

10 May 2024

Mr. Ken Siong
IESBA Program and Senior Director
International Ethics Standards Board for Accountants

By email: KenSiong@ethicsboard.org

Dear Mr. Siong

Exposure Draft: Proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

CPA Australia represents the diverse interests of more than 173,000 members, working in over 100 jurisdictions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

The reporting and assurance of sustainability related information is undoubtedly of tremendous global importance and interest. This has prompted the International Ethics Standards Board for Accountants (IESBA) to develop new standards, including independence standards, for use by sustainability assurance practitioners who are not professional accountants (i.e., Part 5 of the Code). It has also led to proposed conforming amendments in other sections of the Code that impact professional accountants.

CPA Australia is concerned that sustainability assurance practitioners, who are not professional accountants, will find it extremely challenging to adopt and implement proposed Part 5 of the Code. The IESBA recognises that sustainability assurance practitioners who are not professional accountants would require education and training to implement the provisions of Part 5 (refer to paragraph 91 of the Explanatory Memorandum). The manner in which Part 5 is written, including the terms and language used and its length, is arguably almost unique to the accountancy profession.

Consideration should be given to how Part 5 can be simplified and shortened so it can meet the intended objective. Alternatively, consideration might be given to whether it is essential to create a Part 5 or whether revisions to the existing Code would satisfy the IESBA's objective for this project. Feedback from our members is that they are concerned that the Code will continue to expand as the IESBA adds further pages, section, and Parts for what members perceive is for little additional benefit, given that the existing Code is seen as being sufficient to guide professional accountants in their ethical decision making.

CPA Australia makes the following observations and recommendations about the *Exposure Draft: 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 ED).

- The Code of Ethics for Professional Accountants (i.e., "the Code") is complex, very lengthy and is becoming increasingly challenging to understand and use. It is likely that professionals, other than accountancy professionals, will not be able to readily understand, interpret and implement the provisions and requirements of the proposed new Part 5. Even professional accountants, who have applied the Code for many years and have experienced its exponential growth, are finding it increasingly difficult to understand and apply the Code.

Potentially, these other professionals (i.e., non professional accountants) at whom Part 5 is primarily targeted will be unwilling to readily embrace and adopt the Part 5 provisions, unless it is mandated for use in their jurisdiction. In that regard, it is questionable that this profession-agnostic standard will be adopted and implemented universally by all professionals. If the IESBA is developing these standards on the basis that governments and regulators will mandate the use of Part 5, it is incumbent on the IESBA, regulators and governments to develop and publish extensive guidance materials

and information, written in more simplified language, for the standard to be successfully adopted and implemented in a profession-agnostic manner.

- The IESBA may wish to consider revising the definition of professional accountant that it uses in the Code. The IESBA defines a professional accountant as “*An individual who is a member of an IFAC member body*” (refer to IESBA Code 2023 Edition, *Glossary, Including Lists of Abbreviations*). Many people have argued for many years that this definition is outdated and is not useful in describing the broader applicability of the Code across the profession and across the globe.

In contrast, the definition of professional accountant in *Appendix 2 of the Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants, IAESB Glossary of Terms (2019)* is “*An individual who achieves, demonstrates, and further develops professional competence to perform a role in the accountancy profession and who is required to comply with a code of ethics as directed by a professional accountancy organization or a licensing authority.*” This International Accounting Education Standards Board (IAESB) definition recognises that individuals who exhibit certain characteristics and who are complying with a code of ethics issued under the auspices of a professional accountancy organisation or a regulator can be seen as a professional accountant. The adoption of a definition along these lines may obviate the need for a very lengthy, detailed, separate Part 5 of the Code and may enable a more simplified approach to the development of ethics standards for sustainability assurance, especially if one acknowledges that the provision of assurance is a role within the accountancy profession.

- In paragraphs 19 and 20 of the Explanatory Memorandum for this ED, the IESBA discusses “equivalence to audits”. While the IESBA’s intention is noted with respect to aiming to achieve equivalence, the decision to create a separate Part 5 of the Code merely underlines the challenges associated with the process undertaken by the IESBA. Indeed, the “lift and shift” approach taken by the IESBA (i.e., to pick up Part 4A and make wording changes relevant to sustainability assurance) ignores the context in which Part 4A is written. That is, the adoption and implementation of Part 4A supports, and is supported by, a range of high-quality, globally accepted auditing, assurance and quality management standards, which do not currently exist for sustainability assurance. For example, provisions in Part 5 relating to group sustainability assurance engagements are premature when one considers that there are currently no assurance standards that address this concept. Moreover, while auditing standards provide guidance in situations where an auditor cannot use the work of a component auditor, there is nothing to guide sustainability assurance practitioners when they are unable to use the work of another assurance practitioners (e.g., if the other practitioner refuses to provide a confirmation of their independence).

The ambition to create equivalency between the sustainability assurance ethics and independence, and auditing ethics and independence, may have the consequence of making sustainability assurance engagements the sole domain of financial statement auditors. Practitioners, who are not financial statement auditors, will find it extremely costly (in the same way that professional accountants do) to have arrangements in place to meet the stringent and complex ethics and independence requirements of the Code. Therefore, equivalency may be more readily achieved by revising existing standards (e.g., Part 4B) than by creating an entirely new Part of the Code.

Finally, the assertion by the IESBA that equivalency is important in order “*to minimize regulatory arbitrage issues such as courts interpreting differences in meaning when none is intended*” is problematic, as it suggests that the Code has been written from the perspective that it has/would have legal status. It is not clear that, over the years, this has been the basis on which the Code has been developed, revised and expanded over time.

- Paragraph 32 of the Explanatory Memorandum notes that the IESBA “*believes it is important to hold the practitioner to the same high ethics standards with respect to any other professional services they might provide to the same client*”. Sections 5100 to 5390 of the proposed Part 5 standard sets out “*ethics standards for sustainability assurance engagements and other professional services performed for sustainability assurance clients*”. This clearly indicates that the proposed Part 5 aims to impose ethics and independence requirements on practitioners, who are not professional accountants, beyond merely sustainability assurance engagements. Including these requirements that extend beyond sustainability assurance engagements may act as a disincentive for those other practitioners to adopt and implement these proposed standards.
- In paragraph 42 of the Explanatory Memorandum the IESBA indicates that it will need to consider whether to revise the extant Part 4B as a consequence of issuing Part 5. Furthermore, consideration may involve the development of a Part 4B equivalent in Part 5. If the intention of proposed Part 5 is to create provisions that are equivalent to Part 4A, it is unclear why specific development of a Part 4B equivalent to Part 5 would be needed. Also, if Part 5 includes requirements that go beyond Part 4B, it would seem more logical to revise Part 4B to ensure that Parts 4B and 5 are ostensibly aligned?

- The IESBA indicates that a reason for not pursuing the development of profession-agnostic ethics standards for sustainability reporting is that there is no urgent international regulatory call for such standards at this time. It also acknowledges that there was no “strong” support for such standards from global sustainability roundtable participants, which included regulators. Logically, it can be assumed that there is some support from non-regulator stakeholders for such standards. It is important that IESBA considers feedback and recommendations from a broad range of stakeholders and does not unintentionally provide inappropriate greater weight to the views of regulators. We note that notwithstanding its decision to not pursue profession-agnostic ethics standards for sustainability reporting as part of this current ED, the IESBA has identified such standards as a key strategic focus area. This prioritisation is supported by CPA Australia, but we strongly recommend that the IESBA focuses on revising and updating existing Code provisions and does not create yet another separate Part of the Code.
- The IESBA should consider revising the second chart in Appendix 1 of the Explanatory Memorandum for this ED. In some jurisdictions it is not a requirement for auditors to be a professional accountant (as defined by the IESBA). Therefore, the chart that commences with the wording ‘Sustainability Assurance Practitioner (Non-PA)’ should include under “Any other services”/”Part 5 Ethics” a branch and boxes that state, “Audit or Review” and “Part 4A Independence (Encouragement)” – similar to the first chart in Appendix 1.

Our responses to the requests for specific and general comments are included in Appendix 1 to this letter.

If you have any questions, or require clarification, about our comments in this letter, please contact me on +61 401 716 035 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

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Request for Specific Comments

Sustainability Assurance

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? [See paragraphs 19 and 20 of this document]

As outlined in our cover letter, CPA Australia acknowledges the IESBA's intention to achieve equivalence to the ethics and independence standards for audit engagements in the extant Code. However, the "lift and shift" approach taken by the IESBA (i.e., to pick up Part 4A and make relevant wording changes relevant to sustainability assurance) ignores the context in which Part 4A is written, as noted in our cover letter.

- (b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of this document]

The proposals in Chapter 1 of the ED appear to be written as reporting framework neutral. While efforts have been made to write Part 5 in a "profession agnostic" manner (from the perspective of a sustainability assurance practitioner), it is unlikely that a professional who is not from the accountancy profession will be able to readily read, understand and implement the provisions in Chapter 1. There is significant accountancy profession bias in the wording of the Chapter. While this consistency of language is explained – i.e., the IESBA is concerned about regulatory arbitrage – it creates a barrier and disincentive to adoption by other professionals. The IESBA may wish to consider the use of more simple language and a focus on conciseness in Part 5.

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? [See paragraph 23 of this document]

CPA Australia is of the view that neither of two qualitative characteristics: "clarity and conciseness" and "implementability and enforceability", has been satisfactorily addressed in the proposals in Chapter 1. In our view, professionals outside of the accountancy profession will not find Chapter 1 to be clear or concise. Moreover, the impact on third parties of the requirements in Chapter 1, with whom the professional accountant or the sustainability assurance practitioner may not have a relationship, suggests that implementation and enforceability will be challenging.

Definition of Sustainability Information

3. Do you support the definition of "sustainability information" in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]

CPA Australia generally supports the definition of "sustainability information" in Chapter 2 of the ED.

However, we note that the proposed definition:

- differs from the definition that the International Auditing and Assurance Standards Board (IAASB) has included in its Exposure Draft for ISSA 5000 *General Requirements for Sustainability Assurance Engagements*. This difference has the potential to create confusion amongst those using both sets of standards; and
- highlights the need to reconsider the definition of public interest entity (refer to the response to Question 9 below).

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? [See paragraphs 30 to 36 of this document]

CPA Australia is of the view that expanding the coverage of the proposed Part 5 beyond the provision of sustainability assurance engagements, to other assurance engagements provided to sustainability assurance clients and all other services provided to the same sustainability assurance clients, is problematic. Professionals who are outside of the accountancy profession are unlikely to be amenable to having regulations and requirements imposed upon their activities. Moreover, it is not clear that these other professionals would define and characterise their other activities and services (including other assurance engagements) in the same manner as professional accountants. However, CPA Australia recognises that decisions about the use of Part 5 in a jurisdiction are judgement calls that would need to be made by governments and regulators, taking into account the considerable additional monitoring and enforcement arrangements needed and the associated significant costs.

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? [See paragraphs 38 to 43 of this document]

CPA Australia recommends that the IESBA consider adding the words “and assured” between “provided” and “in” in 5400.3 (b) (i).

Extensive education and guidance will be needed for sustainability assurance practitioners from outside of the accountancy profession with respect to:

- understanding the definition of a “general purpose framework”, and
- understanding the concepts of reasonable and limited assurance, and opinion and conclusion (refer to proposed Paragraph 5400.3c).

The IESBA should consider including a paragraph in the section titled “*Scope of International Independence Standards in Part 5*” that provides for the voluntary use of the standards by sustainability assurance practitioners.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]

While CPA Australia is supportive of the inclusion of Section 5270 in Chapter 1 of the ED. Its inclusion highlights two points:

- Should there be an equivalent of Section 270 in Part 3 of the Code, notwithstanding that Paragraph R300.5 exists?
- The creation of a separate Part 5 has created additional complexity for those using the Code. Revisions to the Code, rather than the creation of separate new Part, may have reduced this complexity.

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? [See paragraphs 56 to 67 of this document]

CPA Australia is supportive of these additional provisions since they do not create an obligation (i.e., the relevant provision is worded as “shall consider”) and the relevant factors to consider include “whether doing so would be contrary to law or regulation”. This latter point is critical, as the engagements undertaken by an auditor and a sustainability assurance practitioner might conceivably be totally separate and be performed by firms or individuals that have no relationship with each other. They may be contravening privacy and confidentiality laws by sharing information about a client.

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) [See paragraph 68 of this document]

CPA Australia supports expanding the scope of the extant requirement relating to NOCLAR for PAIBs.

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? [See paragraphs 80 to 85 of this document]

CPA Australia does not agree with this proposal. Paragraph 82 of the Explanatory Memorandum highlights a shortcoming in the recently revised definition of public interest entity (PIE).

While the IESBA notes that confusion would be created if an entity could be determined to be a PIE solely based on its sustainability information, it can be argued that sustainability information and matters related to sustainability should be considered in determining the status of an entity. This view is supported by the fact that the proposed definition of sustainability information includes "information about the opportunities, risks and impacts of **economic** (*emphasis added*)....." factors.

Moreover, arguably, sustainability information and matters related to sustainability should be considered in determining the status of an entity regardless of the impact on the "financial condition" of that entity. That is, the definition of sustainability information proposed in this ED includes the following:

"Information about the opportunities, risks or impacts of(a)n entity's activities, services or products on the environment, the environment or the public."

Conceivably, an entity may undertake activities that do not significantly impact its financial condition, but may have a significant impact on the economy, environment or the public. This could become more apparent when reporting extends beyond climate related risk reporting and disclosures, for example, information and reporting related to social aspects of human rights and modern slavery. As sustainability reporting evolves, and is mandated in many jurisdictions, IESBA may wish to reconsider the definition of a PIE to take into account the critical importance of sustainability information in determining whether an entity is a PIE.

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. [See paragraphs 86 to 92 of this document]

(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?

CPA Australia does not support the independence standards in Part 5 addressing group sustainability assurance engagements. It is not appropriate for the IESBA to attempt to address group sustainability arrangements when currently, there are no assurance standards and no direct guidance dealing with group sustainability assurance engagements. Without a point of reference/context, the implementation of the proposed ethics requirements relating to group sustainability assurance engagements is premature.

Furthermore, as noted by the IESBA the adoption and implementation of independence standards by professionals who are not professional accountants will be extremely challenging. In making this point the IESBA notes that education and training is important. This is true. However, this point highlights another significant problem related to the adoption and implementation of the proposed standards by professionals other than professional accountants. That is, the need to devote considerable resources into the development and provision of the necessary education and training.

As the accountancy profession (firms and professional accountancy organisations (PAOs)) provide a significant proportion of the funding of IESBA's standard setting operations, it cannot be expected that those funds will be used to develop education and training which is focused solely on professionals who are not professional accountants. That is, the IESBA will need to ensure that any education and training materials that it develops is appropriately profession agnostic. Moreover, it would be inappropriate to suggest that firms and PAOs provide funding for education and training for other professionals who are in direct competition with the firms and the members of the PAOs. Alternatively, as IOSCO has encouraged the IESBA to develop professional agnostic standards it seems appropriate that the resourcing needed to develop and provide education and training for professionals who are not professional accountants should come from governments and regulators that comprise IOSCO membership.

(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)?

CPA Australia does not support independence provisions applicable to group sustainability assurance engagements at this point in time.

- (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? [See paragraph 88 of this document]

Refer to the response to the previous question.

- (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”)?

Refer to the response to the previous question.

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? [See paragraphs 93 to 101 of this document]

Application of the proposed independence provisions for when a 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, would present challenges. Three observations are offered:

- Firstly, Section 5406 relates to provisions for and actions by a firm – that is, professional accountants or sustainability assurance practitioners – although the question refers only to sustainability assurance practitioners. We assume that the IESBA intentionally used the word “firm” and as such, are comfortable with its use.
- Secondly, this section focuses on independence requirements for the other practitioners but seems not to address the competency of those other practitioners. The IESBA may wish to consider including paragraphs and provisions relating to the actions that a firm may need to undertake to determine the competency (not just the independence) of another practitioner.
- Thirdly, no guidance and/or direction is provided to the professional accountant or sustainability assurance practitioner as to what should be done if the other practitioner refuses to provide the information requested with respect to their independence.

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? [See paragraphs 102 and 103 of this document]

While CPA Australia supports the proposed definition of “value chain” in the context of sustainability assurance engagements, we note the potential challenges faced by professionals who are not professional accountants in understanding and adopting the definition. Specifically, references to materiality and components may not be readily understood.

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? [See paragraphs 104 to 110 of this document]

Obtaining assurance on sustainability information of the value chain entity provided to the sustainability assurance client is clearly complex and potentially would have significant impacts on small- and medium-sized practitioners who often provide services to smaller value chain entities.

It is difficult to imagine situations where a value chain entity would be amenable to a sustainability assurance practitioner, engaged by another entity further up the value chain, undertaking assurance work at that value chain entity. Conceivably, it may mean that that value chain entity would need to “open itself up” to the numerous different sustainability assurance practitioners, which have been engaged to obtain assurance by client entities further along that value chain and to which the value chain entity provides good or services. Therefore, it is not clear that 5407.2 A1 (a) is a realistic or practical option.

The independence requirements related to 5407.2 A1 (b) – i.e., a statement of independence in the sustainability assurance practitioner’s report – seem to be insufficient. As noted in response to Question 11, a focus only on independence seems to ignore the need to determine the competence of the other sustainability assurance practitioner. A lack of competence may lead to a practitioner asserting they are independent when they are not, especially when that other practitioner may not be a professional accountant and may not have a thorough understanding of the complex independence requirements in this standard. Furthermore, no guidance and/or direction is provided to the professional accountant or sustainability assurance practitioner as to what should be done if the other practitioner refuses to provide the information requested with respect to their independence.

Finally, with respect to 5407.2 A1 (c), when the firm performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity, it is noted that there is no requirement for the members of the sustainability assurance team to be independent of the value chain entity. They must only be independent of the assurance client. Section 5700 suggests that threats to the independence of the practitioner vis-à-vis a value chain entity need to be considered, and this implies that being independent of the value chain entity is required. However, this is not what is stated in paragraph R5407.6. CPA Australia recommends that the IESBA considers clarifying this point.

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, it is possible that threats to the firm’s independence may be created.

(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? [See paragraphs 111 to 114 of this document]

The guidance provided in Section 5700 seems appropriate but is potentially misplaced. The IESBA might consider moving the wording in Section 5700 to Section 5407, so that it precedes Sections 5410 through 5600, where such interests, relationships or circumstances need to be considered.

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)? [See paragraphs 115 and 116 of this document]

CPA Australia is of the view that the logic pertaining to paragraphs 5600.16 A2 and R5600.17 remains flawed (as it does in equivalent paragraphs in Part 4 of the Code). While acknowledging the explanation of the prohibition detailed in the guidance paragraph (5600.16 A2) that a self-review threat for a PIE cannot be eliminated and safeguards are not capable of being applied to reduce that threat to an acceptable level, paragraph R5600.17 is not consistent with this reasoning. It “goes further”. This paragraph includes a requirement that prohibits a non-assurance service from being provided merely because it “MIGHT” create a threat rather than because it does create a threat.

Arguably, any service “might” create a threat and hence this requirement is tantamount to a blanket prohibition on the provisions of all non-assurance services. If it is the intention of the IESBA to prohibit all non-assurance services for PIEs, it should make that statement, which would vastly simplify these sections of the Code. This would then be consistent with

IESBA's view of detailing those non-assurance services that do not create a threat to independence and which can still be offered.

CPA Australia is comfortable with the provisions relating to the determination of materiality and communication with those charged with governance.

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]

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

CPA Australia notes that subsections 5601 to 5610 are broadly consistent with Part 4 of the Code. However, as noted previously, we are concerned that in the aim for equivalency, the provisions in Part 5 do not have an appropriate context.

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

There are no other non-assurance services that CPA Australia recommends should be specifically addressed in the context of sustainability assurance engagements.

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)? [See paragraphs 123 to 131 of this document]

With respect to fees, CPA Australia offers the following comments and observations:

- The disclosure of fees paid by client entities for sustainability assurance engagements is not required under current sustainability reporting frameworks. This makes it challenging to expect that the sustainability assurance practitioner can demand such disclosure from its client, or that it is appropriate for it to make a disclosure in the absence of the client doing so.
- Arguably, the level of fees paid by a sustainability assurance client might impact a sustainability assurance practitioner's performance of professional services, rather than the practitioner's "ability" to perform (refer to paragraph 5330.3 A1). The IESBA may wish to consider revising the wording of this paragraph.
- The IESBA may wish to consider whether the term "public authority" has the same meaning across jurisdictions – refer to paragraph 5410.8 A1. In some jurisdictions, public authorities may operate on a commercial basis or have conflicts of interest as a regulator that is regulating a broad cross section of entities. Hence, a public authority may have an interest in the outcomes of the work performed by a sustainability assurance practitioner. The IESBA may wish to consider deleting the reference to a public authority or perhaps use alternative wording, such as "or other judicial body".
- It is not clear that the IESBA is able to mandate the reporting of fees by a firm (refer to paragraph R5410.31), especially when they are not fees for which the firm is making payment. It is the client's responsibility. The IESBA should consider revising this paragraph to indicate that the firm should "consider" publicly disclosing fees. Alternatively, the IESBA might consider qualifying the requirement by stating that such disclosure should occur in accordance with jurisdictions' laws and practices.

No comments are offered with respect to long associations with the client.

Other Matters

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?

No comments.

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

CPA Australia offers the comments and observations:

- Contents of Part 5: The IESBA might consider using bolded wording or spacing to more clearly identify the commencement of a new section and to more clearly differentiate between those sections – e.g., moving from 5100 to 5200 to 5300.
- Proposed paragraph 5100.1: CPA Australia recommends that the IESBA better clarifies the types of standards alongside which it expects “(h)igh-quality ethics and independence standards” are to be used. That is, rather than being used alongside merely “other” reporting and assurance standards, the IESBA may wish to consider using terminology such as “high-quality, globally accepted” reporting and assurance standards. This change would recognise the importance of the quality of reporting and assurance standards being used and on which assurance is being obtained, by the sustainability assurance practitioner.
- Proposed paragraph 5100.1a: The IESBA proposes that the “(s)ustainability assurance practitioners are expected to have relevant knowledge, skills and experience to perform” This is an example of where different definitions proposed by the IESBA with respect to proposed revisions related to the use of an expert, and used by the IAASB in its standards, create confusion. If one relies on:
 - The IESBA proposed definition, this statement is read as “(s)ustainability assurance practitioner are expected to have relevant expertise and experience to perform”
 - The IAASB definition, this statement is read as: “(s)ustainability assurance practitioner are expected to have relevant expertise to perform”

CPA Australia recommends that IESBA reviews its proposed standards and ensures that terms are used consistently throughout and does not create uncertainty for readers of the standards.

- Proposed paragraph 5100.6 A1: The IESBA should consider changing the word “enable” at the start of the second line of this paragraph to “support” or “assist”. This change would recognise that acting in the public interest is something that is not achieved by merely having standards to which to refer.
- Proposed paragraph 5115.2 A1: The IESBA should consider adding the words “or regulatory” between the words “professional” and “body” in the last line of the paragraph. This is consistent with creating profession agnostic standards and recognises that not all sustainability assurance practitioners will be members of a professional body.
- Proposed paragraph 5120.14 A1: As worded, this paragraph seems to be questioning the quality of the ISQM1 standard, and suggesting that it only might (i.e., it also might not) achieve the stated purpose. Assuming that that is not the intention, CPA Australia recommends that the IESBA considers revising the wrong of this paragraph as follows:

“Quality management standards, such as ISQM1, might be used as a point of reference to address firm culture in the context.....”

- Proposed paragraph 5300.7 A3(c): The IESBA should consider revising this point to read “A client to whom no audit or assurance services are provided”.
- Proposed paragraph 5320.3 A2 Second dot point: There appears to be a superfluous “the” before the word “questionable” in this sentence, which could be removed.
- Proposed paragraph R5380.14: It is not the role of an assurance practitioner to consider reputational and commercial consequences. That is a role of the client.

Sustainability Reporting

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

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? [See paragraphs 133 to 135 of this document]

It is imperative that the IESBA – and the International Foundation for Ethics and Audit (IFEA) – addresses resourcing and funding concerns before it proceeds to undertake further activities aimed at “extending the impact of the Code beyond the accountancy profession” and to develop more “profession agnostic” standards. Moreover, much greater thought needs to be given to questions relating to adoption and implementation of the standards, including the education and training that needs to be developed and provided.

Over the last two to three decades, the global adoption and implementation of international standards resulted largely from the efforts of global accounting networks and PAOs. It is unreasonable to expect that these organisations should continue to be almost sole funders of standards, education and training, that directly benefit others who are in direct competition with the firms and PAOs.

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? [See paragraph 138 of this document]

CPA Australia notes that the proposals in Chapter 4 of the ED appear to be responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics.

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? [See paragraphs 139 to 141 of this document]

CPA Australia is comfortable with the proposed revisions to Section 220.

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]

CPA Australia is comfortable with the proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information.

(c) Other proposed revisions? [See paragraph 155 of this document]

CPA Australia notes that the main changes proposed in Chapter 4 relate to the inclusion of wording such as “non-financial information, including sustainability information”. While this is not inappropriate, it does suggest that revisions will be made in the future when non-financial information reporting expands beyond sustainability information.

The IESBA may consider revisions to paragraphs 240.3 A2 third and fifth dot points, and 270.3 A2 *Pressure related to financial interest*. That is, the need for the wording “financial or non-financial” prior to “performance” goals/conditions/indicators and whether these words can be removed. At the least, this wording should consider using “and/or” or “and” rather than “or”, but it is arguable that the wording is not necessary, and that the meaning is appropriately conveyed simply by reference to “performance” goals/conditions/indicators.

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

CPA Australia raises no other matters.

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?

CPA Australia supports 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.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- (a) *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

SMPs – whether in or outside of the accountancy profession – will find Part 5 extremely challenging to adopt and implement. Many smaller practitioners already find the current Code difficult to implement. As the Code will run into several hundred pages after these revisions are made, the time has come (maybe already passed) for the IESBA to seriously consider having an abbreviated Code of Ethics for use by SMEs and SMPs – to complement the work done by other standard setters with respect to having, for example, developed IFRS for SMEs and a standard on audits of less complex entities.

- (b) *Regulators and Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and oversight communities.

The proposed revisions add to the enforcement challenges for professional accountancy organisations undertaking quality reviews of, and professional conduct activities with respect to, its members. Of particular concern is the inherent assumption in some of the proposed provisions that professional accountants/sustainability assurance practitioners can demand information from third parties and are expected to assume responsibility for the actions of others.

- (c) *Sustainability Assurance Practitioners Other than Professional Accountants* – The IESBA invites comments on the clarity, understandability and usability of the proposals from sustainability assurance practitioners outside of the accountancy profession who perform sustainability assurance engagements addressed by the International Independence Standards in the proposed Part 5 of the Code.

Not applicable.

- (d) *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

No comment.

- (e) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

No comment.