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Consultation paper — IESBA’s Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards)

The Financial Reporting Council (FRC) welcomes the opportunity to respond to this Request for Comments. As the UK’s Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g., where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

The FRC is supportive of the IESBA’s proposed ethics and independence standards for sustainability assurance, which can form a robust, global, profession agnostic and framework neutral set of ethics and independence standards, in the public interest.

However, there are some areas we feel the proposal can be enhanced, including the applicable ethics and independence requirements for assurance work with respect to a value chain entity. In scenarios where the firm assures the sustainability of a value chain entity, without carrying out work at that entity, we think the firm should consider, based on the nature of the information to be assured and the assurance work, if a reasonable and informed third party would conclude that they should be independent of both the client and the value chain entity.

Please see appendix 1 for our more detailed answers.

If you have any questions about our response, please contact me directly, on j.ferris@frc.org.uk or +44 (0)20 7492 2412.

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Appendix 1

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?

Yes.

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

Yes.

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?

Yes, the scope is appropriate.

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?

We believe the proposed criteria are sensible.

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

Yes.

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?

Yes.

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)?

Yes.

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?

Yes, we support this.

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? 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?

Yes.

(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.

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.

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

Yes.

13. 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 support most of the provisions in this section, with the exception of R5407.6.

In cases where the firm assures sustainability information of a value chain entity, without carrying out assurance work at that entity, R5407.6 requires the firm only be independent of the sustainability assurance client, and not of the value chain entity.

We accept that a client's sustainability information may include information from many value chain entities, and it may not be proportionate to require independence in respect of all value chain entities in all scenarios. However, in scenarios where a client's sustainability information consists primarily of material value chain entity information and the firm only carries out work at the client, the firm need not be independent of the entity that produces the bulk of the information to be assured. This may be an issue in some scenarios, such as if the firm produced the information provided by the value chain entity.

Therefore, we believe the firm should be required to consider, based on the nature of the information to be assured and the assurance work, if a reasonable and informed third party would conclude that they should be independent of both the client and certain value chain entities.

14. 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, we agree with this.

(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? What other guidance, if any, might Part 5 provide?

Yes, but we believe this material may be more helpfully presented in section 5407 with the other material on value chain entities.

15. 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)?

Yes.

16. 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?

Yes.

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

Those covered are sufficient.

17. 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.

18. 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?

Yes we believe it is adequate and clear.

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

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.

1. It flows better and is simpler.
2. 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.
3. Our suggested title clarifies that the independence requirements relate to sustainability assurance too, which is somewhat unclear in the current proposal.

20. 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?

Not at this time. It will depend on the regulatory frameworks that individual jurisdictions put in place to cover sustainability reporting and assurance.

21. 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?

Yes.

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?

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

(c) Other proposed revisions?

Yes to all.

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

No.

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?

Yes.