



# PROPOSED INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (IESSA) AND OTHER REVISIONS TO THE CODE RELATED TO SUSTAINABILITY ASSURANCE AND REPORTING

Issued 10 May 2024

ICAEW welcomes the opportunity to comment on the exposure draft 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* published by the International Ethics Standards Board for Accountants (IESBA) on 29 January 2024, a copy of which is available from this [Link](#):

[Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting | Ethics Board](#)

This ICAEW response of 10 May 2024 has been prepared by the Reputation and Influence department, and reflects consultation with ICAEW technical committees including the Ethics Standards Committee, the Sustainability Committee, the Practice Committee, the Non-Financial Reporting Assurance Committee and representatives from the Audit and Assurance Faculty, which include representatives from public practice and the business community. The Ethics Standards Committee is responsible for ICAEW policy on ethics issues and related submissions to legislators, regulators, and other external bodies.

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## KEY POINTS

### Support for the intent behind IESBA's proposals

1. ICAEW welcomes this opportunity to comment on IESBA's detailed Exposure Draft. We support the aims of IESBA to strengthen provisions in the Code of Ethics in respect of sustainability-related reporting and assurance, and to develop a set of consistent and proportionate, framework neutral standards, which can be applied by all Sustainability Assurance Practitioners undertaking a Sustainability Assurance Engagement. We recognise the importance of establishing a clear framework of expected behaviours and ethical provisions in relation to the developing field of sustainability assurance and reporting; and we acknowledge the impressive pace at which IESBA has developed the draft standards, in conjunction with the extensive outreach activity that has taken place during its development and throughout the consultation process.
2. We are supportive of IESBA's intention to adopt a framework neutral approach and to consider the IAASB's ED5000 which seeks to be an overarching standard and global baseline for sustainability assurance. As the policy and regulatory landscape continues to evolve, it is essential that IESBA continues to be engaged in active dialogue with a broad range of stakeholders (including IAASB and ISSB amongst others), globally and across jurisdictions.
3. We recognise that it is in the public interest to ensure that the international market for sustainability assurance engagements is competitive, and that any proposals by IESBA do not inadvertently distort competition or create unintended barriers to entry. As such, we strongly encourage IESBA to continue to engage with a broad range of Sustainability Assurance Practitioners and to ensure that the proposed ethical provisions (including independence standards) are accessible and couched in simple language; and capable of uniform interpretation, implementation and enforcement.

### Areas of concern

4. Through our outreach activity, we have identified the following key issues that we believe should be addressed by IESBA as a priority:
  - i. We do not consider that the proposals are sufficiently clear in respect of independence requirements relating to value chain, and may be misinterpreted, and prove onerous and costly to implement in practice, particularly where there is a significant number of entities within a value chain.
  - ii. Whilst we are open to the concept of "profession agnostic standards" in relation to Part V, we consider that to be truly categorised as such, any standards introduced must be capable of uniform interpretation, implementation, and enforcement.
  - iii. As far as possible, any definitions used in the Code should be consistent with those employed by other bodies such as ISSB and IAASB and in the guidance produced by these bodies. The potential for "standards arbitrage", including in relation to matters such as the applicable quality standards should be reduced.
  - iv. The incorporation into the proposed Independence Standards, of terminology and concepts associated with audit (and which have a particular meaning in that context) may prove difficult for Sustainability Assurance Practitioners from different backgrounds to understand and apply consistently.
  - v. We have significant reservations about how compliance with the proposed Independence Standards, by Sustainability Assurance Practitioners who are not subject to oversight by a professional/ statutory body with a Code of Conduct and transparent disciplinary mechanisms, is to be monitored and enforced. We are encouraged by the announcement of the strategic partnership between IESBA and The International Accreditation Forum (IAF) to advance the use of a common framework of high standards of ethical conduct to underpin trust in the assurance of sustainability

information. However, in the absence of any legal or regulatory requirement to adopt the provisions of Part V, compliance with these provisions by Sustainability Assurance Practitioners who are not Professional Accountants will be voluntary. This will result in a market consisting of regulated and unregulated Sustainability Assurance Practitioners with the potential distortion of the market, in circumstances where some Sustainability Assurance Practitioners will be subject to detailed and costly requirements; and enforcement, whilst others will not.

- vi. Compliance with the proposed provisions may require significant investment by Sustainability Assurance Practitioners seeking to practice in this area. We are concerned that, as a potential consequence, firms will seek to de-risk and will disengage with the market, resulting in less choice for consumers and users of Sustainability Information.

### **Measures IESBA may wish to take to address the highlighted concerns**

5. To address these issues and to aid clarity and interpretation, we encourage IESBA to develop more detailed application material and additional guidance to support the proposed new provisions, incorporating the use of diagrams and worked case study examples for those areas highlighted in our detailed responses below. In addition, we would recommend a period of transitional arrangement before bringing Part V into force. This is to allow Sustainability Assurance Practitioners from different backgrounds space to establish a common base understanding of the provisions and to develop shared working practices and procedures.

### **Definition of PIE**

6. As a starting point, we accept the need for the definition of PIE to be consistent in the contexts of both audit and sustainability. However, we note that non-financial considerations are increasingly important in the sustainability context. As such, we strongly encourage IESBA to keep the definition of PIE under review, for the purpose of Sustainability Assurance Engagements; and to take active steps to evolve the concept by embracing non-financial considerations, particularly as regards issues such as Modern Slavery / Human Rights and bio-diversity.

### **Further matters**

7. We do have reservations about the continuous and exponential expansion of the IESBA Code. We consider that there would be merit in IESBA adopting a substantial period of pause and reflection; and using this time to undertake an implementation review of the Code across the multiple jurisdictions in which it applies.
8. As part of this exercise, we consider that IESBA should endorse the need for a longer-term / more strategic view of ethical standards and how they can continue to remain relevant and fit for purpose against the backdrop of an evolving regulatory and technological environment (including AI and cyber security).
9. Our comments in this response are driven by the format of the response document and we have answered the questions which have been posed. While we have identified several areas of concern, we believe IESBA should be able to address them through further reflection and engagement across a broad range of Sustainability Assurance Practitioners. This will ensure that the objectives of the proposed standard are met and support the delivery of high quality, consistent, and trustworthy sustainability reporting, and assurance. ICAEW remains keen to continue to engage constructively with IESBA on measures to drive up the quality of sustainability reporting and assurance.

## REQUEST FOR SPECIFIC COMMENTS

### Sustainability Assurance Main Objectives of the IESSA

#### **Q1 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]**

10. We consider that a distinction may be drawn between equivalence of intent, and equivalence in practice.
11. Whilst we broadly agree with the proposed equivalence of intent, we have reservations about whether Sustainability Assurance Practitioners with a non-audit background will be able to fully understand the definitions and concepts used and/or be able to apply these provisions in a manner that is truly equivalent in practice and consistent to how they would be applied by those with an audit background. In this respect, we note that those with an audit background have the advantage of specific training and familiarity with a range of supporting guidance such as International Standard on Auditing (ISA) materials and an established professional skills training ecosystem.
12. In particular, the concept of “Independence” has a specific meaning and resonance in the audit concept, and this is something that may not be fully appreciated by those with a non-audit background.
13. As part of on-going engagement and outreach activity on these standards, we consider that it would be useful for IESBA to undertake focus groups with Sustainability Assurance Practitioners from non-audit backgrounds to gauge the depth of understanding of the terminology and concepts incorporated from audit, including terms such as “Professional Scepticism”; “Independence”; “materiality”; “direct” and “indirect” control; and the difference between “components” and “processes” etc.
14. Equally, there may be practices, processes and working definitions routinely used by Sustainability Assurance Practitioners with non-audit backgrounds that should usefully be incorporated into these standards.
15. We recognise that there will be, perhaps inevitably, a large accounting bias in the feedback to this consultation. We therefore consider it most important that IESBA continues its programme of engaging specifically with non-professional accountants to identify any potential issues with implementation and operability from that perspective. We note that IESBA is working with the International Accreditation Forum and their views will be helpful here.
16. We consider that it would be useful for IESBA to include a general guide to the use of the new Part 5 at the beginning which helps clarify some of these issues, and to include application material/supporting guidance written in plain and simple language, and with illustrative diagrams and case studies. This could usefully include guidance on how to handle conflict between the fundamental principles.

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

17. We wish to emphasise that ICAEW supports the overall intent behind these proposals, which -in broad terms- is to produce a consistent set of standards that would be applicable by Sustainability Assurance Practitioners undertaking Sustainability Assurance Engagements; thereby raising standards and increasing the reliability of sustainability information and the opinions expressed upon that information. Given the heightened public expectations in this area, we consider that there is a clear public interest in pursuing these aims.
18. As a general principle, we consider that to be truly “profession agnostic”, standards must be consistently interpreted and understood; and uniformly enforced.

19. As noted above, Sustainability Assurance Practitioners from a non-audit background or who are not members of a regulated profession, may not have the same instinctive application of (or indeed-adherence to) the proposed standards and ethical framework as that of Professional Accountants who will have undergone specific training in this regard during their route to qualification and who are required to engage with them in their routine professional lives. It is therefore most important to consider the usability of the proposed standards from the perspective of those with a non-audit background, particularly where compliance by them with the proposed standards will be voluntary.
20. We have concerns about the enforcement of these proposed standards, in relation to Sustainability Assurance Practitioners who may not be members of a Professional Body with a Code of Conduct and transparent enforcement mechanisms. Indeed, there is a potential risk of devaluing the standards in circumstances where unregulated sustainability assurance practitioners claim to be following the standards but are not, and there is no effective sanction against them. Put another way, there is the potential to create confusion in the minds of the public and users of sustainability assurance information about the status of the persons preparing sustainability information and the standards adhered to. This may be further complicated by jurisdictional features which may allow for a regulatory landscape with various professional and regulatory actors charged with oversight, governance, and supervision.
21. The concern is to ensure that there is proper application and oversight of these standards, and it is not clear if this can be achieved on a voluntary basis.
22. Whilst the standards are intended to be framework neutral, the wording of the different reporting frameworks in place, may have the potential to open up inconsistencies in the application of the standards.
23. An important example relates to the important issue of quality management standards. In the proposed wording of ISSA 5000 (at Section 29), the IAASB stipulates the use of ISQM 1 or a standard that “are at least as demanding”.
24. The absence of any objective criteria or mechanism to evaluate or determine whether quality management systems are comparable or truly equivalent, opens up the real possibility that some Sustainability Assurance Practitioners may in fact employ a lower standard of quality management in the conduct of their Sustainability Assurance Engagements. The potential for divergence on key issues such as this, cannot be in the public interest.
25. In this regard, it is worth noting that there is a cost to compliance with standards. Where Sustainability Assurance Practitioners claim to be applying the same standard but in practice employ different standards based on interpretation of the standard itself (or in the context of a particular framework), there is a potential risk of creating barriers to entry and distorting competition in the sustainability assurance market.
26. A further concern is whether the detailed independence provisions in relation to issues like the value chain will require such a significant investment in quality management, disclosure processes, procedures, and employee time, as to deter smaller practitioners and firms from undertaking such engagements.
27. More generally, we emphasise the importance of simplicity; and the desirability of ensuring that definitions of key terms are as consistent as possible across all relevant standards, guidance and reporting frameworks (including those produced by IESBA, IAASB and ISSB).

**Q2. 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]**

28. We support the aims and intent of the IESBA proposals, including the desirability of ensuring that that market in sustainability assurance operates effectively and competitively, in the public interest.

### **Coherence with the body of standards**

29. We consider that, wherever possible, IESBA should employ the same definitions used by other bodies (such as the ISSB) which produce guidance that practitioners may be familiar with or which may be mandated by other reporting frameworks. We are concerned at instances of divergence, such as in relation to consideration of components for the purposes of Value Chain and Group Audit as set out in our response to Q12.

### **Clarity and conciseness**

30. We have reservations about the clarity of some of the definitions and proposals set out in the Exposure Draft and in several places, we have suggested that IESBA should produce further application material and worked example case studies to illustrate how provisions and obligations might work in practice.
31. We note that competition is best assisted by clarity on the scope and effect of any obligations introduced on practitioners in the field of sustainability assurance. Where provisions might require substantive investment in process, quality management and disclosure systems, this may have the unintended consequence of acting as a barrier to entry for small practitioners and firms seeking to operate in this market.

### **Implementability and enforceability**

32. We have concerns about the potential scale of the obligations that might be encompassed within the independence provisions relating to value chain. We have reservations about whether obtaining disclosures to the required standard from all parties concerned is completely practical or feasible.
33. Where there are obligations that derive from the knowledge to be attributed to the practitioner (e.g., “has reason to believe...”) we have concerns about how this may be interpreted by regulatory enforcement bodies and have suggested that IESBA should produce further application material and worked examples.
34. More fundamentally, we have concerns about how the IESSA provisions may be enforced in relation to Sustainability Assurance Practitioners who are not members of a Professional Body with enforcement mechanisms or subject to mandatory legislative requirements. Absent such transparent enforcement mechanisms, we are concerned that compliance with the code may prove difficult to assess or to monitor.
35. As noted above, we also consider that the incorporation of auditing concepts into definitions and provisions in the IESSA may result in a differing interpretation by non-Professional Accountants who may not be familiar with such concepts or with associated and underpinning guidance such as ISA material. The concern is that this might result in a divergence of practice by practitioners purporting to implement the same standards.

### **Definition of Sustainability Information**

#### ***Q3. Do you support the definition of “sustainability information” in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]***

36. We appreciate (and welcome) the fact that the proposed definition of “sustainability information” is intentionally broad and sufficiently generic to be perennial and interoperable with various reporting and assurance standards (including proposed ISSA 5000). In particular, we consider that it will be important to ensure that this definition continues to align fully with the definition used by ISSB.
37. However, we did note the absence of “dependencies” from the proposed definition. Given the nature of sustainability information, we consider that it would be helpful to include this in the definition.

38. As we highlight in our response to Question 9 below, we consider that the definition of “Sustainability Information” and the definition of PIEs for the purposes of Sustainability Assurance Engagements” should both be kept under review and that IESBA should champion the evolution of these definitions to reflect the increasing importance and focus on non-financial information.

#### Scope of Proposed IESSA in Part 5

**Q4. 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]**

39. Yes. In principle we agree with the proposed scope of the ethics standards in Part 5 and consider that the broadest option is needed to ensure a level playing field in sustainability assurance.
40. However, we note that this will necessarily require firms and practitioners to have in place adequate processes, disclosure procedures and quality management systems, which may require significant investment; and which may have the unintended consequence of acting as a barrier to providing services for smaller firms and practitioners.

**Q5. 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]**

41. Yes, we agree that this is a sensible first step.
42. However, as we note in our response to question 9, matters of public interest in a sustainability context may not be the same as purely financial considerations relating to audit.
43. The fact that Professional Accountants are required to apply the Independence Standards set out in Part 4B to other Sustainability Assurance Engagements whilst non-Professional Accountants are only encouraged to do so, has potential to distort the market in Sustainability Assurance Services.

#### Structure of Part 5

**Q6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]**

44. Yes. As a matter of principle, we consider it important to incorporate the provisions relating to pressure to breach the fundamental principles.

#### NOCLAR

**Q7. 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]**

45. Yes, in principle, we support these provisions.
46. However, we note that there may be practical considerations to be addressed, to ensure that information about the client is only exchanged in compliance with legal and professional obligations of confidentiality and data protection.

**Q8. 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]**

47. Yes, in principle, we support expanding the scope for PAIBS.
48. However, we note that a PAIB's obligations as regards sustainability information would extend beyond financial fraud, and potentially include complex issues such as human rights and modern slavery etc. This might prove challenging within some jurisdictions.
49. In addition, PAIBS may be faced with pressures that pose threats to compliance, such as to make decisions that breach international agreements, or the use of high or low carbon options. Issues of governance are critical to this discussion, and we consider that it would be helpful for IESBA to produce more detailed application material and additional guidance for PAIBs in this area, including worked case studies.

### **Determination of PIEs**

**Q9. 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]**

50. We understand the initial attraction of ensuring that the determination of a PIE is consistent for the purposes of audit and sustainability assurance, particularly in light of IESBA's recent and comprehensive work on PIE definitions.
51. However, we note that in the context of sustainability, material issues like human rights and modern slavery might not necessarily impact an entity's financial statements.
52. Given the profession's duty to act in the public interest, and the "heightened public sensitivity as regards sustainability information", there is a good argument for importing an obligation to report on such matters even where the financial threshold has not been met.
53. We consider that as the practice of Sustainability Assurance Engagement becomes more sophisticated and valuation processes become more granular, IESBA should undertake a review of the PIE definition and consciously champion its evolution, to ensure that that the definition becomes more nuanced and tailored towards the expectations of users of Sustainability Information, including as regards biodiversity and an assessment of emissions, rather than focussing on purely financial thresholds to trigger a reporting requirement.
54. As we stated in our response to Question 3 above, we consider that the definition of "Sustainability Information" should also be kept under review to reflect the increasing importance and focus on non-financial information.

### **Group Sustainability Assurance Engagements**

**Q10. 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?**

55. We note that ISSA 5000 does not include consideration of groups. Whilst consideration of groups is a positive aspect of the proposed IESSA, we remain concerned about the scope of divergence between different applicable standards and guidance. We re-iterate the importance of consistency in approach between the various standards and guidance that govern this area.

**(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)?**

56. We query whether the provisions of this part are clear enough to be fully understood by non-Professional Accountants. Professional Accountants are able to rely on additional guidance, such as that set out in ISA 600. We consider that for the standard to be applied consistently by both Professional Accountants and non-Professional Accountants, IESBA would need to prepare guidance for non-Professional Accountants that is similar to ISA 600.

**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]**

57. We remain concerned about the scope of potential divergence from ISSB standards in relation to consideration of components and reiterate the importance of ensuring that definitions and terminology across ISSB, IAASB and IESBA standards are consistent, wherever possible.

58. We consider it prudent to note that whilst independence standards for groups have been around for a long term in the context of audit, such standards will be new for group sustainability engagements. This will inevitably entail practical challenges and necessitate a period of transitional arrangements before a base level of shared understanding of the requirements can be established by practitioners in this field working across international boundaries and in varying sectors and size of firm operating in this sector.

59. We are also concerned at the potential for divergence in approach in practice, as regards the implementation of quality management standards and those not applying ISQM standards.

**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”)?**

60. We remain concerned about the scope of potential divergence from ISSB standards in relation to consideration of components and reiterate the importance of ensuring that definitions and terminology across ISSB, IAASB and IESBA standards are consistent, wherever possible.

### **Using the Work of Another Practitioner**

**Q11. 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]**

61. We consider that in addition to provisions concerning independence, there ought to be explicit provisions requiring assurance on the competency and capability of another practitioner before they are engaged.

62. We note that paragraph 100 of the Explanatory Memorandum appears to imply that where another practitioner has been engaged but is not able to provide satisfactory confirmation of independence, it will be up to the firm to determine whether the work can still be used. We note that this appears to be a different approach to that set out in the accompanying Exposure Draft on Using the Work of an External Expert in circumstances where an expert is deemed not to be Competent, Capable and Objective, and would suggest that the same approach be used in relation to experts and use of another practitioner.

63. We consider this to be an area in which IESBA should strongly consider applying a proportionate period for transitional arrangements. The knowledge, skills and working practices of the different firms and/ or assurance providers operating in this area are likely to vary quite considerably in the first few years following implementation of these standards. As such, a transitional period would be beneficial in which to ensure that consistent appreciation and application of the standards as between Professional Accountants and non-Professional Accountants.

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

#### ***Q12. Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements? [See paragraphs 102 and 103 of this document]***

64. We consider that the proposed definition of “value chain” might be confusing, particularly to non-Professional Accountants.
65. Firstly, we note that the proposed definition explicitly refers to materiality. We have concerns about whether this concept will be fully understood by non-Professional Accountants and applied in a way consistent with the practice of the accountancy profession. It might therefore be helpful to include additional guidance/signposting to guidance on materiality in relation to sustainability assurance.
66. In this regard, we note that a “hotspots analysis” or an approach based on risk might be a more useful way of assessing (and quantifying) the issue of materiality in a sustainability assurance context, particularly in relation to reporting on bio-diversity.
67. Further, as regards sustainability, the concept of materiality may include reference to human rights and ESG considerations, which are difficult to quantify, and which may require different weightings for different entities within a value chain. We consider that detailed additional guidance and worked case studies would be useful to ensure consistency of approach by both Professional Accountants and non-Professional Accountants undertaking a Sustainability Assurance Engagement.
68. Secondly, we note that the proposed definition refers to “components” which is also a term which might not be immediately familiar to non-Professional Accountants. We consider that the wording used in the explanatory memorandum might be a more helpful way of expressing the concept: “Value chain entities are not part of the client’s organizational boundary and are not under its control.”
69. We consider that it would be helpful to explicitly clarify the position of joint-ventures and whether they are to be considered as components and therefore within an entity’s value chain. The proposed definition of value chain includes the statement that “The value chain does not include components”. However, as referred to in question 10(b)(iii) there is an apparent inconsistency between the definition of the value chain in the proposed IEISSA with some financial and sustainability reporting frameworks, in particular the treatment of joint ventures which may be considered components in financial reporting terms, but not in certain sustainability reporting standards (notably ESRS) in which case they may form part of the value chain. We consider that it would be helpful for IESBA to provide greater clarity in the definition, or associated guidance. This might include removing the use of “component” and referring to “entities within the organisational boundary” in the definition.
70. More fundamentally, we are concerned at the apparent divergence of approach between IESBA and ISSB on this issue. The approach taken by ISSB appears to consider “value chain” as a component in a group engagement. However, the IESBA approach appears to be that, for independence purposes, the value chain is **not** to be considered a component.
71. It appears that the approach taken by IESBA is to view value chain entities as providers of information and to place a duty on the Sustainability Assurance Practitioner to make inquiries relating to independence where the information provided by a value-chain entity is material to the engagement. We are concerned that obtaining assurances about independence to the required standard, from a significant number of multiple entities (as per proposed new Section 5700.3.A1) is likely to prove challenging in practice.

72. We consider that it is important not to underestimate the significant practical difficulties in obtaining information to demonstrate that a firm (and all relevant employees) are independent from every entity in the value chain. Some large utility providers and multi-nationals may encompass a very large number of entities within their value chain ecosystem. We note that this will require sophisticated processes, procedures, and quality management systems, all of which may have the unintended consequence of acting as an impediment to the entry of smaller firms into this market. Therefore, running counter *to the public interest in ensuring a level playing field in the market for sustainability assurance and adequate choice for consumers of sustainability related information.*
73. It is important not to overcomplicate what is a laudable objective, where a value chain entity is providing information that is material to the overall assessment of sustainability information, that information should be provided objectively and competently. Equally, where requirements may form the basis for regulatory action, it is important that the meaning and interpretation of such standards is clear and consistent.
74. We are concerned that a potential unintended consequence of these provisions may be to create, as regards Sustainability Assurance Engagements, a higher bar in practice than applies to statutory audit in the UK.
75. We are also concerned at the potential for creating an expectations gap, particularly in circumstances where firms with audit practices are undertaking Sustainability Assurance Engagements. In such circumstances, there might be a risk that those relying on the published sustainability information might think that the firm is providing assurance in respect of the financial stability of the entities in the value chain.

**Q13. 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]**

76. We have concerns that the provisions in proposed new Section 5407 may be confusing for non-Professional Accountants who may not share the same base understanding of key concepts such as independence and objectivity as Professional Accountants with their experience of dealing with these concepts in the audit context.
77. Other than the statement of independence referenced in R5407.4.A1, it is not immediately clear what further matters are to be considered or what actions should be undertaken by the Sustainability Assurance Practitioner. A more explicit link to the provisions of proposed new Section 5700.4 would be helpful here.
78. More generally, we consider that further guidance/application material on this point would be helpful to enable both Professional Accountants and non-Professional Accountants to apply the provisions in a consistent manner.
79. We do not consider the three options set out in proposed new Section 5407.2.A1 to be particularly helpful: It is not clear in what circumstances practitioners would choose to engage with Option (a), and we do not consider this option to be practical. Option (b) does not specifically address circumstances where the Sustainability Assurance Practitioner is deemed not to be independent. Option (c) 3 does not sufficiently make clear that it is necessary for the firm to be both independent of the client **as well as** the value chain entity.
80. In this regard, we consider it important to note that where there is no legal mandatory requirement, Sustainability Assurance Practitioners who are not regulated by a professional body and Code of Conduct may not consider themselves under any obligation to respond to requests for information about their independence from third parties.
81. Generally, we consider the wording of proposed new Section 5407.6 to be confusing. We note that the provisions refer to material entities in the value chain. However, we consider that the real issue is the requirement in international sustainability reporting standards (ESRS, IFRS SDS) to report on material impacts, risks and opportunities, not necessarily information about an individual value chain entity.

82. We do not envisage situations where assurance work will be performed at a value chain entity of a client for the purposes of that client's assurance engagement. Rather, we believe that the focus should be on "evaluating evidence" in relation to value chain entities, which would lessen the importance and need for practitioners to focus on stringent independence considerations and enabling them to focus more on the reliability of the evidence provided.

**Q14. 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?**

83. In principle, we consider that there may be certain interests, relationships or circumstances that create a potential threat to the firm's independence. This is consistent with the independence requirements that must be followed when using the work of a component auditor.

**(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]**

84. We do not consider that proposed new Section 5700 provides sufficient guidance for non-Professional Accountants to be able to adequately identify, evaluate or address potential threats in relation to a value chain entity.
85. Whilst proposed new Section R5700.4 provides useful factors that should be considered, it does not provide a useful template of how those factors should be weighted and considered, and where interests should be considered to be relevant and material to an assessment of independence. This is particularly important in the context of non-Professional Accountants who may not be familiar with the conduct of such an important exercise.
86. We consider that it would be helpful to make it explicit that the Sustainability Assurance Practitioner has an active duty of inquiry; and should take pro-active steps to make inquiry of both team members and the firm to ascertain whether there are any potential threats.
87. Generally, we consider that proposed new Section 5700.4 should be supported by more detailed application material, and in particular dealing with the circumstances in which a Sustainability Assurance Practitioner is considered to be imparted with "reason to believe-as this provision might be relied on to support regulatory action against practitioners.
88. We consider that there would be value in IESBA producing a series of worked case study examples to illustrate the sorts of interests, relationships and circumstances that may be relevant to independence considerations and how they should be assessed.

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

**Q15. 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]**

89. In principle, we agree with the provisions of proposed new Section 5600.
90. However, we consider that the creation of a new type of engagement which includes restrictions, might have the potential unintended consequence of deterring audit firms from undertaking Sustainability Assurance Engagements. This is because they may be conflicted by reason of other services that they already provide to the entity (particularly to PIEs).

**Q16. 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?**

91. Yes, and in particular with regards to the focus on the potential self-review threats in relation to a Sustainability Assurance Engagement.
92. However, we consider that proposed new section 5601.2A1 should be more explicit and state that Sustainability Assurance Practitioners must not assume management responsibility.

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

93. We consider that Part 5 could usefully include reference to restructuring services. There may be circumstances in which a corporate restructure might impact on a Sustainability Assurance Engagement; for example, relocation to benefit from different environmental opportunities in other jurisdictions.
94. We also consider that, for completeness, there should be a section on “General Consulting Services”, with a focus on self-review threats.

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

**Q17. 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]**

95. We note that the consideration of fees does not include circumstances in which the Sustainability Assurance Engagement is required to be performed by laws or regulations. There may be some jurisdictions which require or permit the same firm to undertake both the audit and Sustainability Assurance Engagement of the same entity. The IESSA does not provide guidance in such a scenario. We note that the proposed principles may require local action to resolve potential issues concerning existing fee caps that could unintentionally affect the market for sustainability assurance services.
96. However, it is worth noting that the extant IESBA code does not consider that assurance engagements and fees give rise to threats to the independence of the auditor (for example, section 600 refers to the provision of “non-assurance services”) and therefore we do not agree with the proposals relating to fees where the same firm provides both the audit and sustainability assurance engagement. In our view proposed paragraph 5410.11.A1 should be deleted as the provision of audit and assurance services does not give rise to a threat to independence for either service. If IESBA is concerned about total fees for the two services, this may be more appropriately considered under fee dependency considerations.
97. Given that auditors of financial statements are able to provide high-quality, independent, external assurance of sustainability disclosures to the same entity, we consider that the requirements and guidance within the Code should not create unnecessary barriers to their ability to do so.

**Other Matters**

**Q18.A 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?**

98. We have reservations about the clarity of the provisions and the potential confusion as to the scope of the reporting obligations based on use of wording (e.g., use of “might” versus “shall” etc.)

99. More fundamentally, we note that the qualitative and forward-looking nature of sustainability information makes expressing an opinion more difficult than in relation to commenting on retrospective financial information. In this context, recognising and responding to potential threats may also be more difficult.
100. Audit practitioners benefit from substantial additional guidance in material such as ISA 600 and ISA 220. This material may not be familiar to non-Professional Accountants. We consider that IESBA should provide further application material and case study examples to illustrate how Sustainability Assurance Practitioners should consider and react to potential threats.

**Q18.B If not, what suggestions for improvement do you have?**

101. We consider that there would be value in IESBA providing additional application material and worked example case studies. This would assist in ensuring uniform application of the standards by Sustainability Assurance Practitioners with different professional backgrounds.

**Q19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?**

102. We agree with the broad intent behind the proposals, which has as its ultimate goal, to raise the quality and reliability of Sustainability Information and the views expressed in Sustainability Assurance engagements for the benefit of all those relying on such information.
103. As such, we agree that all the public interest is best served by ensuring that all Sustainability Assurance Practitioners have the necessary knowledge, skills, experience and the sufficient degree of independence necessary- to undertake Sustainability Assurance Engagements.
104. We consider it important to ensure that all Sustainability Assurance Practitioners, irrespective of their professional background, have a shared and uniform interpretation and understanding of the requirements set out in these proposals and therefore consider that there is considerable scope for IESBA to produce supporting material and guidance in this regard.

**Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest**

**Q20. 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]**

105. IESBA may wish to consider exploring potential methods and processes for cross/mutual accreditation of qualifications and professional experience in Sustainability Assurance.
106. IESBA may also wish to play a role in establishing boards/forums with the explicit purpose of establishing shared norms and understanding of implementation processes between representatives of Sustainability Assurance Practitioners with different backgrounds.
107. In addition to education and training perspectives to establish equivalence in understanding, interpretation and application of the standards, the corporate governance perspective and the potential role of boards in driving the adoption of these standards should be considered.
108. The success of the proposed standards ultimately depends on effective, transparent, and uniform enforcement. We have significant concerns about how this is to be achieved in respect of Sustainability Assurance Practitioners who are not members of a Professional Body with a Code of Conduct and adequate enforcement mechanisms, or who are not subject to mandatory legislative requirements. IESBA should incorporate early and phased implementation reviews of how these standards are being enforced in various jurisdictions into its strategic plans for the near future.

**Q21. 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]**

109. Without an appropriate regulatory framework for Sustainability Assurance Practitioners who are non-PAs, it is difficult to see how the quality, implementability, enforceability, consistency and global application criteria of the PIF can be satisfied.

**Proposed Revisions to the Extant Code**

**Q22. 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]**

110. We note that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 are clear and adequate, with terminology and principles familiar to professional accountants.
111. We agree with IESBA's assertion that "a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest", and that "confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial, non-financial and corporate reporting, assurance and other professional activities."
112. Furthermore, we concur with the assessment that "Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake."
113. We do welcome IESBA's acknowledgement in paragraph 134 of the explanatory memorandum of the need to expand the scope of extant Part 2 to all preparers of sustainability reporting, while recognising it is a much broader strategic matter which will require IESBA's consideration over a longer period of time and discussions with a broad range of stakeholders.

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

114. We note that the paragraph 143 of the Explanatory Memorandum refers to "intentionally" misleading. However, we consider that it would be helpful to also address circumstances in which firms or practitioners may have fallen into excessive optimism ("Green wishing") rather than engaging in a deliberate intent to mislead and also to cover situations in which circumstances may have changed or interpretations should be reassessed in the context of currently available information.
115. We consider that it would be helpful for IESBA to produce more detailed application material and/or worked case study examples in this regard, to ensure consistency in the application of the standards by Sustainability Assurance Practitioners from different backgrounds.

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

116. We have no additional comments.

**Q23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?**

117. We have no additional comments.

## Effective Date

**Q24. 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?**

118. Whilst we recognise the importance of alignment with ISSA 5000, we consider that there may be practical advantages in introducing an appropriate transitional period to allow the development of norms and practice to enable a shared understanding of the obligations by Sustainability Assurance Practitioners of different backgrounds.

## 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.***

119. We note that complying with the proposed independence provisions relating to value chain for example, is likely to require significant investment in processes, disclosure procedures and quality management systems which might potentially have the unintended consequences of acting as a barrier to entry in the sustainability assurance market for SMEs/SMPS.

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

120. We have considerable concerns about the uniform application and implementation of the IESSA by Sustainability Assurance Practitioners who may not be subject to the oversight of a professional body with a Code of Conduct and with transparent and effective enforcement mechanisms.

121. As noted above in response to individual questions, we have several concerns relating to the practical implementation of the standard, particularly in relation to value-chains, and transparency of adherence across what will be a broad range of sustainability assurance providers.

***(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.***

122. ICAEW has no comments from this perspective.

***(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***

123. ICAEW has no comments from this perspective.

***(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***

124. We consider that there may be value in the IESBA establishing translation libraries for certain key terms, to ensure consistency in the interpretation of the IESSA.