement* rather than *evaluation* assurance procedures.

In our view, the proposed ISSA 5000 provides suitable standards for assurance practitioners in relation to assuring metrics and associated disclosures. However, the guidance and examples in the *proposed* ISSA 5000 relate almost exclusively to the *measurement* of metrics as compared to guidance and examples related to *evaluating* qualitative disclosures such as the description of an organisation's business required by certain sustainability reporting mechanisms, frameworks and standards. All of the procedure-specific examples in the proposed ISSA 5000 relate to metrics and associated disclosures.

This gap comes from the very definition of 'sustainability matters' in the proposed ISSA 5000, where the business is not a *sustainability matter*, and a description of the business is not *sustainability information*. Under the proposed ISSA 5000, the business is an *aspect* of a sustainability matter. The reality is that the description of the business is *not* an aspect of a topic. It is *the* topic in numerous forms of reporting, including integrated reports. Aspects of the business include the various sustainability risks and opportunities that arise *because* of the business.

We submitted to the IAASB that we believe that a solution can be achieved by adding examples and making a relatively simple change to the definition of 'sustainability matters' in ISSA 5000. This would clarify that all matters relating to enterprise value, a whole-of-business financial concept[3], and the focus of IFRS Sustainability Disclosure Standards, are sustainability matters under ISSA 5000.

Proposed revised definition of 'sustainability information'

On this basis, the definition of 'sustainability information' will be, with changes underlined:

a) Information about the strategic objectives, opportunities, risks or impacts of:

   i. Economic, environmental, social, governance or other sustainability factors on an entity's business model (including its activities, services or products); or

   ii. An entity's business model (activities, services or products) on the economy, the environment or the public; or

   iii. Information defined by law, regulation or the relevant reporting or assurance framework as "sustainability information" or equivalent terms or descriptions.

*Sustainability information includes information that may be:*

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary disclosure.*

[3] Equivalent to the net present value of future cash flows. Ocean Tomo, an intangible asset management consultancy, has for many years conducted research on the relationship between market capitalisation and net assets recorded under IFRS Accounting Standards. Ocean Tomo found that net assets had fallen to around 10% of market capitalisation of the S&P 500 in its most recent research. Everedge, a competitor to Ocean Tomo, does similar research. Its point of difference is that it focuses on enterprise value (using the market value of equity and debt as a proxy) rather than market capitalisation. It finds that net assets represent about 15% of enterprise value. Accordingly, the results of the work of Ocean Tomo and Everedge are comparable.

- *A description of the entity's business model, comprising inputs (resources and relationships), activities, outputs (products and services) and outcomes (for the resources and relationships and key stakeholders), and including the key business processes making up the business model.*
- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.*
- *Described in an entity's policies, plans, goals, commitments or representations.*

***Scope of Proposed IESSA in Part 5***

***Question 4***

We concur with the IESBA proposal that the ethics standards in the new Part 5 cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients.

A key issue is how a requirement for assurers from outside the profession would be policed. Even when assurers outside the profession use ISAEs, and should disclose and meet equivalent ethics and quality management standards, there is no way to police this. It makes little sense to set requirements which assurance providers cannot follow and can ignore.[4]

Further, when assurance practitioners do not use accounting profession standards, such as ISO or AA1000, how would such a requirement work? While many countries use IAASB standards, many do not adopt IESBA standards.

It may be better that the firm and audit committee co-ordinate assurance processes through approaches such as combined assurance or three pillars, where they combine and report the various combinations of assurance for their circumstances[5].

Regarding disclosure, requirements such as Recommendation 4.3 (to be 4.2) of the ASX Corporate Governance Principles and Recommendations should be included in the various country codes of conduct to enhance the integrity of integrated reports, as demonstrated by Deakin research[6].

We recognise that going further than *encouraging* practitioners that are not PAs to apply Parts 1 to 4B of the Code in all situations not covered by Part 5 is not within the scope of the IESBA mandate. We

[4] Gu, Simnett and Zhou, 'Evaluating the use of international standards for assurance engagements by non-accounting practitioners', Auditing: A Journal of Practice and Theory, 2024.
[5]Zhou, S, Simnett, R and Hoang, H, 'Evaluating combined assurance as a new credibility enhancement technique', Auditing: A Journal of Practice and Theory, 2019.
[6] Lum, P, Carey, P, Simnett, R and Bray, M, 'A comparative review of the first two years of ASX Corporate Governance Recommendation 4.3 Disclosures by Australian large listed entities – Mechanisms to enhance the integrity of corporate reporting', Deakin University White Paper, June 2023.

encourage that IESBA work with their jurisdictional equivalents (for example, the Accounting Professional & Ethical Standards Board in Australia) to achieve equivalent monitoring and enforcement regimes that apply to PAs.

***Question 5***

We agree with the proposed criteria for sustainability assurance engagements that have the same level of public interest as audits of financial statements in paragraph 5400.3a.

***Question 6 – Structure of Part 5***

We support including Section 5270 in Chapter 1 of the ED.

***NOCLAR***

***Question 7***

We support the provisions added in extant Section 360 and in Section 5360 for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other.

***Question 8***

We support expanding the scope of the extant requirement for PAIBs.

***Determination of PIEs***

For sustainability assurance engagements addressed by Part 5, we agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements.

***Question 10 - Group Sustainability Assurance Engagements***

We make no comment on this question.

***Question 11 - Using the Work of Another Practitioner***

We agree with the proposed independence provisions set out in Section 5406.

***Assurance at, or With Respect to, a Value Chain Entity***

***Question 12***

We support the proposed definition of "value chain" in the context of sustainability assurance engagements as a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.

The International Integrated Reporting Framework defines value chain with reference to business model as part of an entity's value creation process. This has been picked up in IFRS Sustainability Disclosure

Standards, which draw on the contents of the International Integrated Reporting Framework in relation to value chain and business model.

***Question 13***

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

***Question 14(a)***

We 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.

***Question 14(b)***

We also 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.

***Providing NAS to Sustainability Assurance Clients***

***Question 15***

We agree with the provisions in Section 5600.

***Question 16 – Providing NAS to Sustainability Assurance Clients***

We agree with the coverage of NAS services in Subsections 5601 to 5610 in addressing specific types of NAS and the provisions in the Subsections. However, we believe that one clarification is needed. In our view 'valuation services' is too restrictive a term for the catch all category. We believe that it would be preferable to refer to valuation and other services related to forward-looking information. This will include advisory services in relation to the forward-looking information in:

- disclosures under IFRS Sustainability Standards S1 and S2. Such disclosures will include descriptions of an entity's governance, strategy and risk management in relation to climate and other sustainability matters; and
- integrated reports. Integrated reports have a holistic description of an organisation's business, including its business model in addition to its governance, strategy and risk management.

***Question 17 - Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client***

We agree with 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.

However, we also believe that the standard should make clear that it is not suggesting that the financial statements auditor should not provide the sustainability assurance to the same client, emphasising the significant advantages of this occurring including the need for the auditor / assurance practitioner to only develop the required understanding of the business once with a dual purpose in mind – as planning information for the financial statements audit and as sustainability information for the sustainability assurance engagement. The other benefit is optimising the cost of the audit and assurance engagement, and the amount of management time required to be devoted to audit and assurance.

As mentioned in our response to Question 3, there is a trend towards a more integrated approach to assurance, with over 20,000 entities around the world expected to have the description of their business in corporate reports independently assured in 2024 and beyond. In time, we would expect to see a move towards one audit / assurance report, an integrated assurance report, being included in annual reports.

***Other Matters***

***Question 18***

Me make no comment on this question.

***Question 19***

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

***Question 20 - Scope of Sustainability Reporting-related Revisions and Responsiveness to the Public Interest***

We concur with the IESBA proposing to take the next step and focus on sustainability information with a new work stream to explore developing profession-agnostic ethics standards for sustainability reporting, to commence after the finalisation of this project in 2024.

The Deakin Integrated Reporting Centre would be prepared to conduct research for the IESBA on approaching a new strategic work stream to expand scope of the code to all preparers of sustainability information.

***Question 21***

We agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics.

***Proposed Revisions to the Extant Code***

***Question 22***

We 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. However, we believe that in the interest of framework-neutrality, IFRS Sustainability Disclosure Standards and the International Integrated Reporting Framework should be referenced in addition to GRI and ESRS.

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information. We recommend the inclusion of a further example in relation to the omission of relevant or the inclusion of false of misleading information in relation to the entity's strategic objectives, governance, risk management or business model.

**Question 23**

There any no other matters you would like to raise concerning the proposals in Chapter 4 of the ED.

**Question 24 – Effective Date**

We 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.