INTEGRITY I PUBLIC INTEREST I AUDIT QUALITY

10 May 2024

Mr Ken Siong

Program and Senior Director

International Ethics Standards Board for Accountants (IESBA)

529 Fifth Avenue, 6th Floor

New York, NY 10017, USA

Submitted electronically to: KenSiong@ethicsboard.org

Dear Mr. Siong

COMMENTS IN RESPONSE TO THE PROPOSED INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (IESSA) AND OTHER REVISIONS TO THE CODE RELATING TO SUSTAINABILITY ASSURANCE AND REPORTING

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics standard-setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. Our statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors.

We adopted Parts 1, 3, 4A and 4B of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and incorporated these into the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023), including Independence Standards (IRBA Code), together with certain local adaptations and amendments. The IRBA Code is applicable to all registered auditors in South Africa and, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against them.

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Independent Regulatory Board for Auditors. Established in terms of the Auditing Profession Act 26 of 2005 (as amended).

We appreciate this opportunity to comment on Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. Our comments are set out under the following sections:

A. General Comments;

B. Specific Questions; and

If you require further clarity on any of our comments, please email us at ldupreez@irba.co.za.

Yours sincerely,

Imran Vanker	**Liezel du Preez**
Director: Standards	**Professional Manager: Standards**

1. GENERAL COMMENTS

1. The task group that drafted this comment letter on behalf of the IRBA represents members from the audit profession, and includes academics, sustainability assurance providers, professional accountants, and audit standard-setters. We therefore do not necessarily offer insights from a non-professional accountants' perspective. The task group didn't have any representation from the public sector, namely the Auditor-General of South Africa.

2. Our review of Chapter 4, *Proposed Revisions to Parts 1 to 3 of the Extant Code to Reflect Sustainability Reporting Considerations for Professional Accountants,* was limited to amendments made to Parts 1 and 3, because Part 2 has not been adopted by the IRBA and incorporated into the IRBA Code. We have no comments in respect of these proposed amendments and no responses have been provided to Questions 20 - 23 that relate to this chapter.

3. In South Africa, because professional accountants and non-professional accountants are not regulated, the amendments, if adopted by IRBA, will only be applicable to registered auditors (registered with the IRBA) in South Africa. The Rules Regarding Improper Conduct provides the basis for regulation of registered auditors compliance with the IRBA Code, including the future amendments that will result from these proposed changes. Professional accountants registered with a professional accounting body may separately adopt the proposed changes, while non-professional accountants may adopt the proposed changes on a voluntary basis, unless prescribed by another regulator or later legislated.

4. At present, there is no prescribed reporting framework or assurance requirements for sustainability in South Africa. We recognise that, as the regulatory environment progresses, the necessity for standards of ethics and independence equivalent to those for audits becomes increasingly more important. As the national standard setter, we are still evaluating the implications for our market, which will significantly shape our decisions regarding the adoption and prescription of these standards for use by registered auditors in South Africa.

5. From a public interest perspective, we acknowledge the need for high standards of ethics and independence in sustainability assurance engagements, equivalent to those of financial statement audits. However, there are inherent distinctions between these types of engagements, making it challenging to achieve equivalence. Additionally, striving for profession-agnostic and framework-neutral standards introduces complexity, as different professions have divergent practices. Thus, whilst we agree on the importance of all of these objectives, achieving perfect or close alignment without compromising certain aspects remains challenging.

6. Despite our observations, we commend the IESBA for the development of this exposure draft and for achieving this in such a short period, based on needs in certain markets. The exposure draft is well received, and we are broadly supportive of its objectives.

7. In our responses to specific questions, we elaborate on concerns related to:

    7.1. The Public Interest Framework, specifically whether the complexity of the proposals and the length of Part 5 satisfy the qualitative characteristics of standards that are responsive to the public interest, because of how it impacts current users of the IESBA Code.

7.2. The feasibility of the new independence provisions in Sections 5406, *Another Practitioner involved in a Sustainability Assurance Engagement for a single entity or group* and 5407, *Independence considerations relating to assurance work at or with respect to, a Value Chain Entity.*

7.3. The current approach to assessing independence when a firm performs both audit and sustainability assurance engagements for the same client, including whether the combination of independence guidelines across different Parts of the IESBA Code is synergistic.

8. We also emphasise the need for continued coordination between the International Auditing and Assurance Standards Board (IAASB) and the IESBA as the sustainability assurance landscape develops, because continued coordination between the two bodies will ensure harmonisation between the auditing and the ethics standards and will ultimately facilitate interoperability and ease of application.

2. SPECIFIC COMMENTS

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? (b) Profession-agnostic and framework-neutral?

Overall Responses:

Question 1(a): Yes, with exceptions.

1. We agree with the IESBA's premise that sustainability assurance engagements must be underpinned by the same high standards of ethical behaviour and independence that apply to audits of financial information.
2. We agree that is it generally equivalent (noting some exceptions) in respect of:
   - 1.1. The requirements to comply with the IESBA Code,
   - 1.2. The fundamental principles,
   - 1.3. The application of the conceptual framework,
   - 1.4. Structure,
   - 1.5. Describing the facts and circumstances, including professional activities, interests, and relationships, that could be encountered by practitioners, which create or might create threats to compliance with the fundamental principles.
3. Our comments in respect of the exceptions[1] are included in response to **Question 6**.

Question 1(b): Partially yes, with comments for your consideration below.

4. We agree that the proposals are framework neutral.
5. We note the difficulty in writing a profession agnostic code based on terminology that might not be understood by all sustainability assurance practitioners. We acknowledge that the proposed IESSA was developed using neutral terminology where possible however, we note that it contains many concepts that are unique to assurance, and therefore more may need to be done after exposure to make these additions to the code more profession diagnostic. Some of these examples include:
   - 5.1. The scoping of the *International Independence Standards* (IIS) in Part 5, which refers to "general-purpose framework", "attestation" versus "direct engagements", "underlying subject matter", "applicable criteria". It is self-evident that these concepts related to the work that is the traditional expertise of professional accountants.
   - 5.2. The expectation that the firm will have designed, implemented, and operated an appropriate system of quality management as a prerequisite to the performance of high-quality sustainability assurance engagements. We question how a non-professional accountant will be able to assess if a quality management system is "at least as demanding

[1] Paragraphs 45 to 50 of the Explanatory Memorandum

as the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*" or understand the examples provided in accordance with ISQM 1 and therefore meet the expectation.

5.3. Section 5405, *Group Sustainability Assurance Engagements*. The proposed requirements in this section are aimed at achieving the effect of the requirements in International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600(Revised))[2], which are audit specific.

6. We agree with the IESBA that supporting non-professional accountants in achieving a full understanding of all the provisions of Part 5 will require education, training, and bridging guidance[3], because the gap the standards are trying to breach is not a gap in language but a professional gap where some terminologies, conceptually, are not neutral. A solution worthy of observing is whether other professions adopt Part 5, and with it takes on the other obligations to support members of their profession.

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?

Overall Response: No with comments for your consideration below.

6. The inherent differences between the professional accountant and non-professional accountant professions necessitate a balanced consideration of their interests.

7. We acknowledge that considerable effort has been made to gather feedback and viewpoints from participants, notably non-professional accountants, through roundtable discussions and outreach efforts, which have informed the development of Part 5 of the IESBA Code.

8. Despite these efforts we are of the view that the impact on the current users of the IESBA Code, mainly professional accountants, does not adhere to the framework.

9. We have expressed a desire for simplification and enhanced understandability of the IESBA Code aimed at promoting consistent ethical behaviour. This is a reiteration of the comment we raised in our response to the IESBA Strategy and Work Programme consultation paper.

10. The scope, applicability, and interoperability between Parts 1 – 4 and Part 5 of the IESBA Code are not straightforward. In addition, the introduction of Part 5 significantly increases the overall length of the IESBA Code. This affects *scope*, *clarity* and *conciseness* and *implementability*[4] due to inconsistent understanding and application, especially for smaller firms without dedicated compliance or independence departments.

11. Despite the claim that *"In most cases, complying with a requirement in Parts 1 to 4A will achieve compliance with the corresponding requirement in Part 5, and vice versa"*[5], there is no clarity about the cases in which it wouldn't, and what the consequences will be.

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[2] Paragraph 88 of the Explanatory Memorandum
[3] Paragraph 92 of the Explanatory Memorandum
[4] Monitoring Group's Public Interest Framework
[5] Paragraph 52 of the Explanatory Memorandum

12. Development of the separate Parts 5100 to 5300 i.e., the separate requirements for compliance with the Code (Part 5), the fundamental principles, the conceptual framework and applying the conceptual framework, creates the perception that the ethics standards for professional accountants and non-professional accountants *are* different.

13. We offer the following considerations to alleviate some of these concerns:

    13.1. Guidance in respect of the scope, applicability, and interoperability between Parts 1 – 4 and Part 5 of the IESBA Code may include incorporating illustrations from the explanatory memorandum into the IESBA Code itself, specifically the *Guide to the Code*.

    13.2. A more efficient structure may streamline interoperability between Parts 1 – 4 and Part 5 and eliminate the perception of differing standards of ethics. We propose a solution that combines the previous Options A: *Fully Integrated Approach* and Option B: New Part 5 in the Code [6] considered i.e., integrated Parts 1 and 3 and separate Independence Standards in Part 5 for Sustainability Assurance Engagements. We are of the view that this more closely aligns with the current application of the IESBA Code, with the added benefit of future-proofing the IESBA Code as the sustainability landscape evolves, based on the ultimate expectation for financial and sustainability reporting and assurance to be integrated.

    13.3. Sufficient implementation period to allow for the development of support materials as well as opportunity for all users to familiarise themselves with the revisions and implementation materials.

Definition of Sustainability Information

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

Overall response: Yes, subject to one comment for your consideration below.

14. We encourage continued cooperation between the IAASB and the IESBA with respect to the definition of sustainability information to facilitate interoperability and ease of application.

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?
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?

Overall responses:

Question 4: Yes, subject to consideration of our comments in response to Question 2.

[6] Summary of Feedback from Global Sustainability Roundtable Participants

Question 5: Yes (with no further comments)

Structure of Part 5

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

Overall Response: No with comments for your consideration below.

12. The IESBA's consideration of this matter is duly acknowledged[7].

13. We concur that professional accountants and sustainability assurance practitioners may face significant pressure in performing their duties, whether related to sustainability assurance, audits, or other professional services. Therefore, the question arises whether it is logical to solely elevate this issue within Part 5 (pertaining to sustainability assurance clients).

14. The IESBA Code outlines pressure as a component of the fundamental principle of integrity (111.1 A1) and as a factor that can compromise objectivity due to intimidation threats (120.6 A3), encompassing both real and perceived pressures. Moreover, exhibiting professional scepticism (120.16 A2) involves maintaining ethical conduct despite external pressures, a quality essential for professional accountants in business and professional accountants in public practice.

15. Given the universal significance of resisting pressure across all activities and professions, irrespective of whether one is a professional accountant or non-professional accountant, it would be prudent to enhance Part 1 of the Code instead. Some supporting reasons include:

    8.1. Section 270, even when replicated in Part 5, remains generic and lacks specific insights into sustainability-related pressures, mainly referring to other sections.

    8.2. From a structural standpoint, such enhancement in Part 1 would not unduly emphasise or prioritise certain activities over others, thereby promoting interoperability and consistency throughout the IESBA Code.

9. This is also serves as a practical example of a more efficient structure and streamlined interoperability between the different parts of the IESBA Code (refer to our response to Question 2 above.)

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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?

Overall Responses:

Question 7: Partially yes, with comments for your consideration below.

16. We agree with the requirement in paragraph R5360.18a that requires the sustainability assurance practitioner to consider communicating NOCLAR with the auditor. This aligns with the extant requirement in R260.15 for a professional accountant (in business) to determine

[7] Agenda Item 4A - Sustainability (WS2) - Key Issues and WS2 Views and Proposals.pdf (ethicsboard.org)

whether disclosure of the matter to the employing organization's external auditor, if any, is needed.

17. We disagree with the conforming amendment to paragraph R360.18a that requires the auditor to consider communication with the sustainability assurance practitioner. We understand that NOCLAR provisions are designed to help professional accountants determine when it is appropriate to breach confidentiality. We question whether this requirement might pose a risk of inappropriate confidentiality breaches, especially since sustainability assurance practitioners may not have the same professional obligations or oversight as auditors. For example, the Auditing Profession Act 26 of 2005, as amended, requires registered auditors to report reportable irregularities[8]. Therefore, while registered auditors in South Africa are expected to handle confidential information responsibly due to their regulatory standards, the same is not true for non-professional accountants or sustainability assurance practitioners without such obligations.

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?

Overall Response: Yes, subject to conditional comments for your consideration below.

18. We agree that the current proposal to use the same PIE definition for audit clients and sustainability assurance clients is appropriate as a starting point. Reasons for supporting this proposal for now are:

18.1. Using the same PIE definition maintains consistency and equivalence with audit, which is one of the objectives of Part 5 of the Code.

18.2. The concept of PIE is well-established and familiar to practitioners, which could make the transition to applying it in the context of sustainability assurance engagements smoother.

18.3. There is a risk that revising the PIE definition to cater specifically for sustainability assurance engagements, could become too complex or overreaching, potentially capturing entities that should not be subject to the same heightened independence requirements as PIEs for audit purposes.

18.4. Specifically in the South African context, there are also extended practical consequences to consider for example, IRBA Rules that are required to be applied by registered auditors that perform *Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* for PIEs. For example:

- IRBA Audit Tenure Rule
- IRBA Rule on Enhanced Auditor Reporting
- IRBA's Four Rules Arising from Arising from the International Standards on Quality Management

[8] Section 45, *Duty to report on irregularities*, of the Auditing Profession Act 26 of 2005, as amended.

19. Our support for now is based on an expectation that the PIE definition may need to be revisited as reporting matures. Our rationale includes:

19.1. Since the sustainability reporting and assurance landscape is evolving, the PIE definition may need to be revisited over the course of time to remain relevant and suitable for purpose.

19.2. Some entities may have a significant impact on society or the environment but are not listed and may not be considered PIEs under the current definition. This raises the question of whether there should be an "impact PIE" category.

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? 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?

    (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?

    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?

    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”)?

Overall Responses:

Question 10(a): Yes, with comments for your consideration below.

20. We welcome the provision of group independence requirements for sustainability assurance engagement in Part 5 and commend the IESBA for embracing the complexities associated with these provisions.

21. We support maintaining the consistency with group independence requirements for audit engagements. The concepts are familiar to professional accountants and align with existing audit practices as it relates to ISA 600 (Revised).

22. As there is currently no direct equivalent to ISA 600 (Revised) for sustainability assurance engagements, the challenges are uncertain. Some issues that we did consider included:

22.1. The practicality of applying the concept or requirements of *direct supervision and review* to sustainability assurance engagements, because in practice the sustainability assurance practitioner may need to rely on information assured by others without the opportunity for direct oversight. It is uncertain, given how fundamental a principle this is in the application of ISA 600 (Revised), if or how the group sustainability assurance practitioner will be able to rely on the work performed by another practitioner without direct supervision and review for the purpose of concluding on the group sustainability assurance engagement.

22.2. Difficulties in ensuring cooperation between different firms within the group engagement, particularly when it comes to sharing information and maintaining confidentiality.

22.3. Non-professional accountants understanding of some of the audit-centric concepts in ISA 600 (Revised).

23. We offer the following considerations that aim to alleviate these concerns:

23.1. Firm cooperation may be facilitated through:

- Ensuring equivalence in the requirement for *professional behaviour* for professional accountants and non-professional accountants to encourage trust between firms within the context of group sustainability assurance engagements. E.g., Not limiting the responsibility to "avoid any conduct that the practitioner knows or should know might affect public trust" to trust in <u>sustainability information</u> only, but also specifically the <u>assurance of</u> sustainability information.
- Incorporation of requirements and application material equivalent to ISA 600 (Revised)[9] and / or ISAE 3000 (Revised)[10] as it relates to communication between practitioners, into ISSA 5000. Specifically, effective two-way communication, form of communication, timing of communications and access to working papers.

23.2. We reiterate our concurrence with the IESBA's recognition that assistance with implementation, education and training for non-professional accountants will be necessary to achieve better understanding[11].

Question 10(b): Yes (with no further comments)

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?

Overall response: No, with comments for consideration.

24. We have significant reservations about the appropriateness of the provisions in Section 5406 as it relates to *Using the Work of Another Practitioner*. Some of the reasons for this include:

[9] ISA 600 (Revised), paragraphs 29 and A78 – A86 are relevant.
[10] ISAE 3000 (Revised), paragraphs A122, A123, A132 and A133.
[11] Paragraph 92 of the Explanatory Memorandum

24.1. There are not many examples, based on our experience, where this occurs in practice. It is our view that the sustainability assurance practitioner will generally do the assurance work themselves as opposed to relying on another practitioner.

24.2. In the context of the existing fundamental requirement in ISA 600 (Revised) for the group auditor or group engagement partner to have sufficient and appropriate involvement in the work of component auditors[12], it is uncertain how there can be a scenario where another practitioner that is not directed and supervised by the group auditor can perform sustainability assurance work for a component or an entity within the sustainability assurance client's reporting boundary and still enable the group sustainability assurance practitioner to reach an assurance conclusion (i.e. how or why this is not a limitation of scope).

24.3. The provisions in ISSA 5000 and the explanatory memorandum accompanying the ISSA 5000 do not address whether the IAASB intended to allow the reliance on the work of another practitioner for components or entities within the sustainability assurance client's reporting boundary or practically only envisioned this scenario arising with respect to sustainability assurance for value chain entities. To this extent, we question whether these separate provisions are needed i.e., will the independence requirements for Value Chain Entities in the new Section 5407 not already provide for this scenario?

24.4. The IESBA identified *the impact of their* [another practitioner's] *work on the outcome of the engagement and the firm's responsibilities in using their work are different compared with other individuals who might be involved in the engagement, but who are not carrying out assurance work, such as external experts or data providers.*[13] However, the explanatory memorandum doesn't elaborate on this point to enable our better understanding of what that difference in risk to independence is or when the risk is relevant considering the preceding comments made.

24.5. There was some confusion about the consequence of the independence provisions. The difficulty in understanding the specific independence requirements relates to how it has been drafted in the IESBA Code (if you disregard the details in the explanatory memorandum). Specifically, paragraph **R5406.5** is unclear about whether the entity is scoped into the definition of the group sustainability assurance client or not.

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?
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?
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:

[12] ISA 600 (Revised) paragraphs 8 and A12 – A13
[13] Paragraph 96 of the Explanatory Memorandum

(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?

(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?

Overall responses:

Question 12: Yes (with no further comments)

Questions 13 & 14: No, with comments for your consideration below.

25. We disagree with the provisions in Section 5407. Our considerations in reaching this conclusion include:

25.1. The risk to independence as identified by the IESBA[14], when the sustainability assurance practitioner is already independent of the sustainability assurance client, is unclear. When compared to an audit of financial statements, the auditor is not required to be independent of all customers, suppliers, or service providers in the operational value chain.

25.2. We question the feasibility of applying the proposed requirements. The proposed requirements to assess independence of the value chain entity and all its related entities are complex to understand and onerous to implement. Some reasons for this include:

- Framework neutrality because the value chain requirements will be different depending on which framework is applied.
- The value chain could include a wide range of entities such as customers, suppliers, and service providers, making it difficult to determine and maintain independence from all related entities i.e. the vast number of potential connections and relationships that could exist represent too many relationships to monitor practically.
- We recognise that the "no reason to believe" principle is intended not to create a monitoring obligation. Regardless, it is expected that the practical consequence will require firms to update their systems and processes to facilitate this test.

25.3. Due to the expected difficulty in complying with these independence requirements, the unintended consequences may include:

- Market challenges, specifically difficulty to find an independent sustainability assurance practitioner due to the stringent independence provisions.
- Multiple qualifications on assurance reports, especially in the early days of implementing the standards, which doesn't encourage public trust in sustainability information and / or the assurance process.
- Intentional circumvention of the stricter independence requirements that apply when the sustainability assurance engagement is performed at the value chain

[14] Paragraph 102 of the Explanatory Memorandum

entity, by obtaining information from the group assurance engagement client instead of directly from the value chain entity.

25.4. Enforceability of the proposed independence requirements related to value chain entities is expected to be equally as challenging as complying with them in the first instance.

26. Alternative proposals for consideration by the IESBA include:

26.1. Introduction of a materiality threshold for independence considerations, as the impact of certain value chain entities might be more significant than others.

26.2. A universal approach to obtaining confirmation of independence, which would apply to both components and value chain entities, to streamline the process and reduce complexity. This approach would focus on ensuring independence through the practitioner's involvement in the work, rather than getting caught up in the semantics of whether an entity is a component or a value chain entity.

Providing NAS to Sustainability Assurance Clients

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

Overall responses:

Question 15: Yes (with no further comments)

Question 16(a): Yes (with no further comments)

Question 16(b): Yes, with further comments for your consideration below.

28. Auditors may be requested to sign-off on the materiality assessment process, especially in the context of double materiality, where the auditor must assure the process followed by the client but not necessarily the outcome of what is deemed material. This creates a fine line between assessing the client's decisions and making decisions on behalf of management, which could threaten the auditor's independence. We therefore recommend that the IESBA provide explicit guidance in this section on how auditors can be involved in the materiality assessment process without compromising their independence or taking on management responsibilities.

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

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)?

Overall response: No, with further views and comments for your consideration below.

29. Our concern lies with the current approach to assessing independence. The existing Part 4 describes many facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence[15]. For the purpose of assessing threats created by fee-dependency, it distinguishes between audit and non-audit services (including sustainability assurance engagements). It also specifically identifies non-assurance services (excluding sustainability assurance services) as professional activities that may create threats to independence. It does not however, provide guidance on applying the conceptual framework where the provisions of *other assurance services* may create threats to auditor independence or vice versa. Our view is that guidance is required to address threats to auditor independence that may arise from the provision of *other assurance services* also, to enable a comprehensive consideration of all services provided by the firm or network firm from an auditor perspective and vice versa from a sustainability assurance practitioner perspective. For example, threats to independence that may arise because of how the sustainability information interacts with financial information or disclosures in the financial statements.

30. Concerning fee proportionality:

    30.1. Our view is that fees for sustainability assurance engagements need to be disclosed separately i.e., separated from non-audit fees (which include fees from other assurance services) and audit fees, because:

    - Sustainability assurance is distinct from traditional audit services and other non-audit services and are held to the same higher standards of ethics and independence as audit services. It is a in essence a "hybrid" between an audit and other assurance service.
    - Separately disclosing the sustainability assurance engagement fees would simplify the evaluation of independence threats and make it clearer for firms to assess their compliance with independence requirements. It could help to avoid confusion and ensure that the fees related to sustainability assurance engagements and the independence threats that may be created by fees are considered on their own merits.
    - As sustainability assurance engagements are expected to grow in scope and importance, including increased fees, separating the fees would position the service providers to better accommodate future developments without conflating these engagements with other non-audit services.
    - Separately disclosing the sustainability assurance engagement fees would serve the public interest by providing greater transparency about the nature and extent of services provided by firms. This transparency could enhance stakeholder trust in the independence and objectivity of the assurance provided.

[15] Paragraph 400.7 of the IRBA Code of Professional Conduct

30.2. We disagree with the conforming amendments made to paragraph 410.11 A2. The mere fact that law or regulation *requires* both engagements to be performed by the same firm or network firm does not influences independence given independence conceptually comprises *independence of mind* and *independence in appearance,* neither of which are influenced by law or regulation.

31. Regarding long association, we reiterate that a comprehensive assessment of association with the client through any and all services provided is required, not limited only to audit and sustainability assurance engagements. The specific reference to "…a combination of <u>audit and sustainability assurance engagements</u> for the same client, over a long period of time…" in paragraph 540.2, excludes long association threats that may arise through the provision of *other services*. This is supported by the extant Section 940, *Long association of personnel with an assurance client*, that identifies that a familiarity threat may also be created through long association with an assurance client.

32. In summary, we find that the combination of independence guidelines across different parts of the IESBA Code may not be synergistic because of the introduction of the sustainability independence requirements in Part 5.

Other Matters

33.	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?
34.	Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

Overall responses:

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

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?

Overall Response: Yes, with one comment for your consideration.

35. We emphasise the need for a sufficient implementation period to allow for the development of support materials as well as opportunity for all users to familiarise themselves with the revisions and implementation materials.