

10 May 2024

International Ethics Standards Board for Accountants

To: Ms. Gabriela Figueiredo Dias (Chair)

529 Fifth Avenue

New York

10017 USA

Submitted electronically

**Subject: Comments on the IESBA's Exposure Draft on International Ethics Standards for Sustainability Assurance (including International Independence Standards)**

Dear Ms. Gabriela Figueiredo Dias,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) request for input on its Exposure Draft for *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (ED-IESSA)*. As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, the IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. The IFIAR's objectives are as follows:
  - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
  - Promoting collaboration and consistency in regulatory activity.
  - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
  - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by several, but not all, of the members of the IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation. The IFIAR Member jurisdictions currently have varying frameworks for sustainability disclosures and/or assurance, and views in this area likely will continue to evolve as requirements and expectations are clarified. The comments in this letter should be considered in that context.

4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by the IFIAR.
5. The IESBA Code of Ethics (the Code) is used by several, but not all, the IFIAR member jurisdictions. Moreover, a number of audit firms have voluntarily committed to complying with the Code. As a result, the IFIAR has an interest in enhancing the quality, clarity and enforceability of the Code, even though existing ethical rules or provisions in force at national level may supersede certain aspects of the Code. On that note, the IESBA may want to consider the national level add-ons/revisions as input in respect of further enhancements to the Code.
6. As audit regulators, we believe that the Code should be clear and enforceable and allow for engagements to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate and consistent behaviour: this means, for the IESBA, to articulate clear ethical principles and supporting ethical provisions, along with clearly linked requirements, to promote better ethical behaviours and outcomes.

## Overall comments

7. The IFIAR welcomes and supports the efforts of the IESBA to develop ethics (including independence) standards for sustainability assurance. Ethical and independence standards for sustainability assurance engagements that are at least as demanding as audit engagements is in the public interest. This includes the use of consistent terminology that is used in the provisions applicable to the audit of financial statements and to the assurance of sustainability information, wherever practicable. Deviations in language should be on an exceptional basis.
8. We support the close coordination between the IESBA and the IAASB to ensure terms and definitions are as consistent as possible in order to facilitate global consistency in the standards and their application.
9. We support the IESBA's proposal to align the effective date of the final provisions of IESSA with the effective date of ISSA 5000 by the IAASB.
10. We further support the IESBA to proceed with addressing matters that have been covered by proposed assurance standard on sustainability reporting (ED-ISSA 5000) only in a general and overarching way such as group audits<sup>1</sup>.
11. We have identified several areas, which need further clarification, additional requirements and more comprehensive guidance to support a consistent understanding and application of the provisions of the Code. Please refer to our comments in the following sections.
12. Notwithstanding our comments in this letter, we refer back to the importance of continuing to prioritize ethics and independence standards for professional accountants that we highlighted in our comment letter dated 26 July 2023 on IESBA Strategy and Work Plan for 2024-2027.

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<sup>1</sup> As explained in paragraph 86 of the Explanatory Memorandum (EM).

## Detailed Comments

### **Structure of ED-IESSA**

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

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

### **Determination of a Public Interest Entity (PIE)**

14. The proposed ED-IESSA deems an entity a PIE for the purposes of the sustainability assurance engagement if it has been determined as such for the audit. We acknowledge the concern expressed in paragraph 82 of the EM that confusion might arise if an entity is not a PIE for the financial audit, but was for the sustainability assurance work.

15. A compromise would be to add an extra requirement for the assurance practitioner to consider, based on the circumstances, if a reasonable and informed third party might think the entity should be treated as a PIE for the purposes of the sustainability assurance engagement. That is to have the primary determinant being whether the entity is a PIE for the financial audit, but require the SAPs to make a judgement on top of that as to whether in exceptional cases the entity should be treated as a PIE for sustainability assurance purposes.

### **Responding to non-compliance with laws and regulations (NOCLAR)**

16. Unless prohibited by law or regulation, we agree with the proposal that the SAP should be required to communicate NOCLAR to the client’s external auditor (R5360.18a). Similarly, the PA should report any NOCLAR to the client’s SAP (R360.18a). Communication between the SAP and PA is an important step in ensuring high quality engagements and we think “shall consider whether to communicate” might lead to inconsistent interpretation across

practitioners. Additionally, we encourage the IESBA to explore whether fraud or suspected fraud that is identified should be included as mandatory matter of communication.

***Another practitioner involved in a sustainability assurance engagement for a single entity or group***

17. R5406.5 requires the firm to request the other practitioner to confirm its independence. However, no provisions are included covering instances where the practitioner cannot obtain an independence confirmation from the other practitioner or is not satisfied with the confirmation received. We understand that these issues should be addressed coherently with ISSA 5000 and we encourage the IESBA to continue its dialogue with the IAASB.
18. We are of the view that the other practitioner should be requested to provide confirmations in R5406.4 and R5406.5 in writing.

***Independence considerations relating to assurance work at, or with respect to, a value chain entity***

19. It would be helpful for ED-IESSA to expand on the independence statement in the assurance report of the sustainability assurance practitioner at a value chain entity the practitioner wants to rely on (R5407.4A1). Clarification is needed as to what the statement should entail and the sustainability assurance practitioner at a value chain entity is required to report on (e.g. reference to the independence requirements complied with). This would ensure both the firm and the sustainability assurance practitioner have followed the same high standards of ethical behaviour and independence.
20. As for the confirmations from another practitioner in section 5406 of the Code, confirmations requested from the practitioner at a value chain entity should be received in writing (paragraph R5407.5).
21. We are not convinced that the issues around independence considerations relating to value chain entities have been resolved in ED-IESSA. We feel that more needs to be done to address the different scenarios in a sustainability assurance engagement where information from a value chain entity is included in the sustainability reporting of an assurance client.

***Provision of non-assurance services to a sustainability assurance client***

22. We note that the IESBA has taken an equivalent approach to the independence standards for audit engagements concerning the provision of non-assurance services to a sustainability assurance client. General requirements and application material set out in Section 600 of Part 4A for audit engagements have been included in section 5600 of ED-IESSA.
23. Although users of the Code might be familiar with non-assurance services in the context of an audit engagement and understanding transitions easily to a sustainability assurance engagement. For some SAPs and users however, non-assurance services might be a new concept. This leads to a risk of inconsistent interpretation across practitioners. Furthermore,

engagements specific to sustainability such as advisory services on ESG strategy add an extra layer of complexity when identifying, evaluating and addressing threats to independence. We encourage the IESBA to expand on the threats to compliance with the fundamental principles and to independence when providing non-assurance services to a sustainability assurance client. We believe that certain non-assurances services create self-review threats in almost all circumstances and the use of the word “might” increases the risk of inconsistent understanding and application across practitioners. We suggest strengthening the requirements proposed in ED-IESSA by prohibiting provision of those non-assurance services to PIEs, rather than referring to the evaluation of the threats.

24. Accordingly, we invite the IESBA to take more into consideration the prohibition rules already in place in several jurisdictions and thereby contributing to the improvement of consistency across the globe.

***Interest, relationships or circumstances involving value chain entities***

25. It is acknowledged that the "knows, or reason to believe" principle is established in the current Code. However, this concept remains subject to interpretation and SAPs outside the accounting profession might be less experienced in applying it. This seems a particular challenge for SAPs when determining the firm's independence from the value chain entity (section 5700). For consistent understanding and application of the Code, the IESBA should elaborate more on this concept and provide examples as well as guidance in part 5. This should entail further clarification on how to apply the "knows, or reason to believe" principle and what the SAP is expected to do if there are independence issue identified.

Please do not hesitate to contact me or James Ferris, Chair of the IFIAR Standards Coordination Working Group (SCWG), to discuss any of our comments.

Yours sincerely,



Takashi Nagaoka, IFIAR Chair

Cc: Kevin Prendergast, IFIAR Vice Chair  
James Ferris, SCWG Chair,  
Stacy Hammett, SCWG Vice Chair  
Carl Renner, Executive Director